Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Solid profits driven by AI demand

China's industrial profits delivered a strong performance in the first two months this year, rising 15.2% YoY. This robust growth was driven largely by AI-related demand, with profits in the manufacturing of computers, communications, and other electronic equipment more than tripling compared with a year earlier. Similarly, the non-ferrous metal smelting and rolling processing industry maintained its strong momentum, with profits surging 148% YoY. Amid ongoing conflict in the Middle East, LME aluminium 3-month forward prices have climbed to their highest level in four years, which could further support this trend in the near term.

Downstream sectors suffered

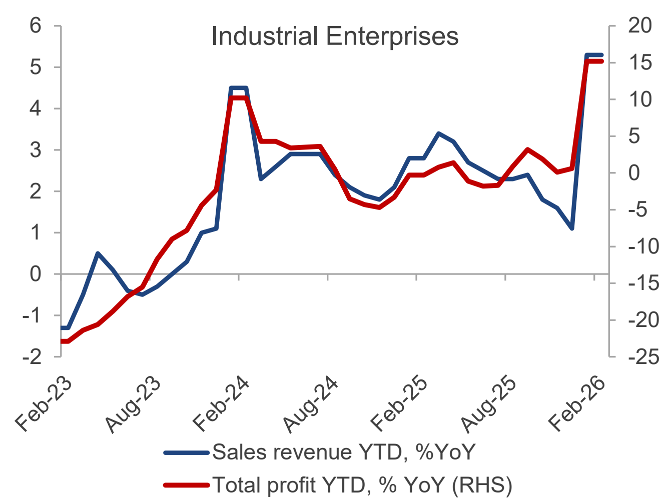
At the same time, some sectors continued to face profit pressure. Furniture manufacturing recorded a 40% YoY decline in industrial profits, while the ferrous metal industry reported a net profit loss, reflecting continued softness in the property market and construction activity. In addition, downstream sectors have come under pressure from rising input costs. Motor vehicle manufacturing, in particular, saw profits contract 30.2% YoY, suggesting that domestic manufacturers have had limited ability to pass higher costs on to end consumers.

Upcoming PMI figures

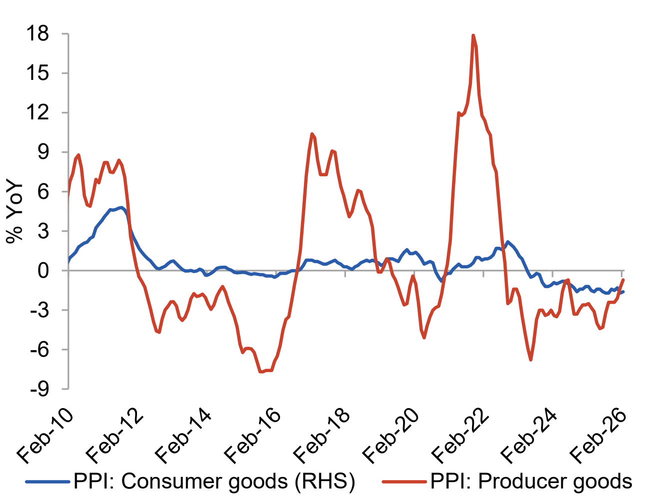
Looking ahead, China is set to release its official March PMI figures on Tuesday (31 Mar). Historically, China's Manufacturing PMI tends to rebound noticeably above the expansion threshold — typically to 50.5 or higher — as factory workers return after the extended Lunar New Year holiday and business activity normalises. This time, however, it remains uncertain how severely disruptions to oil supply through the Strait of Hormuz could affect China's manufacturing sector. As such, this release will serve as the market's first key indicator for assessing the impact of Middle East tensions on the Chinese economy.

Setting geopolitical uncertainty aside, most high-frequency indicators point to stable or slightly improved activity in March, including factory operating rates for PTA (Fig. 2) and semi-steel tyres (Fig. 4). That said, construction-related indicators remain a major drag this month, continuing to cloud the outlook for China's investment activity. With all being considered, we expect the Manufacturing PMI to pick up to 50.3 in March, up from February's 49.0.

<Industrial revenue and profits delivered strong performance>



<Insignificant passthrough from PPI prices to consumer prices>



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.9058	6.9237	6.8776	6.9200	133
USD/CNY	6.9109	6.9158	6.8774	6.9112	76
CNY PBoC Fixing	6.9041	6.9141	6.8911	6.9141	243
Shanghai Composite Index	3904.95	3937.10	3794.68	3913.72	-43.33

#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)	-1701	-74	CNH HIBOR (3mth)	1.720	-0.011
CNH Currency Swap (3yr)	1.280	-0.090	CNH Implied yield (1Y)	1.270	-0.138

Recap

The renminbi broadly tracked the US dollar last week. It initially strengthened as markets grew more hopeful about “TACO,” but later drifted weaker as Iran showed little willingness to move in that direction. Even so, offshore renminbi (CNH) trading remained relatively stable, staying within a narrow range of 6.88 to 6.93 and exhibiting much lower volatility than most major Asian currencies.

Against the US dollar, the CNH weakened by 0.19% last week, yet still outperformed most regional peers, with little sign of intervention from the PBoC. In fact, the PBoC has adopted a more neutral stance, setting its renminbi fixing rates broadly in line with levels implied by the CFETS model last week (Fig. 27). Relative to the currencies of China’s major trading partners, the trade-weighted renminbi index was little changed from the previous week and remains up 2.7% year to date.

Outlook

Looking ahead, uncertainty remains over whether the US and Iran can de-escalate tensions and allow oil flows through the Strait of Hormuz to partially normalize. So far, markets have been appearing relatively relaxed about China’s inflation outlook, supported by the government’s commitment to limiting increases in fuel prices. Against this backdrop, **we expect the CNH to remain broadly range-bound around 6.90 in the coming weeks**.

Our medium-term view on the renminbi remains constructive. **We continue to forecast the CNH at 6.80 by year-end.** Policymakers in Beijing have shifted their strategic focus toward strengthening domestic demand, rather than relying on an undervalued currency to support exports. At the same time, the government has been encouraging imports by lowering or removing taxes on selected commodities as part of a broader effort to foster more balanced and sustainable trade relationships.

<FX Charts on Page 8>

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Activity monitor (1/2)

Fig 1 Thermal coal: Demand index fell below the 50 benchmark

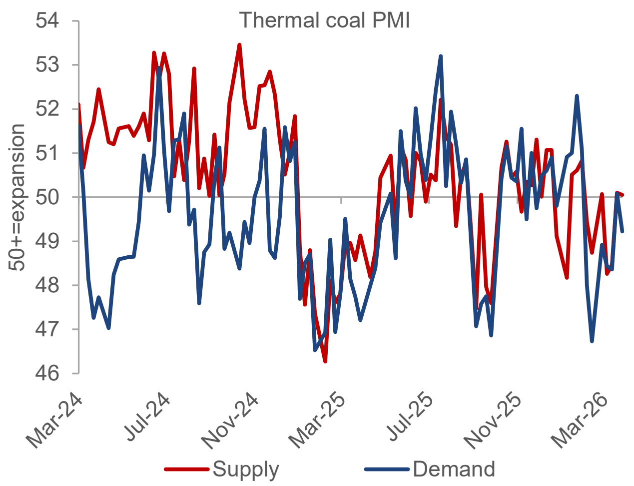
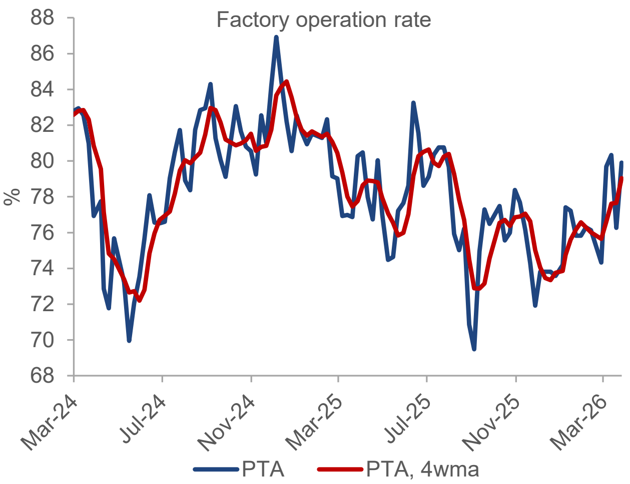


Fig 2 PTA production improved in March on a YoY basis



Source: Wind, Mizuho

Fig 3 Steel production saw a slower YoY decline

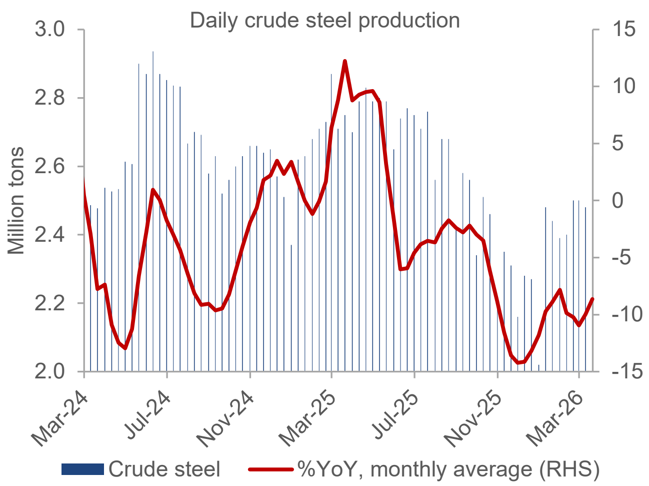


Fig 4 Steel tire production rebounded notably after the holiday

Source: Wind, Mizuho

Fig 5 CCFI: prices for outward shipments remain stable

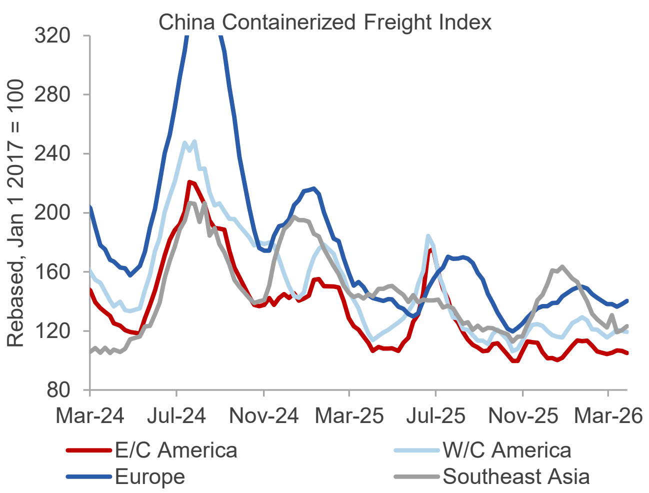
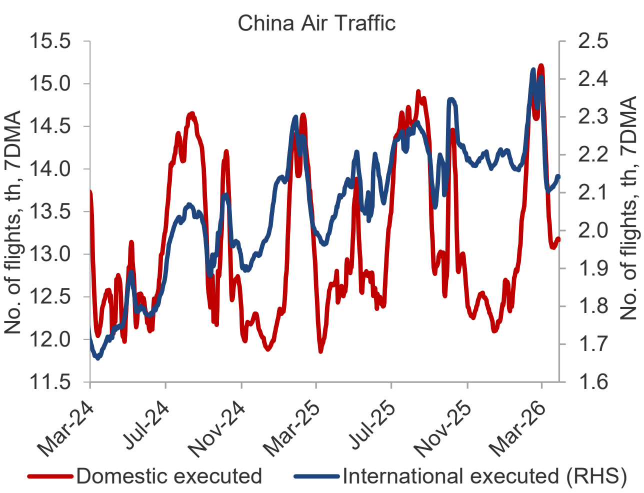


Fig 6 Air traffic: an expected dip after the holiday



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity fell to a new low

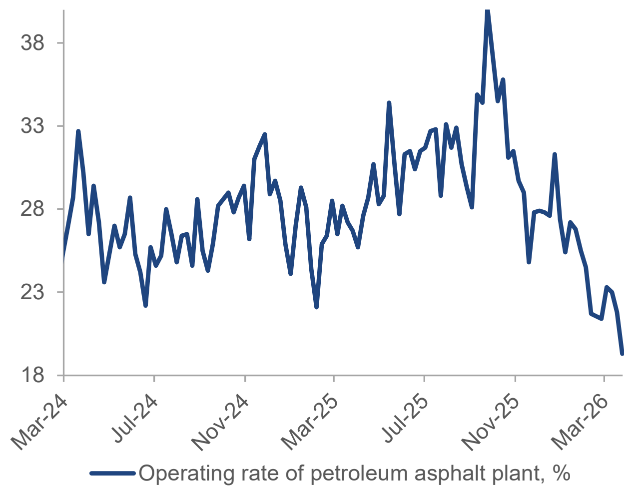
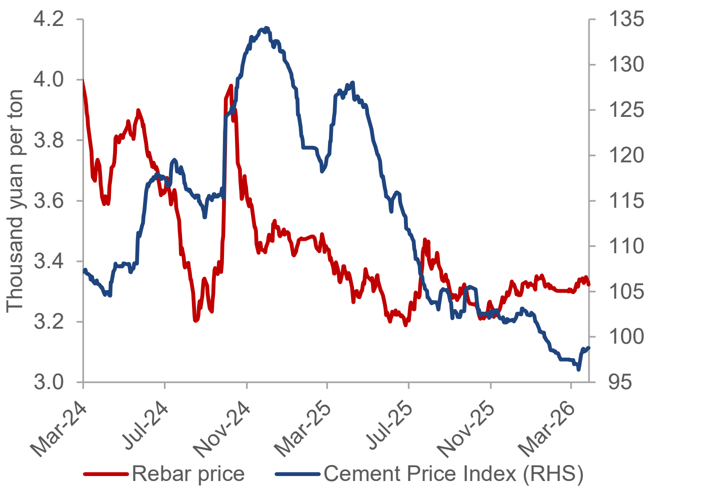


Fig 8 Construction material prices: cement prices remained subdued



Source: Wind, Mizuho

Fig 9 Land sales continued to see YoY declines

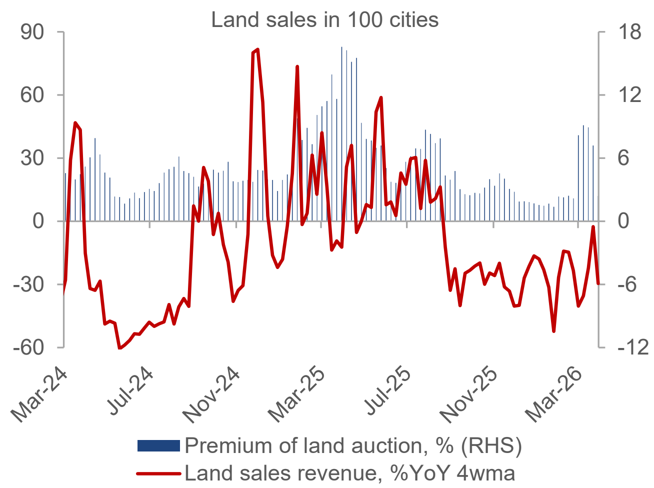
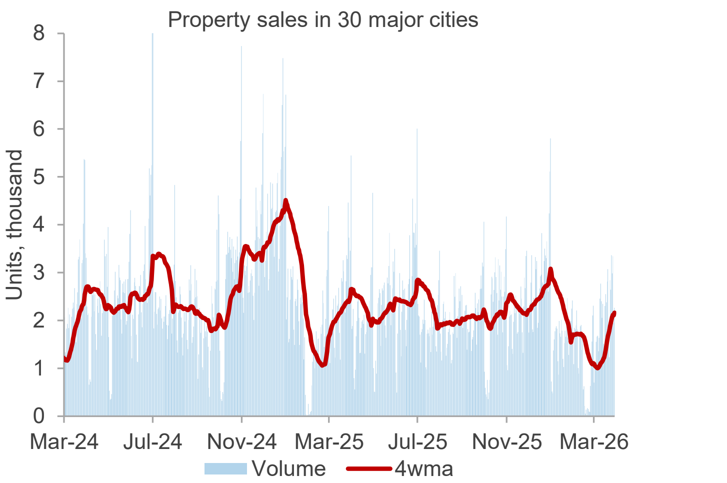


Fig 10 New home sales saw seasonal improvement after the LNY



Source: Wind, Mizuho

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

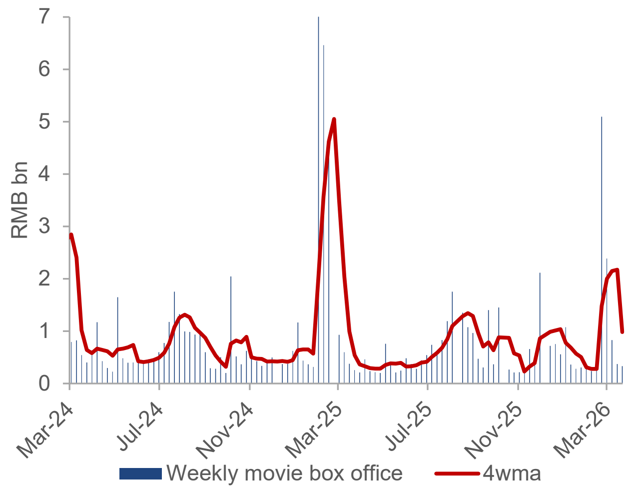
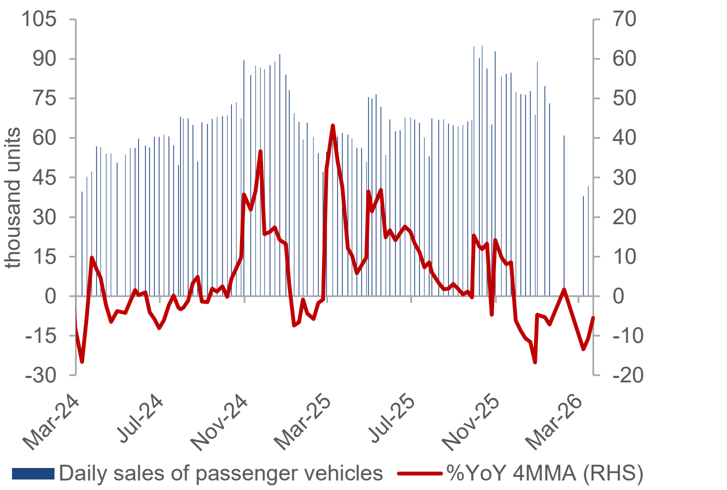


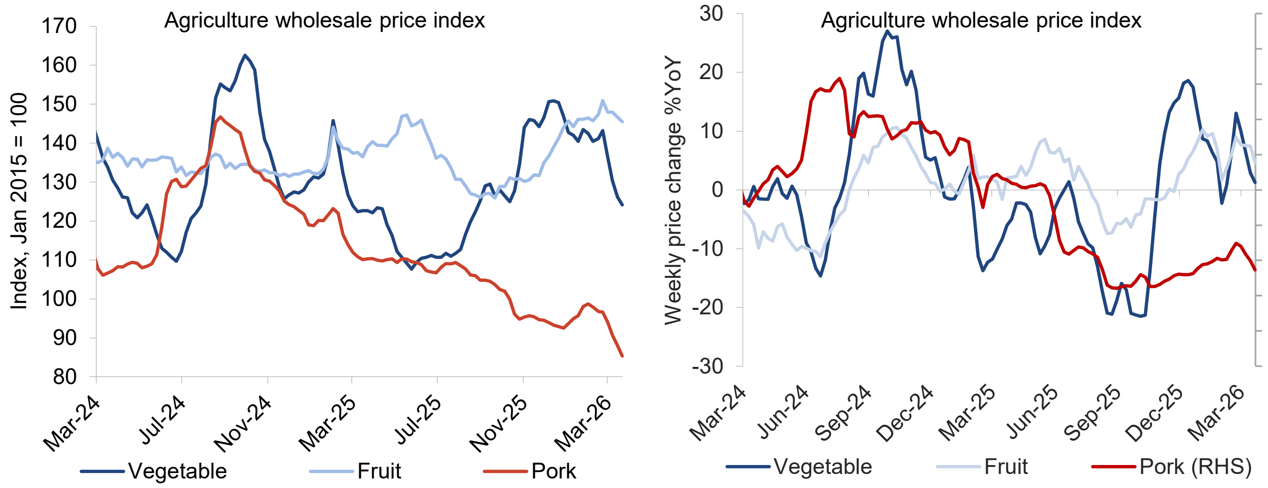
Fig 12 PV sales: growth turned negative again in March



Source: Wind, Mizuho

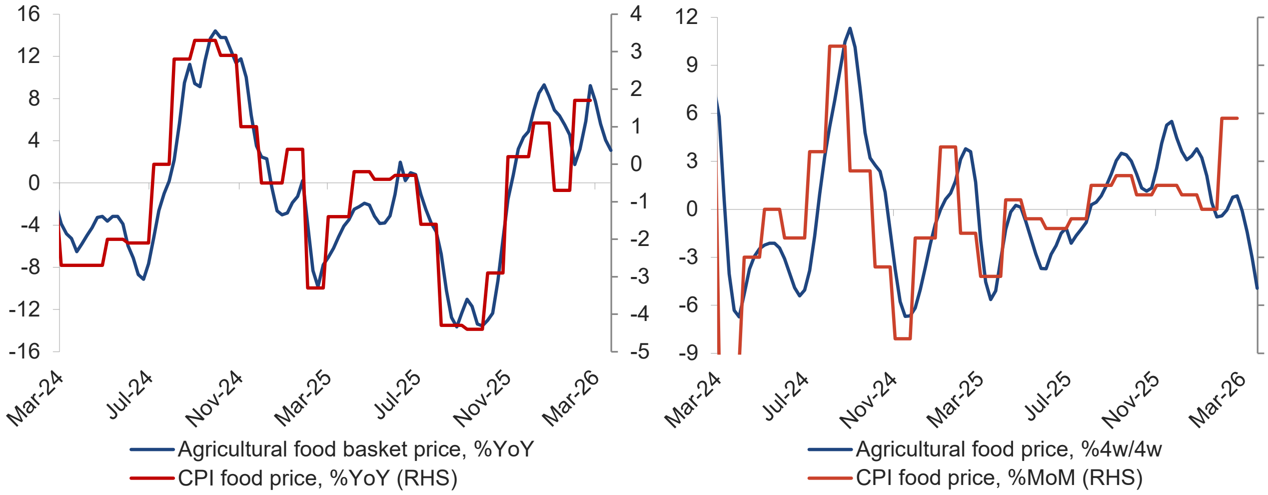
Price monitor

Fig 13 Major food items: prices normalized significantly after the holiday



Source: Wind, Mizuho

Fig 14 Wholesale food prices dropped notably after the holiday period



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices weakened from previous highs

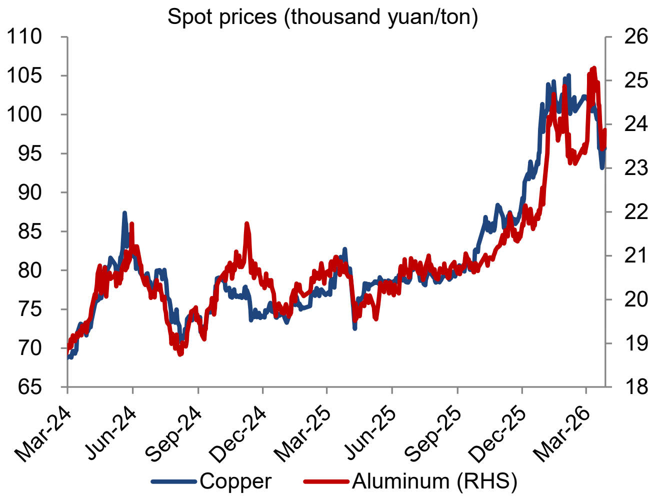
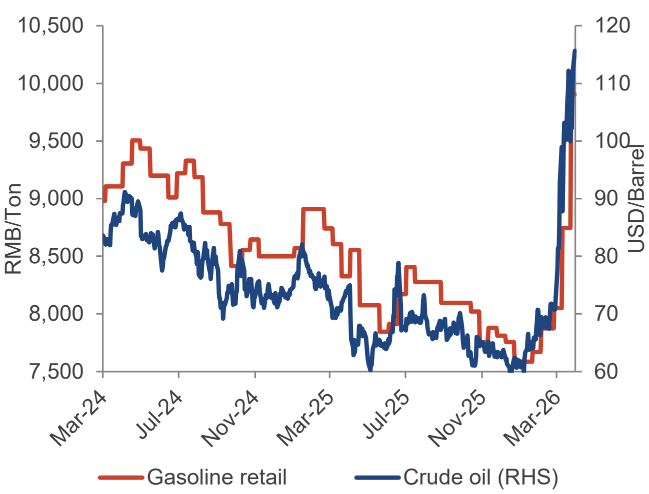


Fig 16 Oil prices soared further amid extended Middle East conflict



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB232b during 23 – 27 Mar

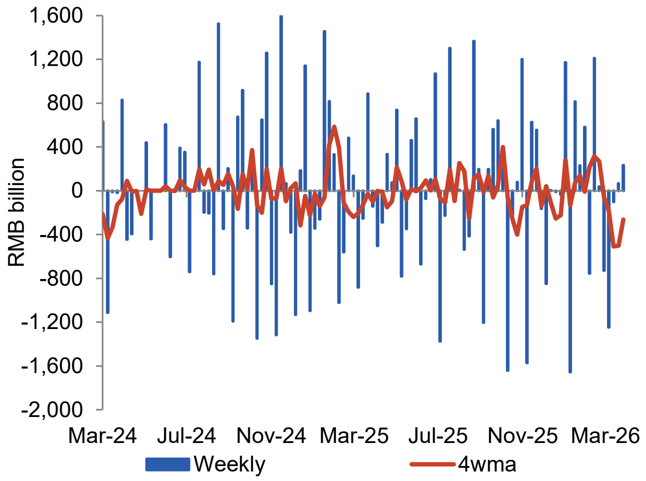
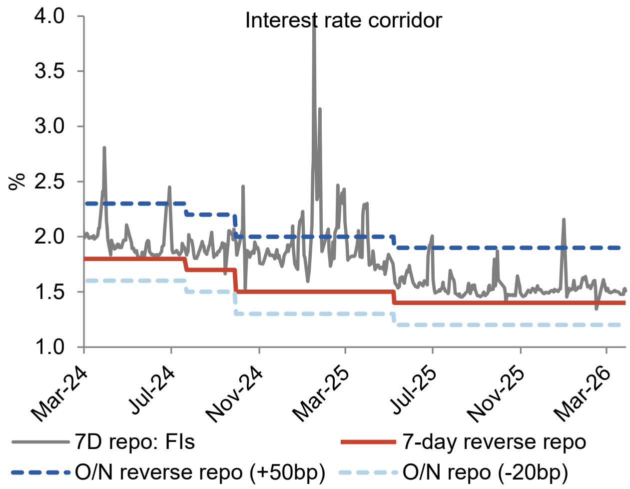


Fig 18 7D repo for FIs remained relatively stable



Source: CEIC, Wind, Mizuho

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

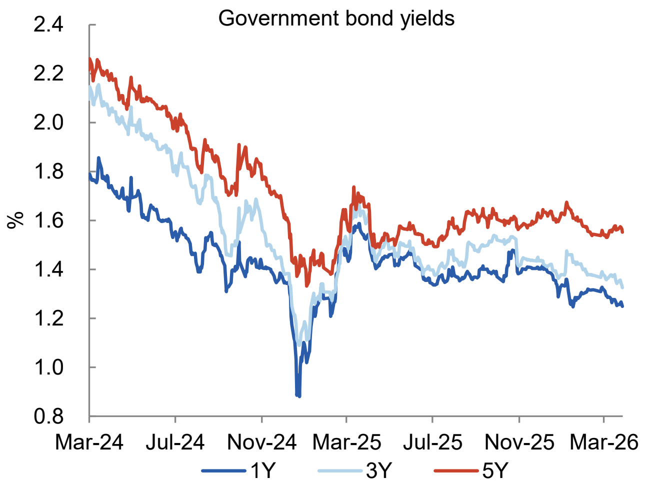
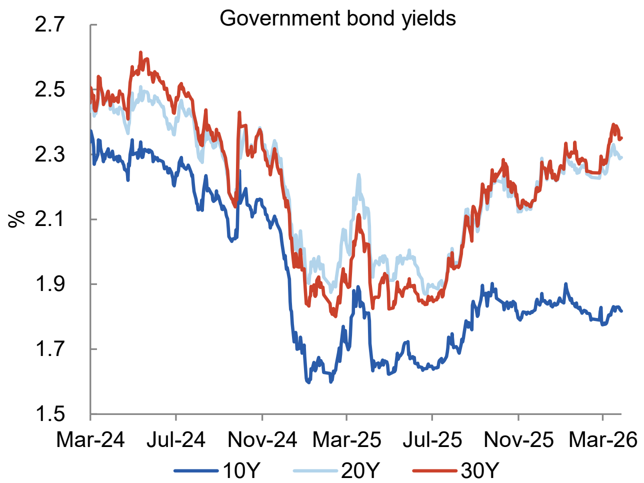
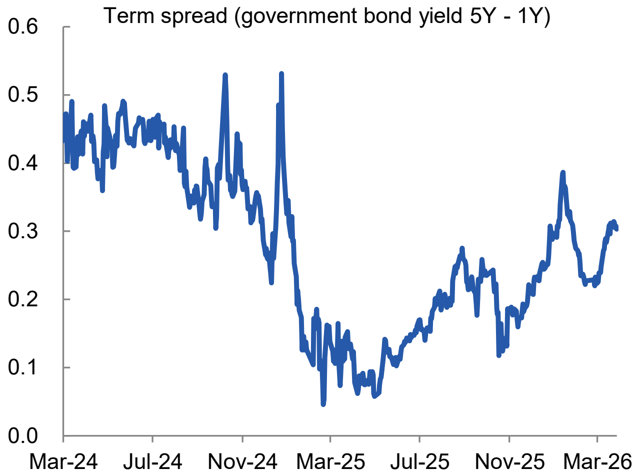


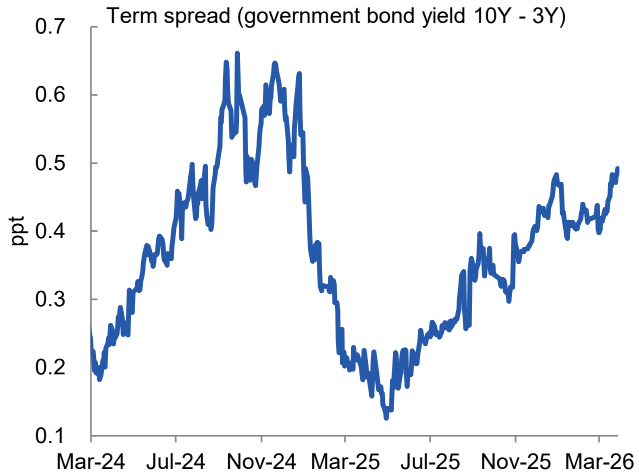
Fig 20 Long-end CGB yields: rose notably at the ultra-long tenure



Source: CEIC, Mizuho

Fig 21 CGB term spreads widened across the curve





Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields declined along CGB yields

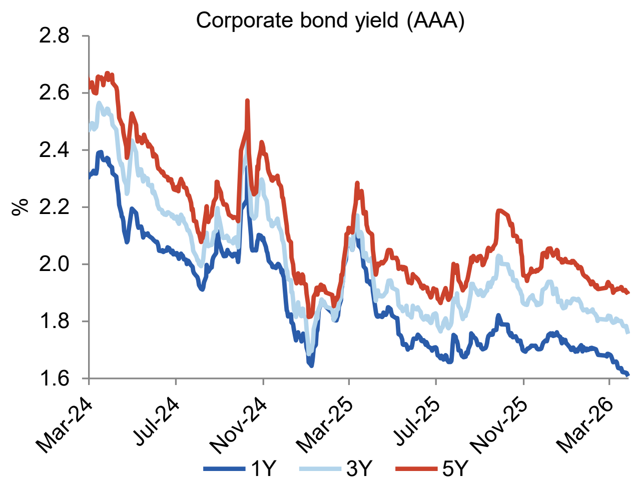
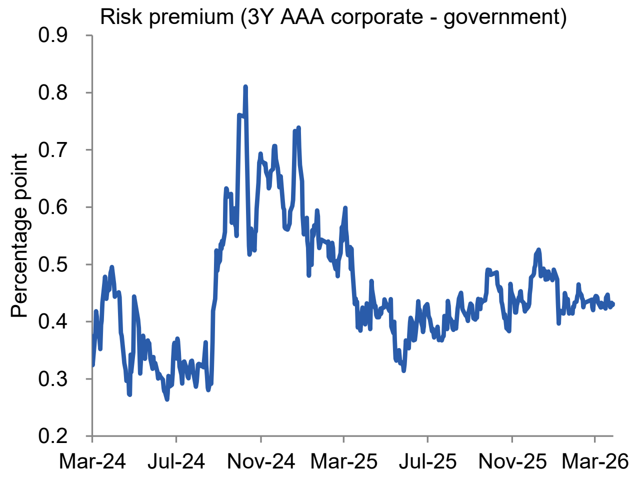


Fig 23 IG corporate risk premium remains relatively stable



Source: Wind, Mizuho

Fig 24 Onshore HY credit yields declined gradually

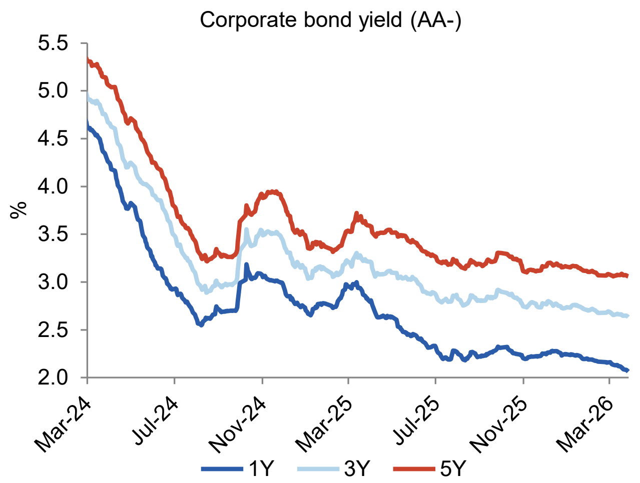
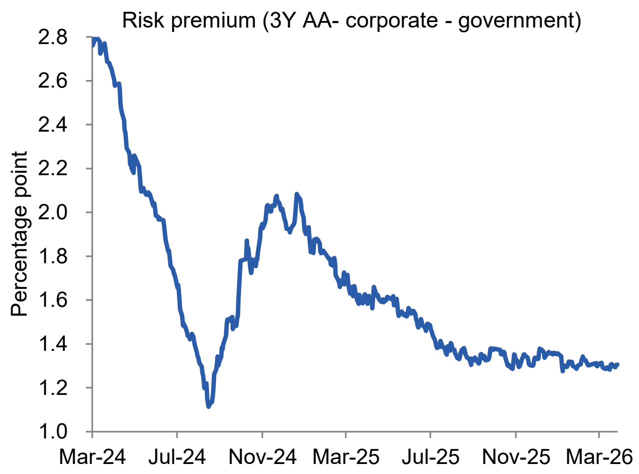
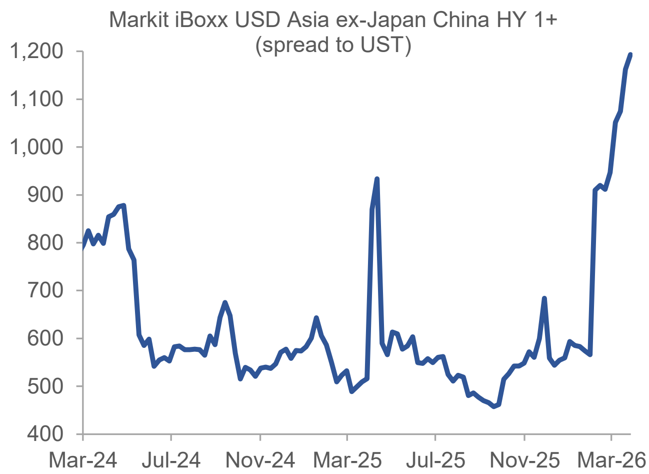


Fig 25 HY corporate risk premium remained relatively tight



Source: Wind, Mizuho

Fig 26 China USD credit spreads widened last week as ongoing Middle East conflict pushed oil prices higher



Source: IHS Markit, Mizuho

FX monitor

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

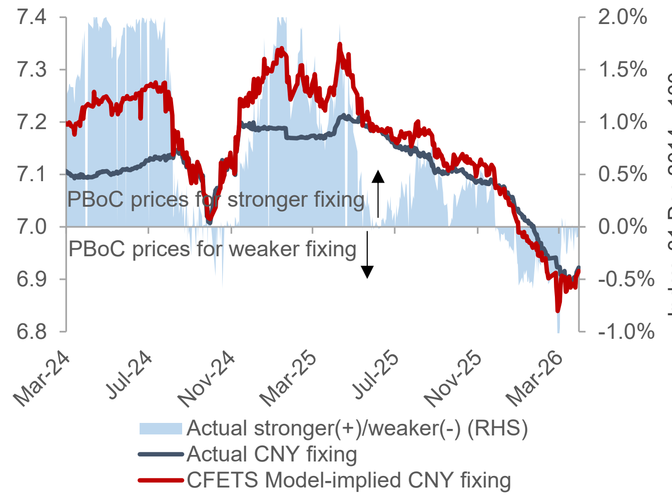
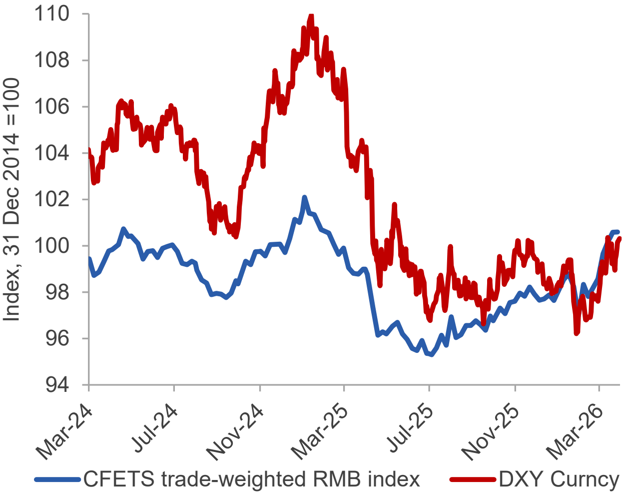
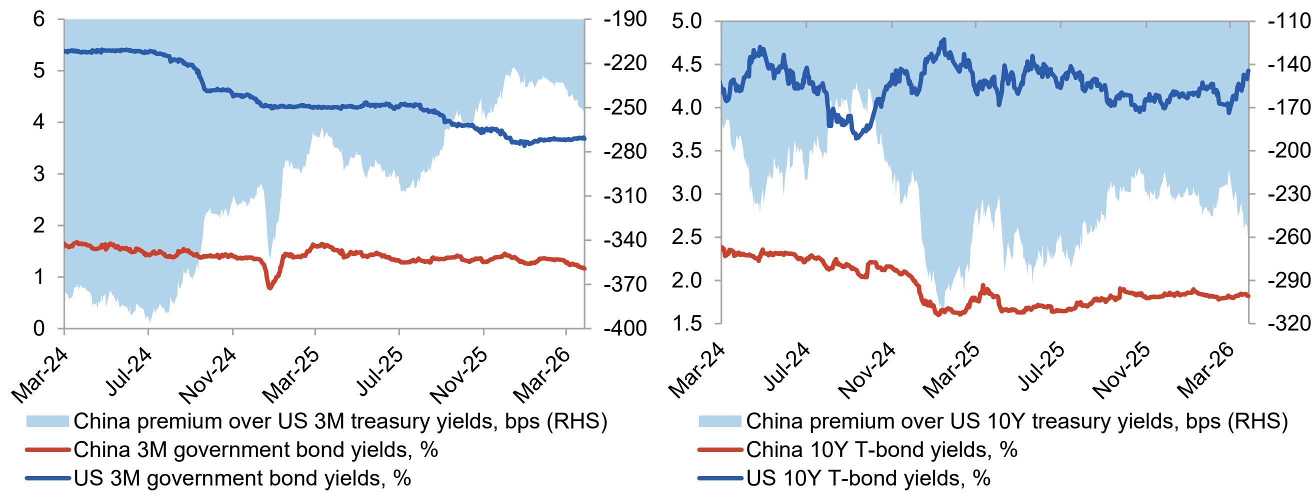


Fig 28 RMB trade-weighted index picked up to over-a-year high



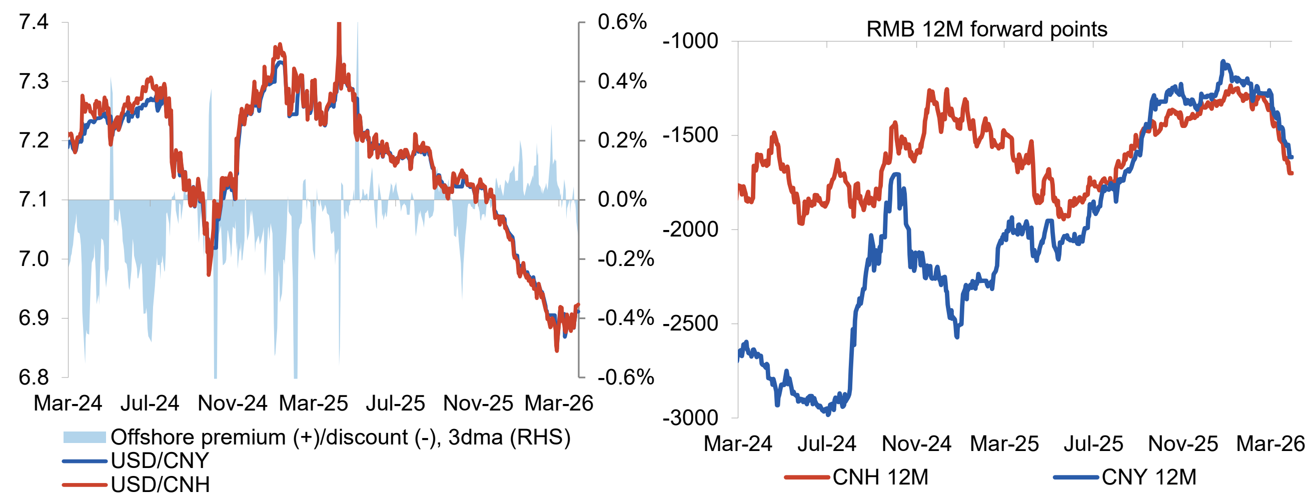
Source: CEIC, Bloomberg, Mizuho

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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