

## China Weekly Outlook

### Growing growth headwinds

China's official Manufacturing PMI for October fell short of expectations, slipping to a six-month low of 49.0 from 49.8 in September. The slowdown reflects weakness on both the demand and supply sides, with subindices for new orders and production dropping below the expansion threshold of 50, to 48.8 and 49.7, respectively. Notably, large manufacturing enterprises—previously resilient to trade headwinds—led the decline, with their PMI dipping below 50 for the first time since April, landing at 49.9. This, in our view, underscores growing growth headwinds faced by the Chinese economy, despite recent progress in China-US trade relations. The Trump-Xi meeting last week is expected to help ease uncertainty surrounding China's trade and technology sectors over the next 12 months.

### Policy focus back to domestic demand

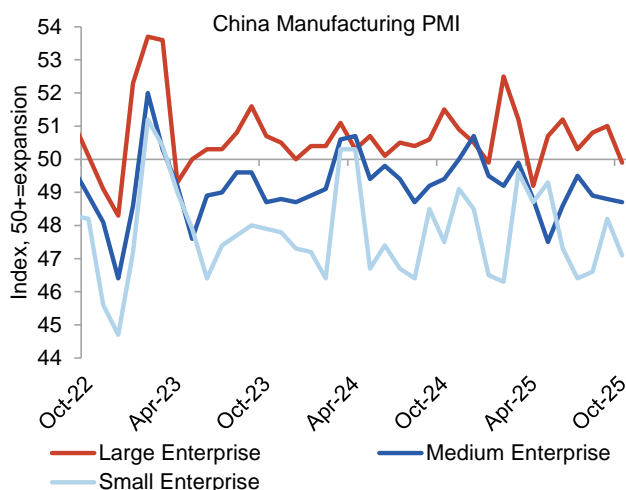
Looking ahead, we expect policymakers to pivot toward reviving domestic demand, particularly through private consumption and public investment. Note that public fixed asset investment (FAI) grew only 1.0% YoY in the first three quarters, down sharply from a 5% increase in H1. Furthermore, the Construction PMI for October stayed in contraction territory for the third consecutive month at 49.1, and prices for rebar and cement remained subdued throughout the month (Fig 8), signaling continued weakness in construction demand.

While local government bond issuance has been robust year-to-date, much of the proceeds have been used to repay hidden debt rather than fund new projects. Progress on the issuance of new special bonds, which is closely tied to public FAI, has lagged behind 2023 and 2024 levels, with an additional RMB 435 billion left for November and December.

### Resumed CGB purchases

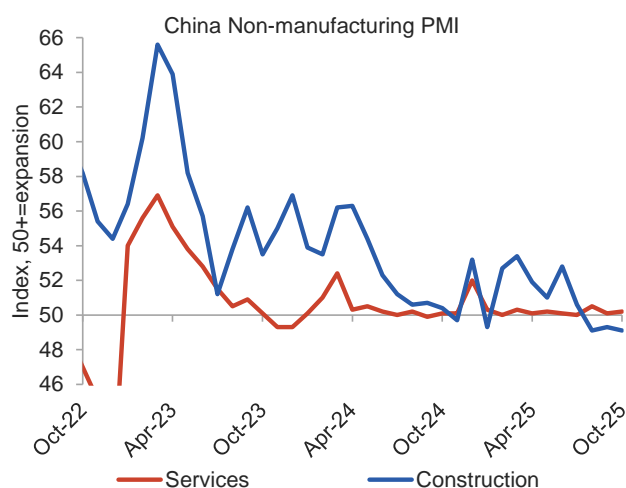
Against this backdrop, the PBoC has pledged to resume purchases of China Government Bonds (CGBs) in the secondary market to maintain ample liquidity ahead of the typical year-end squeeze. Front-end CGBs are expected to benefit most from this move. Indeed, last week saw 1Y and 3Y CGBs deliver their strongest weekly performance in months (Fig 19), with yields falling by 9.3bp and 11.6bp, respectively.

<Large enterprises posted an unexpected PMI decline>



Source: CEIC, Mizuho

<Construction PMI in contraction territory for three months in a row>



## CNH Outlook

**Forex – CNH settled the week almost flat despite upbeat trade headlines**

**Rates – Offshore rates mixed despite onshore rate rally**

**Equities – SHCOMP closed little changed as investors sold on fact**

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1251	7.1259	7.0886	7.1225	-36
USD/CNY	7.1086	7.1203	7.0960	7.1194	-31
CNY PBoC Fixing	7.0881	7.0881	7.0843	7.0880	-48
Shanghai Composite Index	3969.22	4025.71	3951.73	3954.79	4.48

#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)	-1449	-69	CNH HIBOR (3mth)	1.708
CNH Currency Swap (3yr)	1.520	0.025	CNH Implied yield (1Y)	1.519

### Recap

The CNH started last week on a strong note, buoyed by upbeat US–China trade headlines, but its momentum faded as the USD regained strength following the Fed’s hawkish tone. Despite delivering a 25bp rate cut and announcing the end of quantitative tightening, Fed Chair Powell stressed that a further rate reduction in December is “far from a forgone conclusion.” This shift in tone saw futures markets scale back expectations, now pricing in roughly a two-thirds chance of a December cut, down from 96% just a week earlier.

Against this backdrop, the CNH rose through the 7.1 level midweek before settling almost flat, closing just 0.05% higher than the previous week. Compared to its regional peers during the same period, this move was relatively subdued: the THB surged 1.3%, KRW gained 0.6%, while the JPY slipped 0.7%. The only currency with less volatility than the CNH and CNY was the HKD.

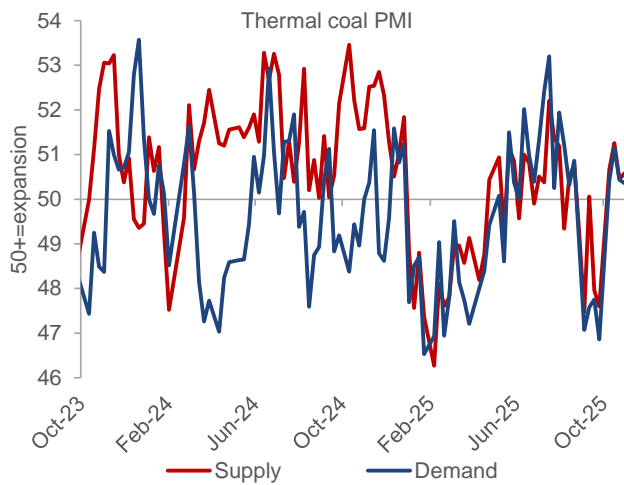
### Outlook

With trade tensions easing—at least for the next couple of months—we expect the CNH to remain relatively steady against the USD over the next couple of weeks, likely oscillating within a narrow band around 7.12.

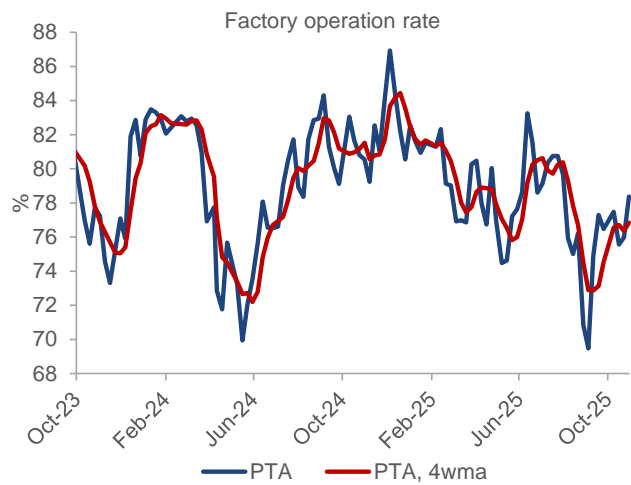
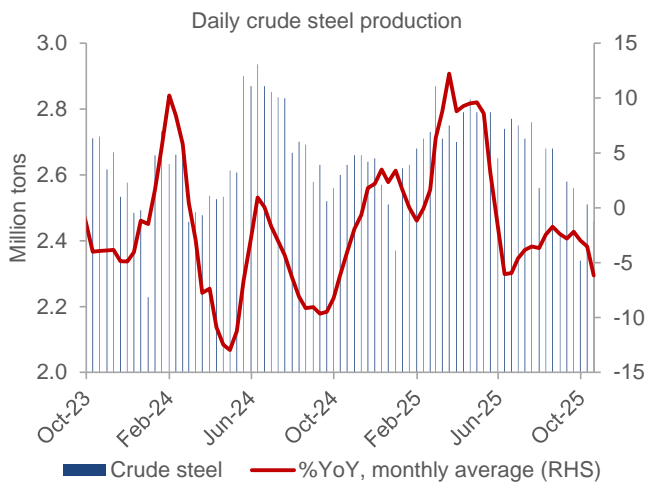
Looking further ahead, market attention is set to return to domestic growth challenges. We anticipate additional supportive measures as policymakers strive to revive consumption and investment. However, until any significant stimulus is announced, the CNH may gradually soften amid renewed growth concerns. Our forecast sees GDP growth slowing to 4.0% YoY in Q4, down from 4.8% in Q3. Such deceleration could weigh on investor sentiment toward Chinese assets and potentially nudge the CNH beyond 7.15 level later this quarter.

< FX Charts on Page 8 >

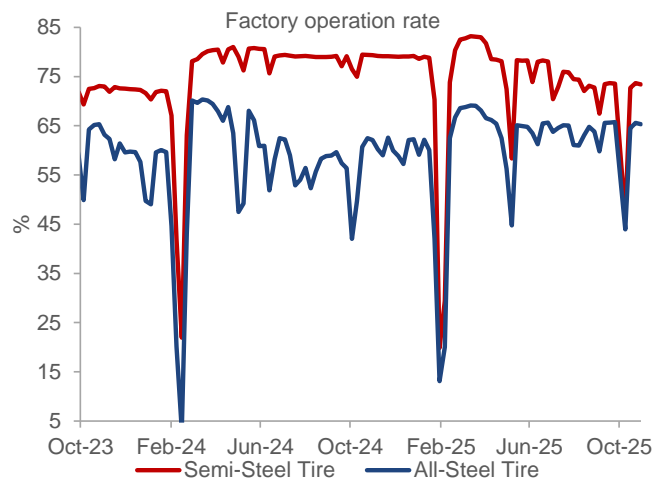
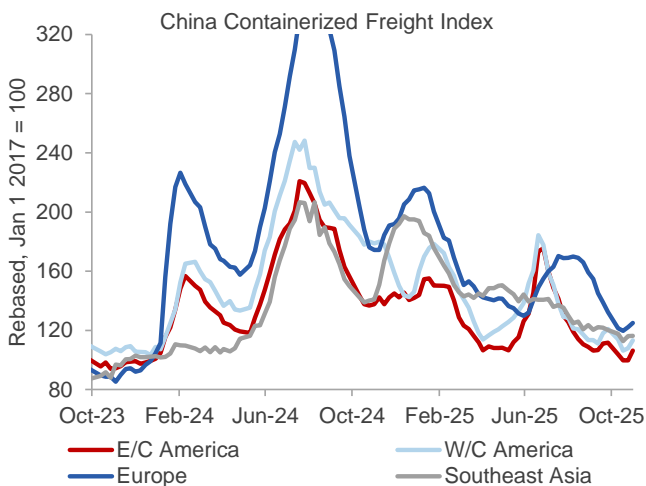
## Activity monitor (1/2)

**Fig 1 Thermal coal: both demand and supply improved in Oct**

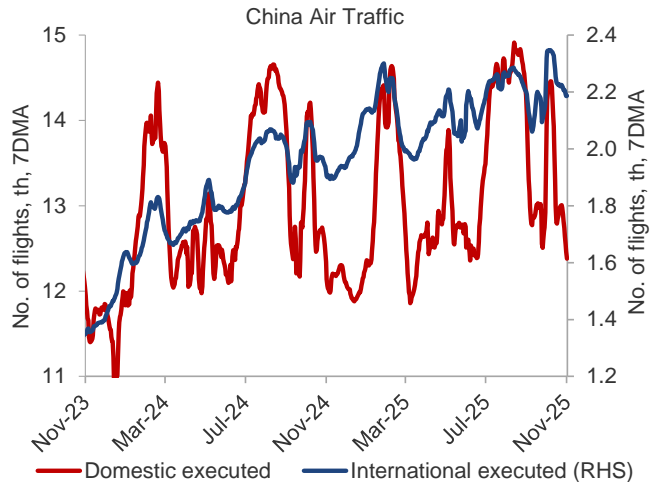
Source: Wind, Mizuho

**Fig 2 PTA production remained below its levels from last October****Fig 3 Steel production: the decline accelerated in late Oct**

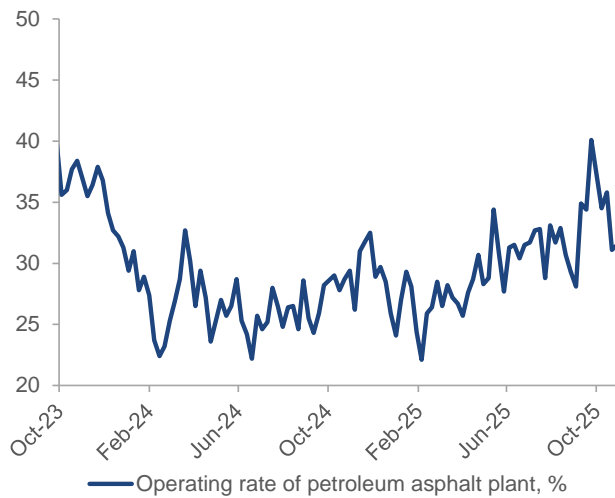
Source: Wind, Mizuho

**Fig 4 Steel tire production slightly softened****Fig 5 CCFI: shipping prices picked up last week on trade progress**

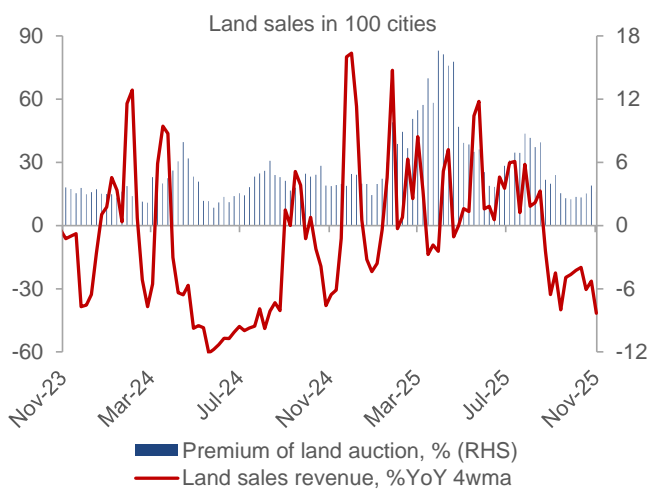
Source: Wind, Mizuho

**Fig 6 Air traffic: travelling demand declined after the national holiday**

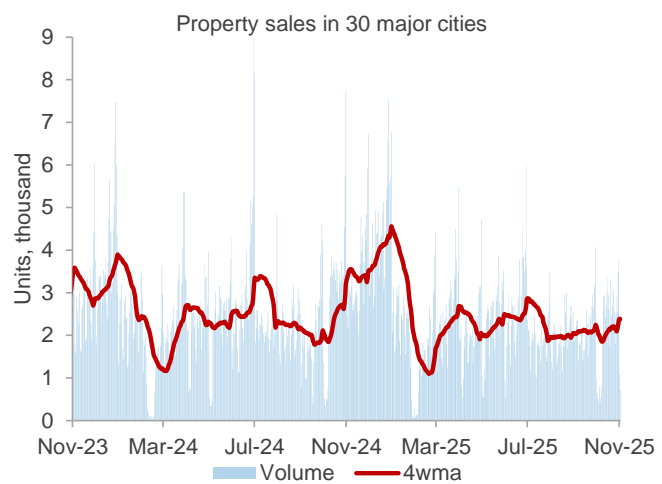
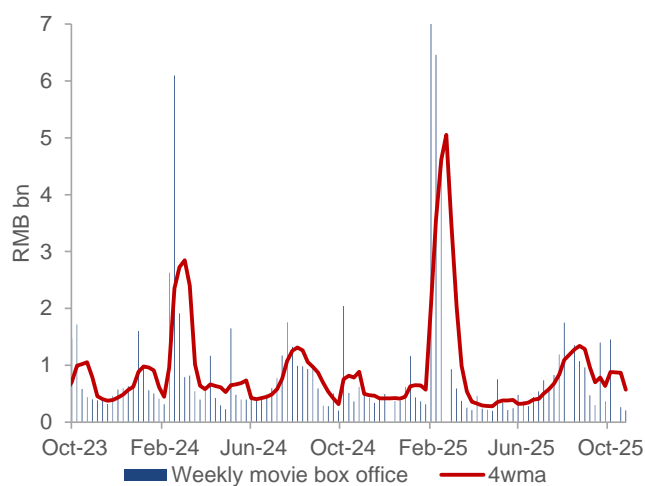
## Activity monitor (2/2)

**Fig 7 Road construction activity** dropped in late Oct

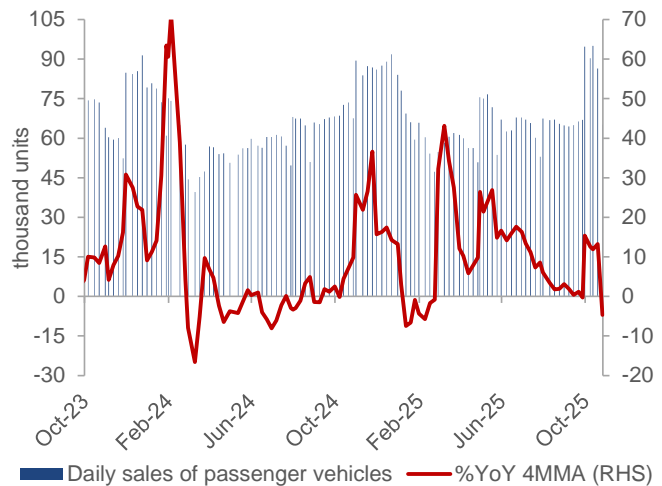
Source: Wind, Mizuho

**Fig 8 Construction material prices** remained subdued**Fig 9 Land sales** weakened notably since August

Source: Wind, Mizuho

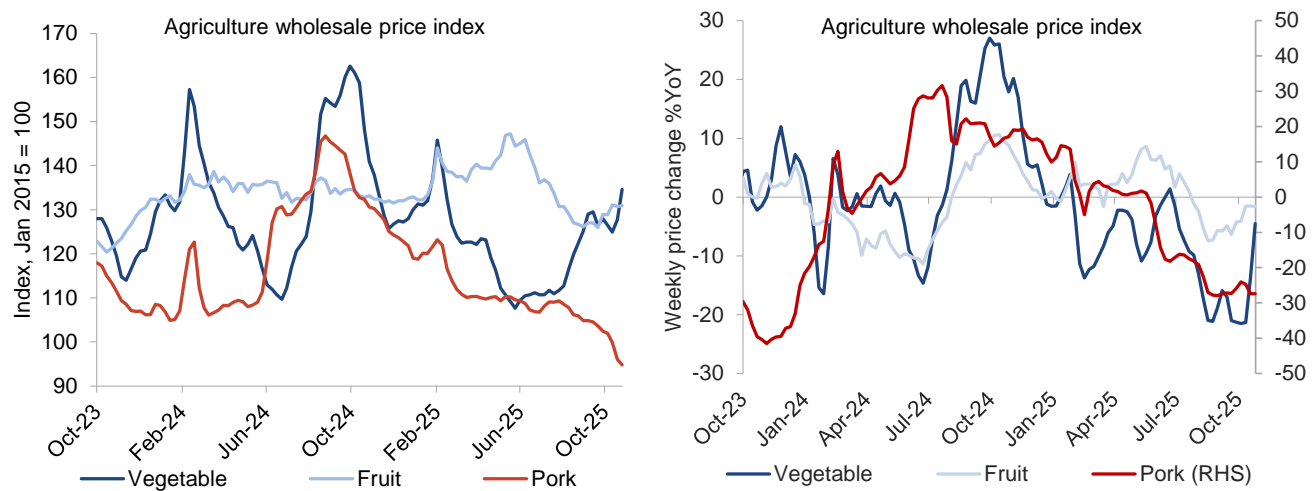
**Fig 10 New home sales** stayed relatively tepid**Fig 11 Movie box office revenue** ticked up during the holiday

Source: Wind, Mizuho

**Fig 12 PV sales** improved in October

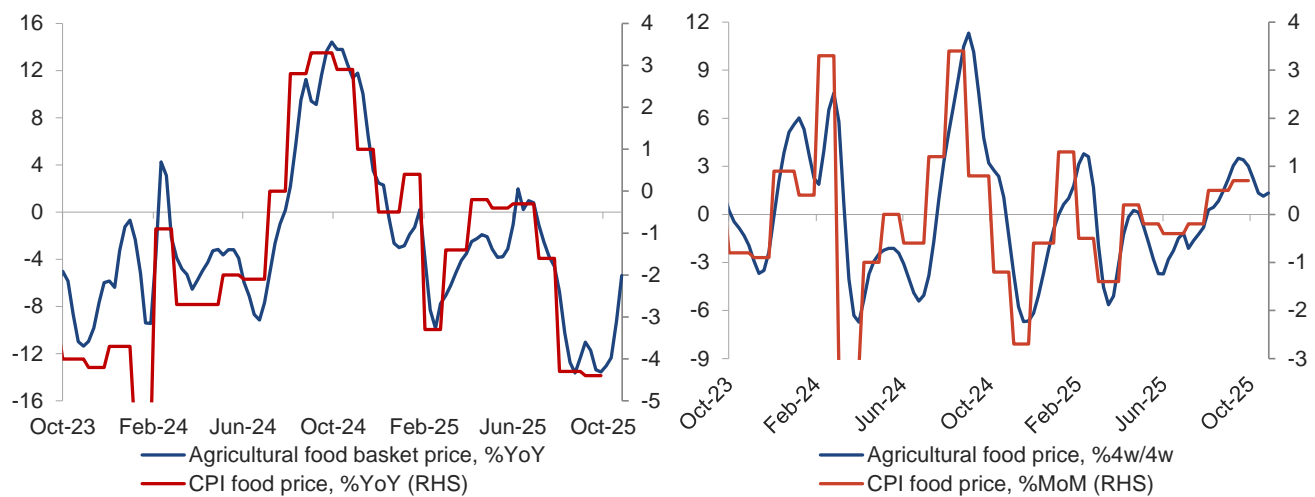
## Price monitor

**Fig 13 Major food items:** pork prices saw further declines while vegetable prices rebounded



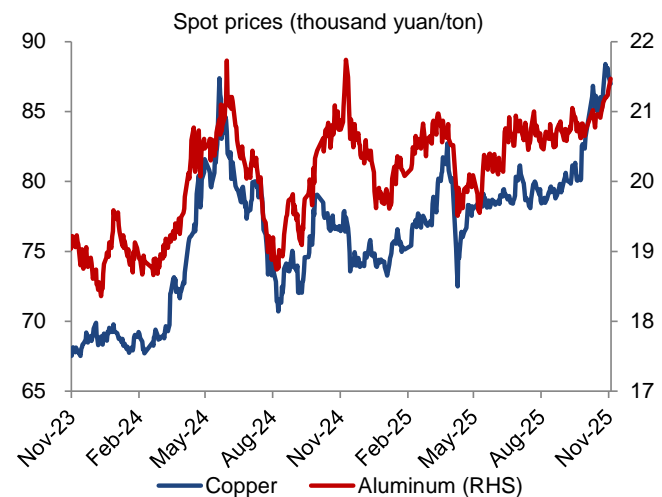
Source: Wind, Mizuho

**Fig 14 Wholesale food prices** saw a much slower YoY decline in late October

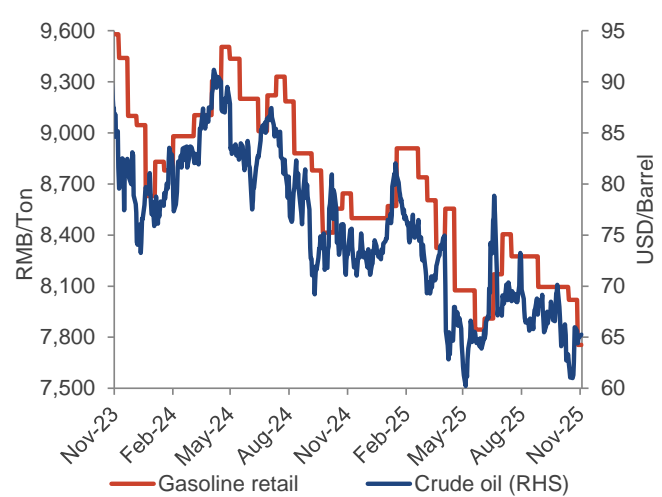


Source: CEIC, Mizuho

**Fig 15 Non-ferrous metal prices** saw a notable pickup



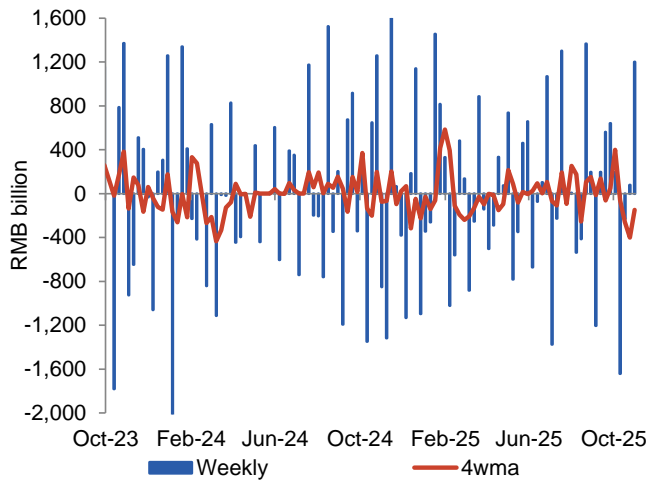
**Fig 16 Oil prices** fell further in recent weeks



Source: CEIC, Wind, Mizuho

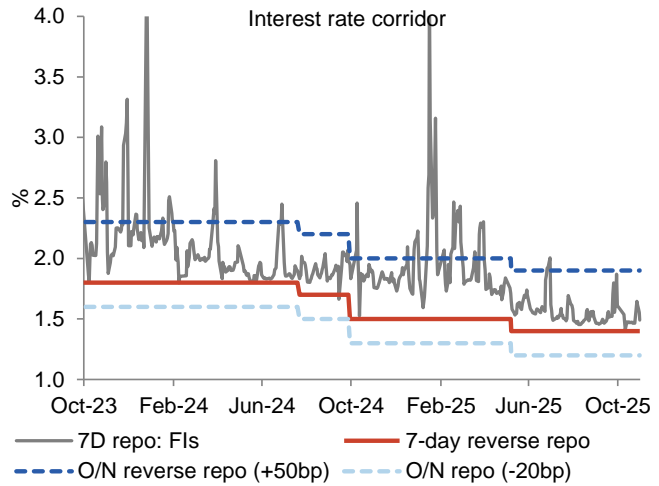
## Liquidity monitor

**Fig 17 OMOs: net injection of RMB1201b during 27 - 31 Oct**

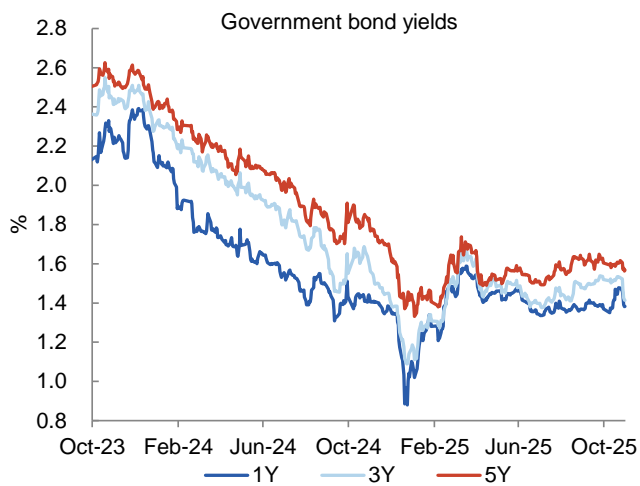


Source: CEIC, Wind, Mizuho

**Fig 18 7D repo for FIs back to their benchmark levels in late Oct**

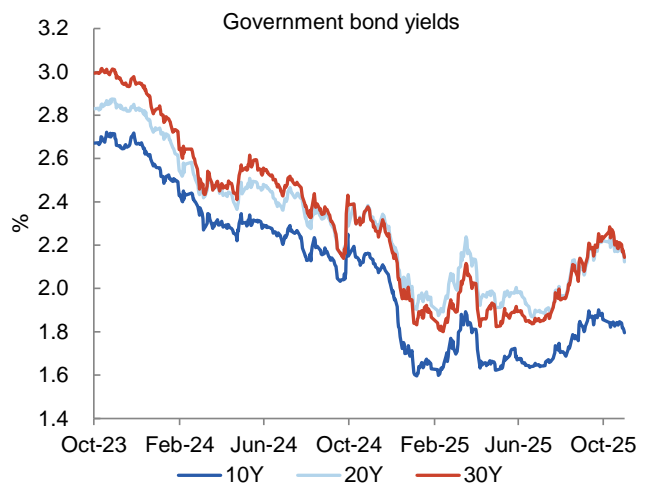


**Fig 19 Short-end CGB yields: 1Y & 3Y yields dropped notably**

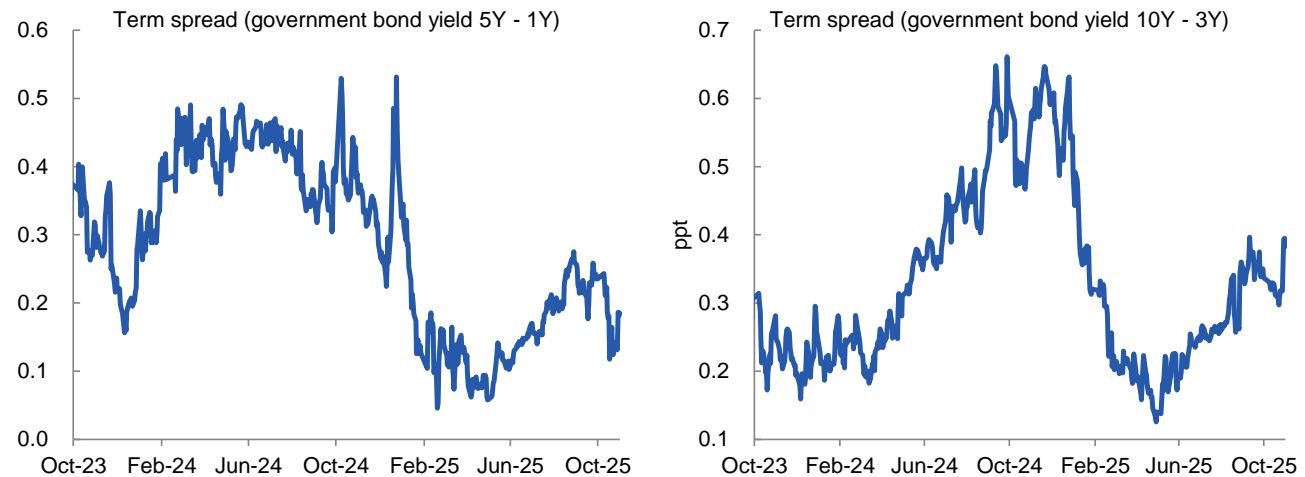


Source: Wind, CEIC, Mizuho

**Fig 20 Long-end CGB yields remained on a declining trend**

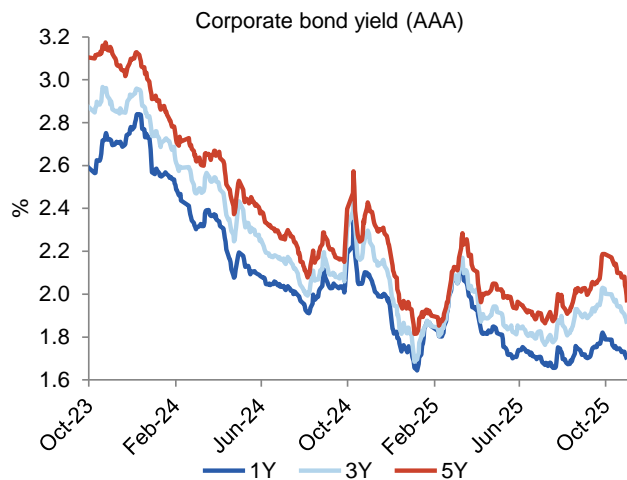


**Fig 21 CGB term spreads moved wider across the curve last week**

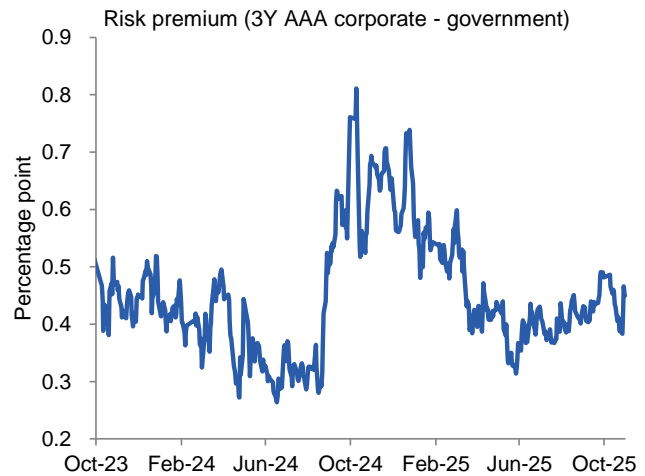
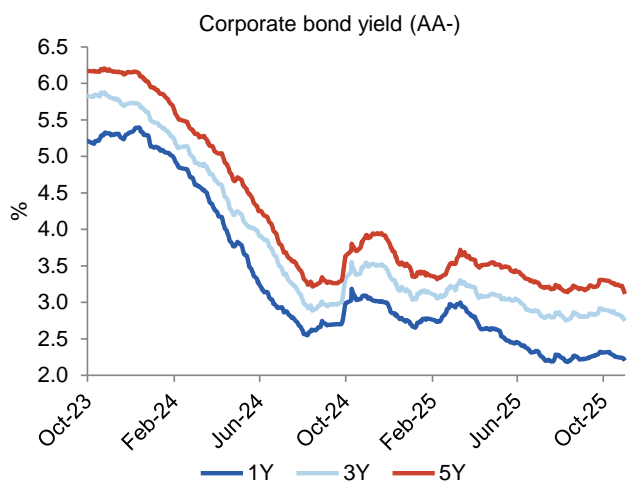


Source: CEIC, Mizuho

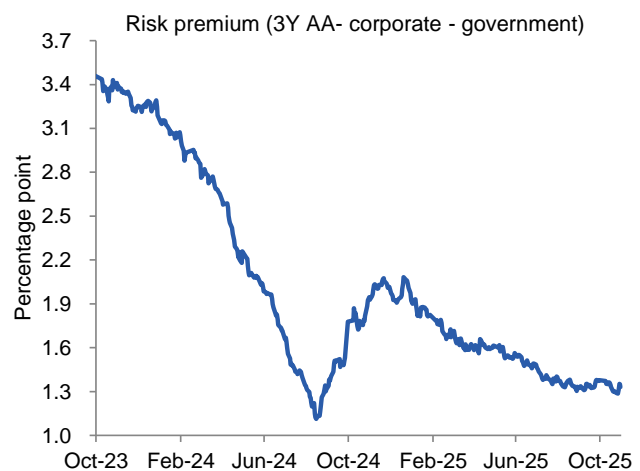
## Credit monitor

**Fig 22 IG Corporate bond yields fell across the curve last week**

Source: Wind, Mizuho

**Fig 23 IG corporate risk premium picked up last week****Fig 24 HY Corporate bond yields also edged lower**

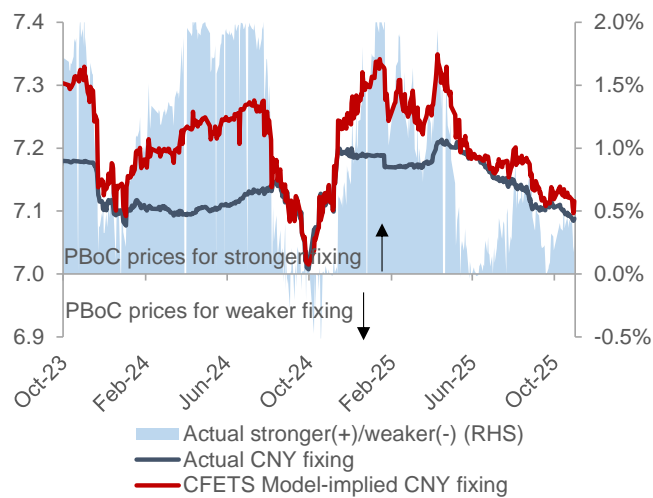
Source: Wind, Mizuho

**Fig 25 HY corporate risk premium remained relatively tight****Fig 26 China USD credit spreads were mixed last week amid positive US-China trade headlines and the Fed's hawkish rate cut**

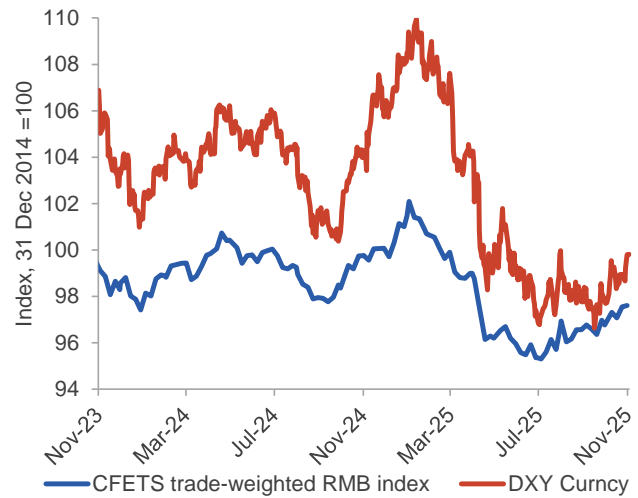
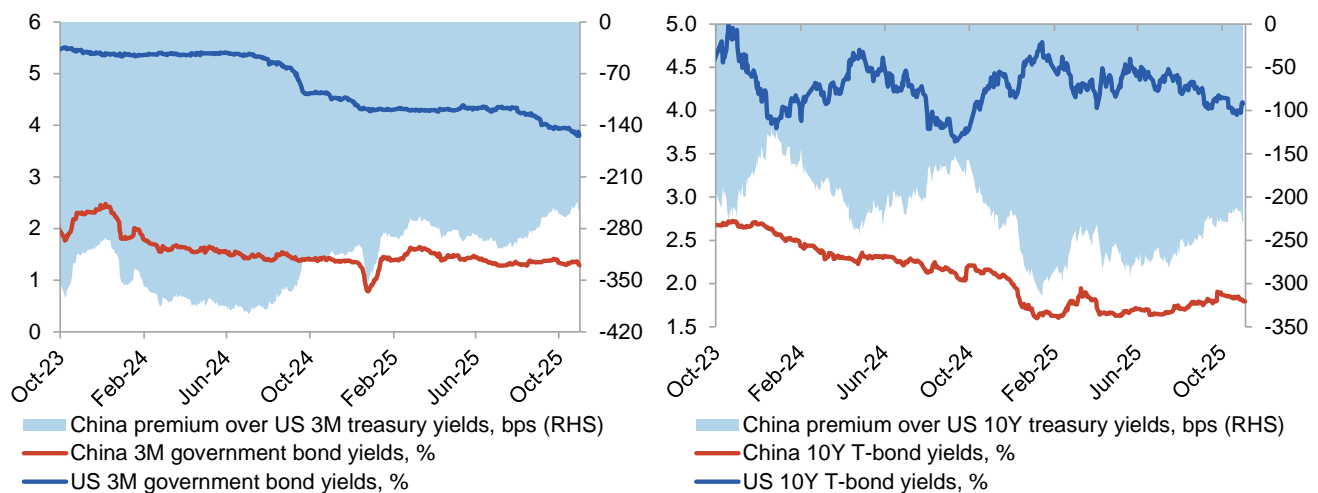
Source: IHS Markit, Mizuho



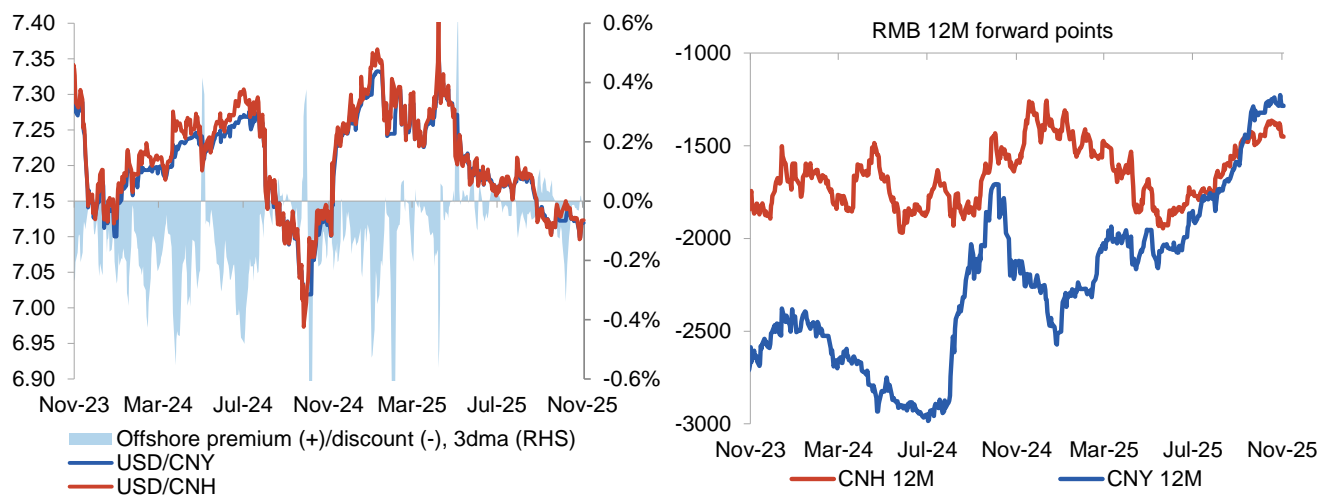
## FX monitor

**Fig 27 RMB fixing rate: PBoC dialed back its FX intervention**

Source: CEIC, Bloomberg, Mizuho

**Fig 28 RMB trade-weighted index picked up alongside stronger dollar****Fig 29 China-US interest rate spreads tightened at the back end but slightly widened at the front end**

Source: CEIC, Bloomberg, Mizuho

**Fig 30 Offshore RMB (CNH) is trading on par with the CNY recently**

Source: Bloomberg, Mizuho



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