

China Weekly Outlook

Attention, not reaction

The PBoC held its Q3 monetary policy meeting last week. In its statement, the central bank retained the phrase “moderately loose monetary policy,” but removed references to “several underlying risks.” This suggests that the PBOC sees a more controlled risk environment ahead. The statement also highlighted the need to monitor changes in long-term rates against the backdrop of a recent rise in long-term CGB yields, though it stopped short of committing to any specific policy reactions.

In our view, this indicates that broad-based easing is not currently a top priority for the PBoC. However, as subsidy-driven retail sales and tariff-driven exports begin to fade in Q4, we believe more concrete easing measures may become necessary to support domestic growth.

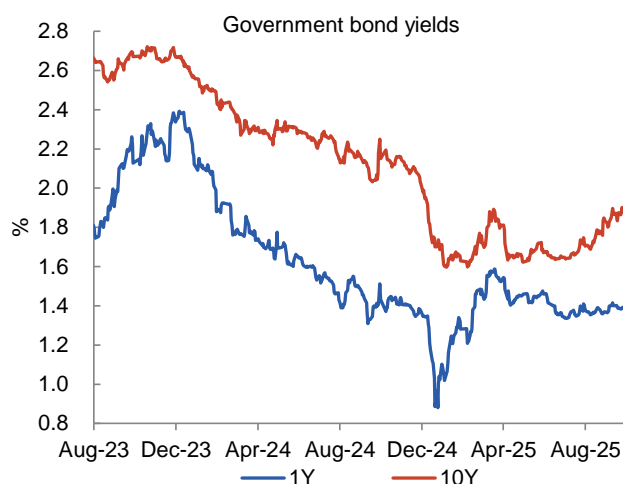
Supply-side focus

On the supply-side front, China is advancing structural reforms by introducing export curbs in the auto sector. Beginning next year, Chinese automakers will be required to obtain an export license before selling electric passenger vehicles overseas. While this may pose challenges for some manufacturers, it could help alleviate international concerns over China’s surging EV exports and foster a more sustainable trade relationship—particularly with the EU. This move also aligns with China’s recent statement at the United Nations, where it expressed willingness to relinquish certain preferential treatments typically granted to emerging economies, in an effort to promote fairer global trade practices.

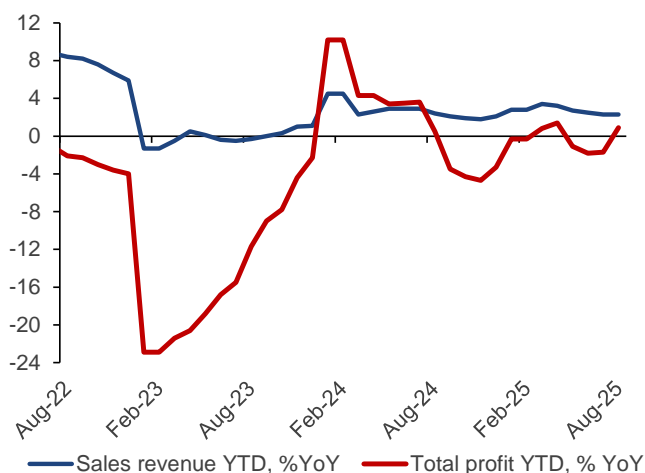
China’s industrial profits exceeded market expectations, posting the fastest YoY growth since late 2023, up 20.4% in August. The improvement was primarily driven by the manufacturing sector and electricity & heat supply, which rose 7.4% and 13% YoY respectively, compared to 4.8% and 6.3% in July.

Looking ahead, we expect China’s official Manufacturing PMI, due this week, to show a modest uptick to 49.7 in September, supported by seasonal factors. However, high-frequency industrial indicators show few signs of a meaningful rebound for the month.

<The growing divergence between 1Y and 10Y CGB yields>



<A rebound in industrial profit growth in August>



Source: CEIC, Mizuho

CNH Outlook

Forex – CNH depreciated moderately amid bear-flattening UST yields

Rates – Onshore rates rose notably at the long-end

Equities – Shanghai Composite closed much unchanged last week

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1138	7.1483	7.111	7.1435	241
USD/CNY	7.1166	7.1380	7.1322	7.1345	163
CNY PBoC Fixing	7.1106	7.1152	7.1057	7.1152	24
Shanghai Composite Index	3822.01	3866.11	3774.53	3828.11	8.02

#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)	-1490	-66	CNH HIBOR (3mth)	1.735	0.02%
CNH Currency Swap (3yr)	1.5450	0.01%	CNH Implied yield (1Y)	1.541	-0.024%

Recap

Last week, the offshore yuan (CNH) saw a modest weakening session, trading within a range of 7.11 to 7.14 against the US dollar. This depreciation occurred against a backdrop of dollar strength, driven by a bear-flattening in UST yields amid generally solid US economic data.

By the end of the week, CNH had weakened 0.34% against the USD, underperforming both CNY (-0.23%) and HKD. However, it continued to outperform other regional currencies. The Thai baht (THB) and Taiwan dollar (TWD) led the declines, falling 1.2% and 1.0% respectively, partly in response to newly announced US sectoral tariffs.

News reports suggest that Chinese state-owned banks have been actively selling the onshore yuan (CNY) in the spot market while simultaneously engaging in offsetting swap transactions. Notably, the 12-month swap points for CNY have narrowed to their least negative levels since 2022 (see Fig 30), reducing the premium traders pay for a yuan forward position. These operations have likely helped curb recent CNY appreciation, contributing to the mild premium in CNH spot rates over CNY observed earlier this month.

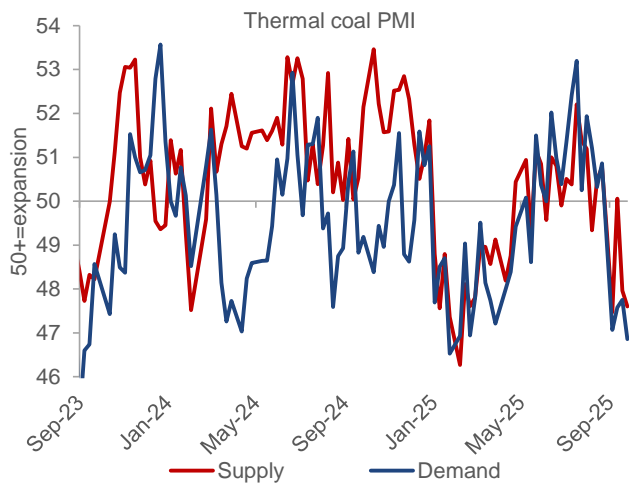
Outlook

Looking ahead, we believe further monetary easing from the PBoC remains necessary to support domestic demand, especially as growth momentum is expected to slow more sharply in Q4. For the coming week, we anticipate CNH to continue trading within a narrow range of 7.10–7.15, as China enters its eight-day Golden Week holiday.

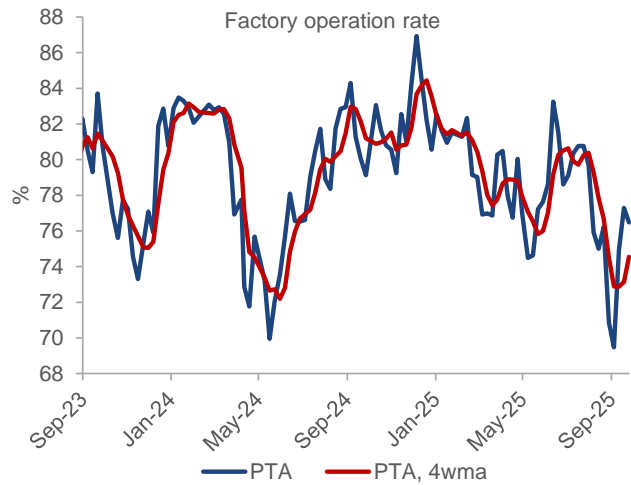
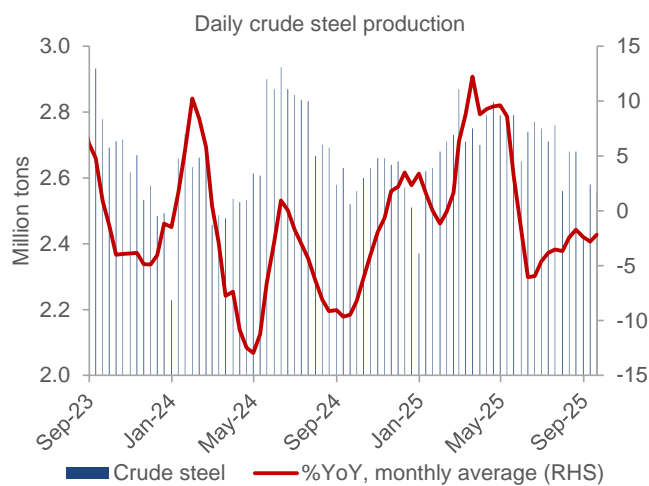
Over the weekend, Chinese authorities took another step toward RMB internationalization by granting foreign investors access to the repo bond market. This initiative is designed to enhance liquidity management and make RMB-denominated bonds more attractive to global investors. In addition, regulators are reportedly considering the issuance of more CNH government bonds and the introduction of CGB futures in Hong Kong. These measures aim to expand the pool of high-quality CNH assets and promote the acceptance of mainland Chinese bonds as eligible collateral in Hong Kong and global markets.

< FX Charts on Page 8 >

Activity monitor (1/2)

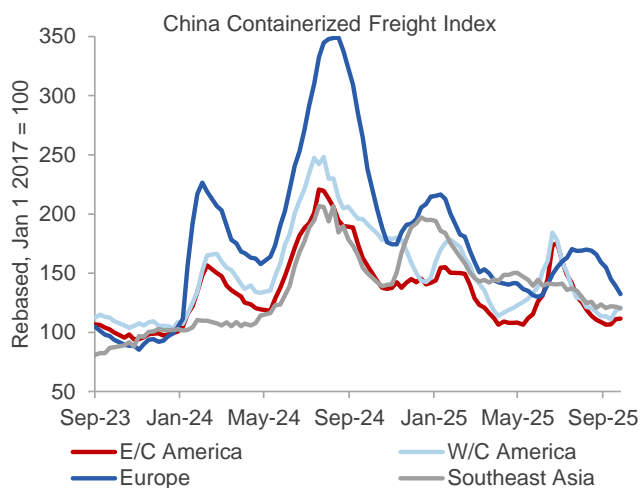
Fig 1 Thermal coal: both demand and supply stayed sluggish


Source: Wind, Mizuho

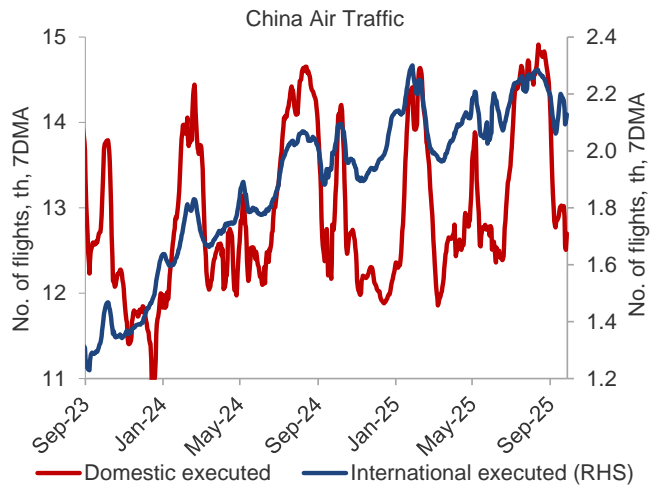
Fig 2 PTA production recovered from a recent trough

Fig 3 Steel production continued to see a moderate decline


Source: Wind, Mizuho

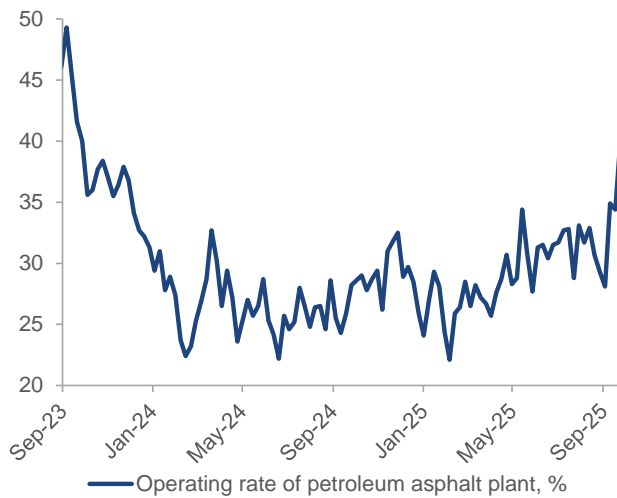
Fig 4 Steel tire production stabilized at a lower level from last year

Fig 5 CCFI: shipping prices to the US ticked up


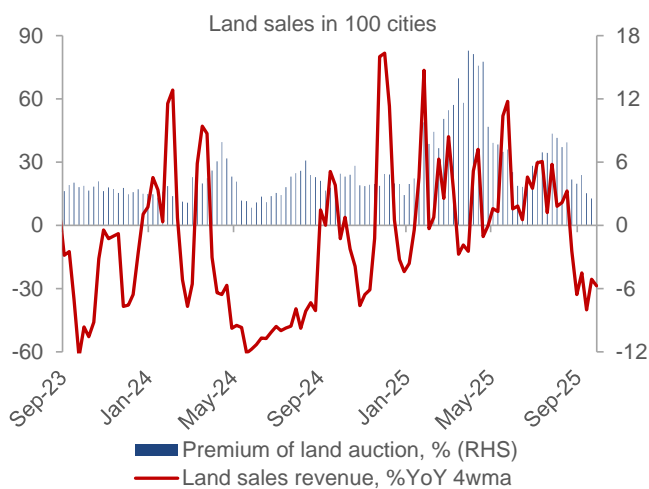
Source: Wind, Mizuho

Fig 6 Air traffic remains subdued ahead of the national holiday


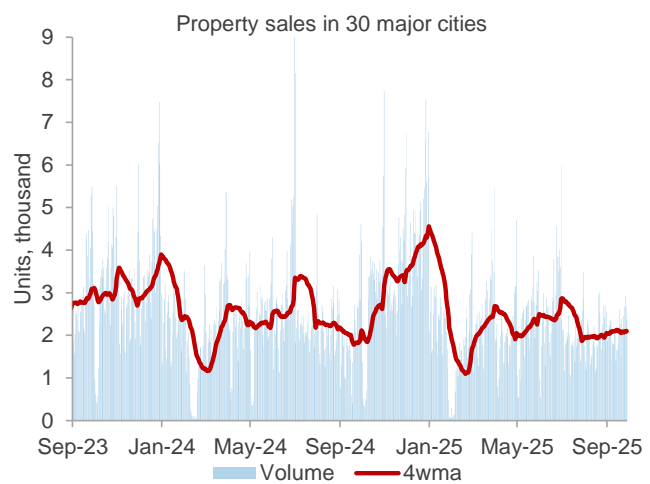
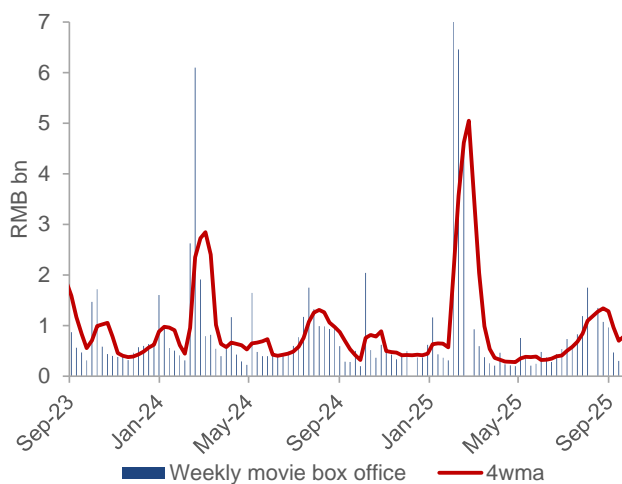
Activity monitor (2/2)

Fig 7 Road construction activity rose further last week

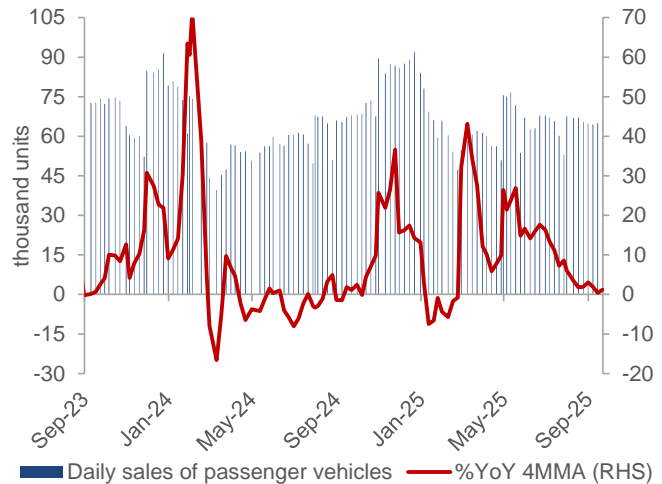
Source: Wind, Mizuho

Fig 8 Construction material prices continued to trend lower**Fig 9 Land sales weakened in recent weeks**

Source: Wind, Mizuho

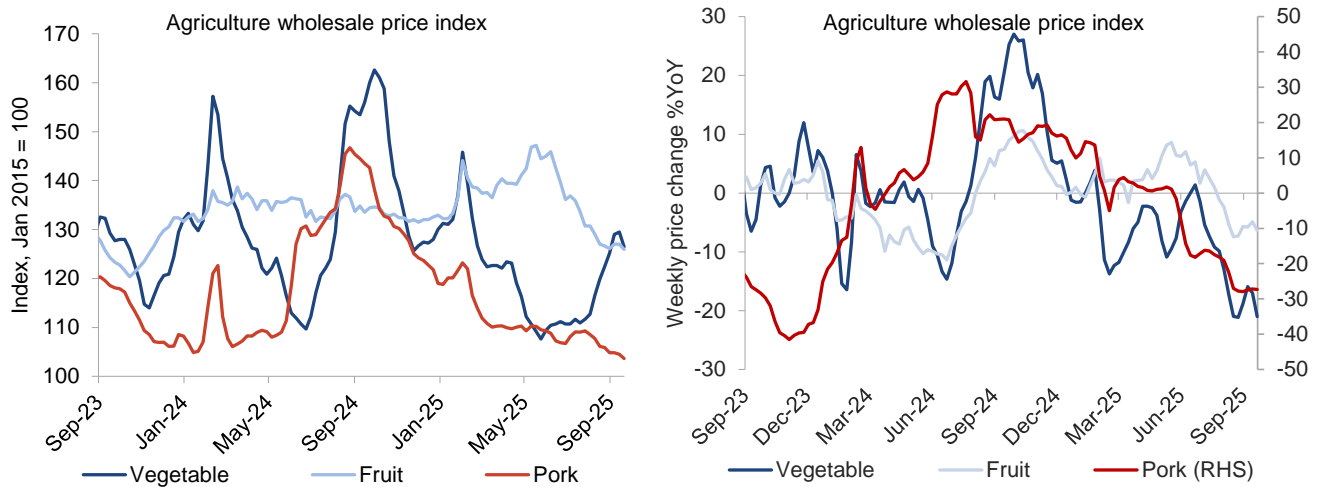
Fig 10 New home sales stayed tepid**Fig 11 Movie box office revenue dropped in early September**

Source: Wind, Mizuho

Fig 12 PV sales growth remained lackluster in recent weeks

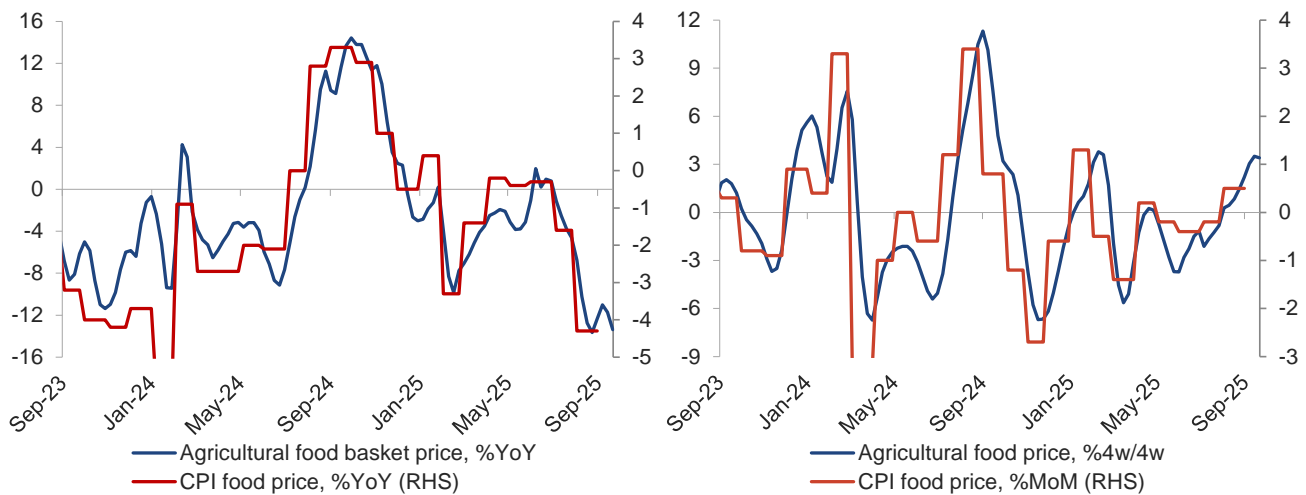
Price monitor

Fig 13 Major food items saw a continued decline in September



Source: Wind, Mizuho

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



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices saw a mild pickup

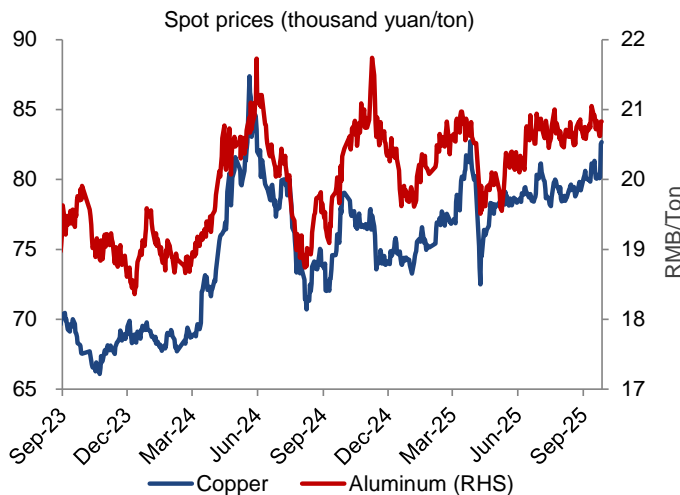
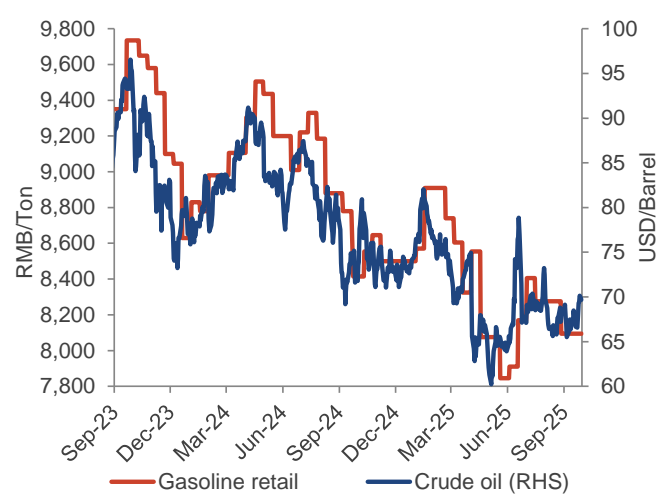


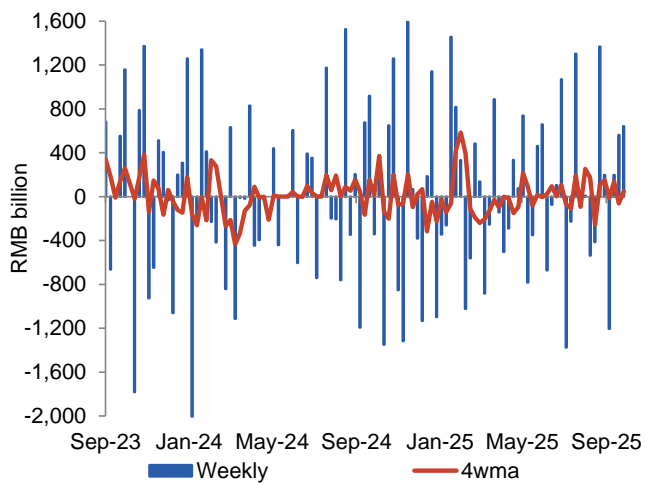
Fig 16 Oil prices saw a pickup recently



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB641b during 22 - 26 Sept



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs rose during quarter-end liquidity squeeze

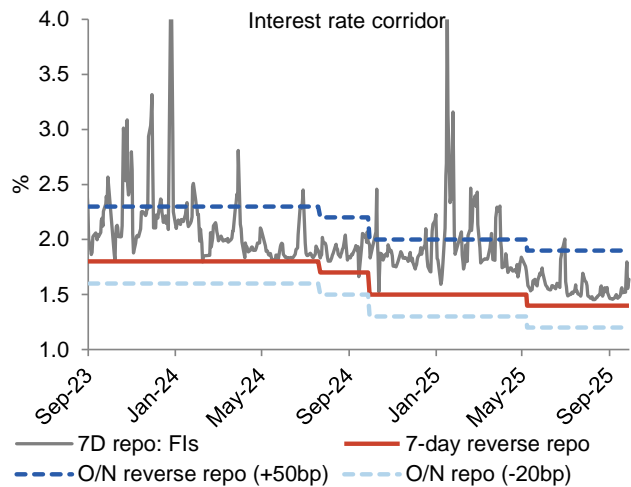
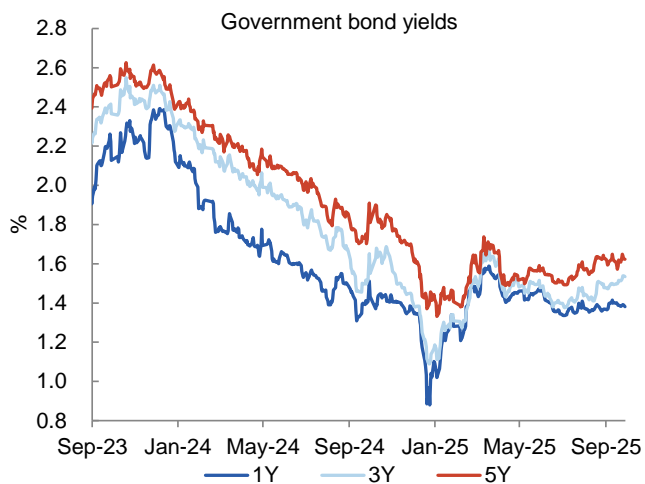


Fig 19 Short-end CGB yields were mixed last week



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields continued to trend up

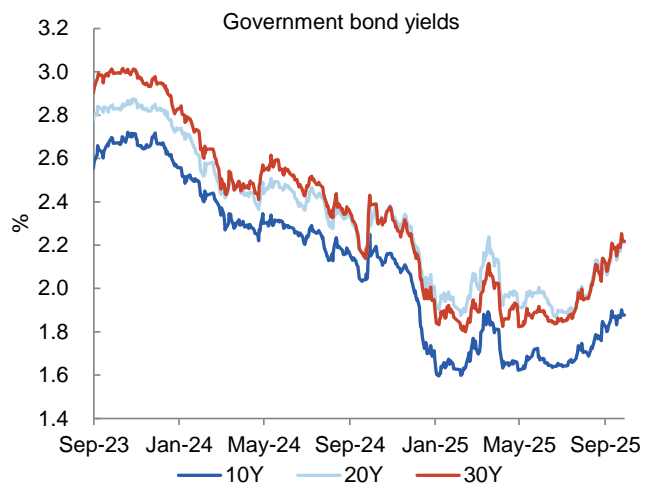
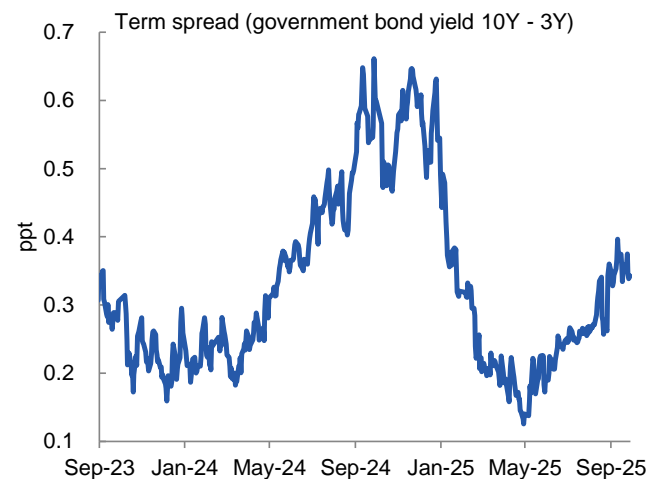
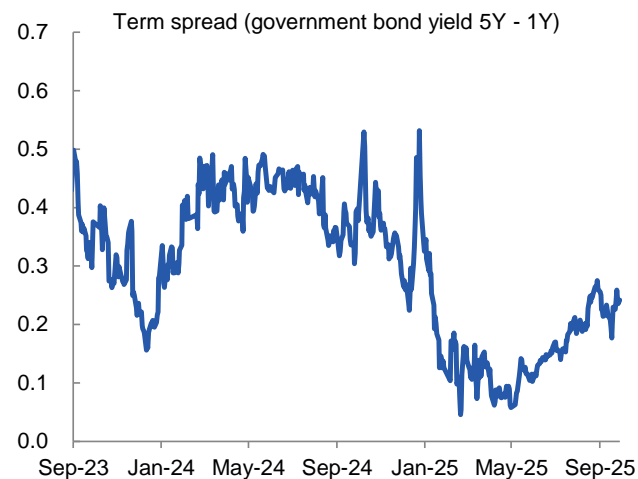
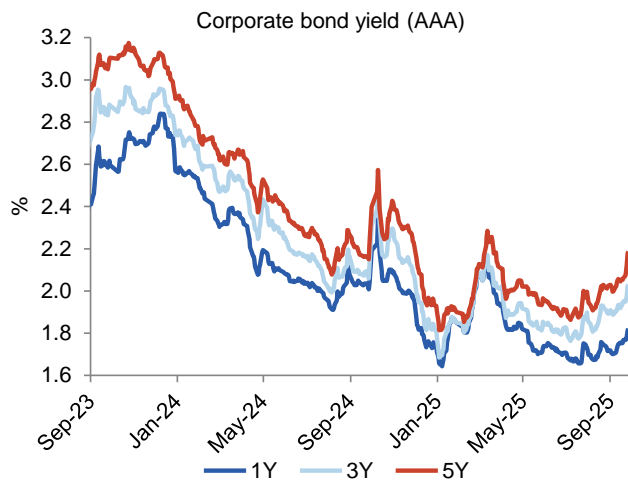


Fig 21 CGB term spreads widened at the first half of the yield curve but narrowed at the second half

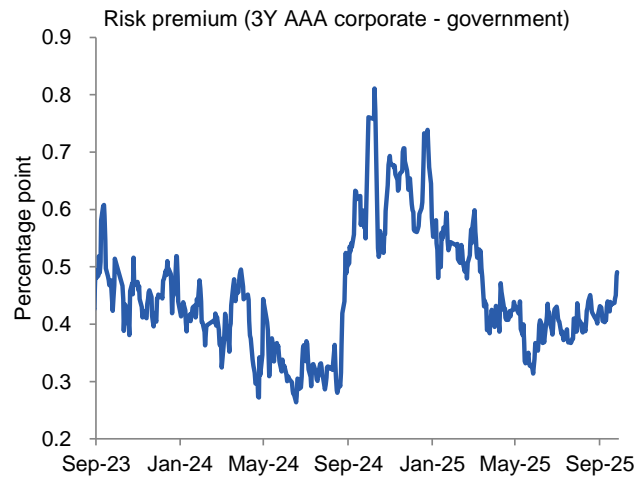
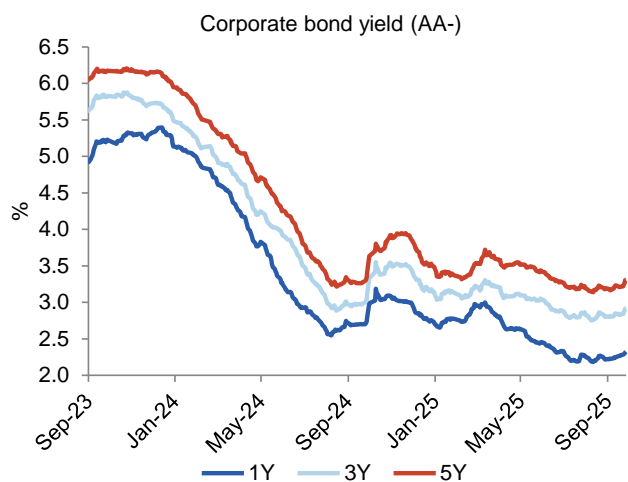


Source: CEIC, Mizuho

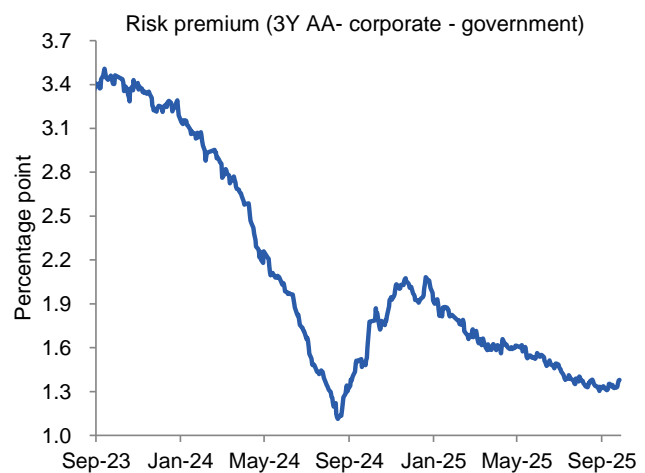
Credit monitor

Fig 22 IG Corporate bond yields picked up notably last week

Source: Wind, Mizuho

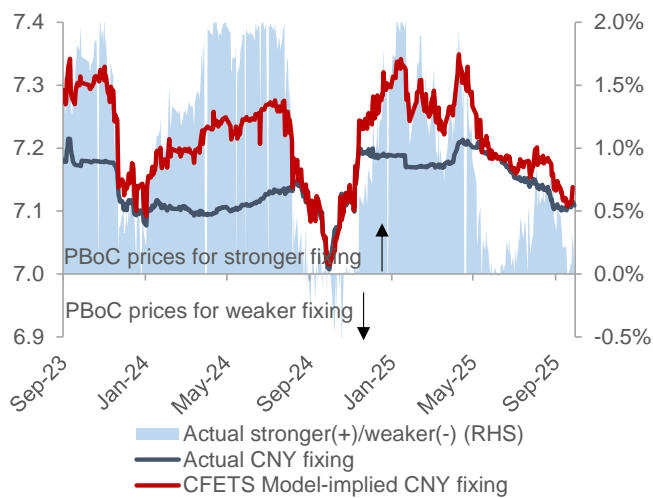
Fig 23 IG corporate risk premium widened significantly**Fig 24 HY Corporate bond yields** edged up

Source: Wind, Mizuho

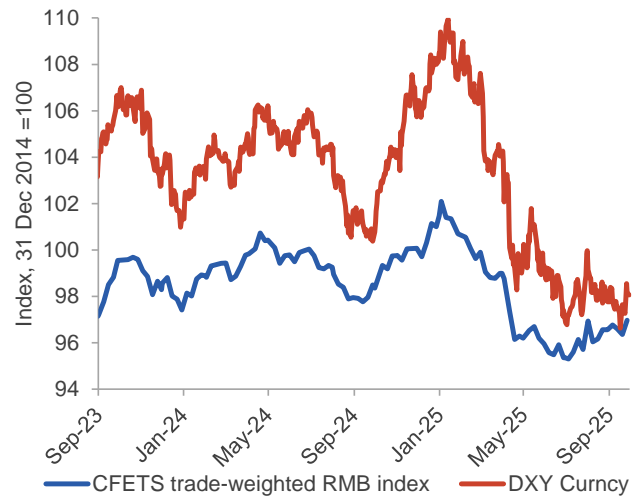
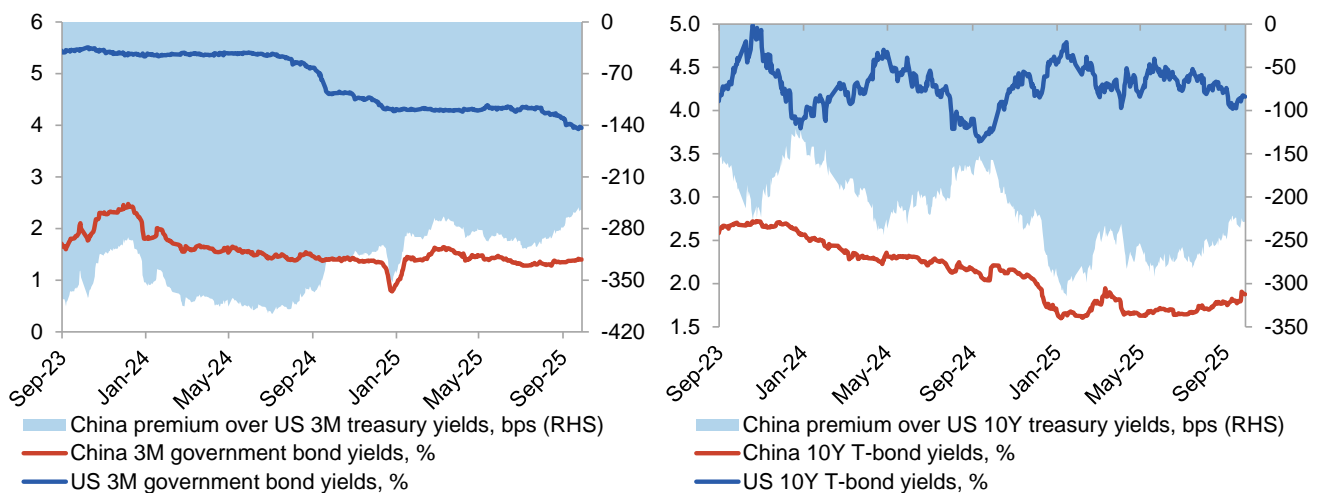
Fig 25 HY corporate risk premium remained relatively tight**Fig 26 China USD credit spreads** were mixed last week as the US treasury curve bear-flattened

Source: IHS Markit, Mizuho

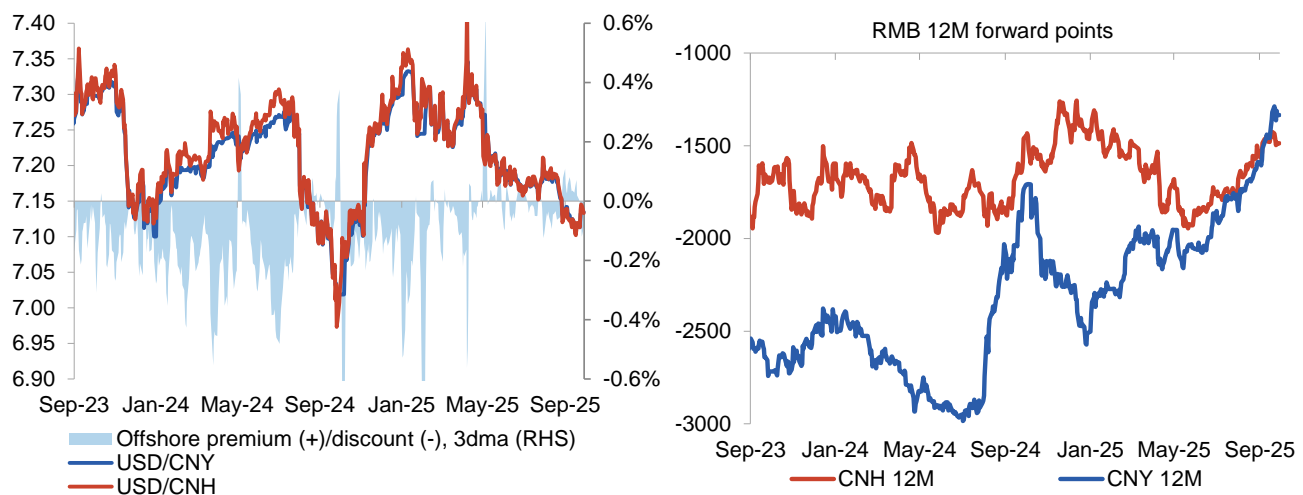
FX monitor

Fig 27 RMB fixing rate: PBoC refrained from intervention lately

Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index picked up alongside stronger dollar**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 small premium to the CNY as Chinese state-owned banks were seen selling spot yuan onshore

Source: Bloomberg, Mizuho

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