

China Weekly Outlook

A curbed hike on fuel cost

Against the backdrop of elevated global oil prices, **China has moved to curb domestic fuel cost increases.** Effective 24 March, retail gasoline and diesel prices will rise by 1,160 and 1,115 yuan per ton, respectively, roughly 47% lower than what would have resulted from the current pricing formula, reflecting government intervention to limit the impact of global price surges. Authorities also signaled that if international crude prices continue to surge, they may roll out further fiscal and tax support to stabilize supply and will cap fuel price hikes once the global average exceeds US\$130 per barrel. In parallel, the government has pledged to guide refiners to safeguard domestic market supply. Sinopec, the country's largest state-owned refiner, said it has cut operating rates by 5% in March amid tight crude availability but will prioritize domestic fuel security.

Solid March with construction as the drag

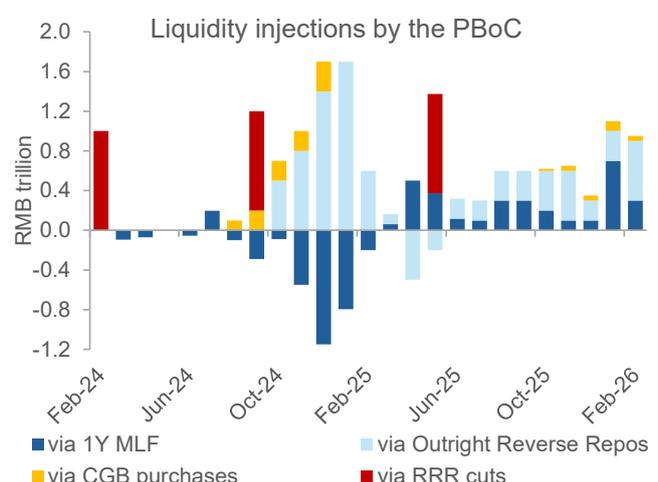
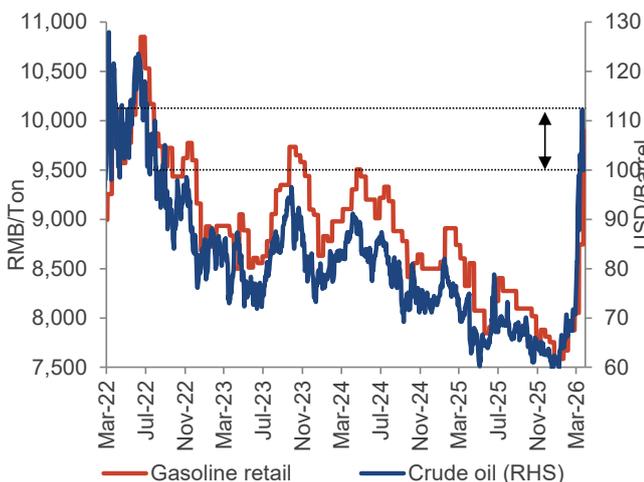
On the macro front, **most of China's high-frequency indicators point to steady or slightly improved activity in early March** compared with a year ago, in addition to the solid economic data for January and February. For example, the PTA factory operating rate, widely viewed as an indicator of downstream polyester demand, averaged 79% in the first three weeks of March, up from 77% during the same period last year (Fig. 2). **However, construction-related metrics remain a major drag** even after the Lunar New Year holiday, clouding China's investment outlook. Road construction activity remains about 17% below last year's levels (Fig. 7), and cement prices, an important indicator to gauge construction demand, are hovering near a decade-low (Fig. 8).

Delayed rate cuts

Given this mixed landscape, **our call for two rate cuts in 2026 remains intact**, particularly in light of China's relatively restrained fiscal stance. **However, we are pushing back the timing by one quarter** in view of stronger-than-expected data year-to-date. We now expect a 10bp cut in 2Q26 followed by another 10bp in 3Q26. In addition, **we anticipate further liquidity support from the PBoC, including RRR cuts and secondary-market purchases of CGBs**, aimed at smoothing liquidity, anchoring long-end rates, and containing refinancing costs for local governments. In addition to the RMB 1.3 trillion ultra-long Central Government Bonds planned every year, local governments are also increasingly leaning on ultra-long bonds for financing, pushing 20Y and 30Y CGB yields to new highs since late 2024 (Fig. 20).

<China has curbed the increase in domestic fuel prices>

<Expect more liquidity injections in coming months>



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.9009	6.9092	6.8721	6.9067	2
USD/CNY	6.9012	6.9049	6.8713	6.9036	-1
CNY PBoC Fixing	6.9057	6.9057	6.8898	6.8898	-109
Shanghai Composite Index	4092.25	4108.40	3955.71	3957.05	-138.40

#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)	-1627	-106	CNH HIBOR (3mth)	1.731	0.005
CNH Currency Swap (3yr)	1.370	-0.010	CNH Implied yield (1Y)	1.408	0.034

Recap

The renminbi demonstrated notable resilience despite continued geopolitical tensions in the Middle East. Offshore renminbi (CNH) traded within a relatively narrow range of 6.91 to 6.87 and ended the week almost unchanged. Even on Monday, when markets were rattled by concerns that the US and Israel might target Iran's energy infrastructure, the CNH held firm and did not weaken beyond 6.92.

Pressure on the renminbi has become more balanced, with CNH no longer trading at a pronounced premium to onshore CNY (Fig. 30). In tandem, the PBoC has shifted toward a more neutral stance in setting the daily fixing (Fig. 27). Meanwhile, the renminbi has strengthened considerably against the currencies of China's major trading partners, lifting the trade-weighted index to its highest level in over a year (Fig. 28).

Across Asia, the renminbi outperformed most regional peers with its resilience. In contrast, the Thai baht and Indian rupee were among the weakest, each falling more than 1% against the dollar amid softer gold prices and surging oil and gas costs.

Outlook

Looking ahead, uncertainty persists over whether high-level dialogue is taking place between the US and Iran or when oil flows through the Strait of Hormuz will start to normalize. Even so, markets remain relatively calm about China's inflation risks, supported by the government's commitment to containing fuel price increases and the country's broadly managed exposure to Middle Eastern crude.

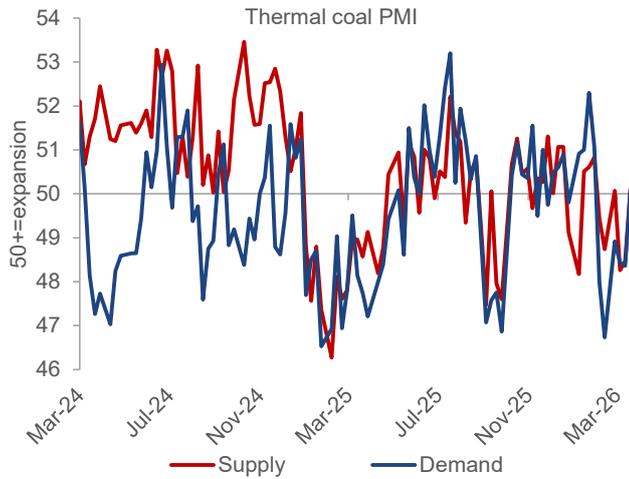
Given this backdrop, **we expect the CNH to remain largely range-bound around 6.90 in the coming weeks**, underpinned by its perceived risk-heaven qualities amid the Middle East conflict and by the relatively firm yields on long-tenor CGB.

Our medium-term take on the renminbi remains constructive. We forecast a year-end rate of 6.80 for the CNH. Policymakers in Beijing have shifted their strategic focus toward strengthening domestic demand rather than relying on an undervalued currency to boost exports. At the same time, the government has been encouraging imports by lowering or eliminating taxes on selected commodities, including agricultural products, raw materials, advanced equipment, and premium consumer goods, as part of a broader effort to build more balanced and sustainable trade relationships.

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: the PMI climbed back to above-50 territory



Source: Wind, Mizuho

Fig 2 PTA production improved in March on a YoY basis

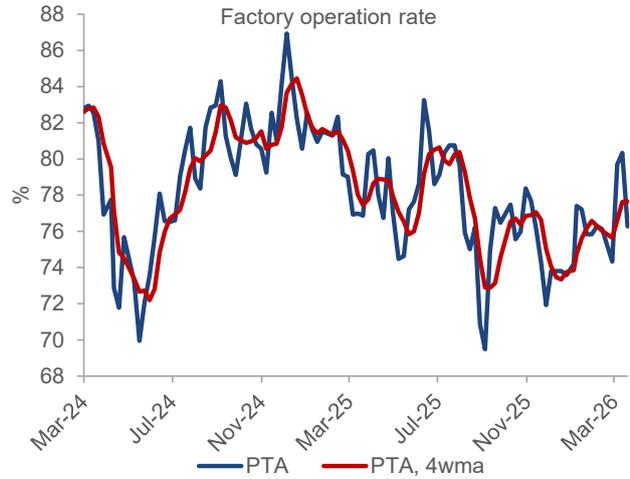
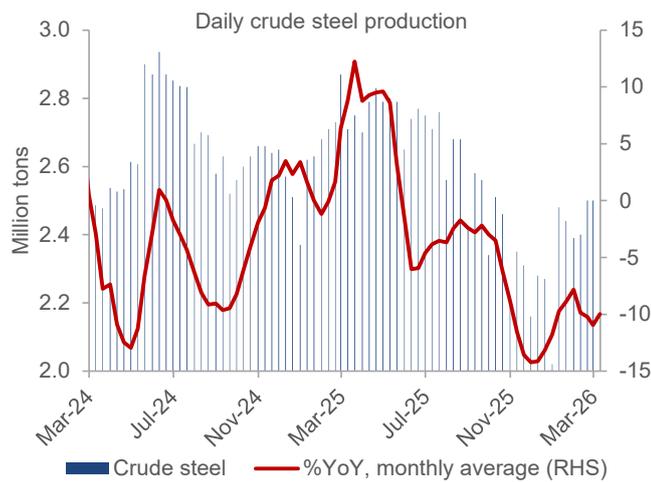


Fig 3 Steel production continued its YoY decline

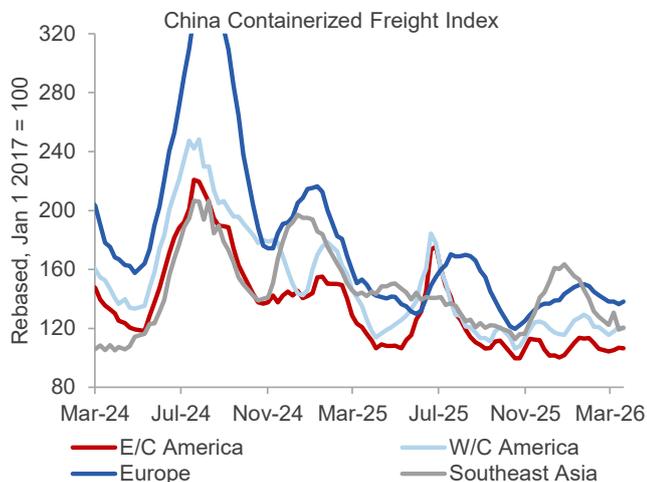


Source: Wind, Mizuho

Fig 4 Steel tire production saw a notably rebound after the holiday

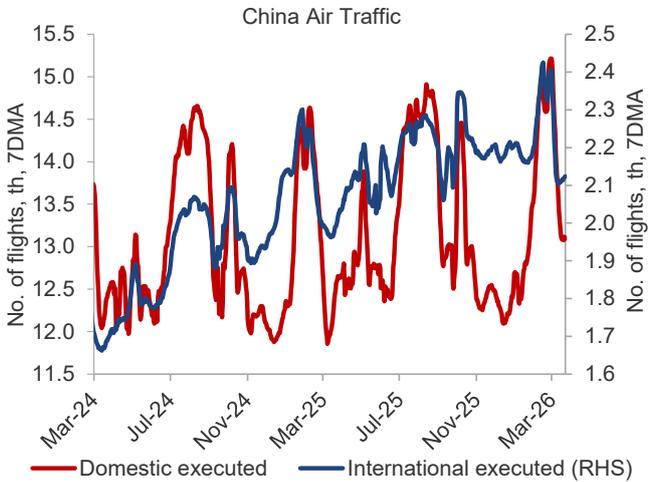


Fig 5 CCFI: prices for outward shipments remain stable



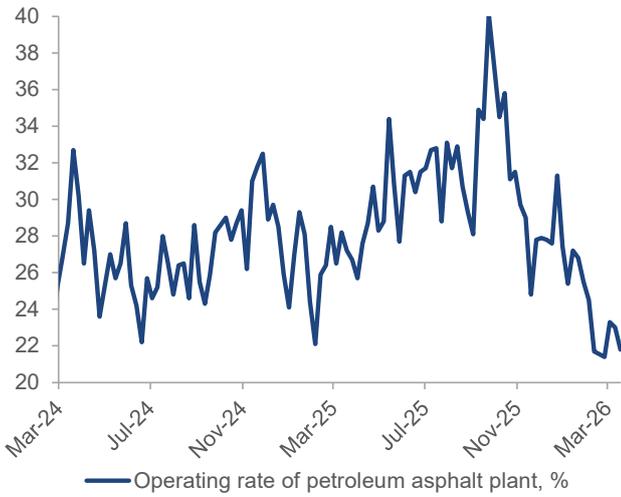
Source: Wind, Mizuho

Fig 6 Air traffic: an expected drop after the holiday



Activity monitor (2/2)

Fig 7 Road construction activity remained subdued



Source: Wind, Mizuho

Fig 8 Construction material prices: cement prices rose slightly

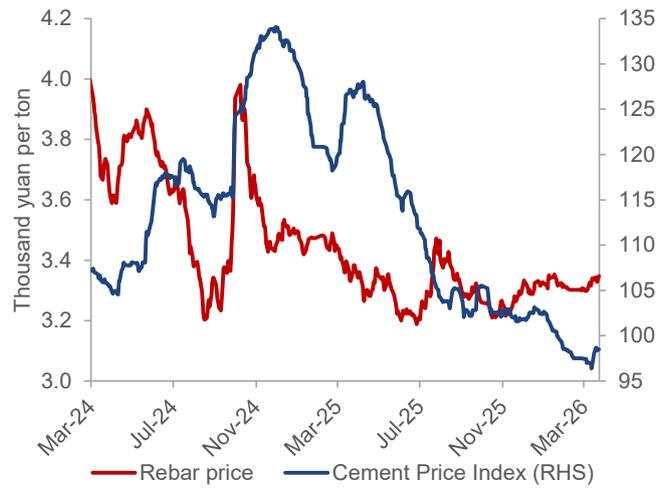
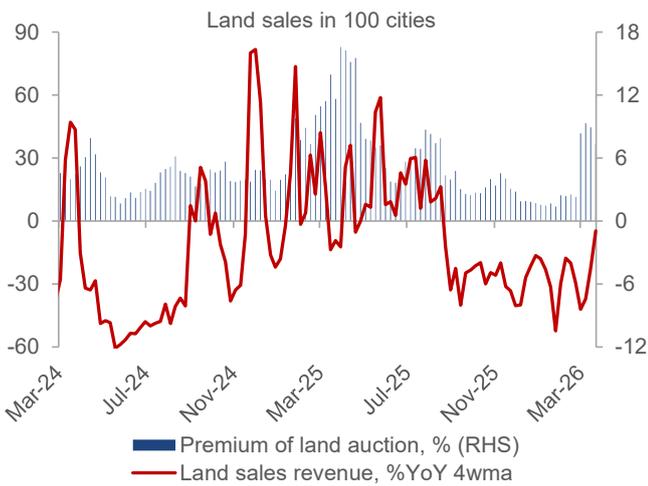


Fig 9 Land sales continued to see YoY declines

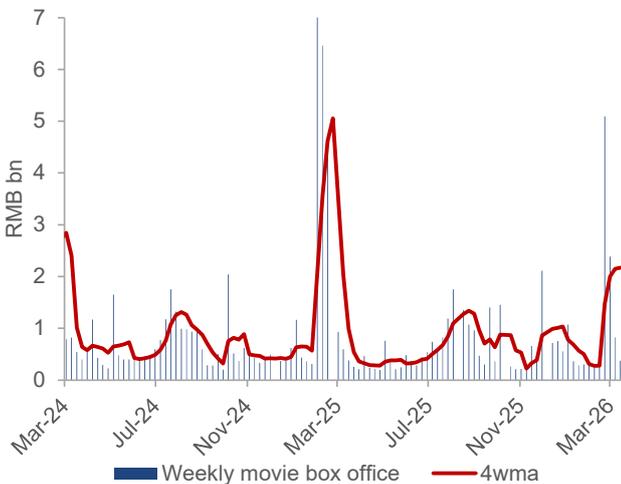


Source: Wind, Mizuho

Fig 10 New home sales saw seasonal improvement after the LNY

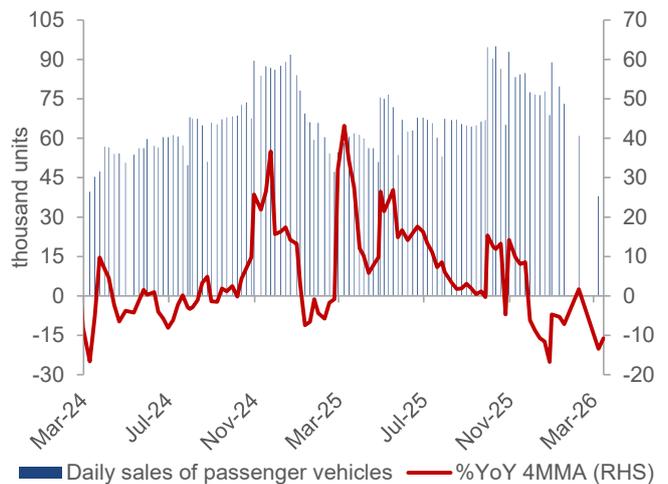


Fig 11 Movie box office revenue saw a limited pickup in holiday



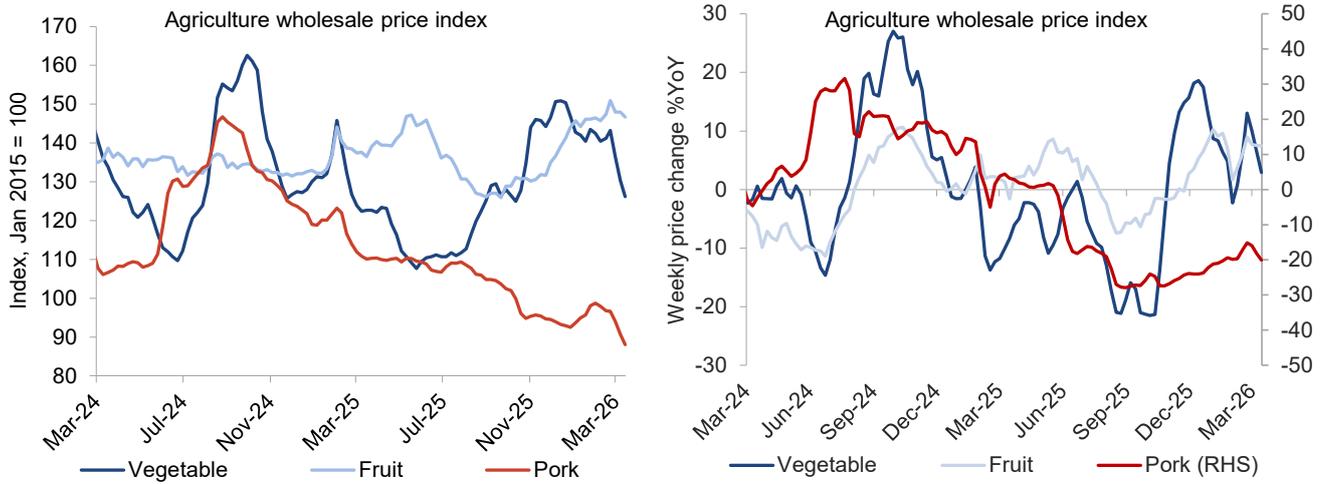
Source: Wind, Mizuho

Fig 12 PV sales: growth turned negative again in March



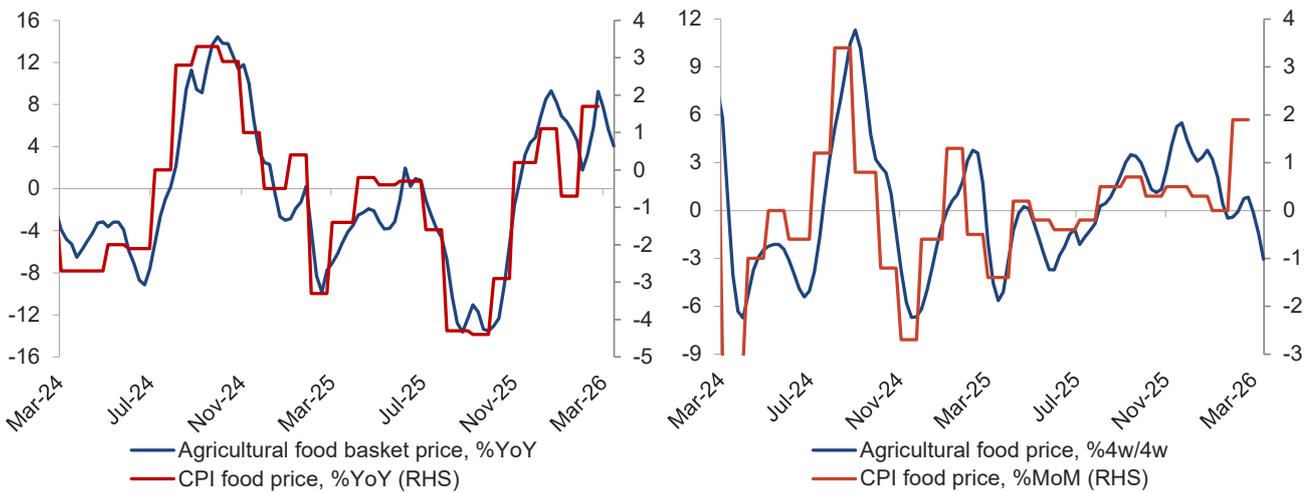
Price monitor

Fig 13 Major food items: prices started to normalize after the holiday



Source: Wind, Mizuho

Fig 14 Wholesale food prices: YoY growth dropped notably after the holiday period



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices weakened from previous highs

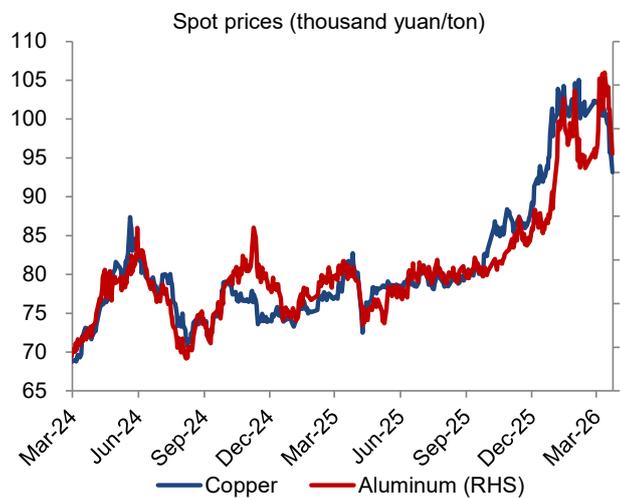
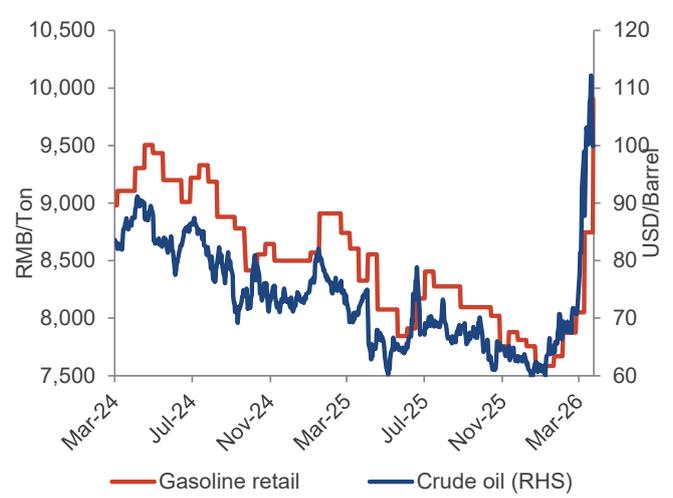


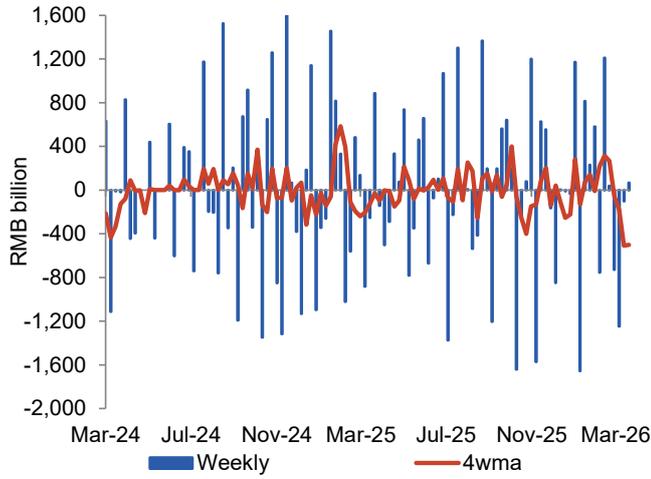
Fig 16 Oil prices soared further amid extended Middle East crisis



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB65.8b during 16 – 20 Mar



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs remained relatively stable

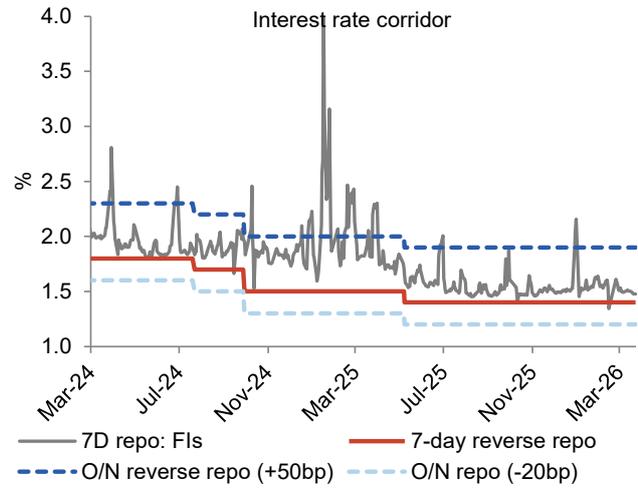
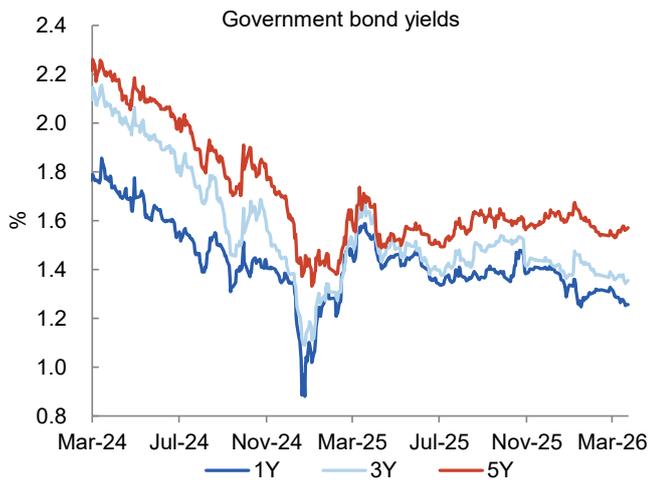


Fig 19 Short-end CGB yields dropped at the front end



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields: rose notably at the ultra-long tenure

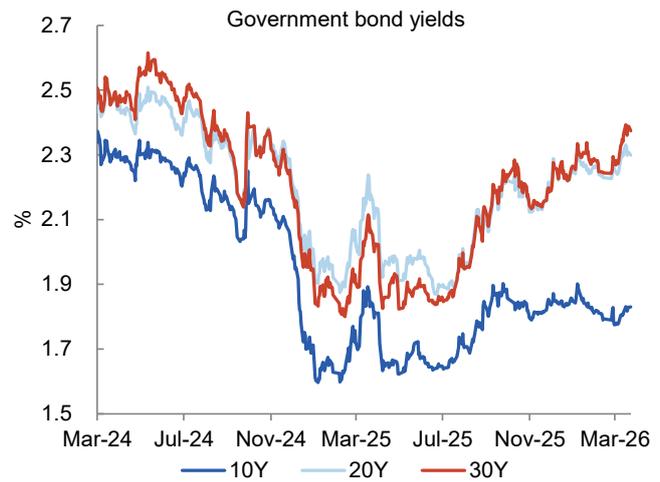
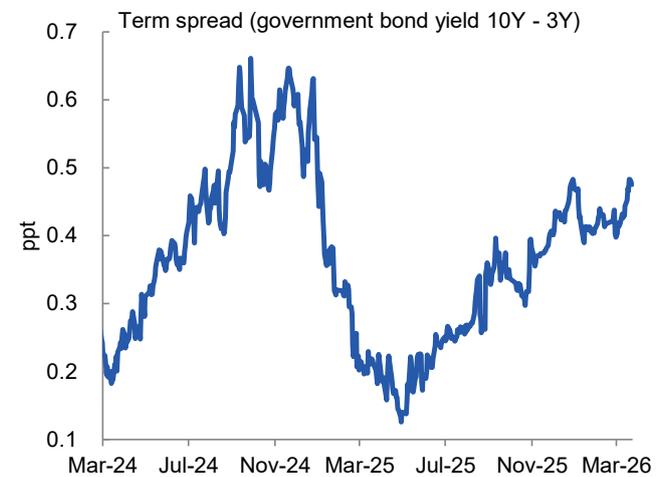
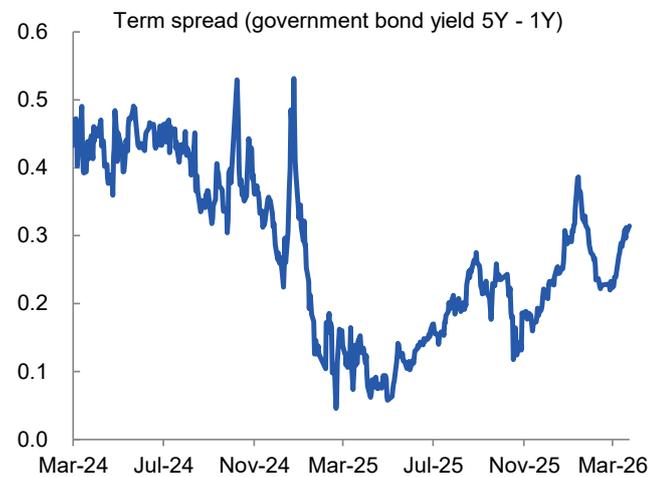


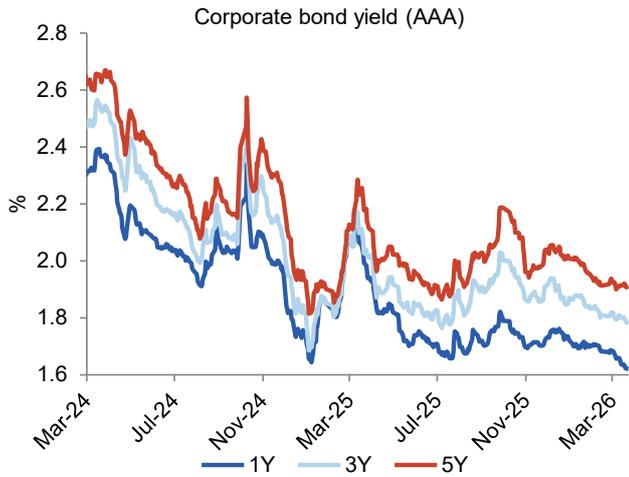
Fig 21 CGB term spreads widened across the curve



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields declined led by the front end

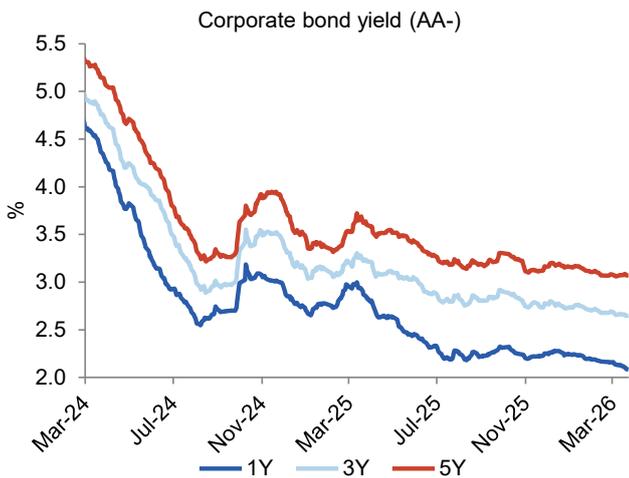


Source: Wind, Mizuho

Fig 23 IG corporate risk premium remains relatively stable



Fig 24 Onshore HY credit yields declined gradually

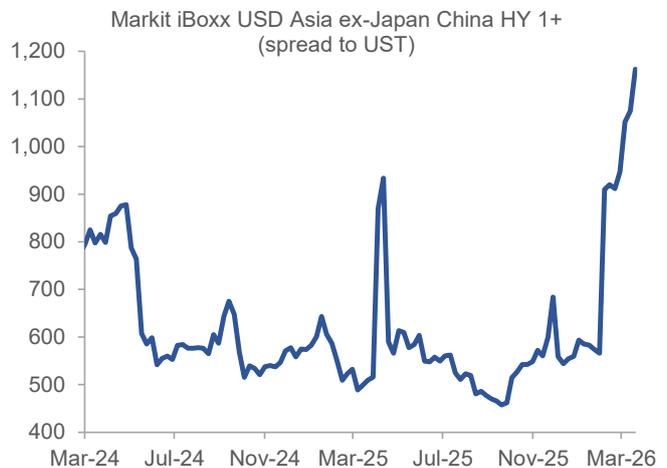


Source: Wind, Mizuho

Fig 25 HY corporate risk premium remained relatively tight



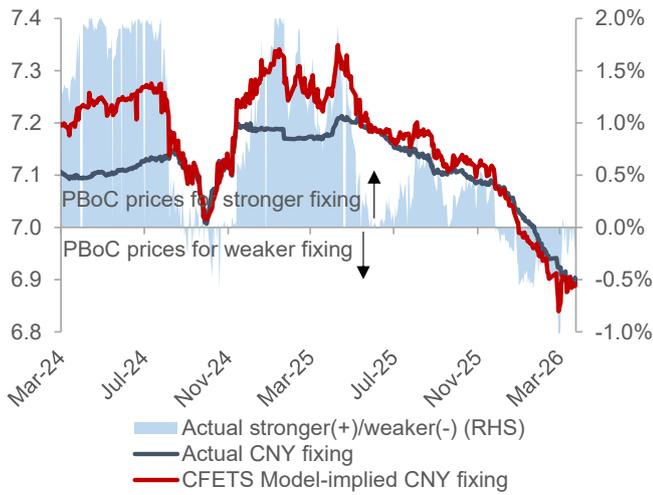
Fig 26 China USD credit spreads: China IG spreads squeezed tighter helped by rising treasury yields and slowdown in primary issuance



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: the PBoC returned to relatively neutral



Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index picked up to over-a-year high

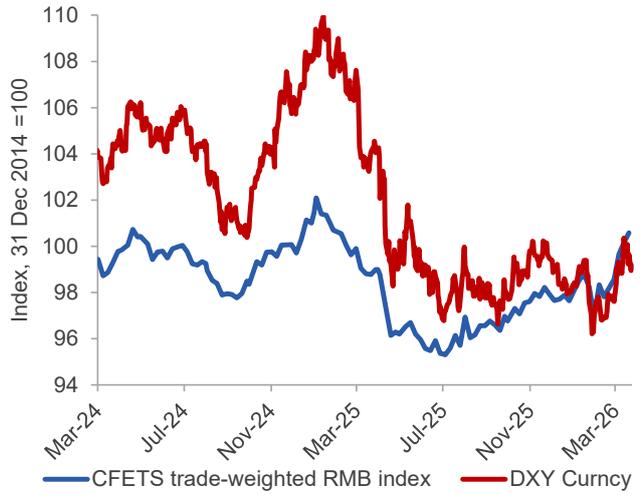
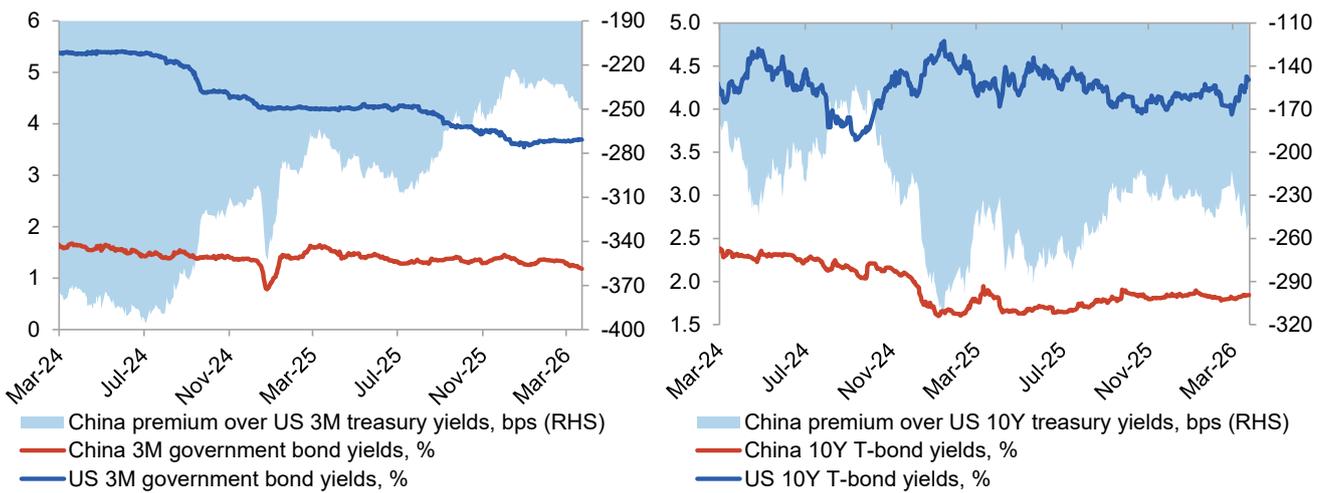
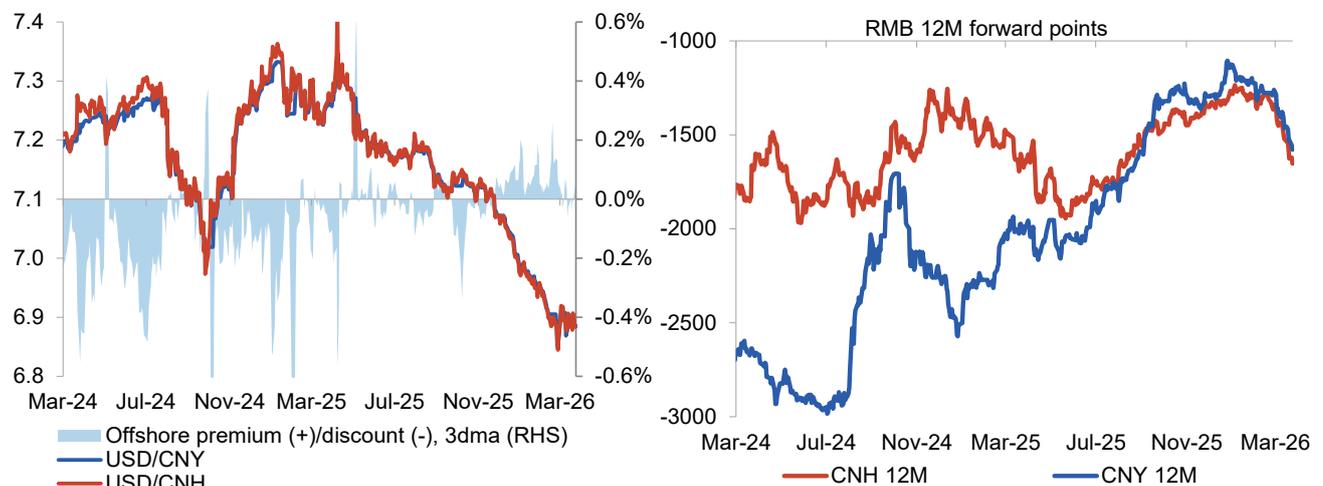


Fig 29 China-US interest rate spreads moved wider at both the front end and back end



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading roughly on par with the CNY amid renewed dollar strength



Source: Bloomberg, Mizuho

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