Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Little surprise in LPR hold

It's no surprise that China's 1Y and 5Y Loan Prime Rates (LPRs) remained unchanged in September. Drawing from the May rate cut experience, the benchmark 7-day reverse repo rate was lowered a day after the announcement (on May 7), but quoting banks only adjusted their LPRs and deposit rates two weeks later, on May 20 or 21.

Notably, while both LPRs were cut by 10bp, 1Y deposit rates dropped by 15bp across banks, highlighting the pressure on bank profitability amid a significantly compressed net interest margin (NIM). In June, the overall NIM fell to 1.42ppt, well below the international warning threshold of 1.8ppt. The 50bp RRR cut in mid-May helped ease this pressure, unleashing around RMB1 trillion in bank liquidity at an extremely low cost.

No big bang this time

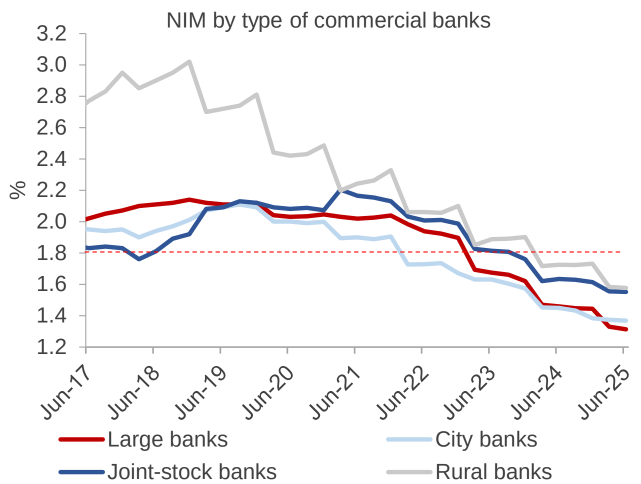
This afternoon, a high-level press conference was jointly held by the PBoC and CSRC, led by PBoC Governor Pan Gongsheng and CSRC Chairman Wu Qing. While officially focused on reviewing financial sector developments during the past five years, the timing and seniority of the speakers have raised expectations for additional policy easing signals. This closely mirrors last September's joint briefing, which introduced major stimulus measures to revive the economy. In this context, the briefing proved underwhelming, offering little in the way of near-term policy signals or commentary—let alone any forward guidance on potential cuts to the RRR or policy rates.

Tentative easing trade tension

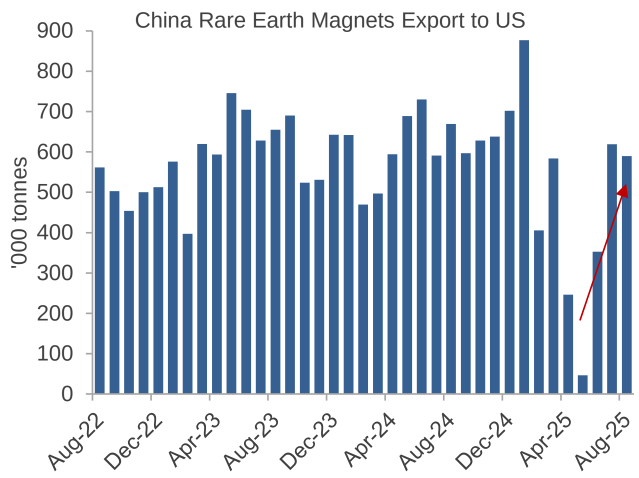
Although no deals were announced, last Friday's call between Presidents Xi and Trump was described as constructive and pragmatic, covering topics from a potential TikTok deal to better trade environment and a possible meeting at next month's APEC summit in South Korea.

Meanwhile, China's August exports of rare earth magnets to the US remained 41% above the 1H25 monthly average, reflecting a tentative easing in China-US tensions amid ongoing trade talks.

<The notable decline in NIM across the banking sector>



<A rebound in rare earth exports to the US continued in Aug>



Source: Wind, Bloomberg, Mizuho

CNH Outlook

Forex – CNH trades in line with both CNY and its reference rate

Rates – Onshore rates struggle for directions

Equities – Shanghai Composite closes lower yet stands above 3800

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1251	7.1278	7.0851	7.1194	-52
USD/CNY	7.1238	7.1245	7.1185	7.1182	-68
CNY PBoC Fixing	7.1056	7.1128	7.1013	7.1128	109
Shanghai Composite Index	3876.10	3899.96	3801.00	3820.09	-40.42

#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)	-1424	52	CNH HIBOR (3mth)	1.715	-0.013%
CNH Currency Swap (3yr)	1.5350	0.06%	CNH Implied yield (1Y)	1.564	0.065%

Recap

Last week, the offshore yuan (CNH) experienced a volatile trading session. After briefly strengthening past the 7.09 mark, it reversed course and drifted toward 7.12 ahead of the weekend. The primary catalyst behind this fluctuation was a sharp “V-shaped” rebound in the DXY Index during the FOMC meeting week.

Not only did the Fed deliver its first rate cut of the year, by 25bp, but it also revised its projections to reflect stronger GDP growth in 2025–26 and a peak in unemployment next year. Despite these optimistic forecasts, the Fed still signaled another two rate cuts before year-end (one more than the June meeting). Newly appointed Governor Miran took a more aggressive stance, advocating for a 50bp cut in September and projecting a total of 125bp in cuts by year-end. This raises questions about whether the changing composition of the Fed Board could begin to reshape its policy trajectory, especially with Chair Powell’s term set to conclude in mid-2026.

Against this backdrop, the CNH ended the week largely unchanged against the USD, trading in line with both the CNY spot and reference rate for most of the week. Interestingly, the CNH outperformed many of its regional peers. The IDR and THB led the declines, weakening by 0.13% and 0.4%, respectively. The INR was the outlier, gaining 0.2% following a birthday phone call between President Trump and Prime Minister Modi, an event seen as a symbolic thaw in US-India trade relations.

Outlook

Looking ahead, we believe it remains necessary for the PBoC to introduce further monetary easing to bolster domestic demand, particularly household consumption. While the PBoC may step back from active intervention via the counter-cyclical factor in its daily RMB fixing, we expect the CNH to remain range-bound within a narrow band of 7.10-7.15 as China enters a quiet data week.

Meanwhile, recent optimism in the equity market may face a reality check in the absence of fresh policy support. Investors will be watching closely to see whether sentiment can hold up without new catalysts.

< FX Charts on Page 8>

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Activity monitor (1/2)

Fig 1 Thermal coal: both demand and supply stayed sluggish

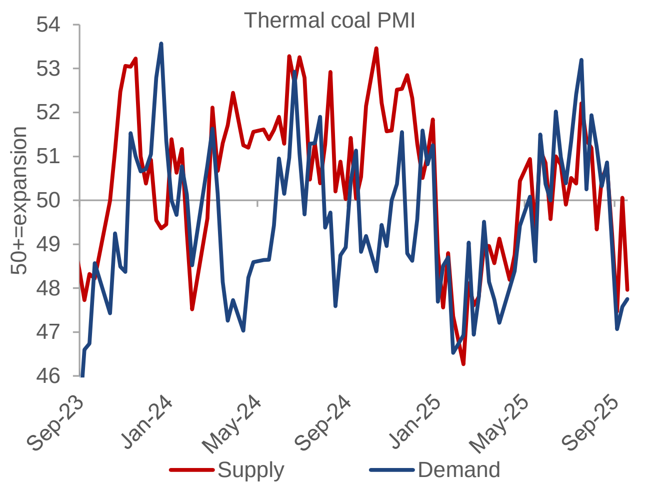
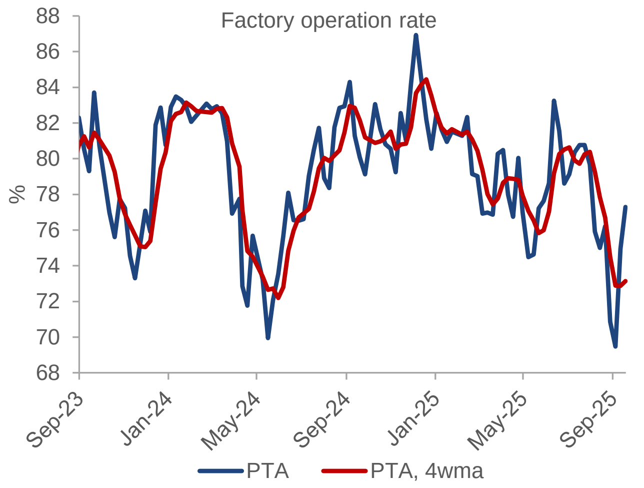


Fig 2 PTA production recovered from a recent trough



Source: Wind, Mizuho

Fig 3 Steel production fell at a faster pace in early September

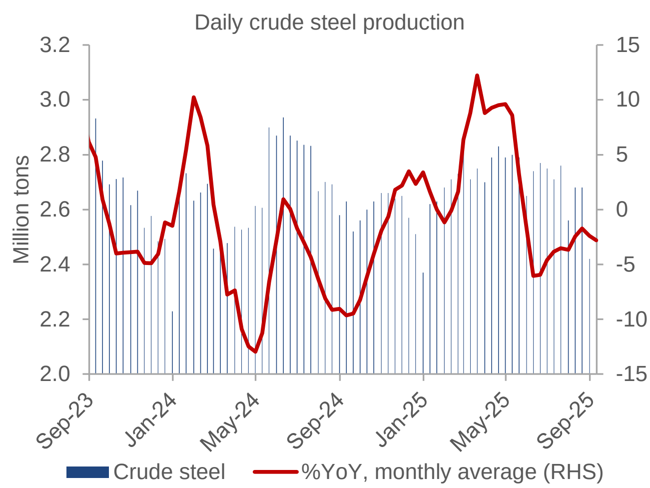
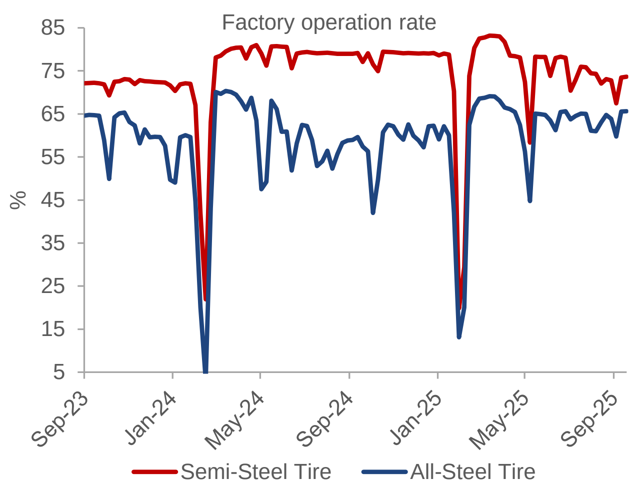


Fig 4 Steel tire production much unchanged from the previous week



Source: Wind, Mizuho

Fig 5 CCFI: shipping prices to most destinations ticked up

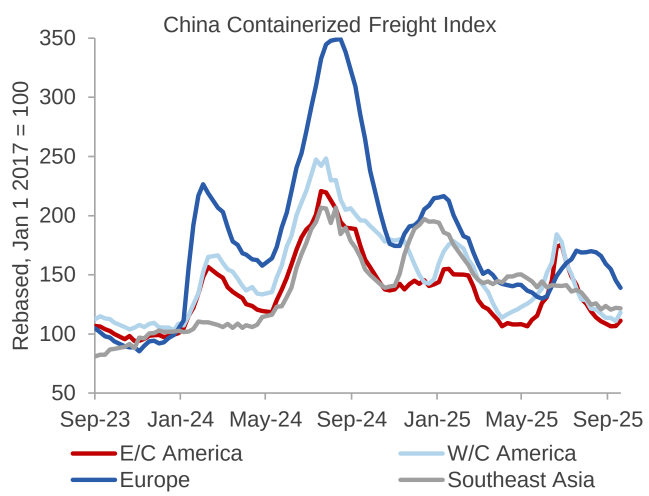
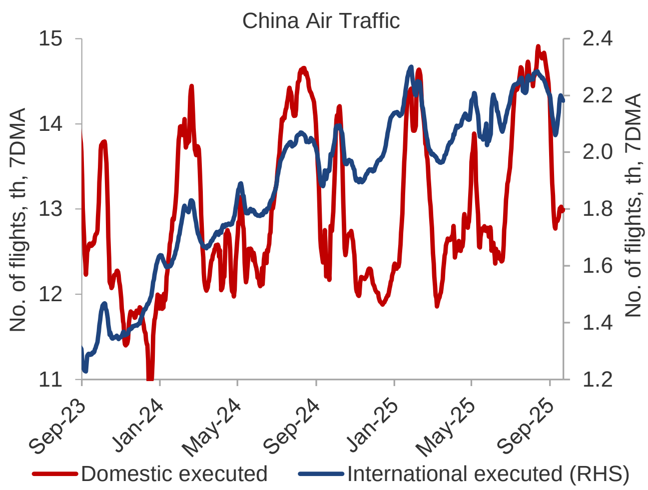


Fig 6 Air traffic slightly picked up last week



Source: Wind, Mizuho

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Activity monitor (2/2)

Fig 7 Road construction activity stayed solid last week

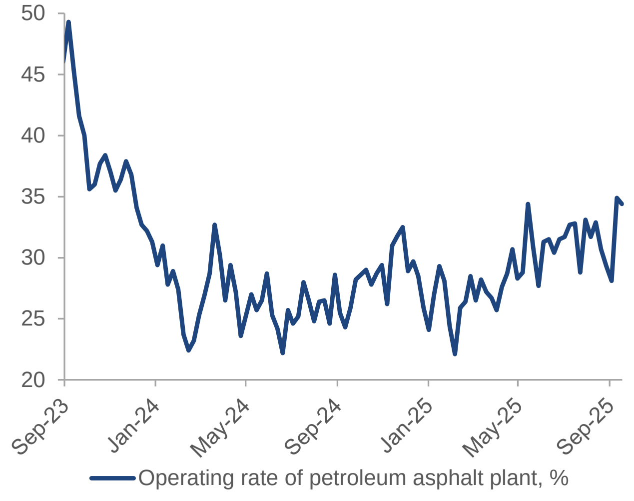
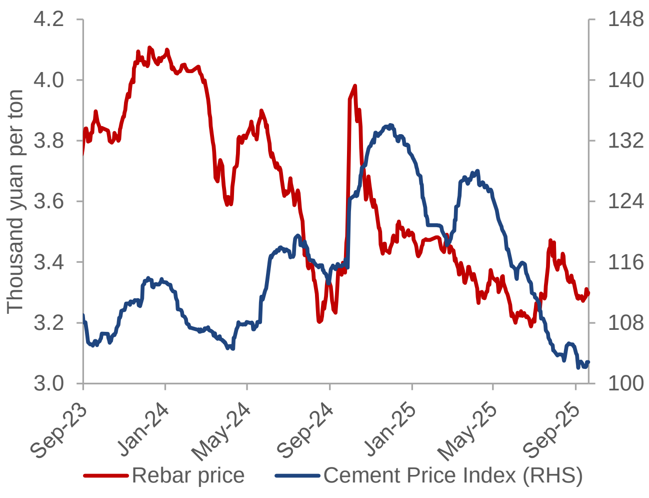


Fig 8 Construction material prices continued to trend lower



Source: Wind, Mizuho

Fig 9 Land sales weakened in recent weeks

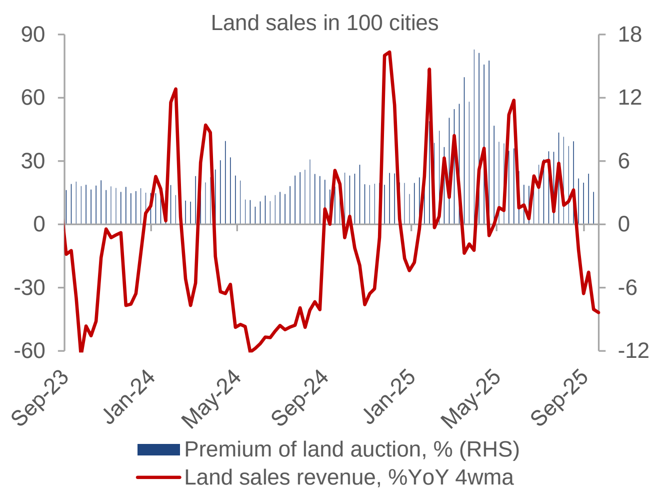
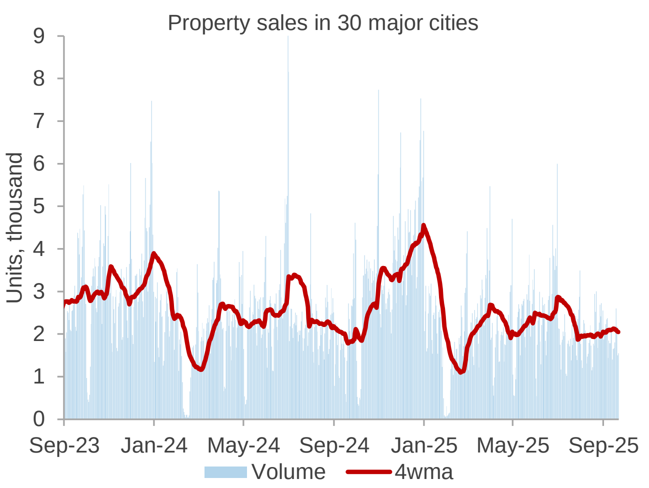


Fig 10 New home sales stayed tepid



Source: Wind, Mizuho

Fig 11 Movie box office revenue dropped in early September

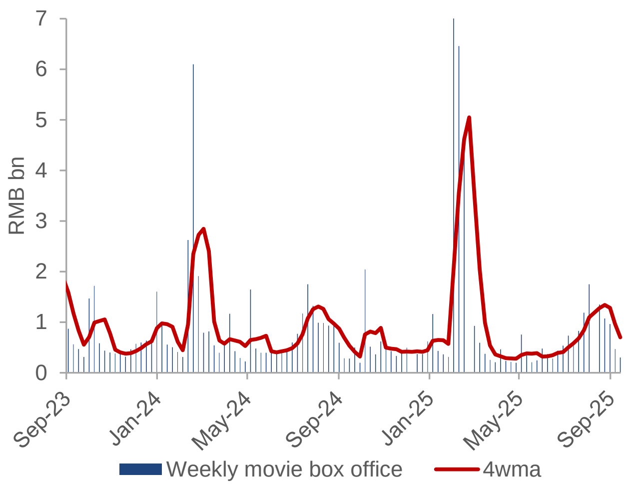
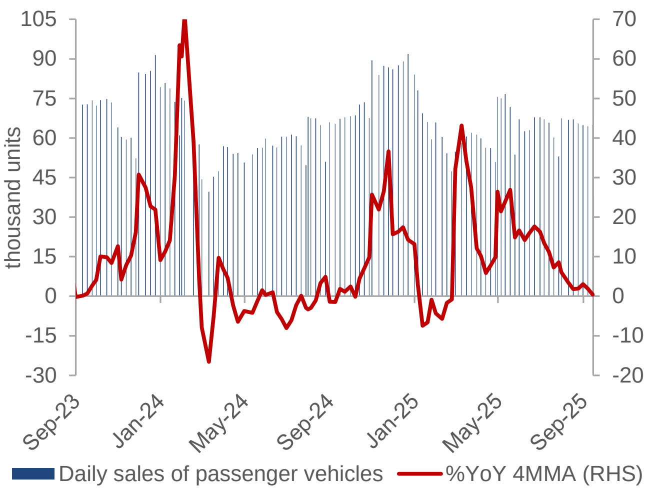


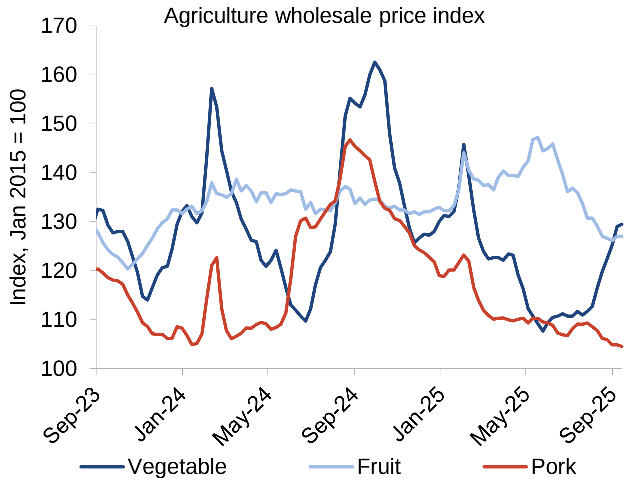
Fig 12 PV sales growth remained lackluster in recent weeks

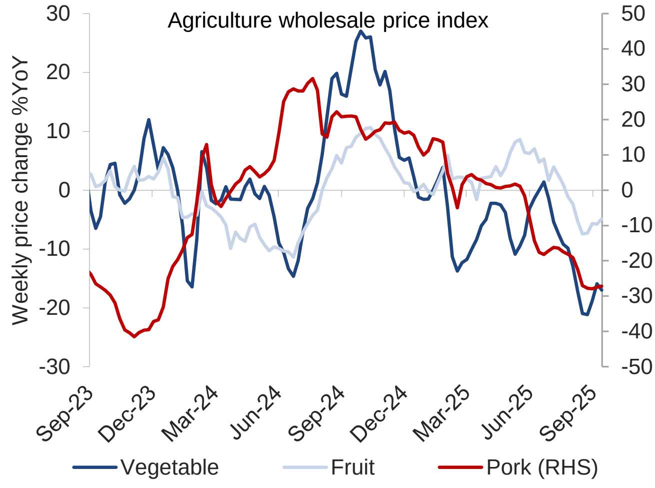


Source: Wind, Mizuho

Price monitor

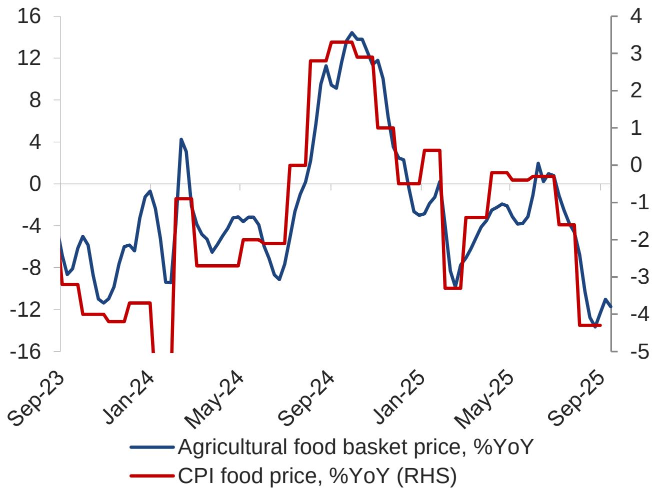
Fig 13 Major food items saw a slower decline in early September

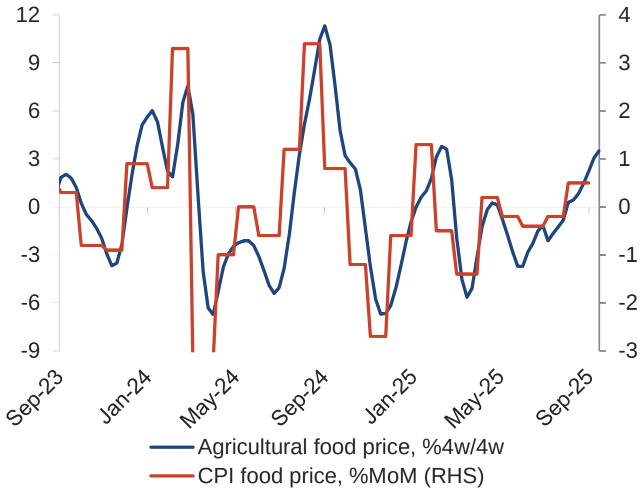




Source: Wind, Mizuho

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

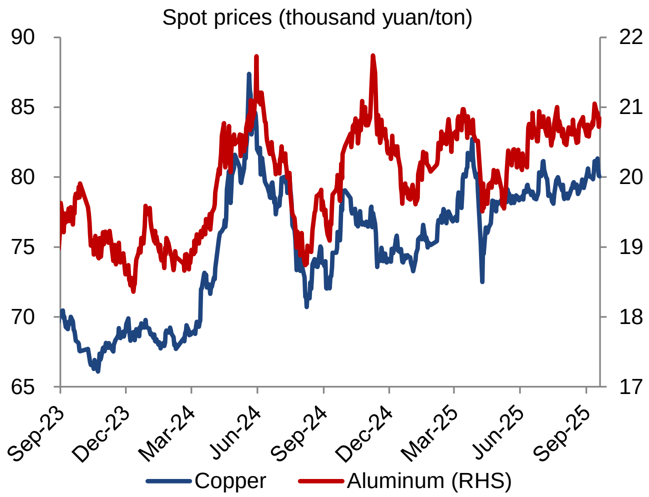
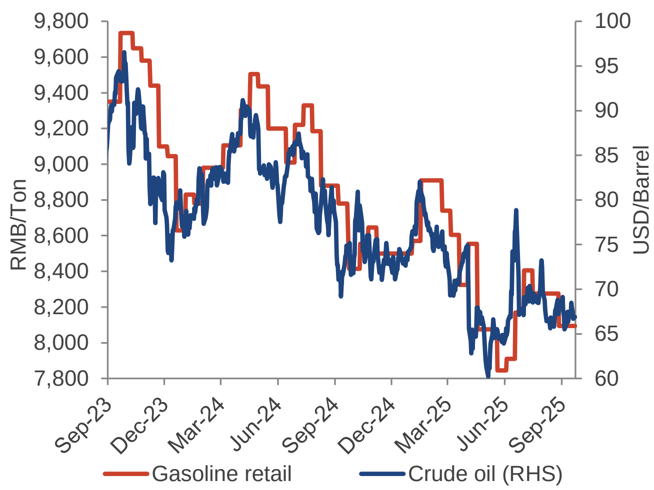


Fig 16 Oil prices kept range-bounding



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB562b during 15 - 19 Sept

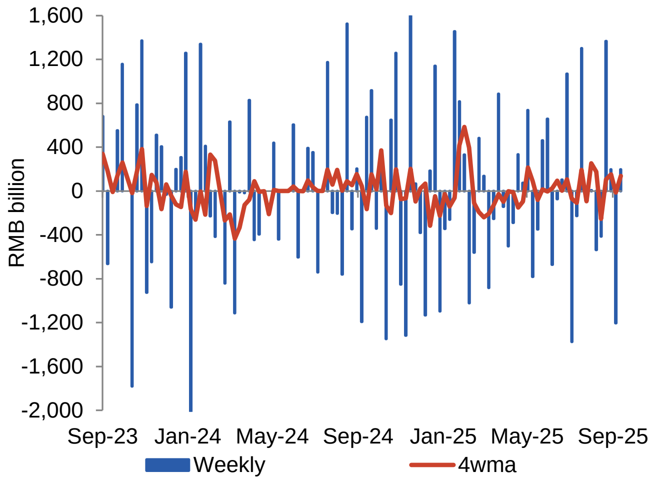
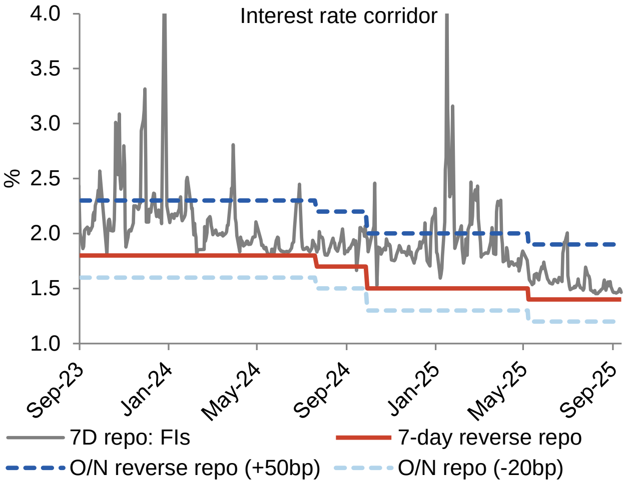


Fig 18 7D repo for FIs stays close to the target level



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields were mixed last week

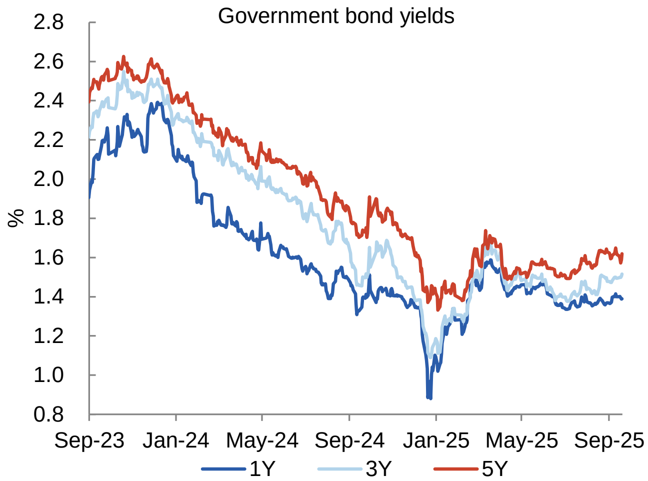
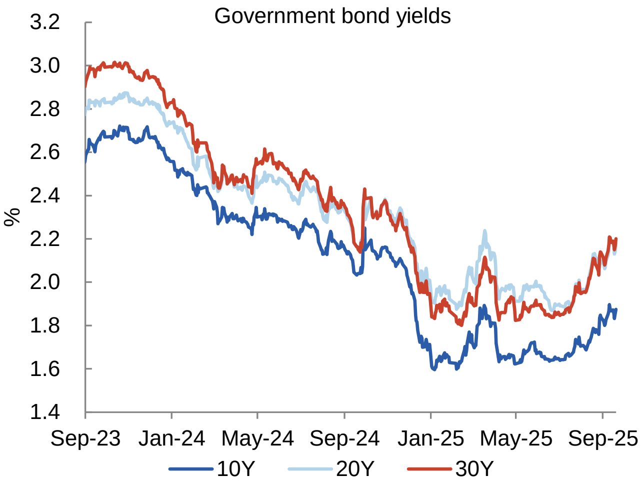
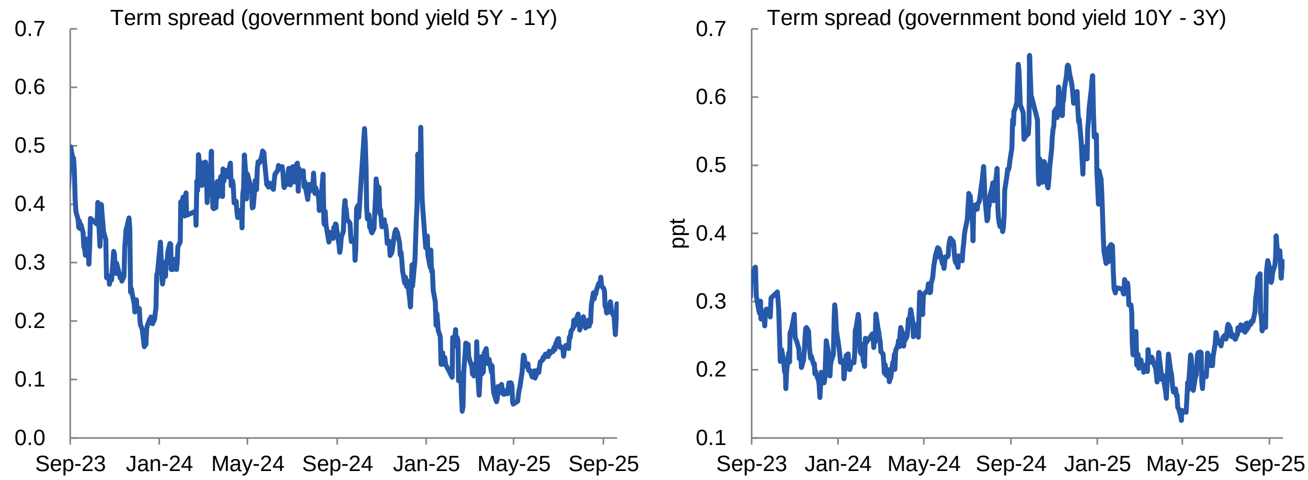


Fig 20 Long-end CGB yields also struggled for directions



Source: Wind, CEIC, Mizuho

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 last week

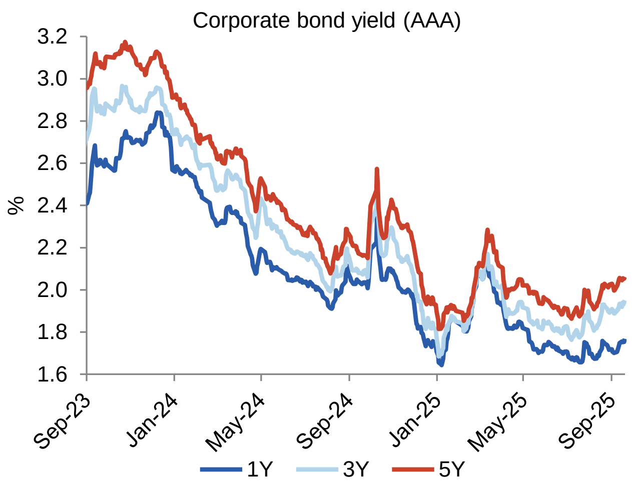
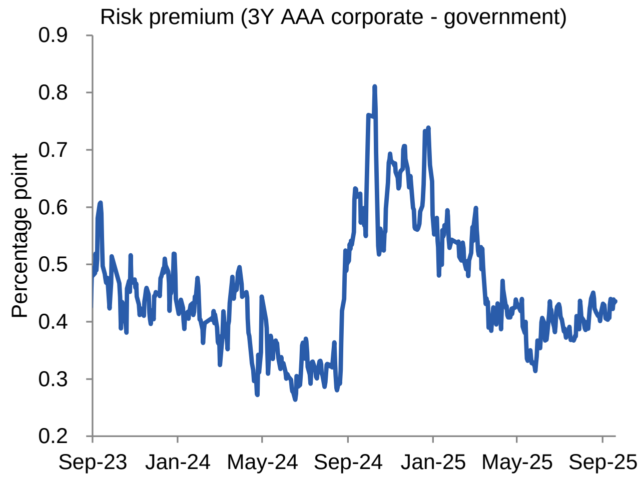


Fig 23 IG corporate risk premium continued its range-bounding



Source: Wind, Mizuho

Fig 24 HY Corporate bond yields stayed much unchanged

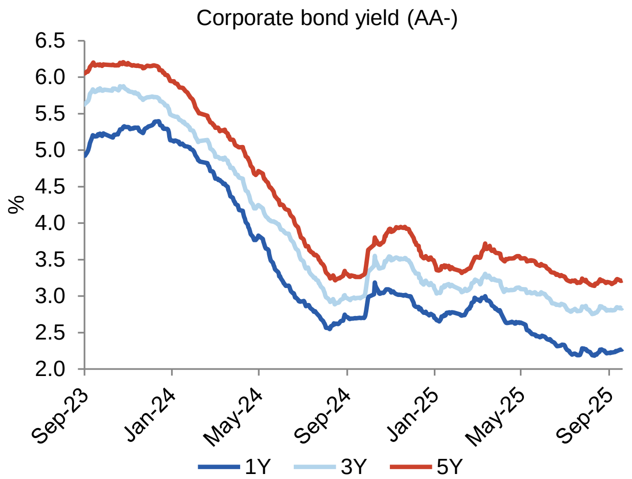
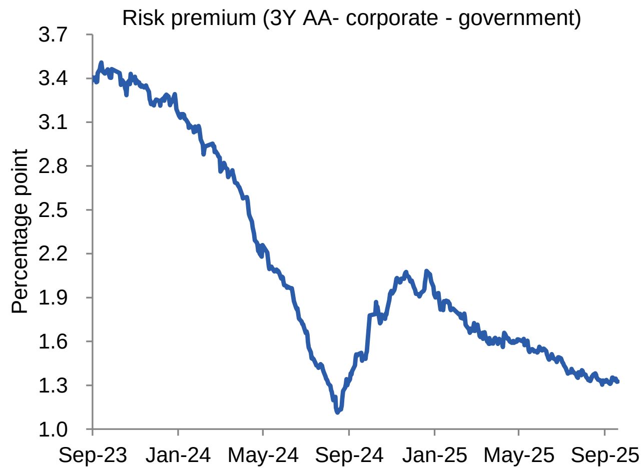


Fig 25 HY corporate risk premium remained relatively tight



Source: Wind, Mizuho

Fig 26 China USD credit spreads tightened further last week led by global rate cuts and optimism over China's TMT sector

Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC lately refrained from intervention

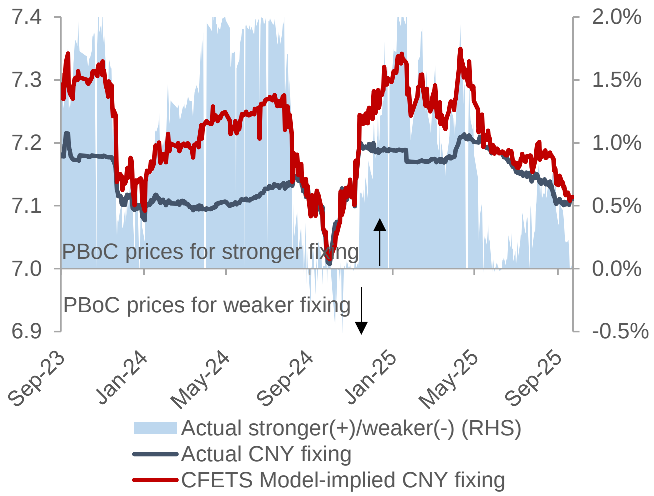
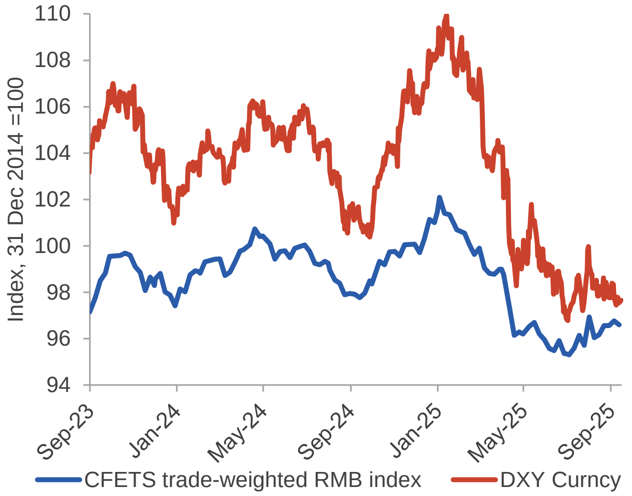
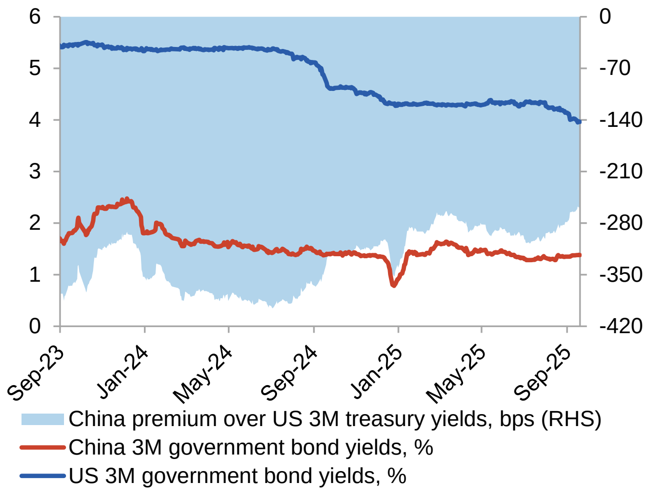


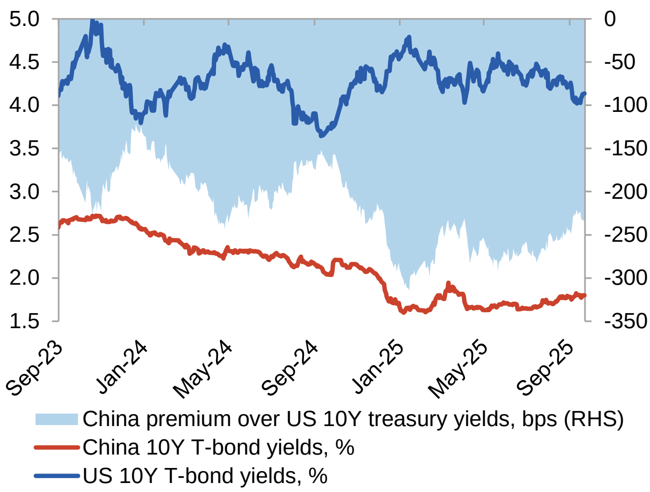
Fig 28 RMB trade-weighted index edged lower last week



Source: CEIC, Bloomberg, Mizuho

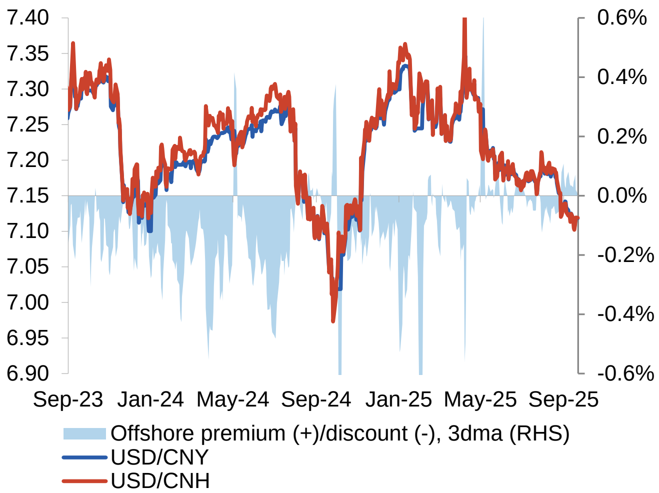
Fig 29 China-US interest rate spreads tightened further at both the front and back end

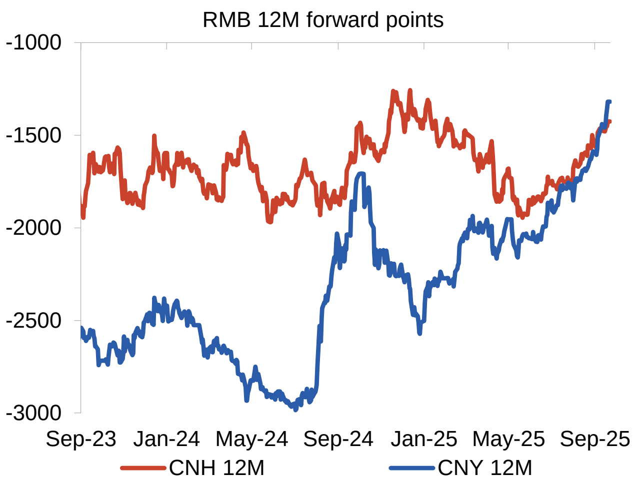




Source: CEIC, Bloomberg, Mizuho

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





Source: Bloomberg, Mizuho

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