

China Weekly Outlook

Divergence in PPI

China's PPI returned to positive growth for the first time since 2022, rising 0.5% YoY in March. This rebound was driven mainly by a sharp increase in global energy prices and government measures that tightened supply. On a month-on-month basis, PPI climbed 1.0% in March, marking the fastest sequential gain in four years. The strongest contributors were petroleum and natural gas (+15.8% MoM), fuel processing (+5.8%), and non-ferrous metals (+5.4%).

In contrast, price pressures in downstream sectors remained relatively muted. Manufacturing PPI rose only 0.5% MoM, while consumer goods PPI declined 0.1% MoM. This divergence suggests that downstream producers may experience margin pressure due to difficulties in passing on higher input cost to their end users.

Slower CPI on food prices

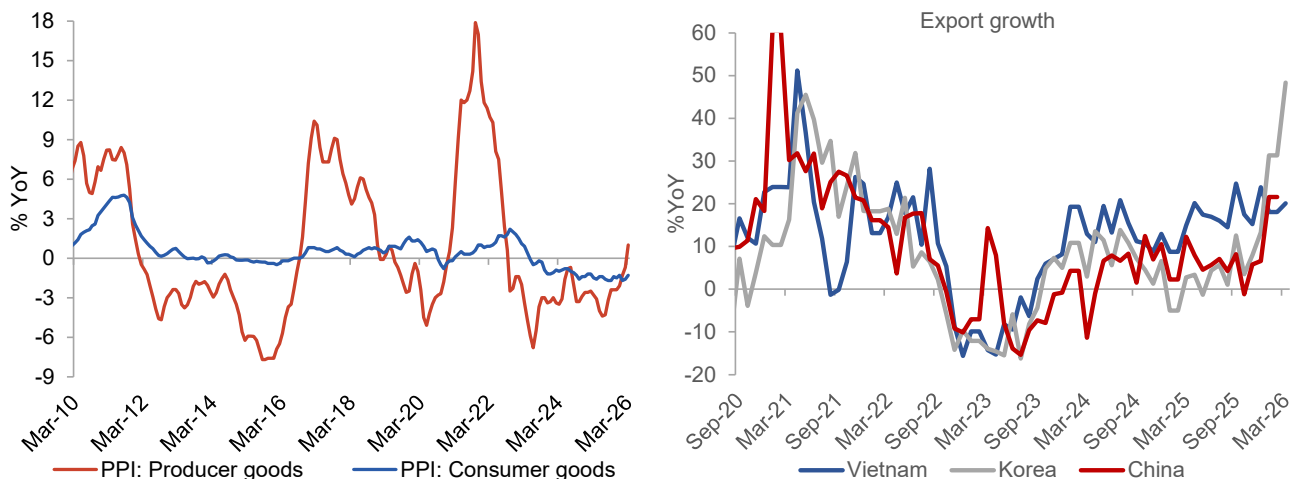
Turning to CPI, headline inflation eased to 1.0% YoY in March, largely reflecting slower food inflation. Food prices increased 0.3% YoY, down from 1.7% in February, as demand normalized and supply improved after the Lunar New Year holiday (Fig. 13). Gasoline prices rose 3.8% YoY, which is below our expectations, and contributed 0.11ppt to headline CPI. Excluding food and energy, core inflation also moderated to 1.1% YoY, driven by slower price increases for items such as gold, garments, and home appliances.

Although fuel prices have risen further by around 4.5% in April, further upward pressure on inflation should remain relatively contained. Under China's current pricing mechanism, additional domestic fuel price increases will be suspended once the average global crude oil price exceeds US\$130 per barrel.

Mixed March data

Looking ahead to this week's activity data releases, we expect a mixed outcome. On the one hand, exports and industrial value-added growth should stay relatively resilient, supported in part by AI-related sectors. On the other hand, investment is likely to remain subdued amid ongoing weakness in the overall property market and the heavy debt burden carried by local governments. We expect Q1 GDP growth to improve to 4.8% from 4.5% in the previous quarter, with the GDP deflator potentially turning positive for the first time in three years.

<Downstream producers having difficulties passing on higher costs> <Strong Asian exports partially driven by AI-related demand>



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.8890	6.8915	6.82	6.8258	-601
USD/CNY	6.8861	6.8869	6.8246	6.8292	-526
CNY PBoC Fixing	6.8929	6.8929	6.8649	6.8654	-275
Shanghai Composite Index	3927.59	4011.02	3871.30	3986.23	106.13

#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)	-1613	6	CNH HIBOR (3mth)	1.636
CNH Currency Swap (3yr)	1.300	-0.005	CNH Implied yield (1Y)	1.287

Recap

The offshore renminbi (CNH) appreciated 0.88% against the US dollar last week following the announcement of a US-Iran ceasefire. Importantly, the currency's resilience persisted into Monday despite the subsequent collapse in US-Iran negotiations over the weekend. This stability highlights rising investor confidence in renminbi-denominated assets. Note that yields on one-year corporate bonds fell to record lows last week (Fig. 22&24), while the Shanghai Composite Index closed marginally higher this Monday following a 2.7% gain last week.

Meanwhile, the PBoC appeared to lean modestly against further renminbi appreciation later last week, by setting daily fixings around 0.4% weaker than levels implied by the CFETS model (Fig. 27). Consequently, CNH performance lagged some regional peers, notably the KRW (+1.83%) and THB (+1.39%), but outperformed the CNY (+0.77%) and INR (+0.40%). On a trade-weighted basis, the renminbi index eased 0.6% week on week but remains up 2.3% year to date, maintaining a firm underlying trend.

Outlook

Looking ahead, geopolitical uncertainty remains elevated, particularly around the prospects for the normalization of oil flows, at least partial, through the Strait of Hormuz. Nevertheless, markets have shown limited concern over spillovers into China's inflation outlook, reflecting confidence in the government's ability and willingness to cap the increase in domestic fuel prices.

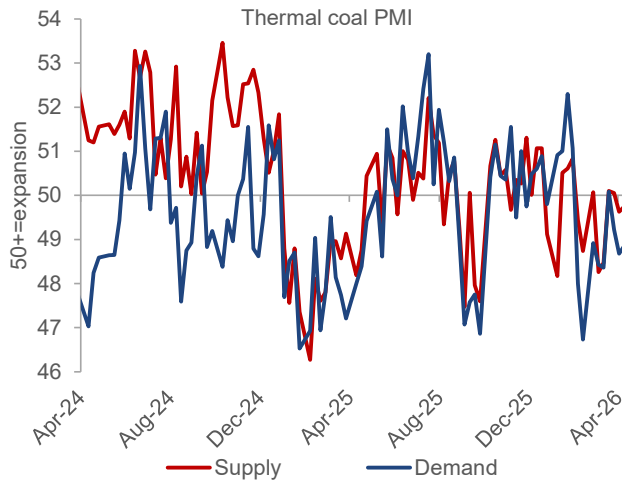
In this environment, **we expect the CNH to trade within a relatively tight range around the firmer 6.85 level over the coming weeks.** The currency is likely to balance lingering Middle East risks against improving structural confidence in the yuan.

Our medium-term outlook remains constructive. We continue to forecast the CNH at 6.80 by year-end. Beijing has reinforced its strategic shift toward supporting domestic demand growth rather than relying on currency depreciation to bolster exports. In parallel, policy measures aimed at encouraging imports, including reductions or removals of taxes on selected commodities, signal a clear commitment to more balanced and sustainable trade dynamics.

<FX Charts on Page 8>

Activity monitor (1/2)

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



Source: Wind, Mizuho

Fig 2 PTA production improved in early April on a YoY basis

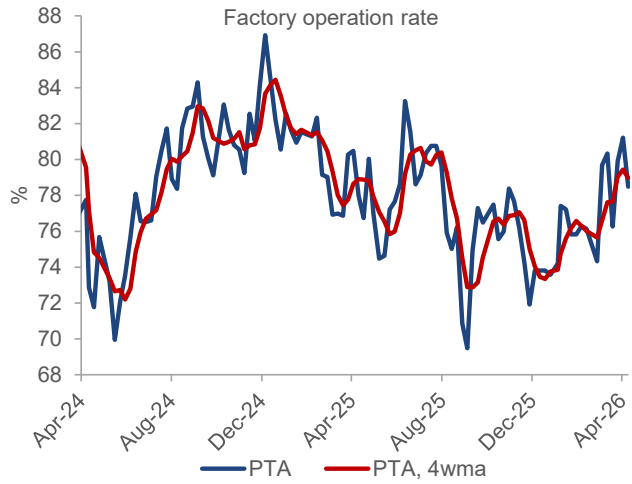
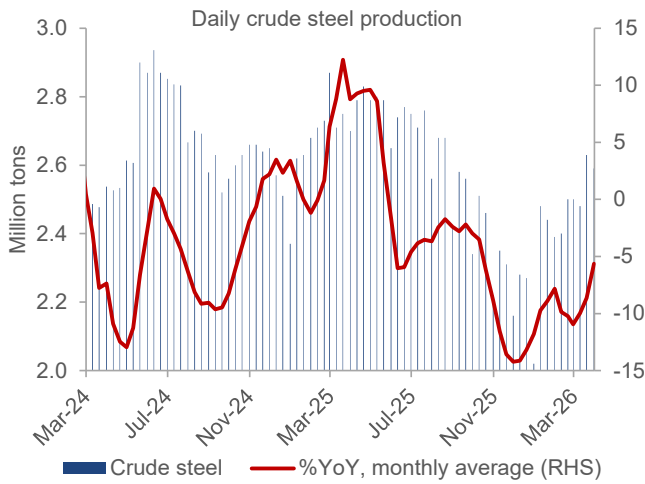


Fig 3 Steel production saw a slower YoY decline



Source: Wind, Mizuho

Fig 4 Steel tire production rebounded notably after the LNY

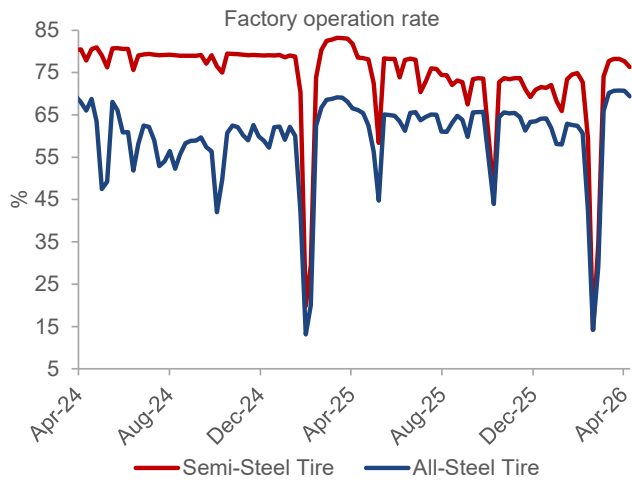
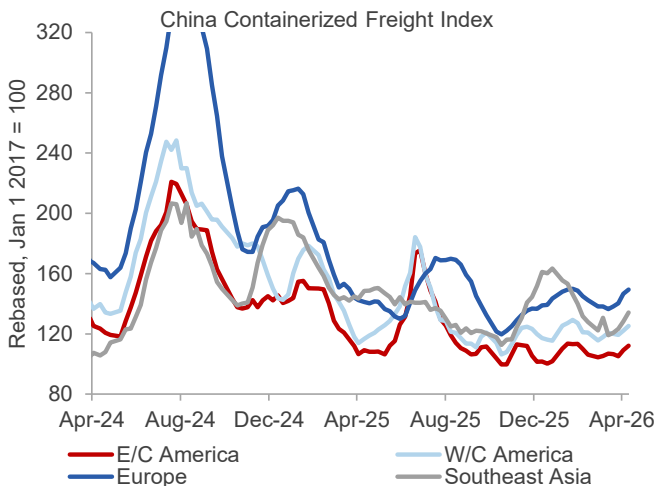
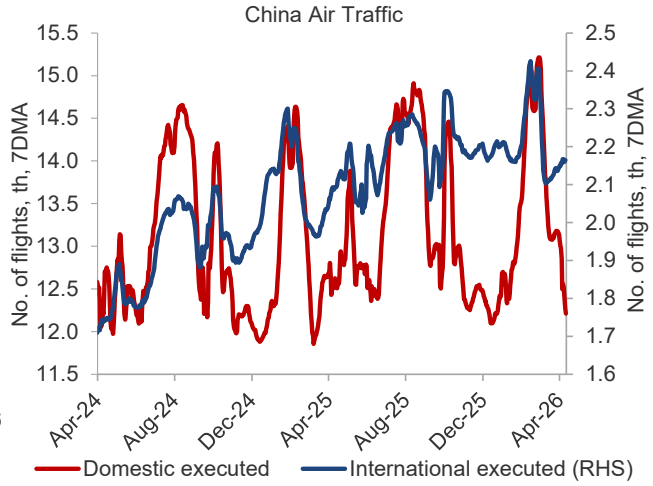


Fig 5 CCFI: prices for outward shipments are picking up



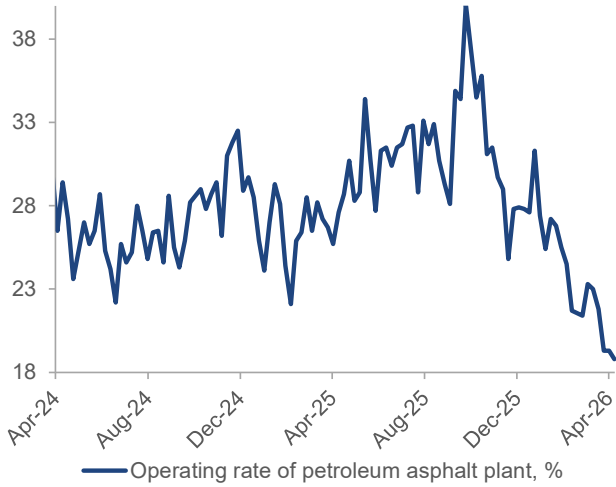
Source: Wind, Mizuho

Fig 6 Air traffic: an expected dip after the holiday



Activity monitor (2/2)

Fig 7 Road construction activity fell to a new low



Source: Wind, Mizuho

Fig 8 Construction material prices: cement prices remained subdued

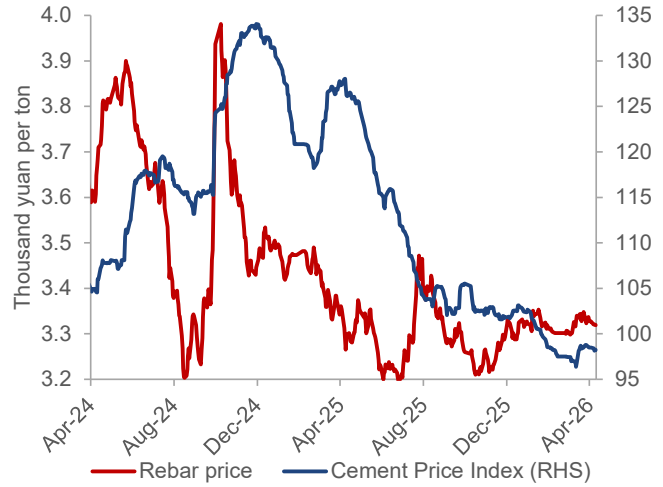
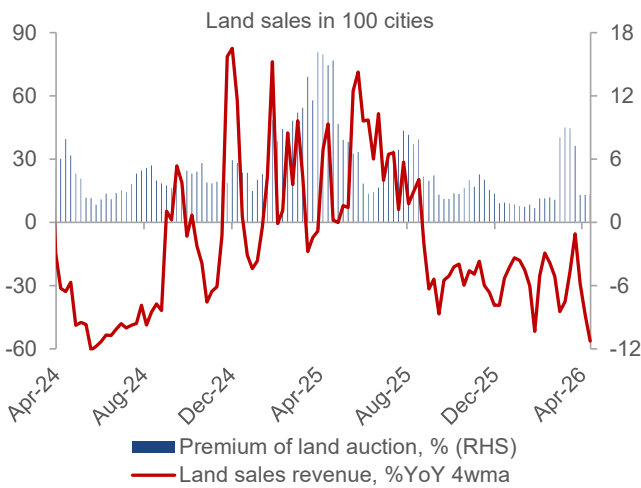


Fig 9 Land sales continued to see YoY declines



Source: Wind, Mizuho

Fig 10 New home sales saw seasonal improvement after the LNY

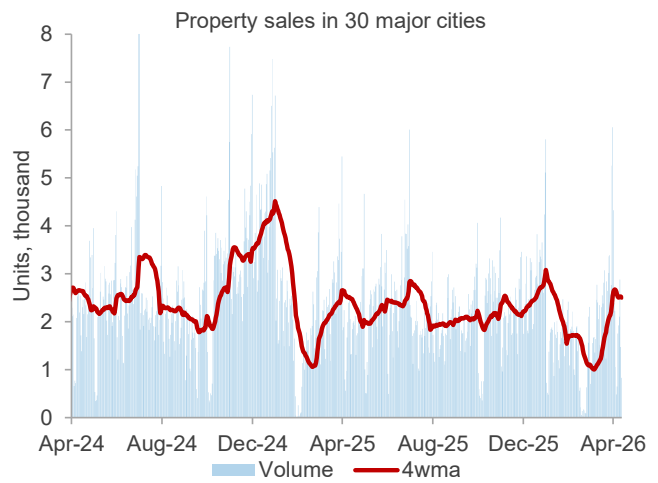
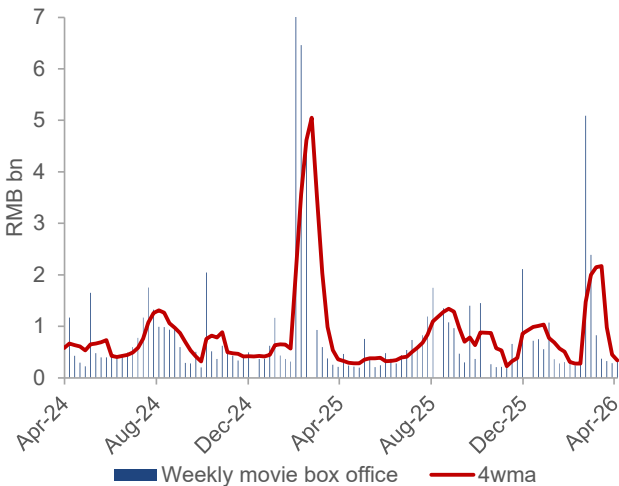
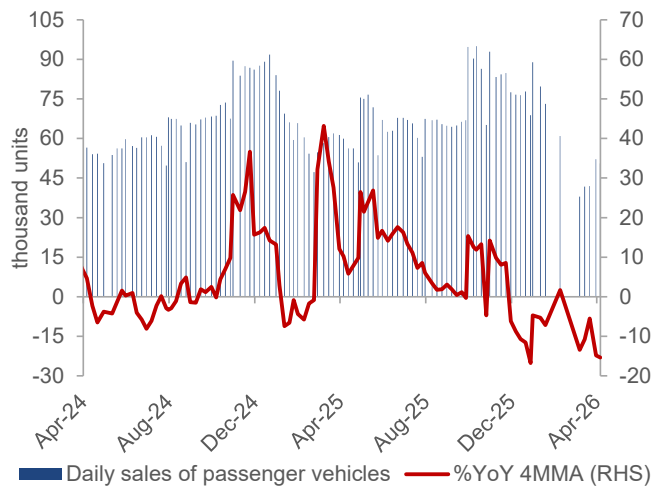


Fig 11 Movie box office revenue remains relatively subdued



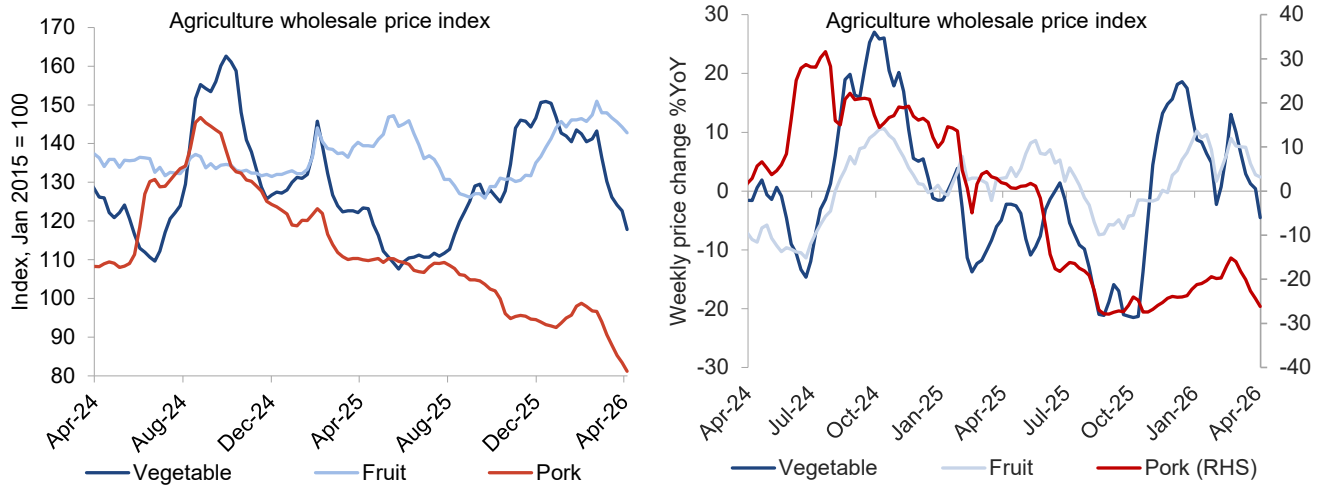
Source: Wind, Mizuho

Fig 12 PV sales: growth turned negative again



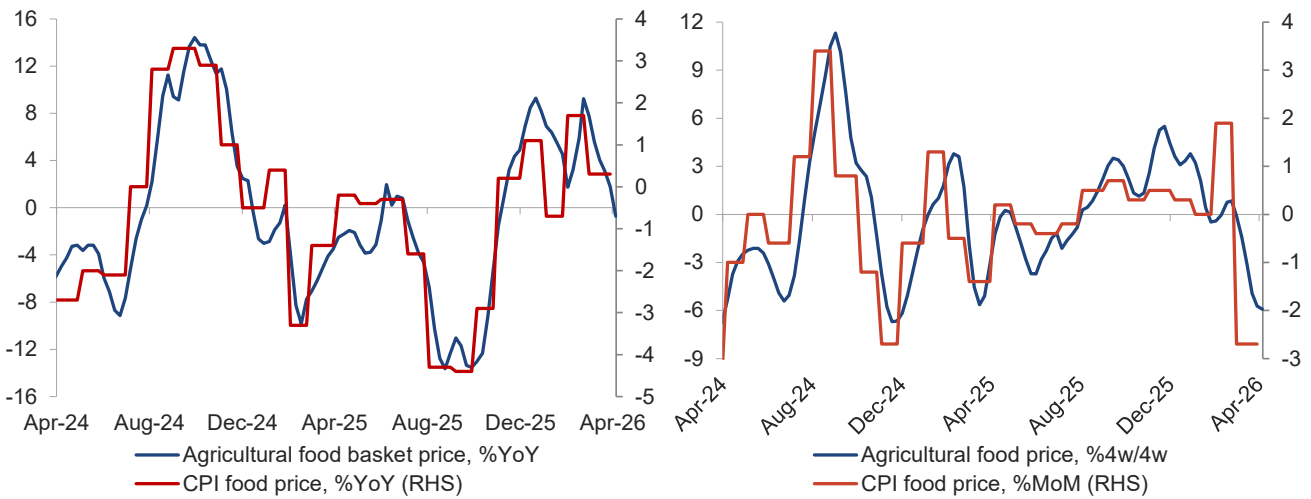
Price monitor

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



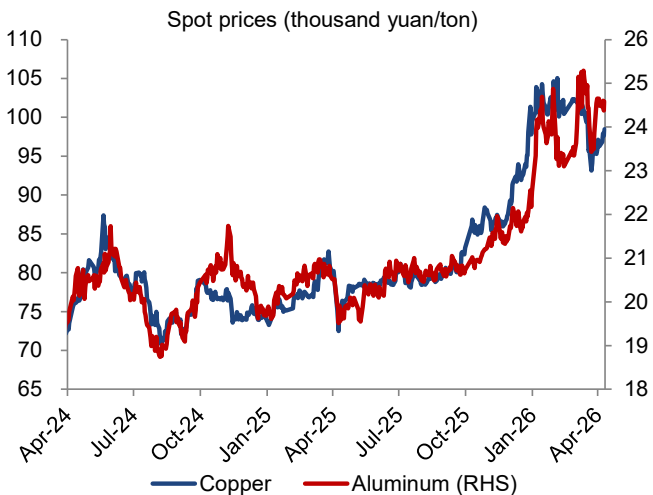
Source: Wind, Mizuho

Fig 14 Wholesale food prices dropped notably after the holiday period



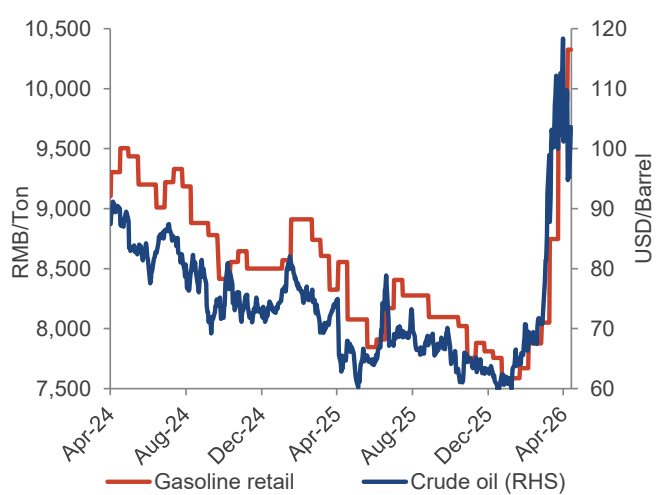
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices remain relatively elevated



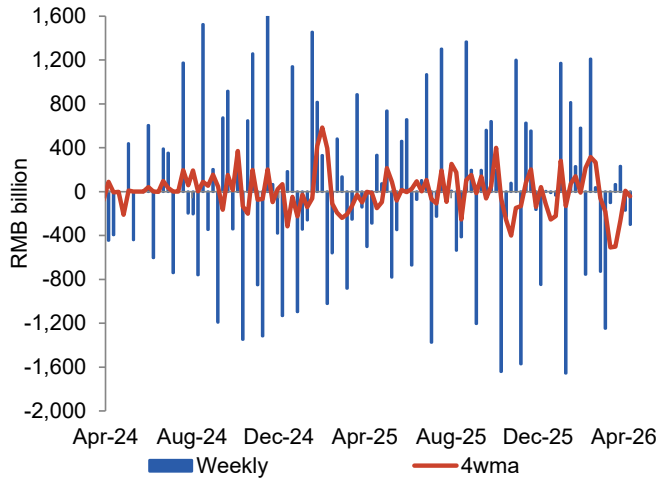
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices soared further amid extended Middle East conflict



Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB301b during 6 – 10 Apr



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs dropped to the target level

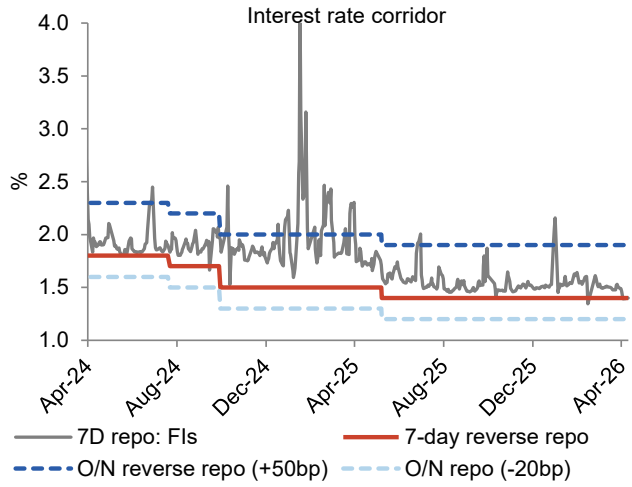


Fig 19 Short-end CGB yields see further declines at the front end

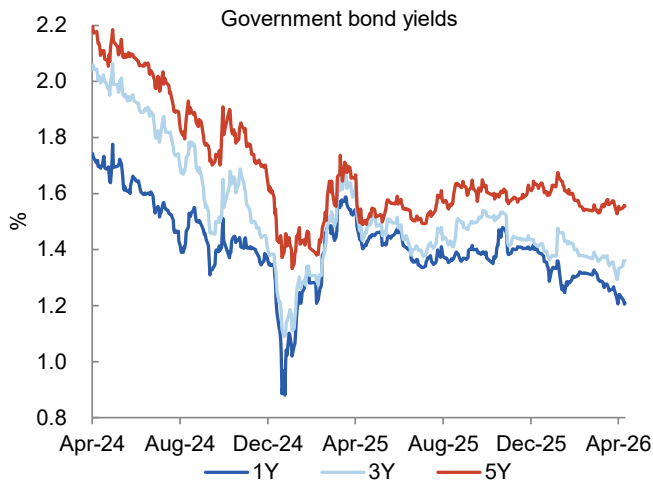
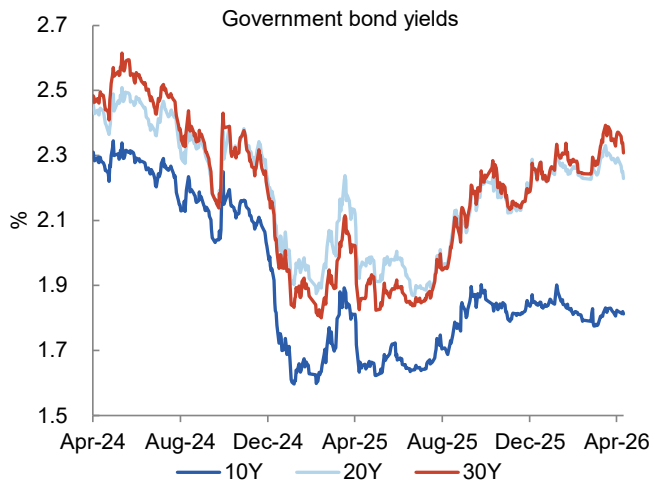
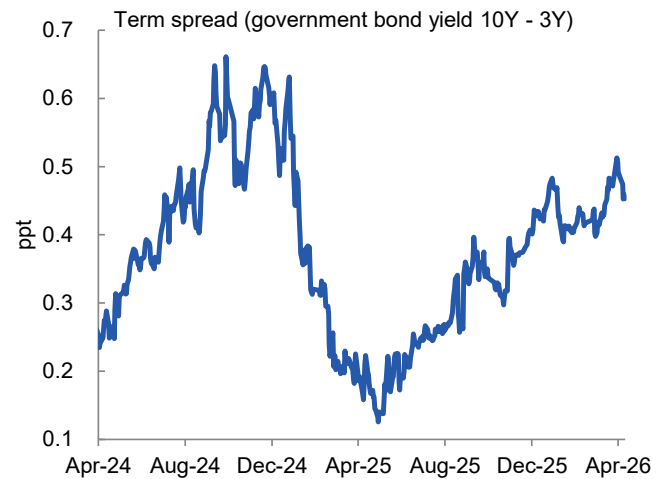
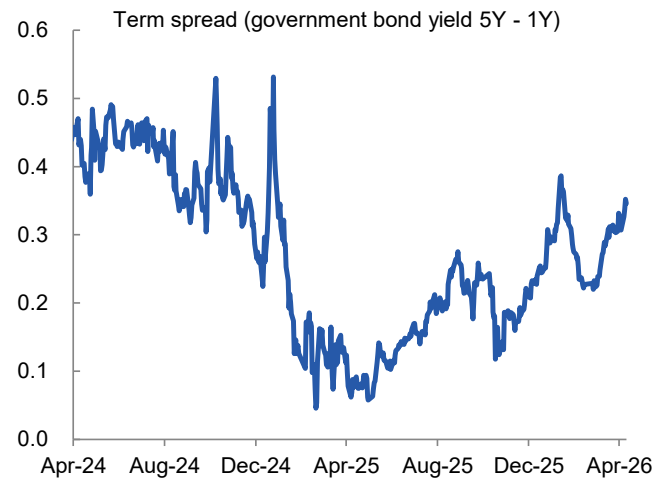


Fig 20 Long-end CGB yields: capped increases at the ultra-long end



Source: CEIC, Mizuho

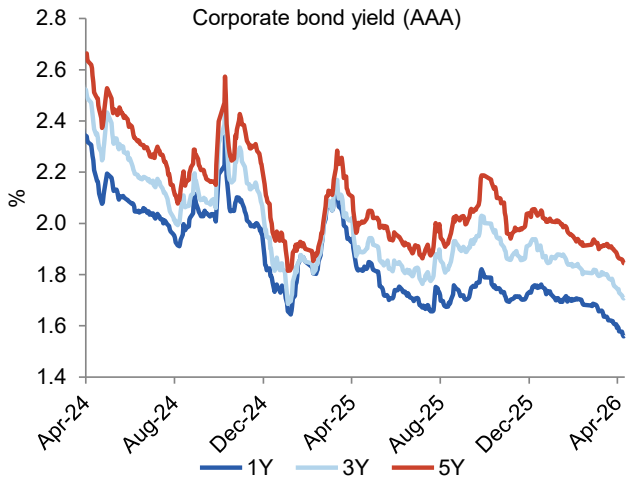
Fig 21 CGB term spreads: a bull-steepening across the curve



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields declined along CGB yields



Source: Wind, Mizuho

Fig 23 IG corporate risk premium dropped notably

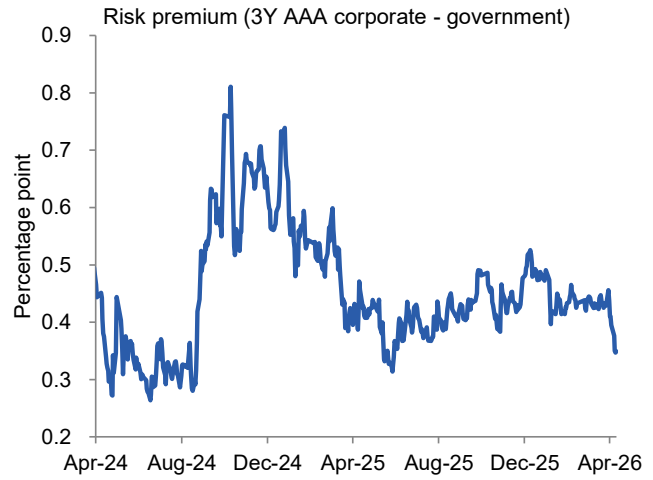
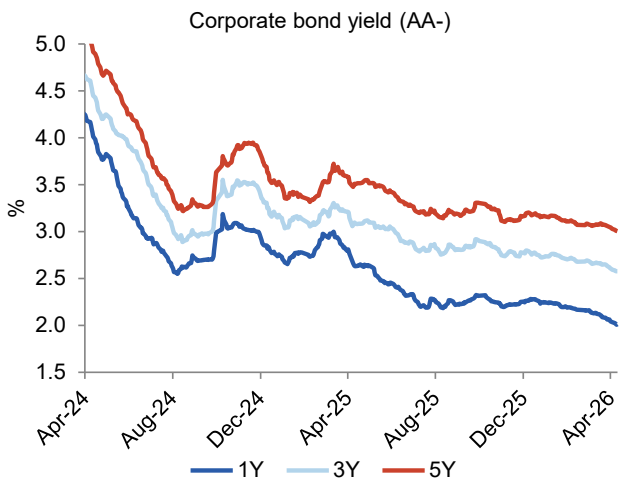


Fig 24 Onshore HY credit yields declined gradually

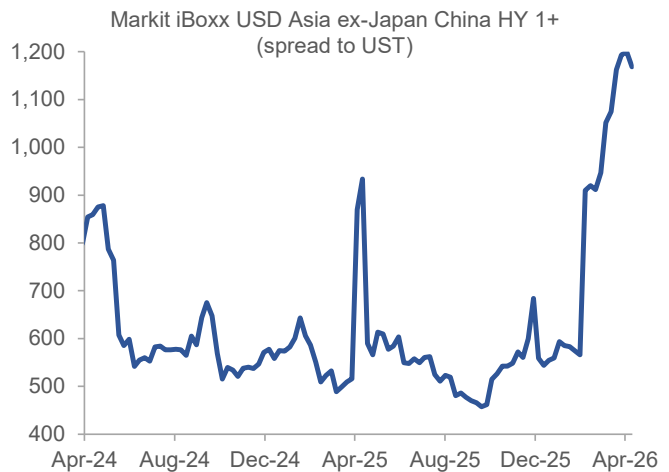


Source: Wind, Mizuho

Fig 25 HY corporate risk premium tightened further



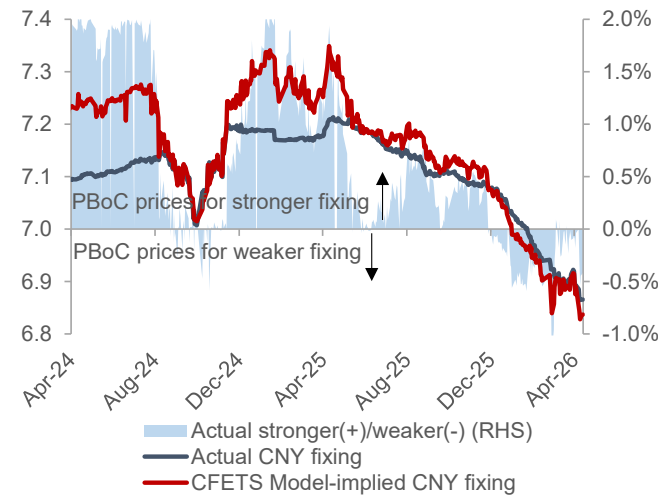
Fig 26 China USD credit spreads tightened last week helped by a US/Iran ceasefire announcement and plunging oil prices



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: the PBoC leans against fast appreciation



Source: CEIC, Bloomberg, Mizuho

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

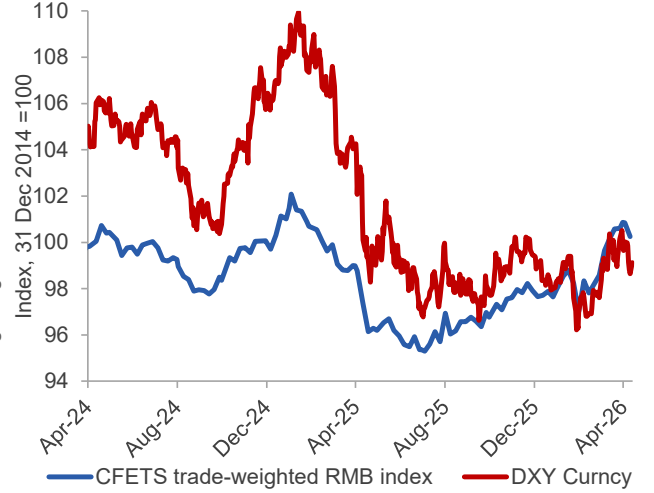
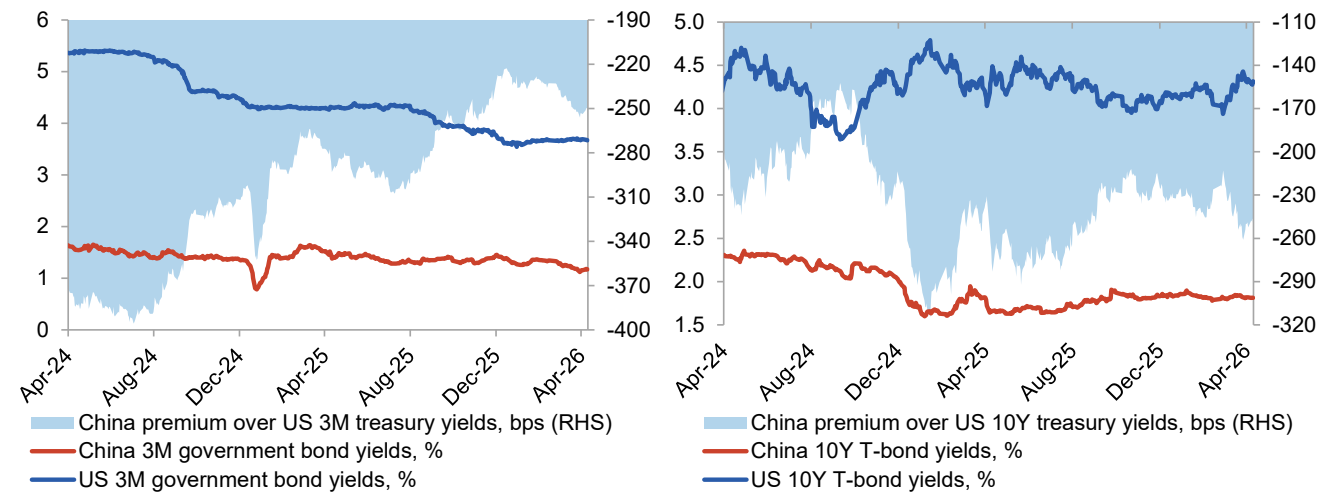
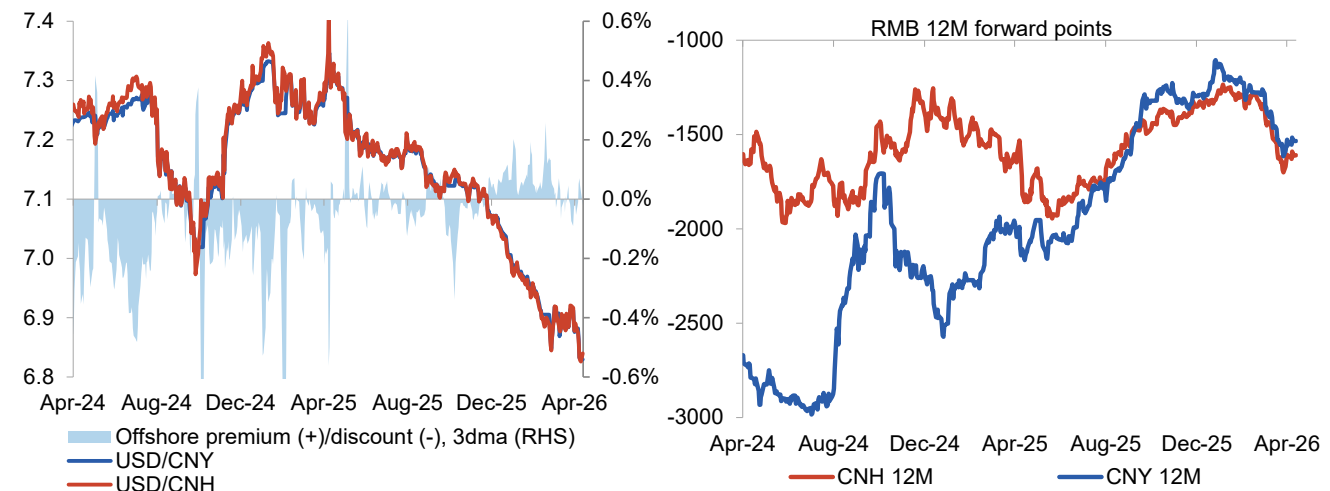


Fig 29 China-US interest rate spreads moved wider at both the front end and back end



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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