Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Exports disappointed on waning stockpiling demand

China's export growth in August decelerated more than the market anticipated, to 4.4% YoY, as the boost from tariff-driven demand faded in the US. Exports to the US plunged 33.1% YoY, the steepest drop since May, mirroring the notable decline in shipping rates to both the East and West Coasts (Fig 5).

Meanwhile, exports to ASEAN and Africa remained resilient, rising 22.5% and 25.9% YoY, respectively, suggesting that Chinese exporters are actively diversifying their market exposure. Exports to the EU also held firm, posting a double-digit increase in August.

Against this backdrop, industrial production in August may continue to soften, weighed down by waning stockpiling demand, though a low base from last year could still lend support to its YoY growth.

Divergence across commodities

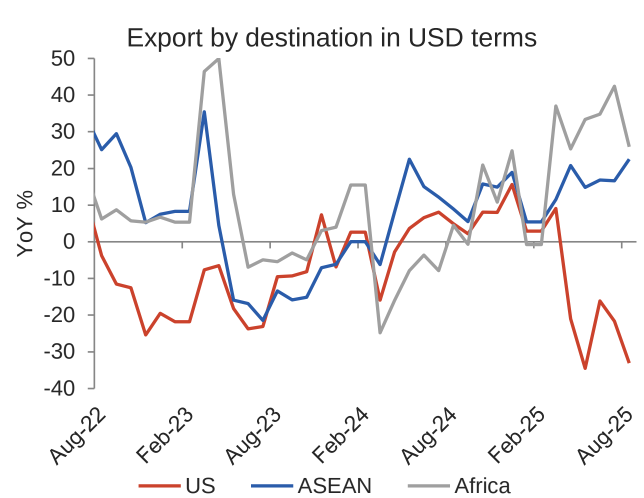
By commodity, the moderation in exports was led by labor-intensive sectors such as garments (-10%) and toys (-21%). In contrast, high-tech exports rose 9% YoY, the fastest pace in 9 months. Notably, rare-earth ore exports surged 35% YoY, the strongest growth since 2022, potentially signaling a partial thaw in China-US trade tension.

On the import side, growth also disappointed, rising 1.3% YoY, dragged down by weaker general and entrepot imports. As a result, China's trade surplus widened to RMB102b in August, with the US contributing less than 20%.

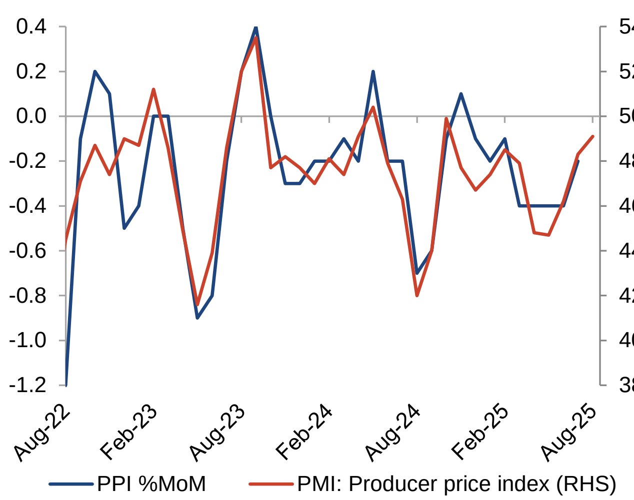
Deflationary pressure to persist

Looking ahead to Wednesday's data release, consumer prices are likely to show a YoY decline of 0.3% but a modest MoM uptick of 0.1%, reflecting lower fuel costs and a high base in food prices. Food prices are expected to fall YoY due to cheaper fruit and pork prices and last year's elevated vegetable prices (Fig 13). Additionally, domestic fuel prices dropped 2.2% MoM in August, reversing July's 1.3% increase (Fig 16). Producer prices remain under pressure, though the PMI producer price index improved to 49.1, suggesting a slower pace of decline in PPI.

<Export growth slowed on fading tariff-driven demand in the US>



< NBS PMI survey suggests a slower decline in PPI>



Source: CEIC, Mizuho

CNH Outlook

Forex – CNH trades at a premium to CNY amid rising US rate cut expectations

Rates – Onshore rates stay range-bound

Equities – Shanghai Composite softens on speculation of government intervention

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1218	7.149	7.1159	7.1262	-74
USD/CNY	7.1324	7.1498	7.1382	7.1328	-49
CNY PBoC Fixing	7.1072	7.1108	7.1030	7.1064	-8
Shanghai Composite Index	3869.75	3885.31	3732.84	3812.51	-63.02

#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)	-1485	59	CNH HIBOR (3mth)	1.741	0.015%
CNH Currency Swap (3yr)	1.5100	-0.02%	CNH Implied yield (1Y)	1.482	-0.066%

Recap

Despite broad expectations of a softening labor market, the US non-farm payrolls delivered a significant downside surprise in August, adding just 22,000 jobs—well below the consensus forecast of 75,000. Adding to the disappointment, June's employment change was revised down to -13,000, marking the first MoM decline since the pandemic.

Markets reacted swiftly. US Treasury yields fell by 8–9bps across the curve overnight, while the DXY index once slipped to 97.4, its lowest level since July. Rate expectations shifted significantly, with Fed funds futures now assigning a 12% probability to a more aggressive 50bp cut on top of a fully priced-in 25bp cut. Against this backdrop, Thursday's CPI release would need to deliver a major upside surprise to alter the Fed's current trajectory.

Last week, the offshore yuan (CNH) remained range-bound between 7.12 and 7.15 against the USD, trading at a slight premium to its onshore counterpart (CNY). While CNH lacked clear direction, most Asian currencies outperformed. The THB and PHP gained 1.52% and 0.91% respectively, against the USD, while the JPY was the exception, weakening 0.26% amid growing political uncertainty surrounding a change to the LDP leadership.

Outlook

Looking ahead, we expect the PBoC to continue guide a narrower gap between the CNY spot and its daily fixing, potentially paving the way for an interest rate cut amid slowing domestic production and investment momentum. The CNH is likely to follow this policy-driven path.

Meanwhile, sustained optimism in China's equity markets, if any, should lend support to onshore government bond yields (CGBs), offering a 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>

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Activity monitor (1/2)

Fig 1 Thermal coal: both demand and supply plunged last week

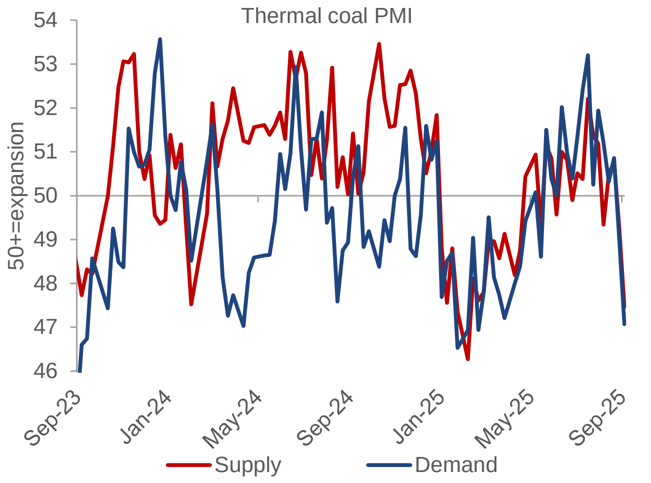
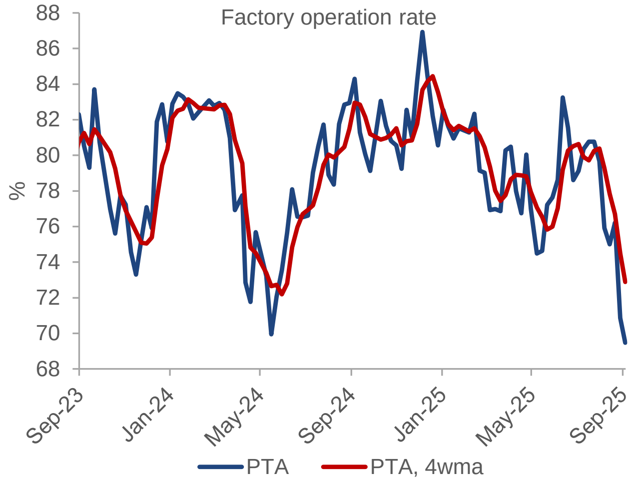


Fig 2 PTA production dropped further in the first week of Sept



Source: Wind, Mizuho

Fig 3 Steel production fell at a slower pace in August

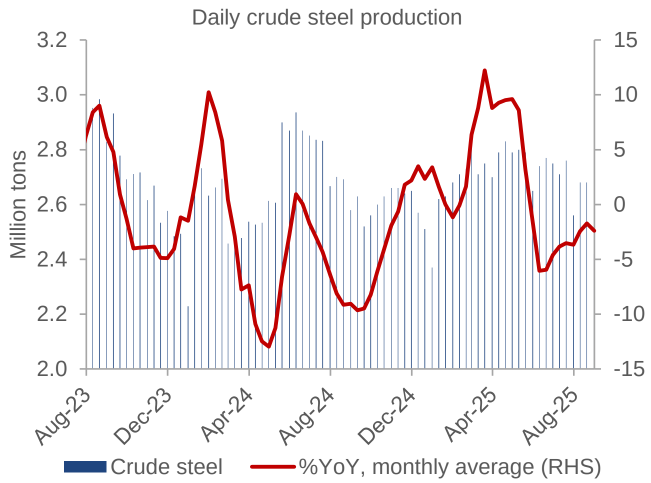
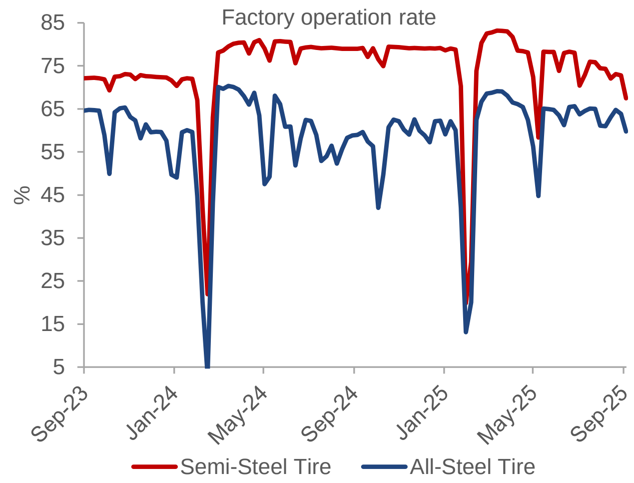


Fig 4 Steel tire production continued to trend lower



Source: Wind, Mizuho

Fig 5 CCFI: shipping prices to the US significantly fell

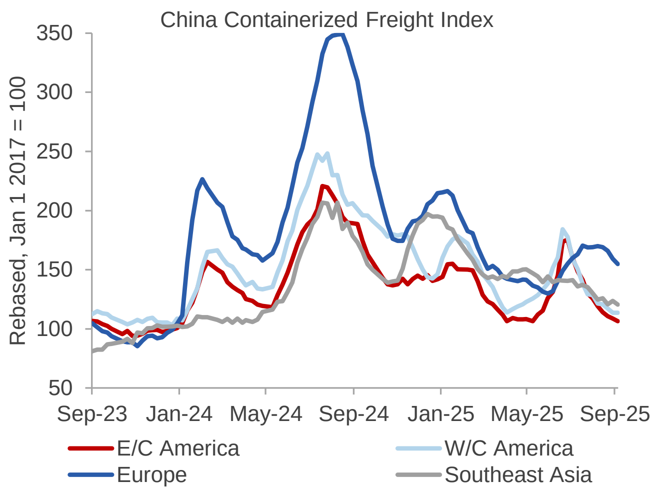
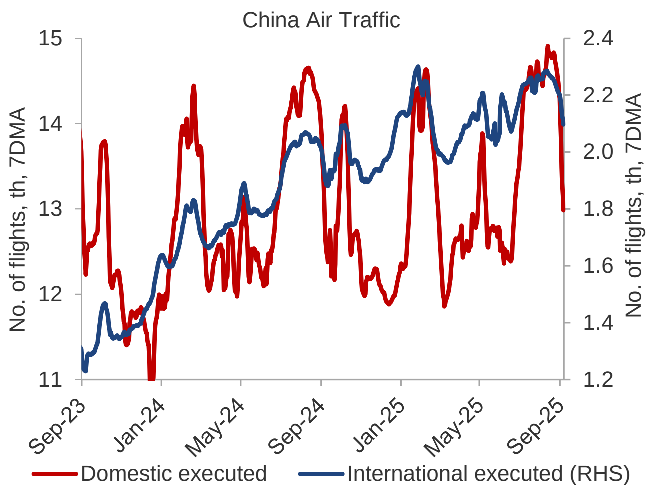


Fig 6 Air traffic dipped as the summer holiday ended



Source: Wind, Mizuho

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Activity monitor (2/2)

Fig 7 Road construction activity slowed further last week

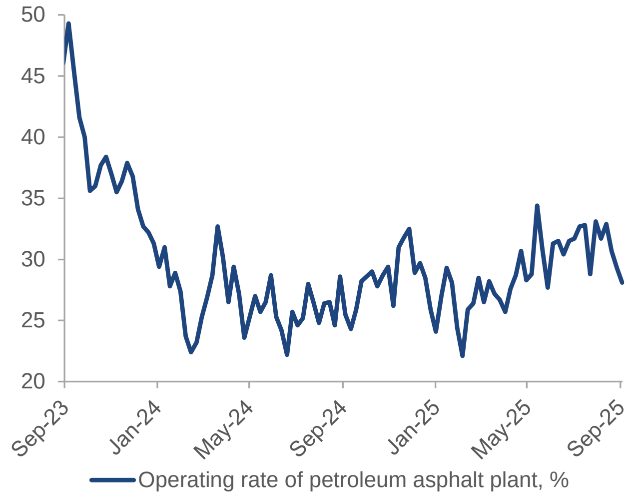
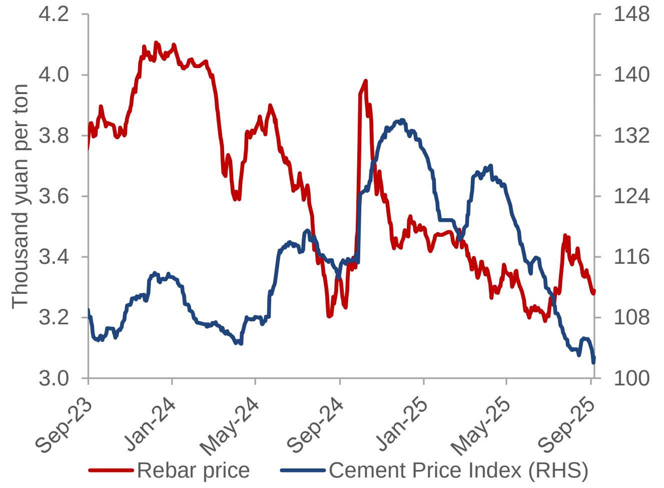


Fig 8 Construction material prices continued to trend lower



Source: Wind, Mizuho

Fig 9 Land sales weakened in recent weeks

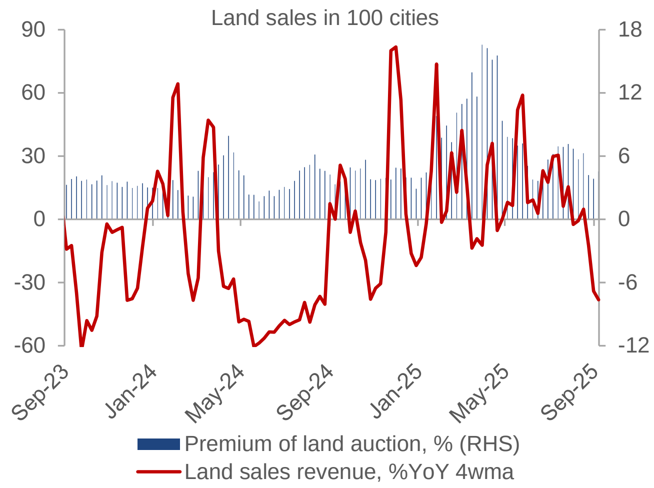
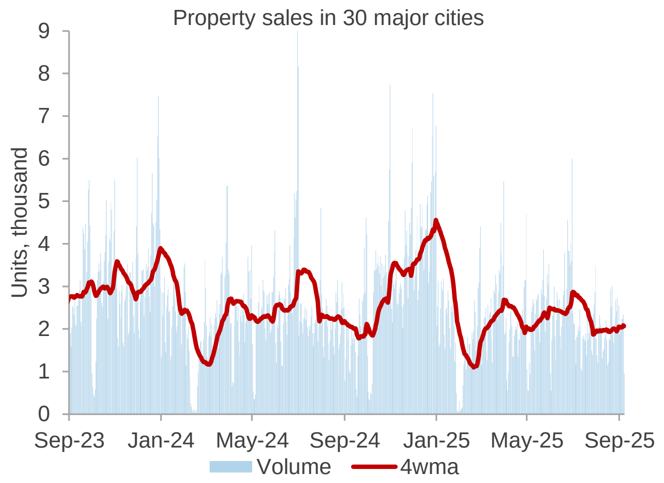


Fig 10 New home sales stayed tepid



Source: Wind, Mizuho

Fig 11 Movie box office revenue improved in summer holiday

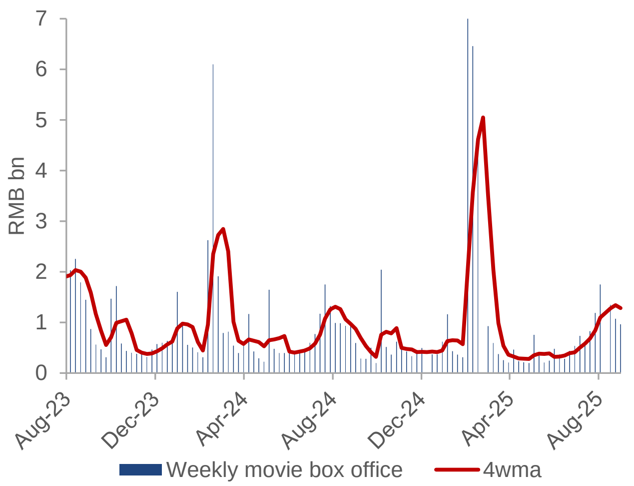
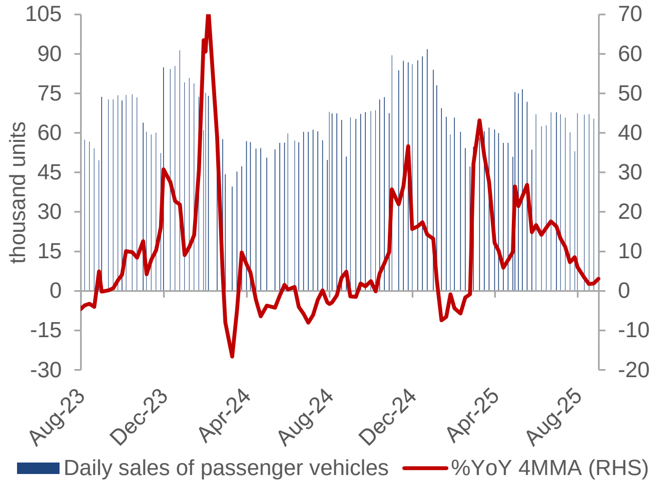


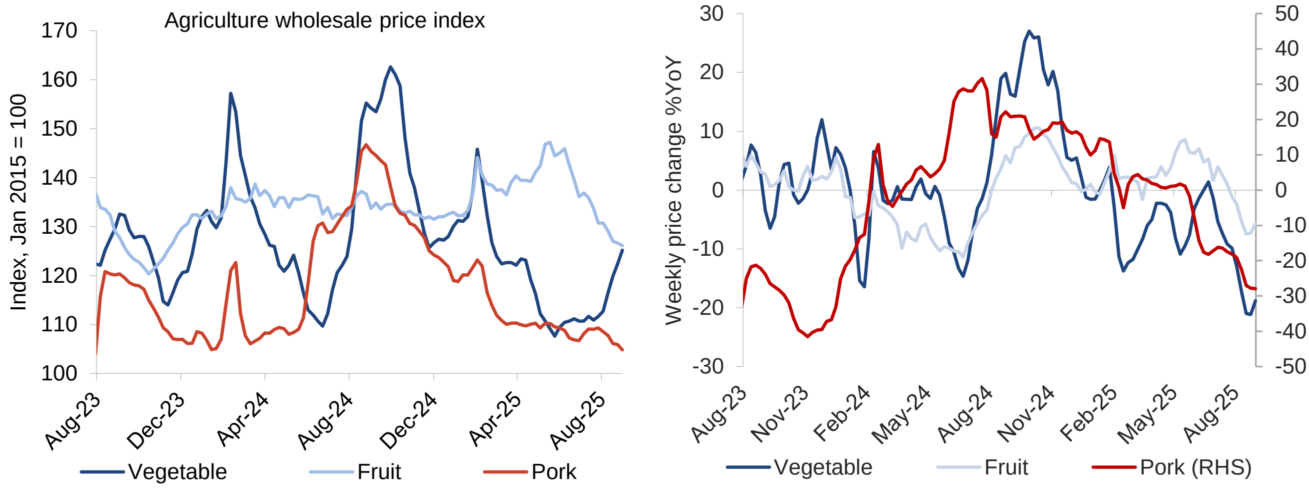
Fig 12 PV sales growth remained lackluster in recent weeks



Source: Wind, Mizuho

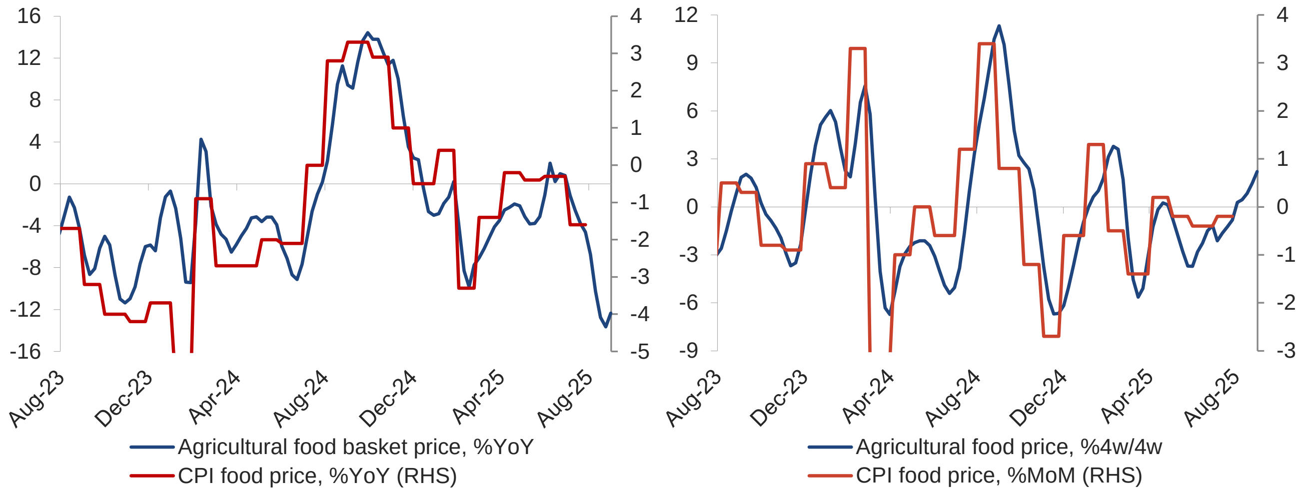
Price monitor

Fig 13 Major food items: price declines worsened in August



Source: Wind, Mizuho

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



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices stayed much unchanged

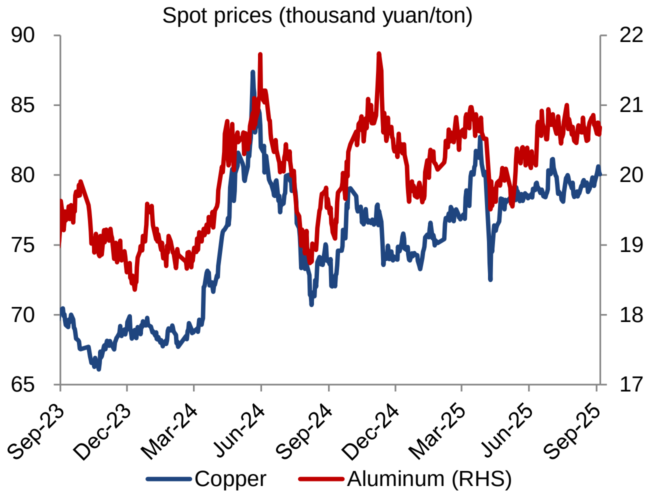
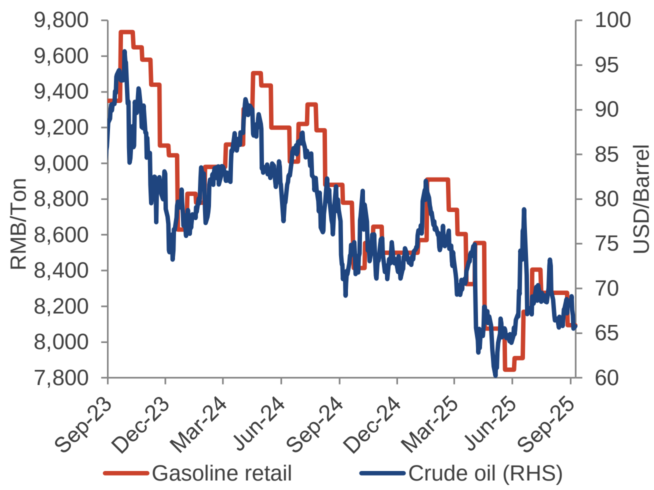


Fig 16 Oil prices kept range-bounding



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB1205b during 1 - 5 Sept

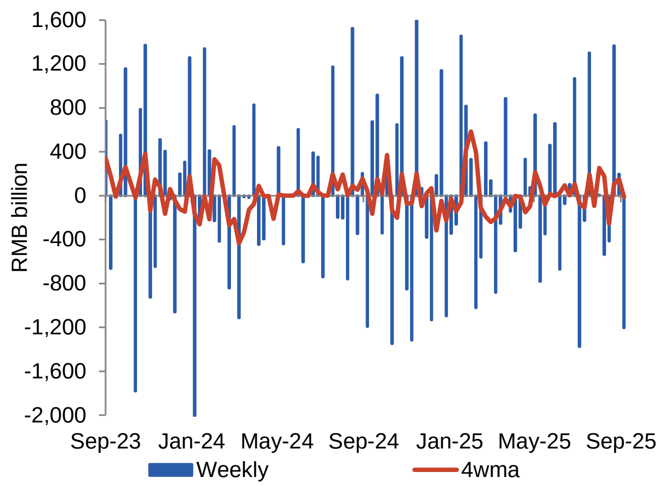
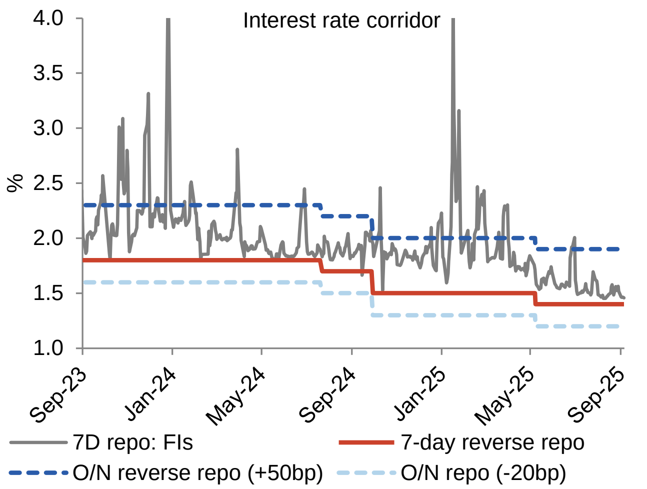


Fig 18 7D repo for FIs has moved closer to the target level



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields were mixed last week

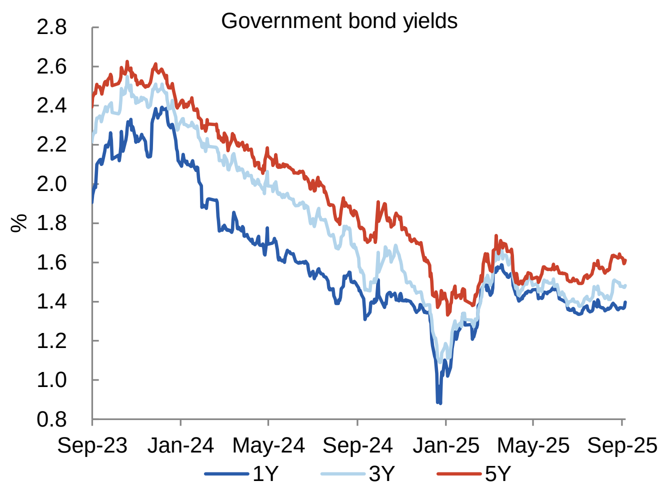
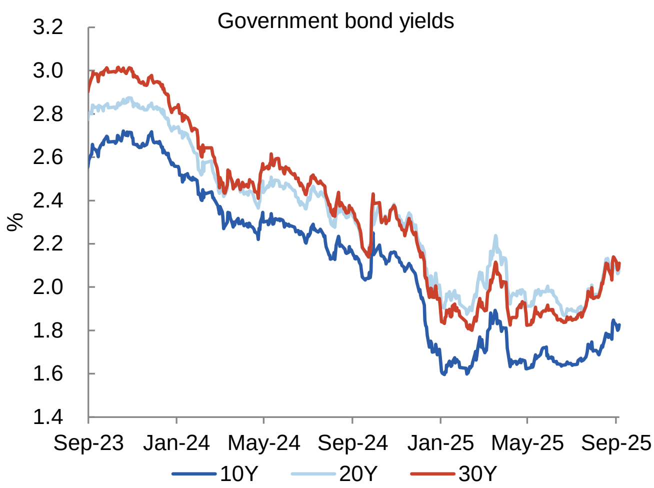
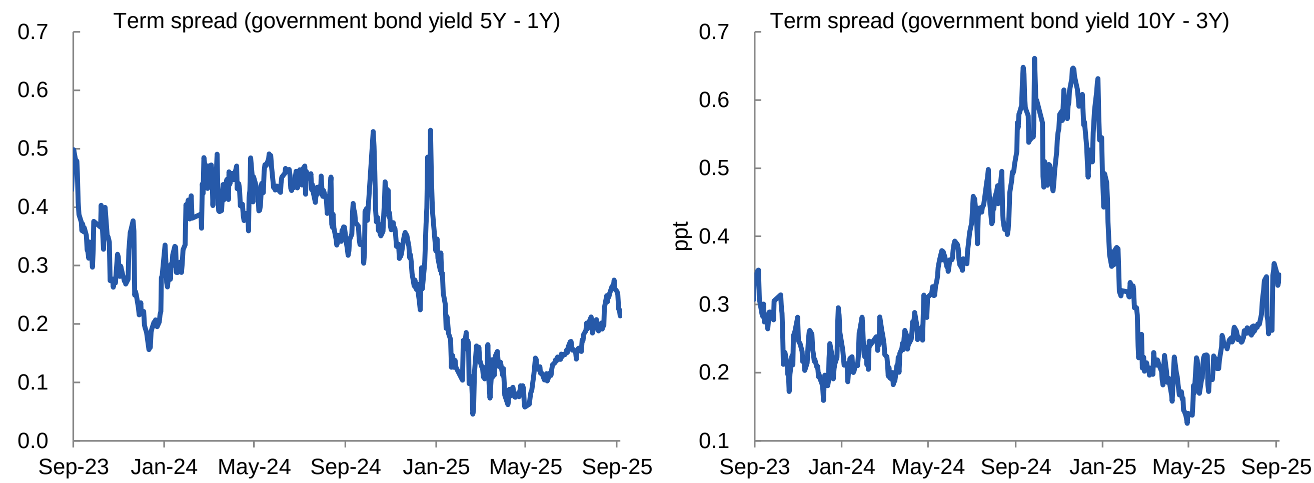


Fig 20 Long-end CGB yields edged lower last week



Source: Wind, CEIC, Mizuho

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



Source: CEIC, Mizuho

Credit monitor

Fig 22 IG Corporate bond yields declined in general

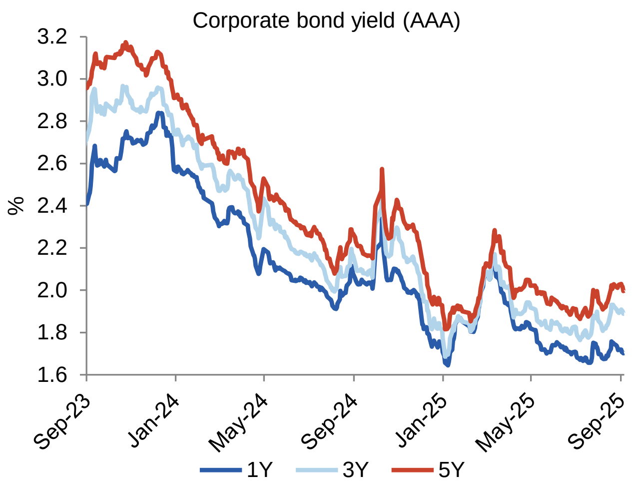
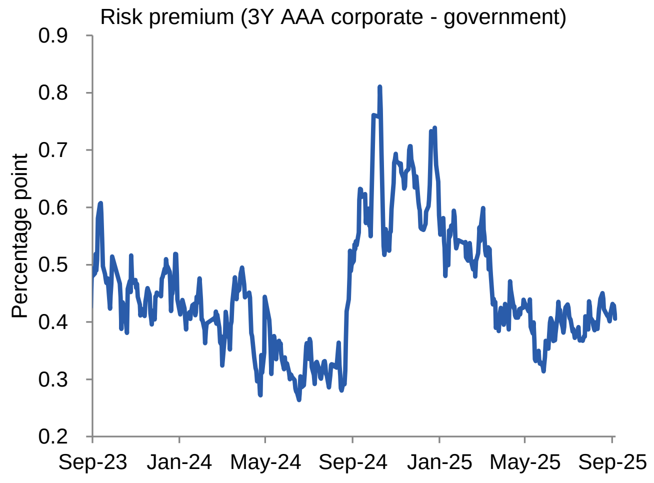


Fig 23 IG corporate risk premium continued its range-bounding



Source: Wind, Mizuho

Fig 24 HY Corporate bond yields continued to edge lower

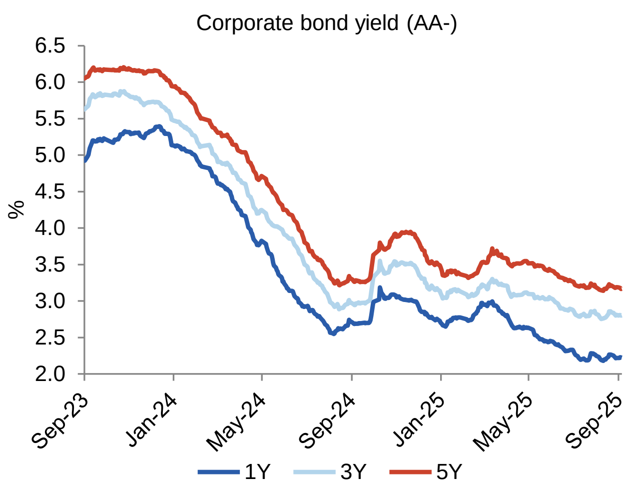
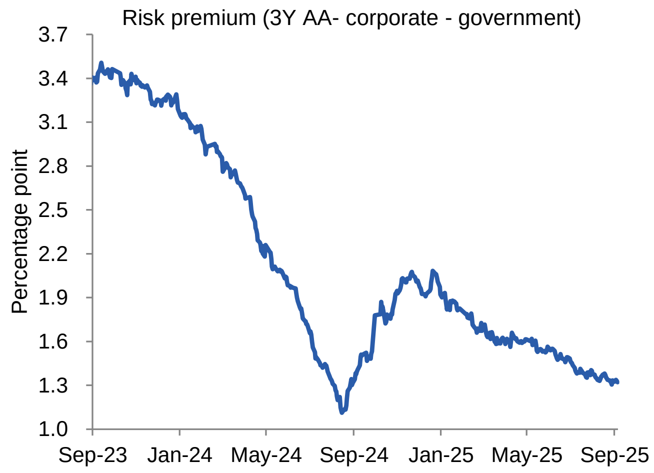


Fig 25 HY corporate risk premium slightly tightened



Source: Wind, Mizuho

Fig 26 China USD credit spreads proved resilient last week despite a plunge in treasury yields

Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC intervention reinstated since Jul

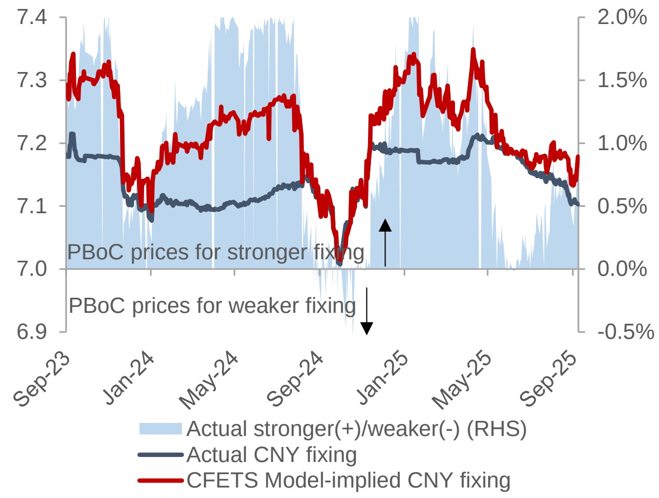
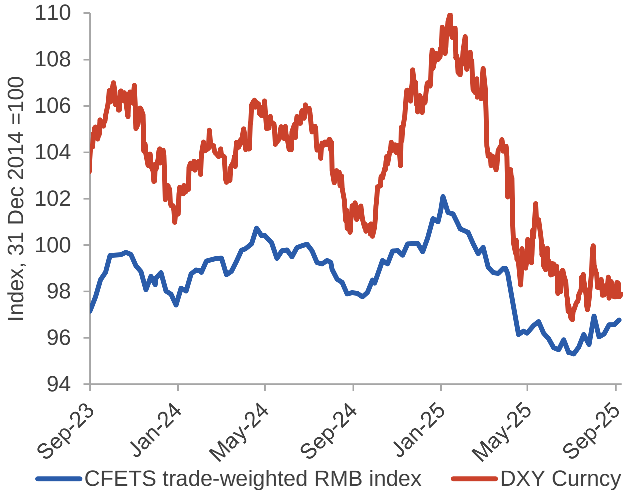
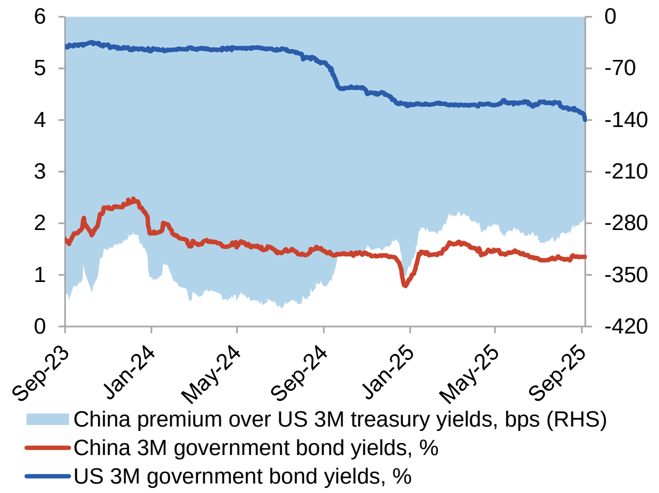


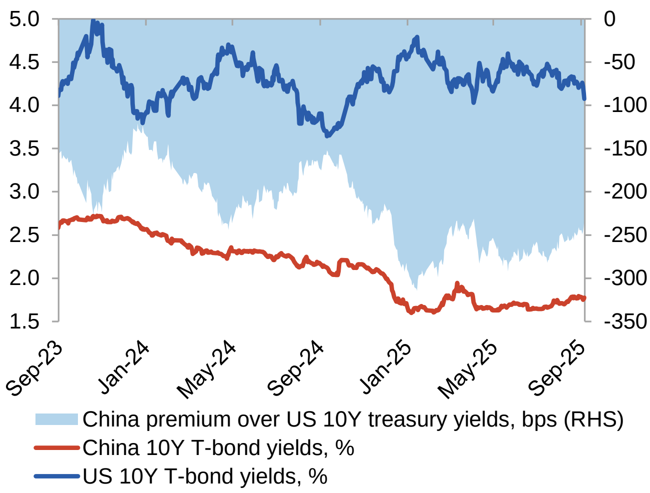
Fig 28 RMB trade-weighted index continued to strengthen



Source: CEIC, Bloomberg, Mizuho

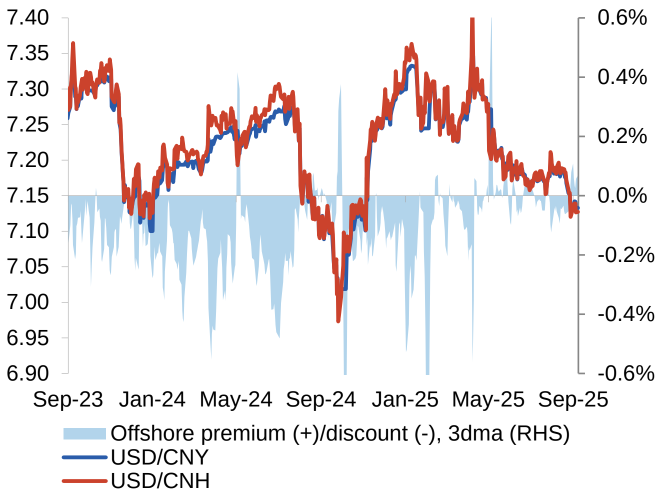
Fig 29 China-US interest rate spreads tightened further at both the front and back end

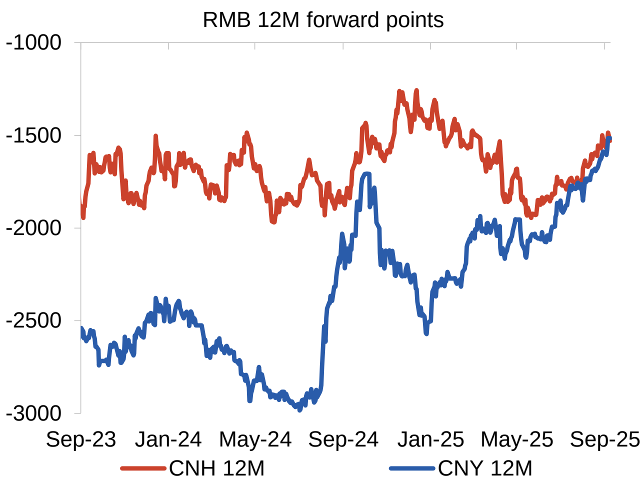




Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading at a slight premium to the CNY on softer-than-expected US employment data





Source: Bloomberg, Mizuho

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