Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Miss in August activity indicators

China's economic momentum in August slowed more sharply than anticipated. Year-to-date fixed asset investment (FAI) edged up 0.5% YoY, barely surpassing the same period in 2020 when construction was halted for over three months due to the initial COVID outbreak. The investment weakness was widespread, as monthly declines were recorded across manufacturing, infrastructure and real estate. Notably, property investment plunged 19.5% YoY, the steepest drop since 2022, mirroring a sharp decline in floor space started.

Beyond investment, industrial value added (VAI) and retail sales growth also disappointed. However, high-tech manufacturing was little affected by fading tariff-driven demand, with VAI growth holding steady at 9.3% YoY. Retail sales growth moderated to 3.4% YoY, as increases in home appliances and communication devices halved from July, to 14.3% and 7.3%, respectively, even with renewed government subsidies.

Lackluster credit growth

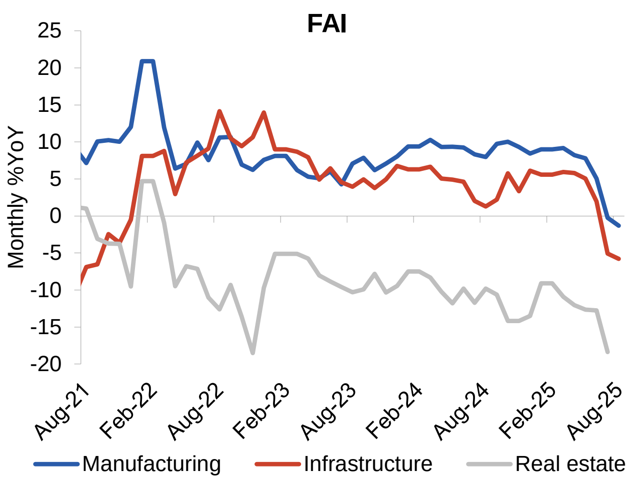
Loan growth also fell short. New loans in August totaled just RMB590b, the smallest increase for the month since 2011. Household loans remained subdued across both short- and long-term segments, while corporates mainly saw increases in medium-to-long-term loans (RMB470b, accounting for 80% of the total). Total social financing was again propped up by government bond issuance (RMB1,370b), rising 8.8% YoY in August, slowing from July's 9.0%.

5% target at risk, more stimulus measures expected

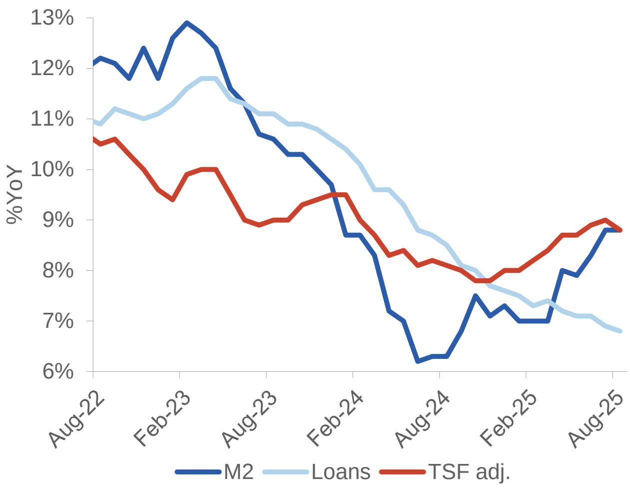
With back-to-back misses in July and August activity, Q3 GDP growth is likely to decelerate notably from Q2's 5.2% YoY. Furthermore, the high base from last Q4 suggests the growth slowdown will be more significant this Q4, putting the government's 5% growth target at risk unless substantial stimulus measures are introduced soon.

In this sense, Beijing is likely to become more committed to supporting domestic demand. Policy initiatives may include central government-led destocking in the property market and expansion of consumption subsidies beyond durable goods to services.

<Monthly declines in FAI were recorded across sectors>



< Growth in TSF slowed for the first time since last October>



Source: CEIC, Mizuho

CNH Outlook

Forex – CNH continues to trade at a premium to CNY

Rates – Onshore rates climbed on stock market optimism

Equities – Shanghai Composite closed above 38500 for three weeks in a row

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1260	7.1335	7.1121	7.1246	-16
USD/CNY	7.1318	7.1365	7.1293	7.1250	-78
CNY PBoC Fixing	7.1029	7.1062	7.1008	7.1019	-45
Shanghai Composite Index	3811.67	3892.74	3791.72	3870.60	43.76

#Last week, from Monday to Friday
*pips in USD/CNY,USD/CNH row

Weekly Price Change#	HK Close	Weekly Change		HK Close	Weekly Change
CNH Forward (1yr)	-1476	9	CNH HIBOR (3mth)	1.728	-0.013%
CNH Currency Swap (3yr)	1.4700	-0.04%	CNH Implied yield (1Y)	1.499	0.017%

Recap

The market saw another week of subdued movement in the DXY index, as softer-than-expected US PPI data and a modest uptick in CPI, which is largely in line with expectations, kept volatility in check. With inflation hovering just below 3% and signs of a cooling labor market, the Federal Reserve appears to be on a sweet spot to deliver a 25bp rate cut in September. The futures market reflected this sentiment, pricing in a full 25bp cut for most of the week, while the probability of a more aggressive 50bp cut remained below 10%.

Against this backdrop, the offshore yuan (CNH) held steady, trading within a narrow band of 7.11 to 7.14 against the USD. The CNH maintained a slight premium over its onshore counterpart (CNY), buoyed by a wave of optimism in Chinese assets as the Nasdaq Golden Dragon China Index surged to its highest level since March.

That said, the yuan's performance continued to trail behind its Emerging Asian peers. The THB and TWD posted impressive gains of 1.5% and 1.3% respectively, supported by solid exports in gold and semiconductors.

Outlook

Looking ahead, disappointing July and August activity data from China, coupled with the anticipated Fed rate cut, may prompt the PBoC to ease policy further, potentially through a benchmark rate cut aimed at alleviating domestic debt pressures. We expect the PBoC to continue narrowing the gap between the CNY spot and its daily fixing, paving the way for a rate cut this month. The CNH is likely to follow this policy-driven path.

Additionally, optimism in China's equity markets, if persists on expectations of upcoming stimulus initiatives, should offer a continued stabilizing force for the yuan. In the upcoming week, we anticipate CNH to remain resilient, trading within a 7.10–7.15 range.

< FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: a recovery in supply last week

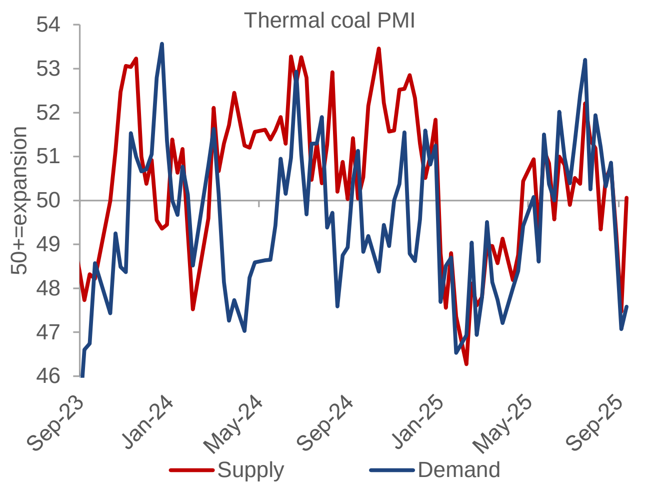
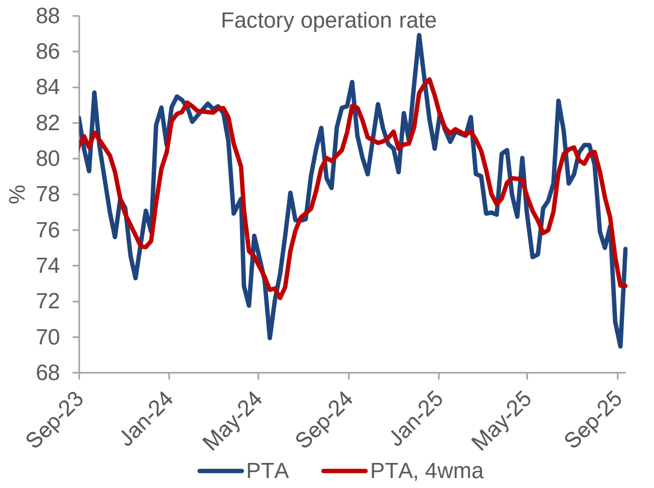


Fig 2 PTA production recovered from a recent trough



Source: Wind, Mizuho

Fig 3 Steel production fell at a slower pace in August

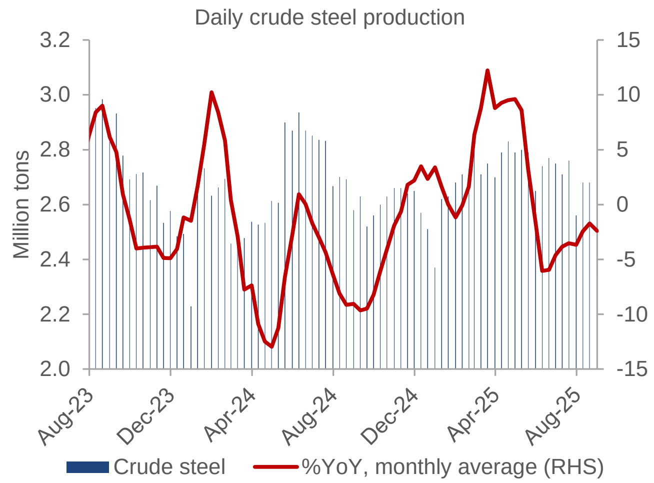
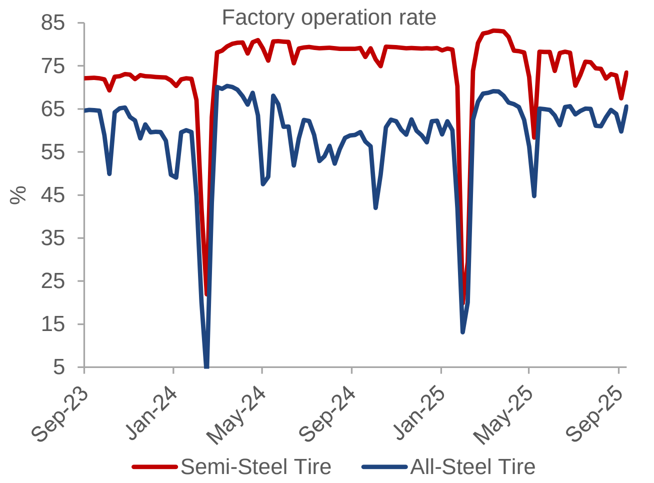


Fig 4 Steel tire production picked up last week



Source: Wind, Mizuho

Fig 5 CCFI: shipping prices to the US remained subdued

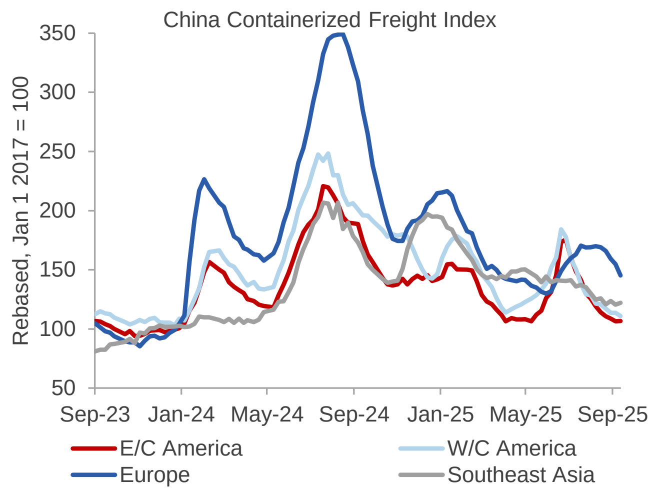
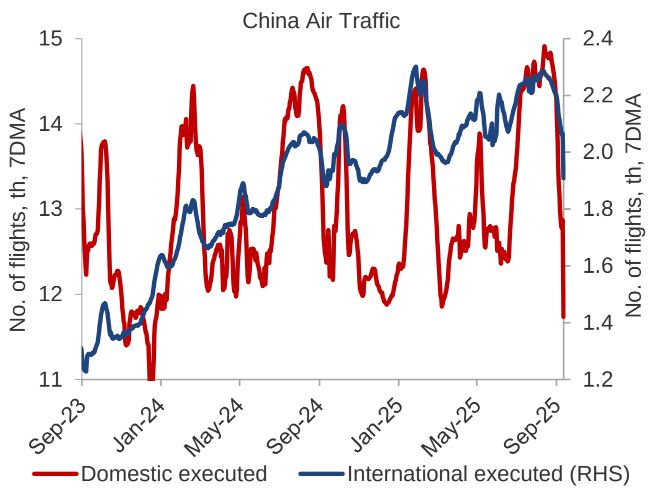


Fig 6 Air traffic dipped as the summer holiday ended



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity picked up notably last week

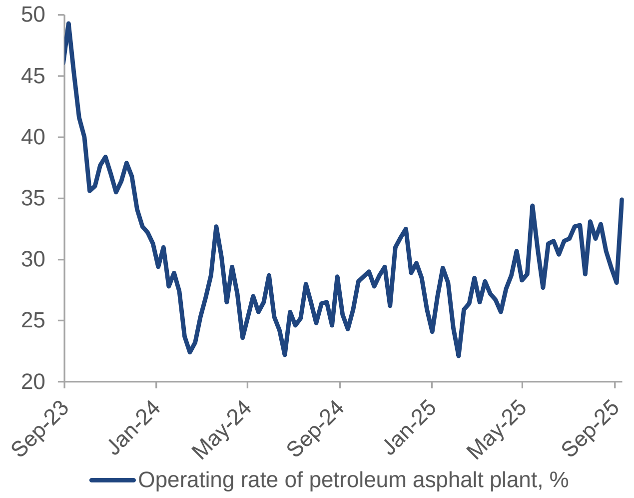


Fig 8 Construction material prices continued to trend lower

Source: Wind, Mizuho

Fig 9 Land sales weakened in recent weeks

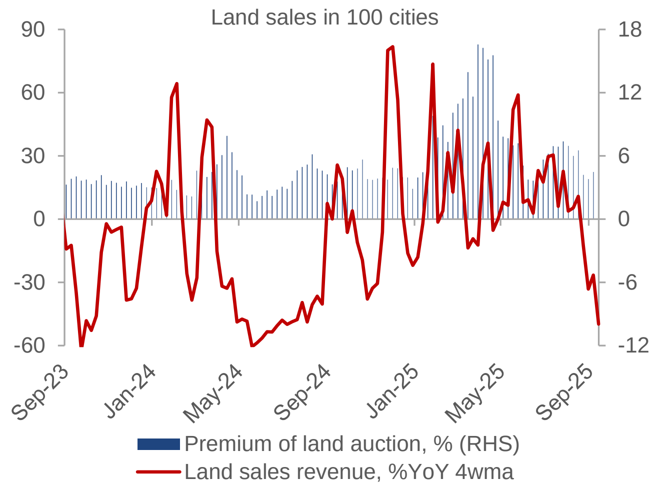
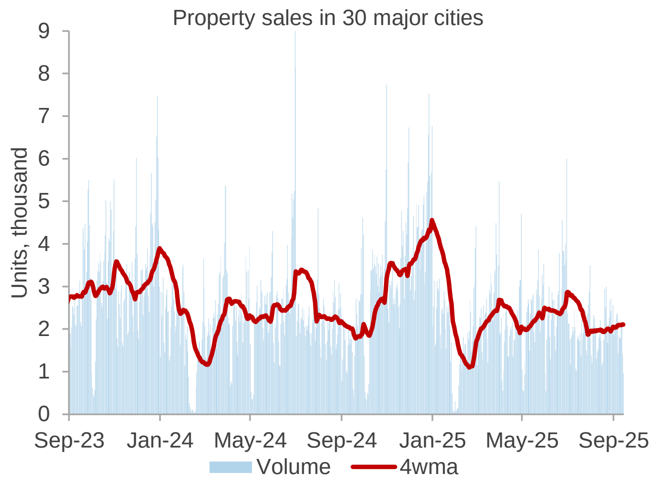


Fig 10 New home sales stayed tepid



Source: Wind, Mizuho

Fig 11 Movie box office revenue dropped in early September

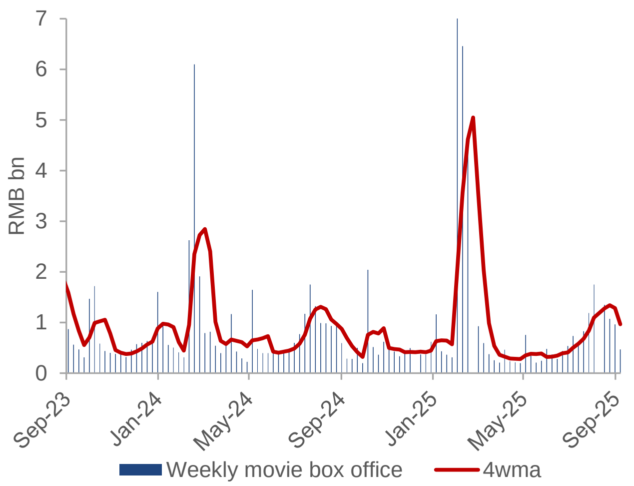
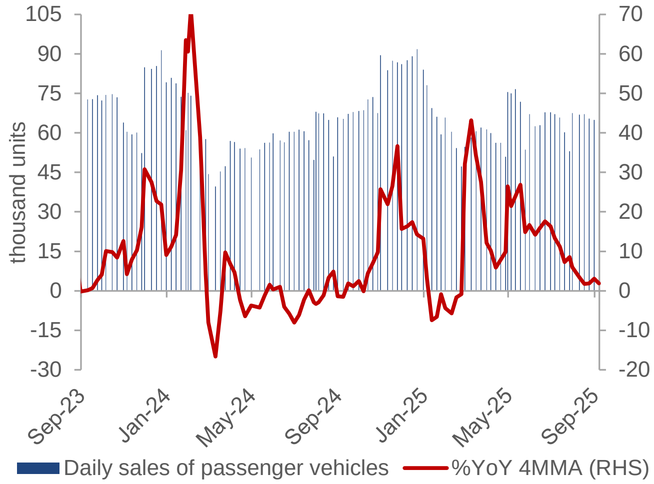


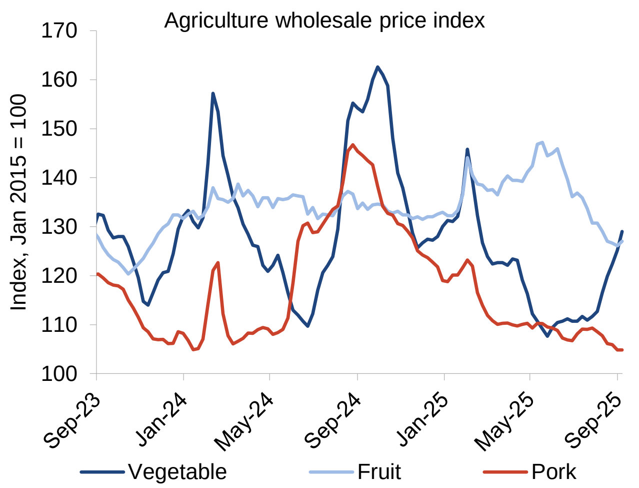
Fig 12 PV sales growth remained lackluster in recent weeks

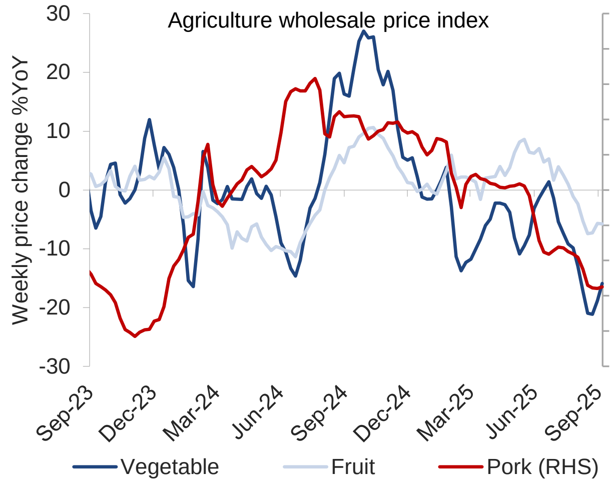


Source: Wind, Mizuho

Price monitor

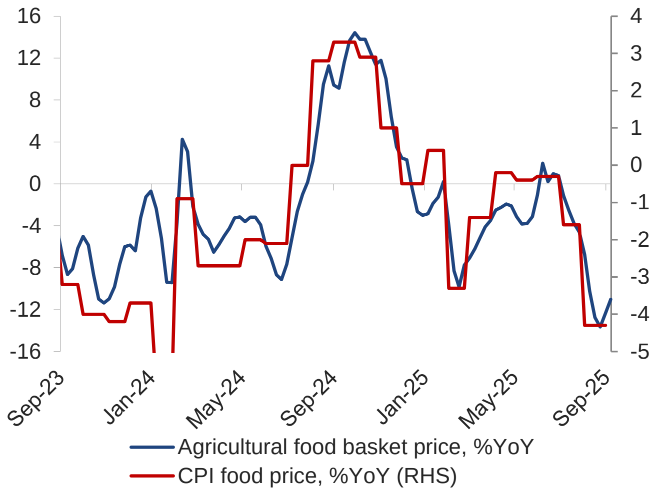
Fig 13 Major food items saw a slower decline in early September

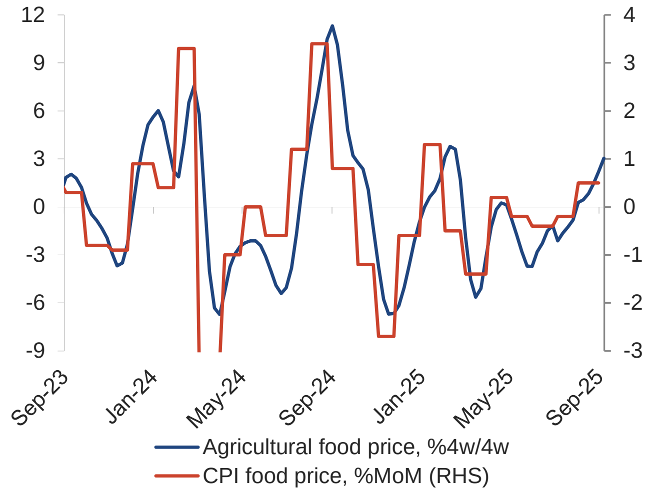




Source: Wind, Mizuho

Fig 14 Wholesale food prices fell at a faster YoY pace in August on the high base from the same period last year





Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices saw a mild pickup

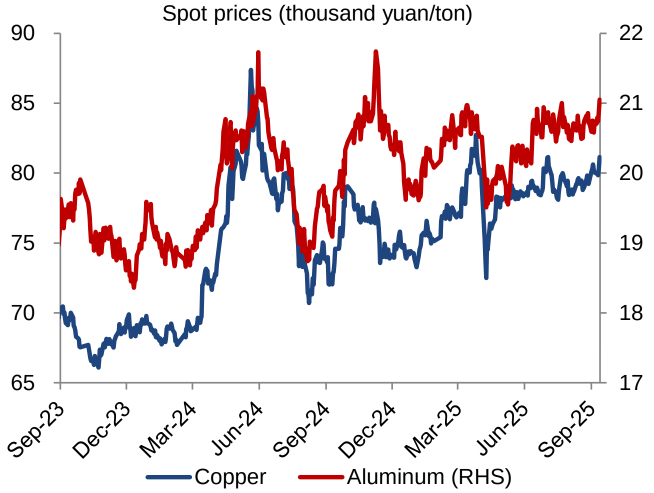
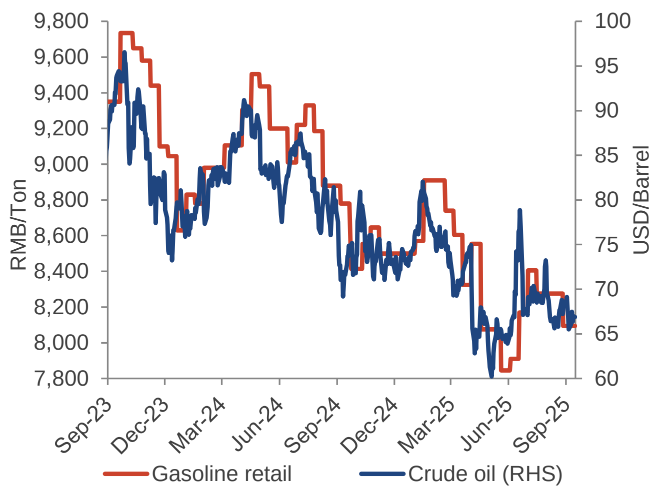


Fig 16 Oil prices kept range-bounding



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB196b during 8 - 12 Sept

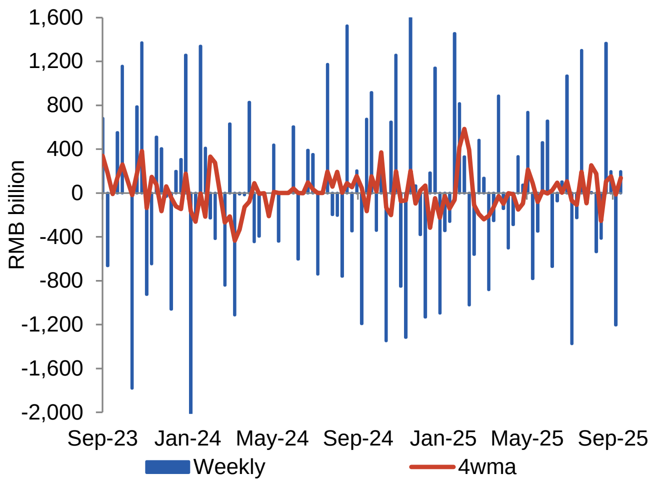
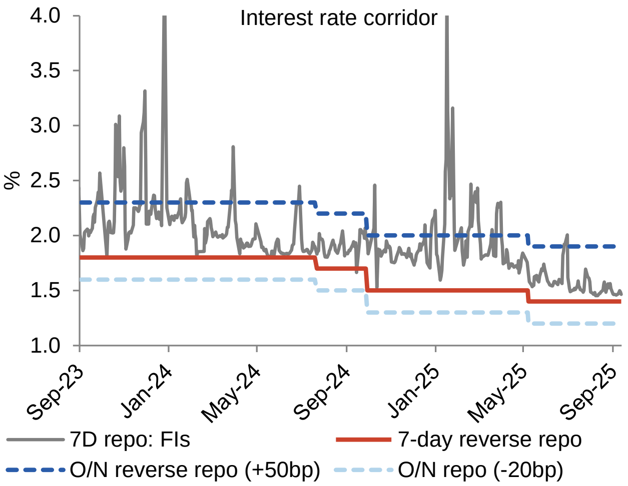


Fig 18 7D repo for FIs stays close to the target level



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields ended higher last week

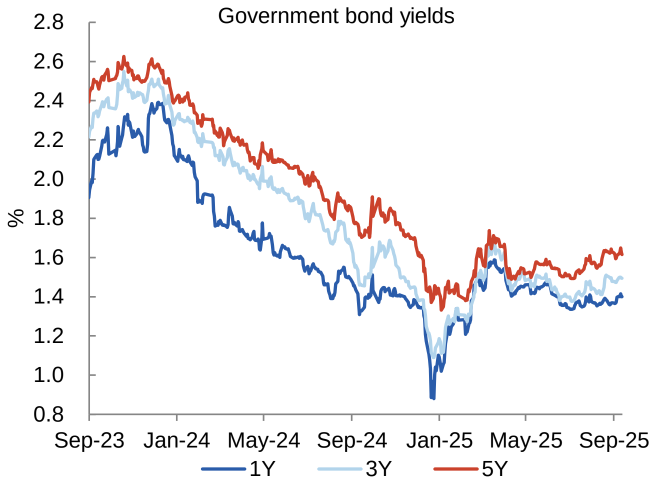
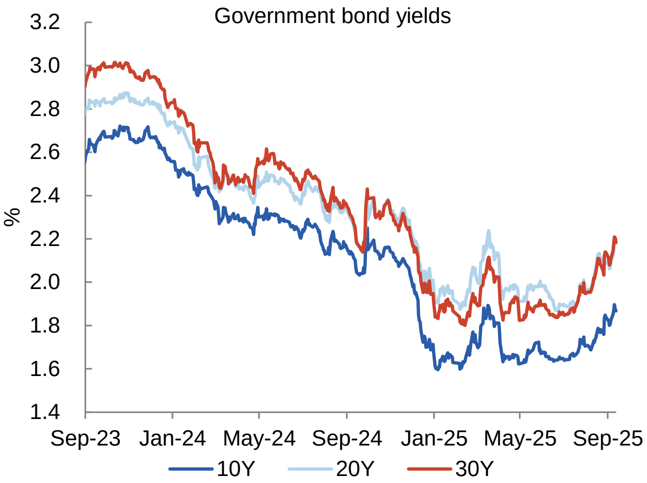
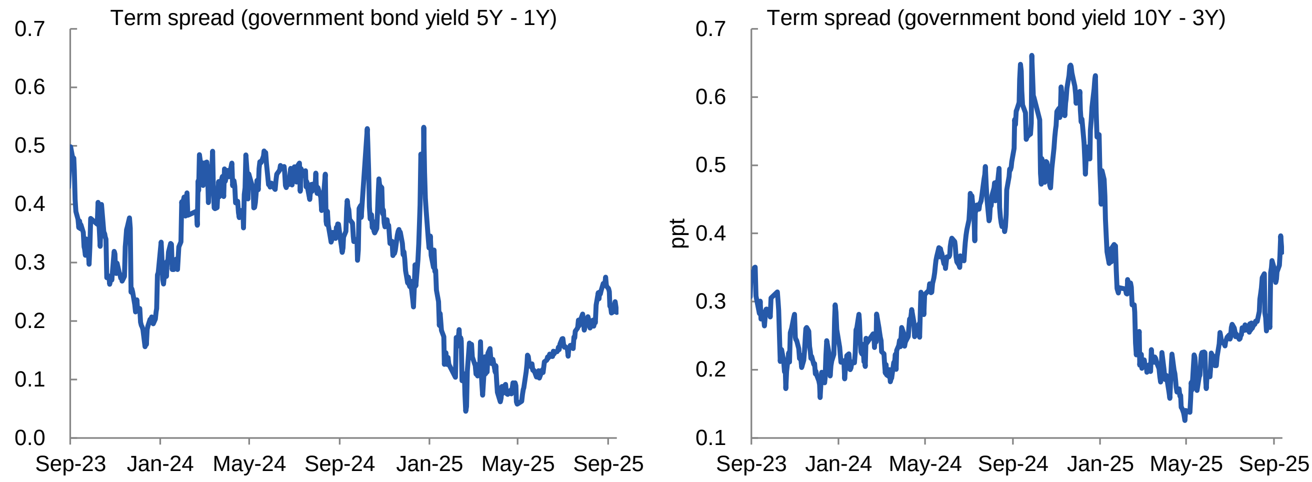


Fig 20 Long-end CGB yields saw more significant pickups



Source: Wind, CEIC, Mizuho

Fig 21 CGB term spreads widened at both the front and back parts of the curve



Source: CEIC, Mizuho

Credit monitor

Fig 22 IG Corporate bond yields picked up last week

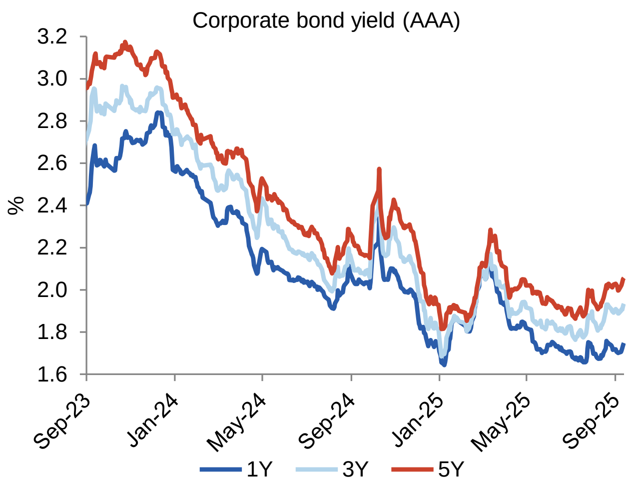
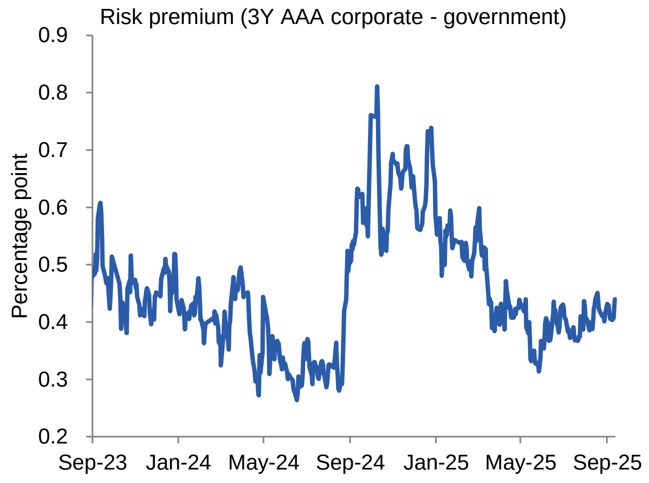


Fig 23 IG corporate risk premium continued its range-bounding



Source: Wind, Mizuho

Fig 24 HY Corporate bond yields edged up

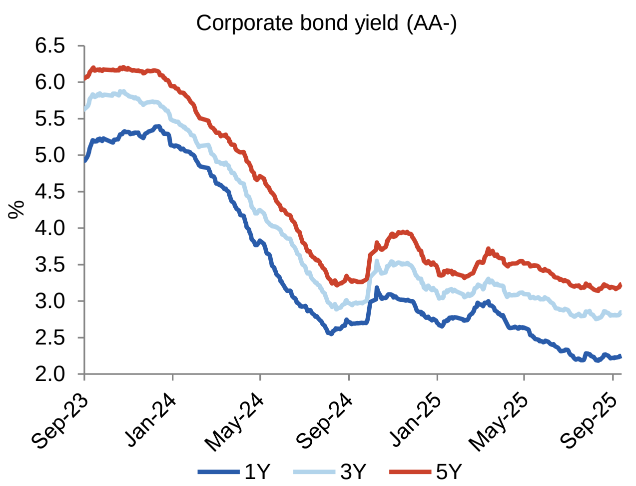
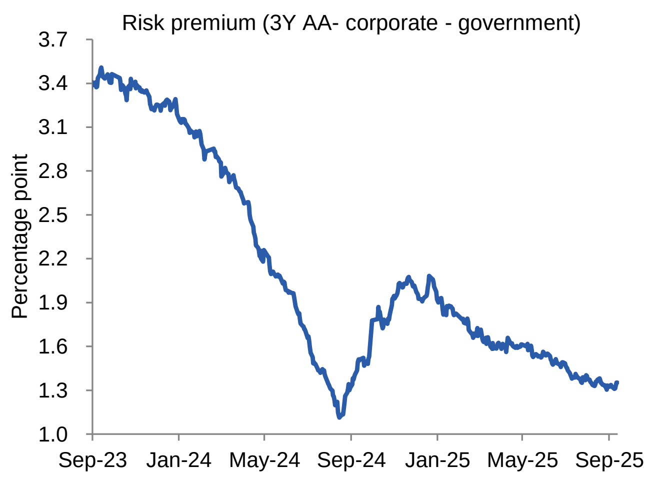


Fig 25 HY corporate risk premium remained relatively tight



Source: Wind, Mizuho

Fig 26 China USD credit spreads squeezed tighter last week as benign US inflation data fueled a risk-on backdrop

Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC intervention reinstated since Jul

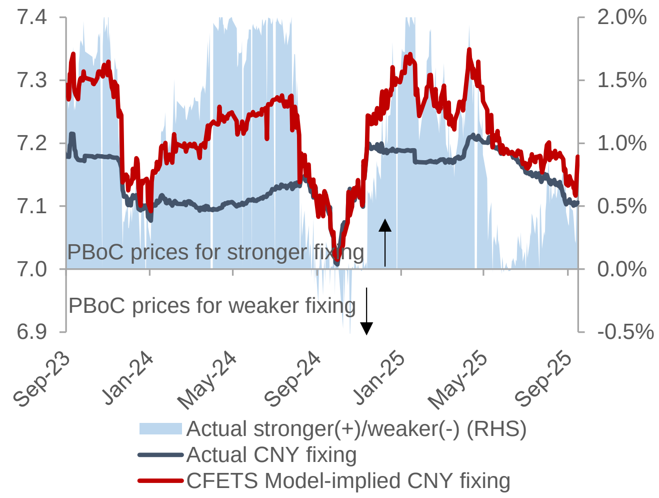
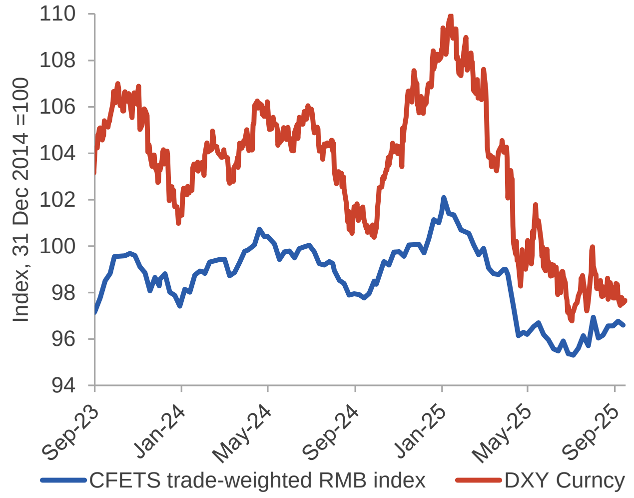
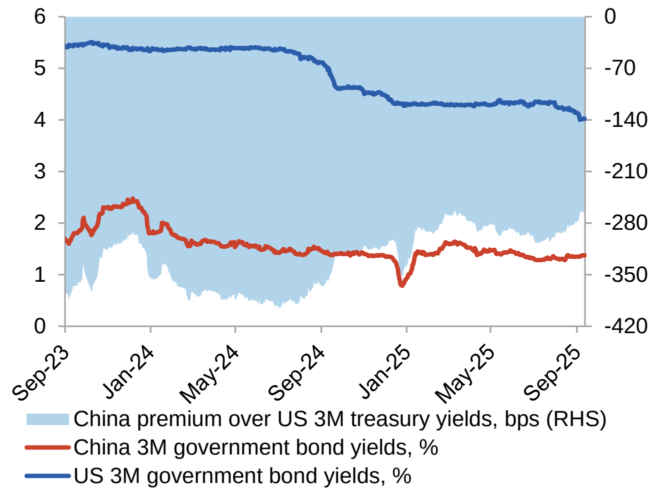


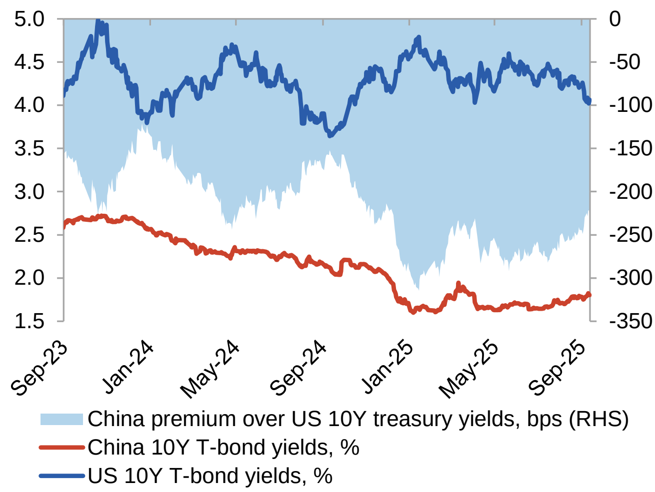
Fig 28 RMB trade-weighted index moved weaker last week



Source: CEIC, Bloomberg, Mizuho

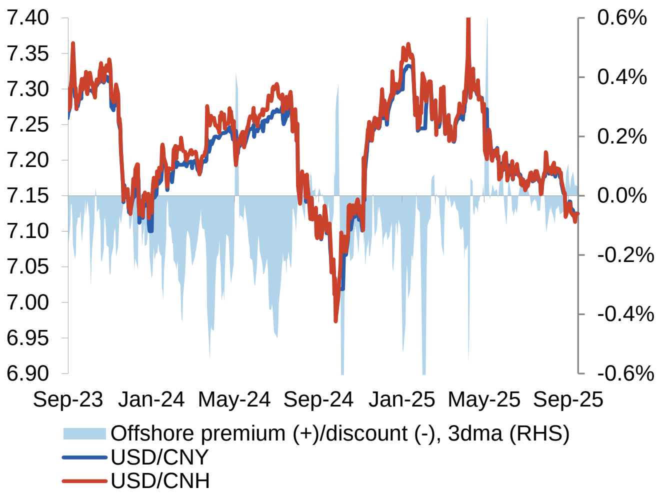
Fig 29 China-US interest rate spreads tightened further at both the front and back end

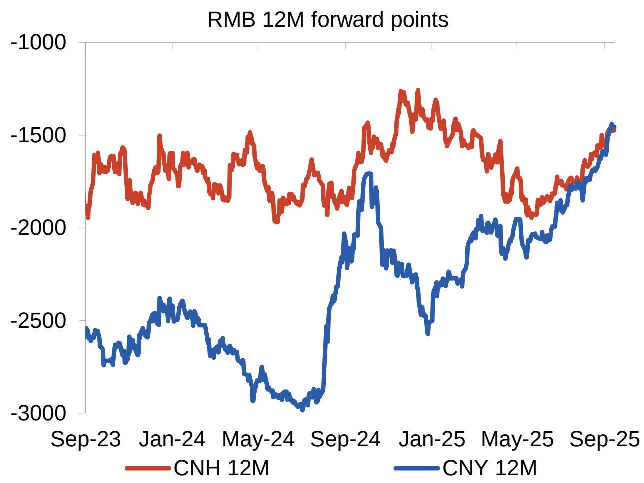




Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading at a slight premium to the CNY on market optimism over Chinese assets





Source: Bloomberg, Mizuho

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