

China Weekly Outlook

Unemployment Upswing

China's unemployment rate experienced a broad-based increase in March, posing a challenge to the reflation outlook. Notably, the surveyed unemployment rate for workers under the age of 30 rose to 7.7%, the highest reading since the series began in late 2023. Unemployment rates for other age cohorts also recorded their highest March levels in the past three years.

This deterioration in the labor market contrasts with solid Q1 GDP growth and a double-digit rise in industrial profits. The upward trend in unemployment, if persists, could undermine the currently vulnerable reflation expectations and, in turn, draw greater attention from the PBoC regarding potential monetary-policy adjustments.

Segmented Profit Increase

Meanwhile, industrial profits increased by 15.8% YoY in March, accelerating further from the combined growth recorded in January–February, with gains led by raw materials and high-tech manufacturing. By contrast, labor-intensive industries remained under pressure: furniture manufacturing profits fell 45% YoY and garment manufacturing profits declined 18% YoY, following their double-digit contractions last year. Such sectoral weakness likely has been a driver of the softer job market performance, in addition to increased AI adoption for junior positions.

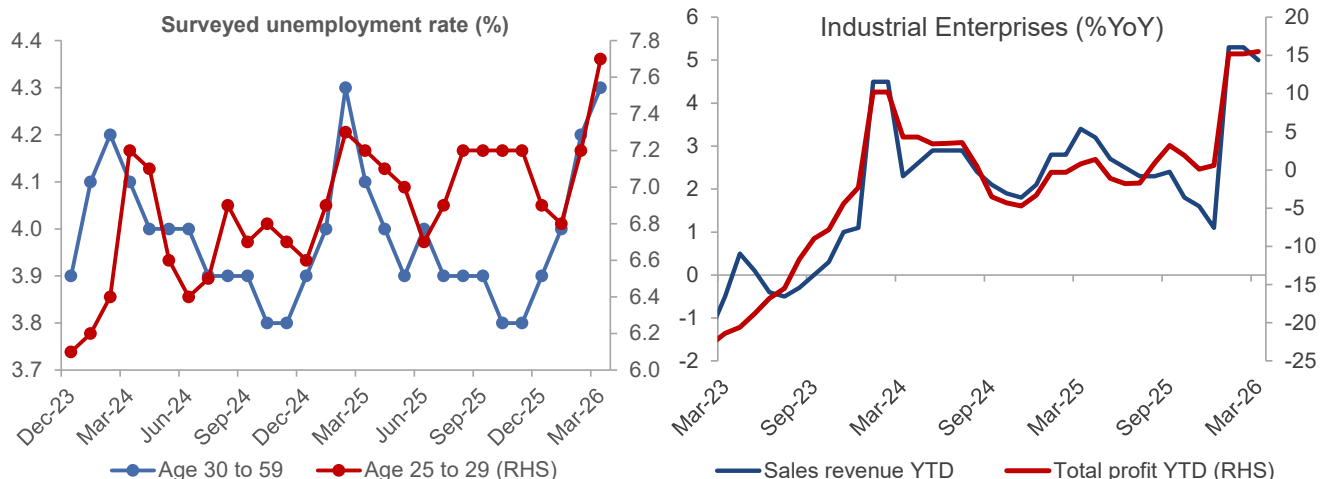
Subdued Downstream Industrial Demand

Looking ahead, China's official PMIs are scheduled for release this Thursday. So far, most high-frequency indicators point to subdued downstream activity, even as demand for certain raw materials has improved amid prolonged disruptions to global energy supply.

While April has seen stronger demand for coal and steel (Fig. 1 & 3), several oil-related downstream segments have weakened. For instance, the PTA factory operating rate—widely viewed as a proxy for downstream polyester demand—averaged 76% over the past four weeks, down from 79% in March (Fig. 2). In addition, road construction activity, which is closely linked to the operating rate of petroleum asphalt plants, fell to a new record low last week (Fig. 7), likely reflecting disruptions in the supply of heavier crudes. Taking these factors together, **we expect the official manufacturing PMI to soften to 49.9 in April.**

< The upswing in unemployment aged under 30 >

< Solid growth in industrial revenue and profit >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.8192	6.8403	6.8117	6.8346	186
USD/CNY	6.8236	6.8392	6.8140	6.8320	138
CNY PBoC Fixing	6.8648	6.8674	6.8594	6.8674	52
Shanghai Composite Index	4053.38	4114.84	4051.69	4079.90	28.47

#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)	-1629	-54	CNH HIBOR (3mth)	1.588
CNH Currency Swap (3yr)	1.260	-0.015	CNH Implied yield (1Y)	1.234

Recap

The offshore renminbi (CNH) drifted modestly weaker last week, briefly touching 6.84 per dollar, as the greenback strengthened after US–Iran talks broke down. Even so, underlying renminbi demand remained resilient throughout the week. In the Dim Sum bond market, the latest auction of RMB 15.5bn in government bonds, the largest sale since 2023, cleared at fresh record-low yields. In our view, this outcome reflects both the broader rally in the onshore bond market and expectations for a firmer yuan. Notably, the 1-year onshore CGB yield is still hovering near its lowest level in more than a year at around 1.15%, down nearly 20 bp year-to-date.

Against this backdrop, CNH ended the week about 0.3% weaker versus the dollar. Although the PBoC continued to lean against RMB strength, setting daily fixings roughly 0.6% weaker than levels implied by the CFETS model, CNH's depreciation was comparatively contained versus most regional peers. Aside from a 0.2% gain in TWD, most major Asian currencies weakened against the dollar, led by INR (-1.4%), KRW (-1.1%), and THB (-1.1%). On a trade-weighted basis, the renminbi index edged up 0.2% week-on-week.

Outlook

Looking ahead, geopolitical uncertainty remains elevated. However, markets appear increasingly desensitized to negative Middle East headlines, while sentiment continues to find support from renewed optimism around AI-related developments. With the PBoC maintaining a firm grip on the currency, **we expect CNH to trade in a 6.80–6.85 range in the near term**, as the US–Iran impasse continues to cast a shadow over the Strait of Hormuz.

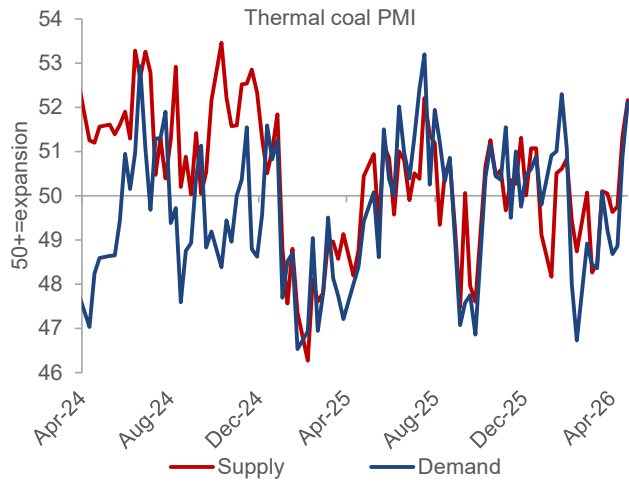
Further out, **we expect the structural increase in renminbi demand to persist over the medium term.**

Supportive factors include elevated policy uncertainty emanating from the White House and heightened geopolitical risks in the Middle East. In addition, the PBoC's ongoing efforts to smooth excessive FX volatility suggest the current appreciation cycle may proceed at a measured pace but with greater durability. **We continue to look for modest RMB appreciation and forecast USD/CNH at 6.65 by year-end, implying full-year gains approaching 5%.**

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: A notable pickup has been seen in April



Source: Wind, Mizuho

Fig 2 PTA production saw a remarked decline last week

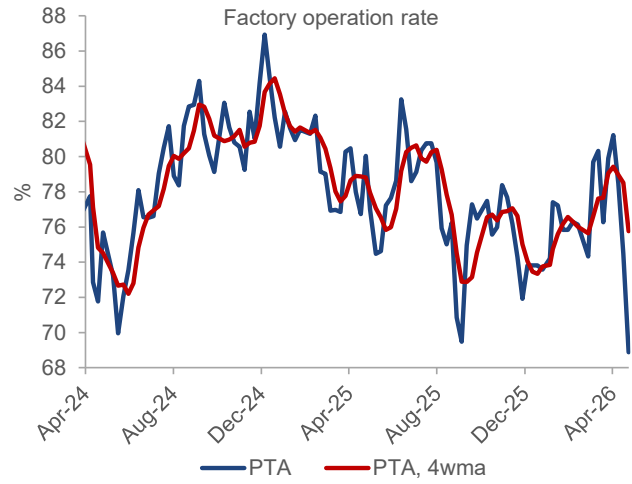
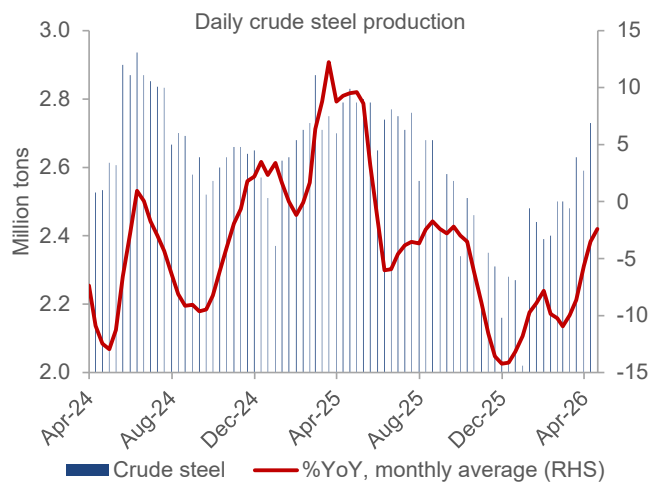


Fig 3 Steel production posted a slower YoY contraction

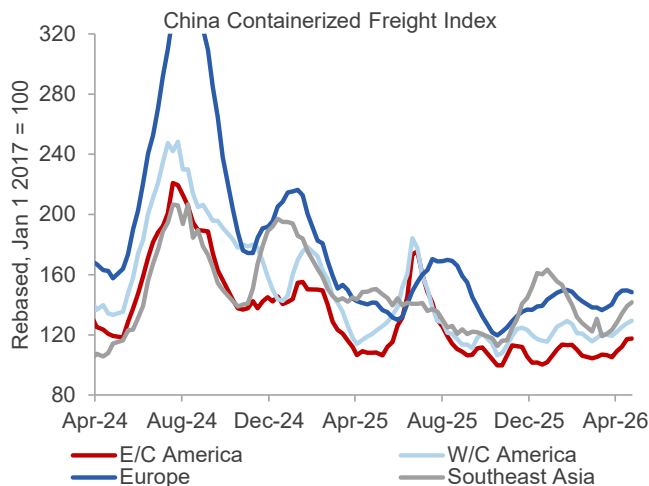


Source: Wind, Mizuho

Fig 4 Steel tire production rebounded notably after the LNY

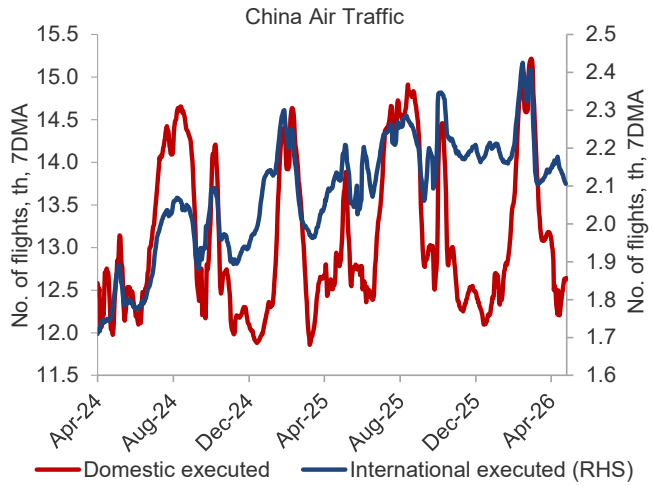


Fig 5 CCFI: prices for outward shipments are picking up



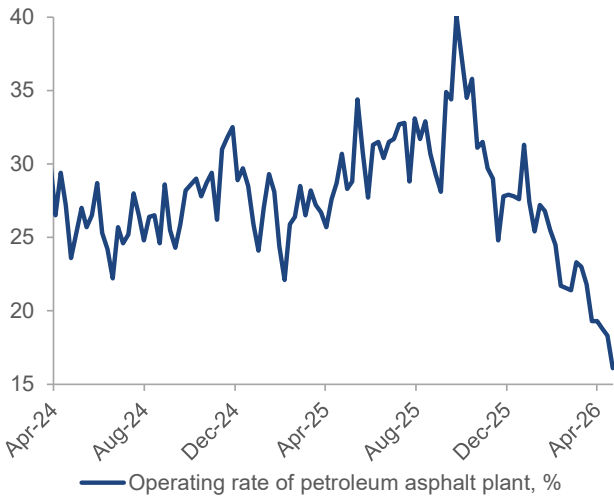
Source: Wind, Mizuho

Fig 6 Air traffic remains relatively subdued in April



Activity monitor (2/2)

Fig 7 Road construction activity fell to a record low



Source: Wind, Mizuho

Fig 8 Construction material prices: rebar prices on the rise

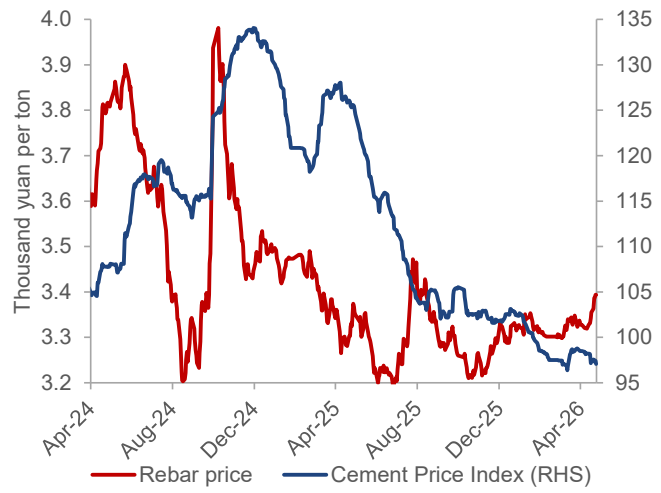
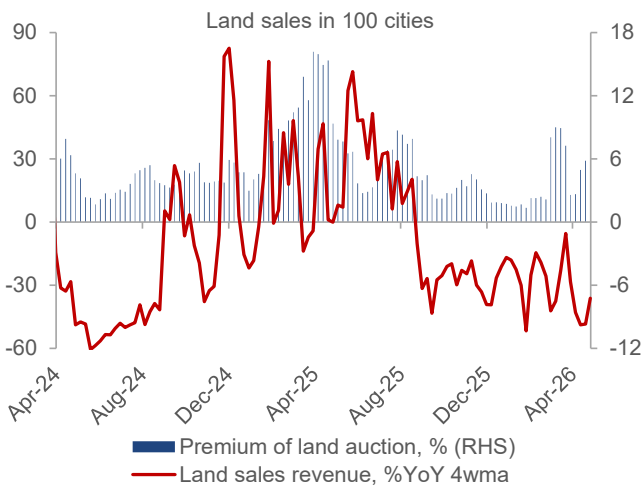


Fig 9 Land sales continued to see notable YoY declines



Source: Wind, Mizuho

Fig 10 New home sales: a lack of pickup across cities

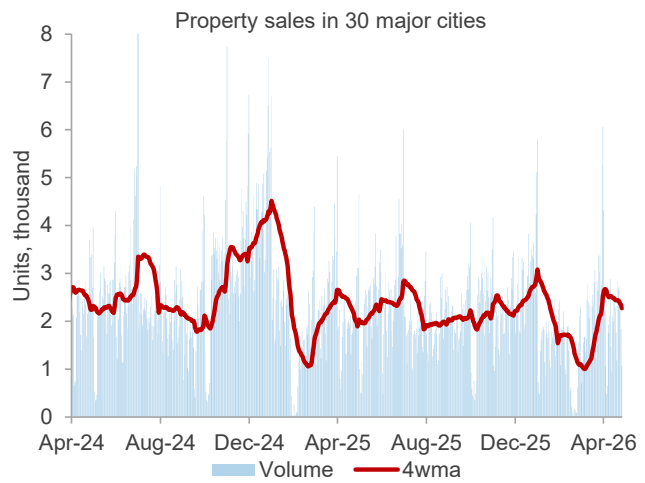
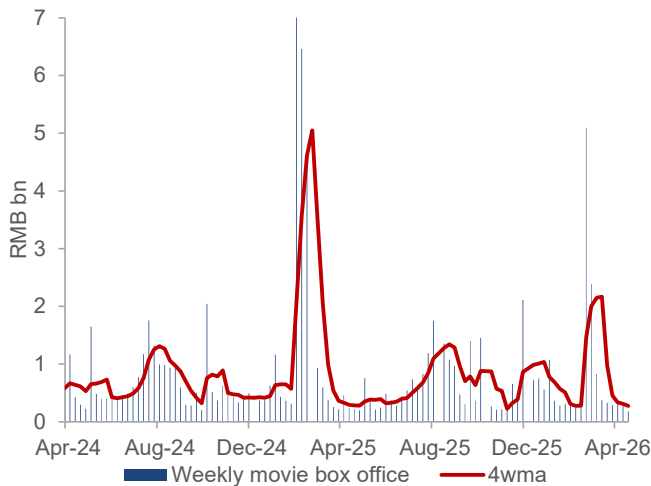
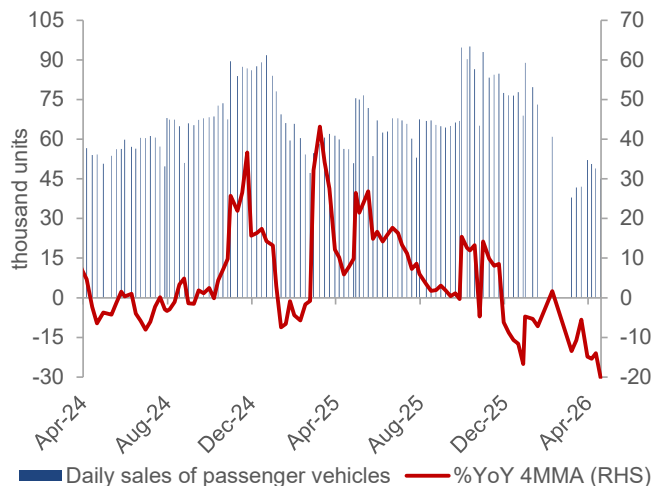


Fig 11 Movie box office revenue remains relatively subdued



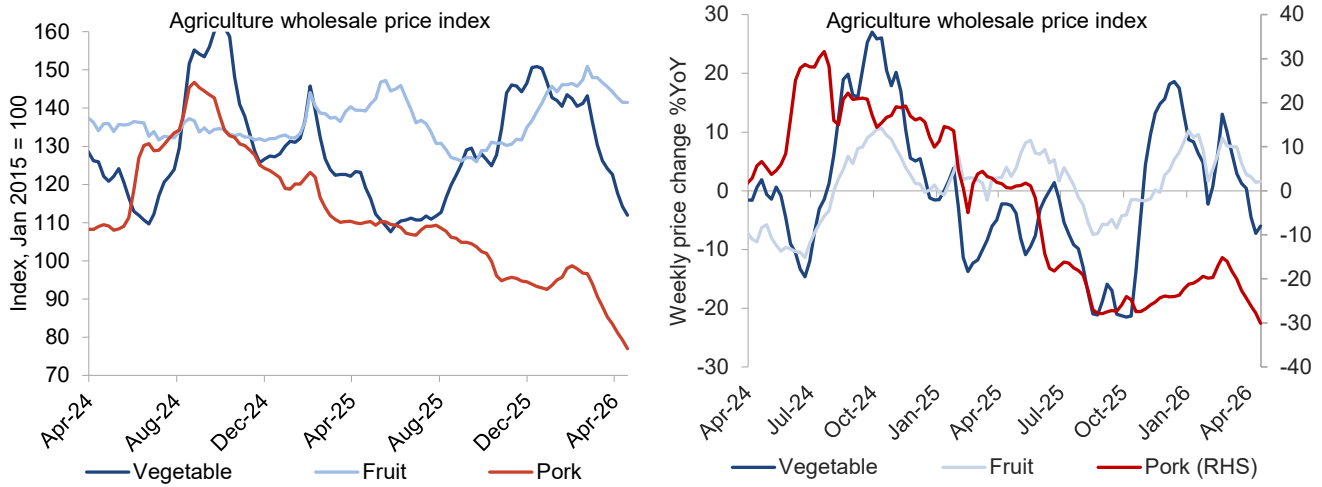
Source: Wind, Mizuho

Fig 12 PV sales saw the fastest decline since 2023



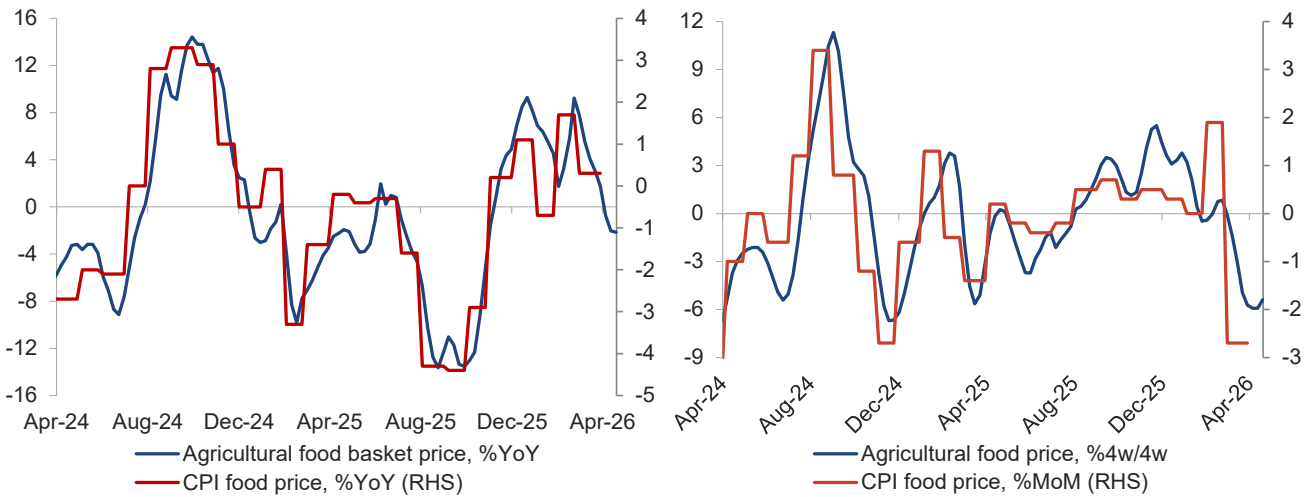
Price monitor

Fig 13 Major food items: the decline in pork prices continued, with levels hitting a 10Y low



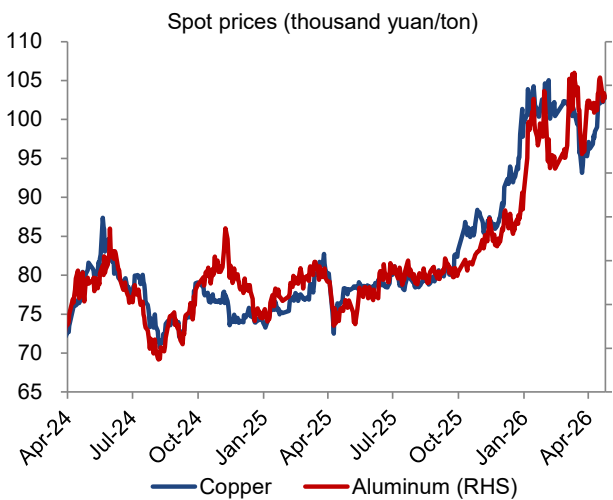
Source: Wind, Mizuho

Fig 14 Wholesale food prices dropped notably into early April



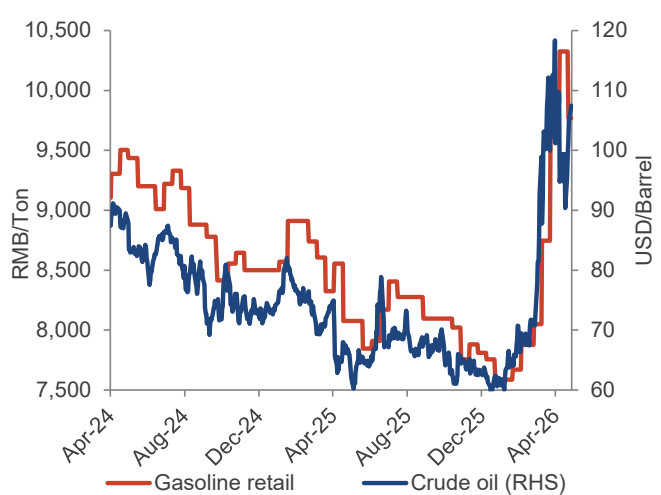
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices remain relatively elevated



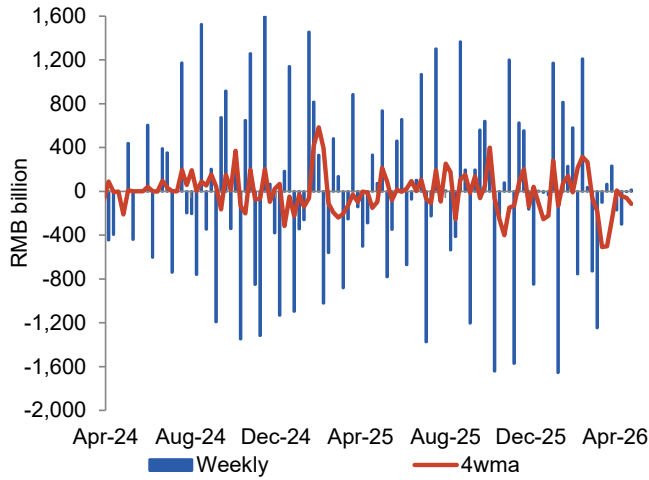
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices: domestic fuel prices down by 5.4% last week



Liquidity monitor

Fig 17 OMOs: net injection of RMB14b during 20 – 24 Apr



Source: CEIC, Wind, Mizuho

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

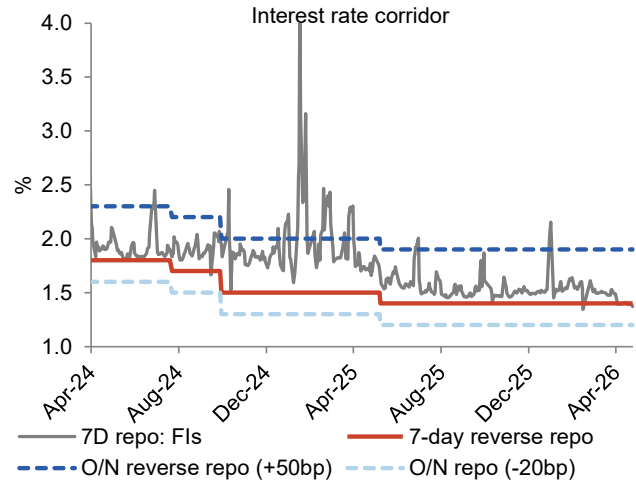
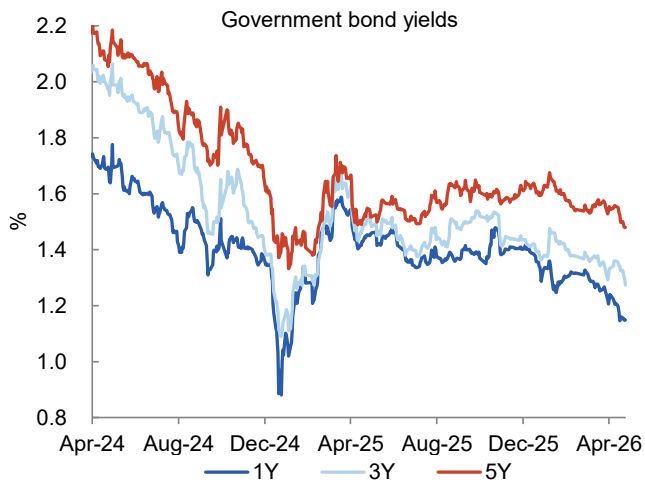


Fig 19 Short-end CGB yields see further declines last week



Source: CEIC, Mizuho

Fig 20 Long-end CGB yields: reversed gains in March

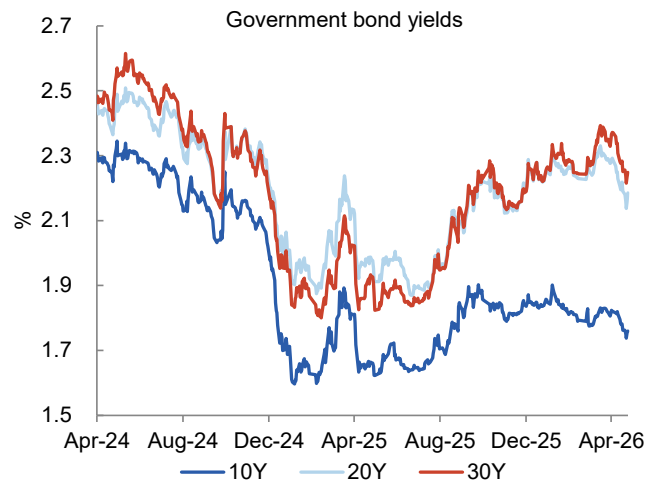
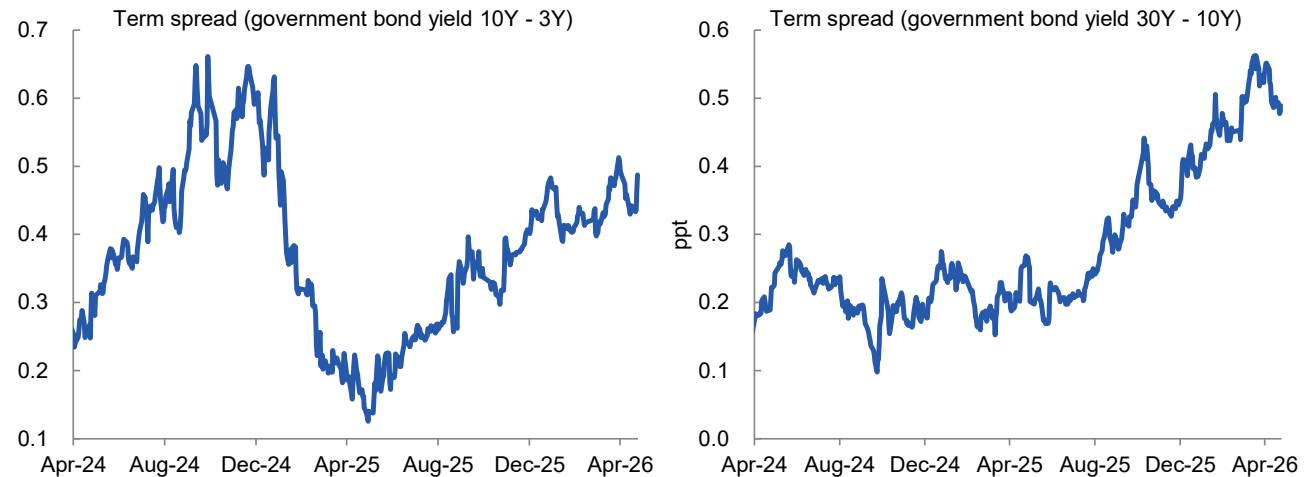


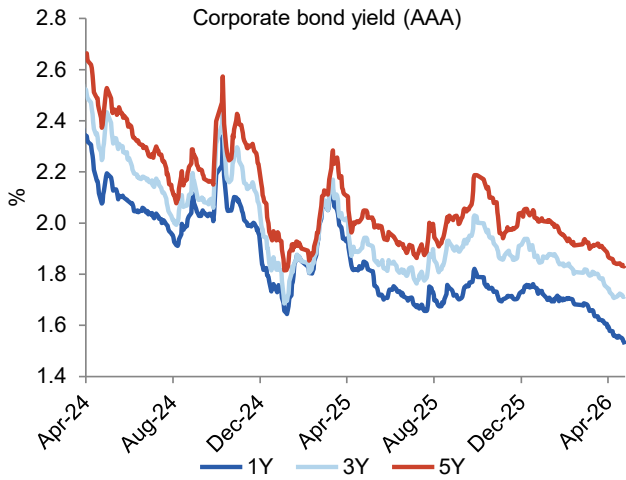
Fig 21 CGB term spreads: a bull-steepening was seen in the front part of the curve



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields declined along CGB yields



Source: Wind, Mizuho

Fig 23 IG corporate risk premium slightly widen last week

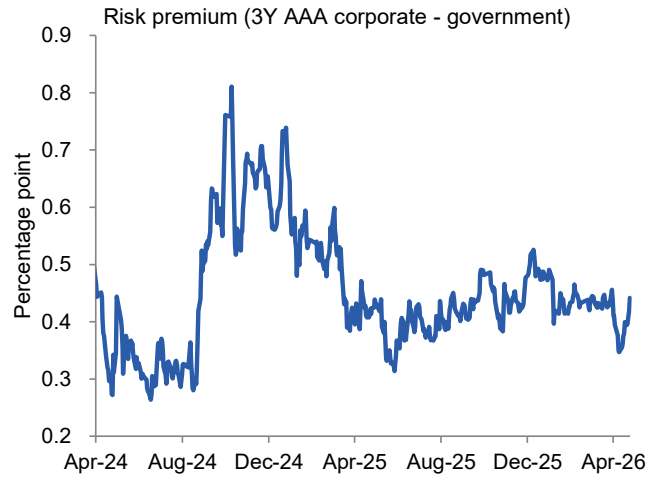
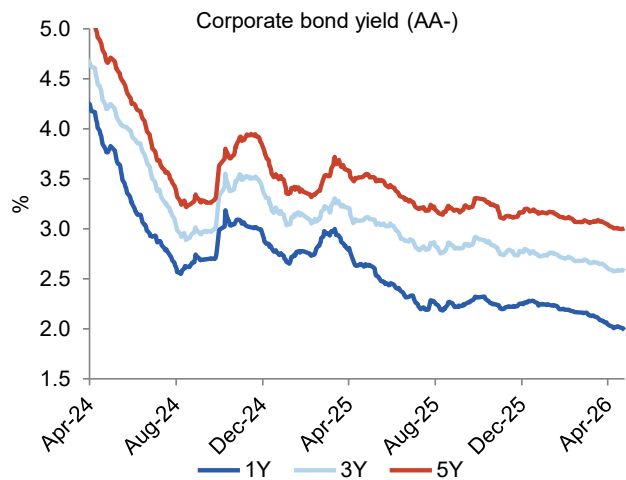


Fig 24 Onshore HY credit yields declined gradually



Source: Wind, Mizuho

Fig 25 HY corporate risk premium remained relatively tight

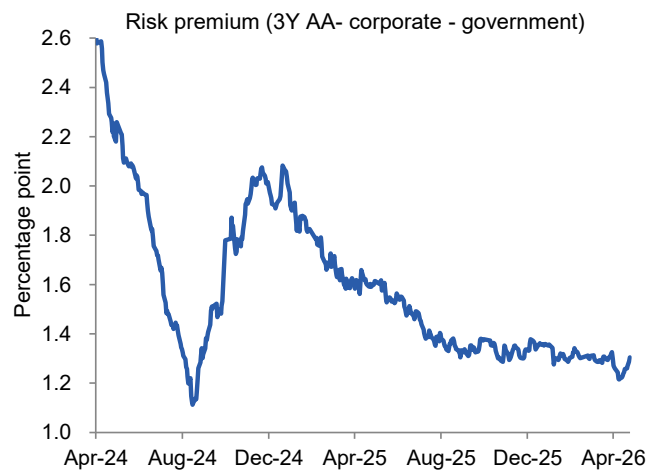
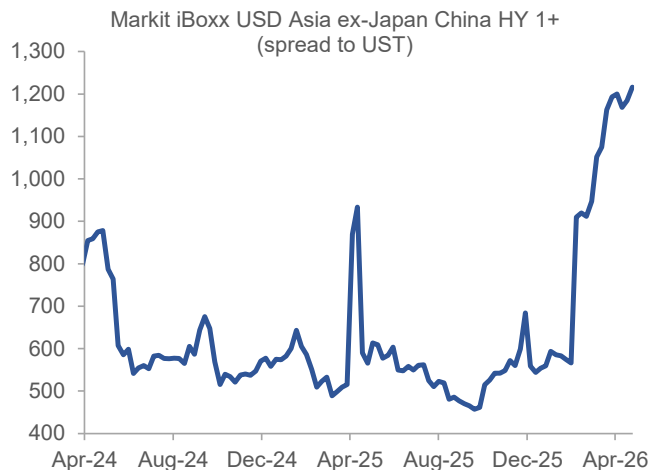


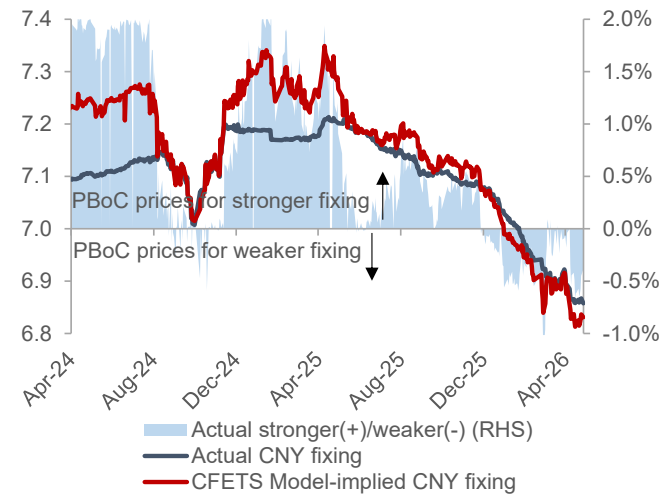
Fig 26 China USD credit spreads were mixed last week amid the ongoing stalemate in the ME and renewed AI optimism



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: the PBoC leaning against stronger RMB



Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index weakened amid such interventions

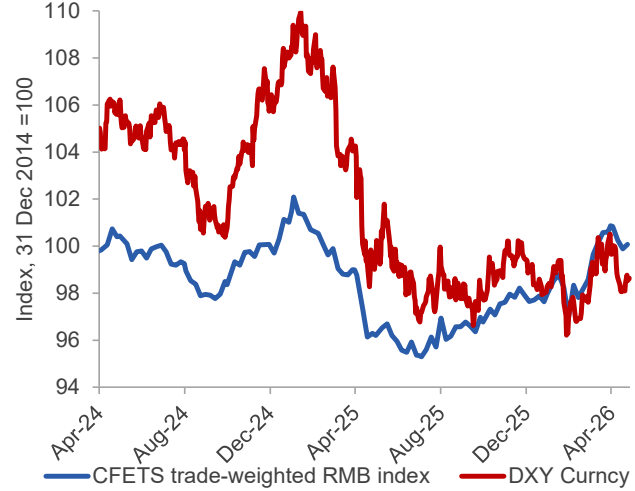
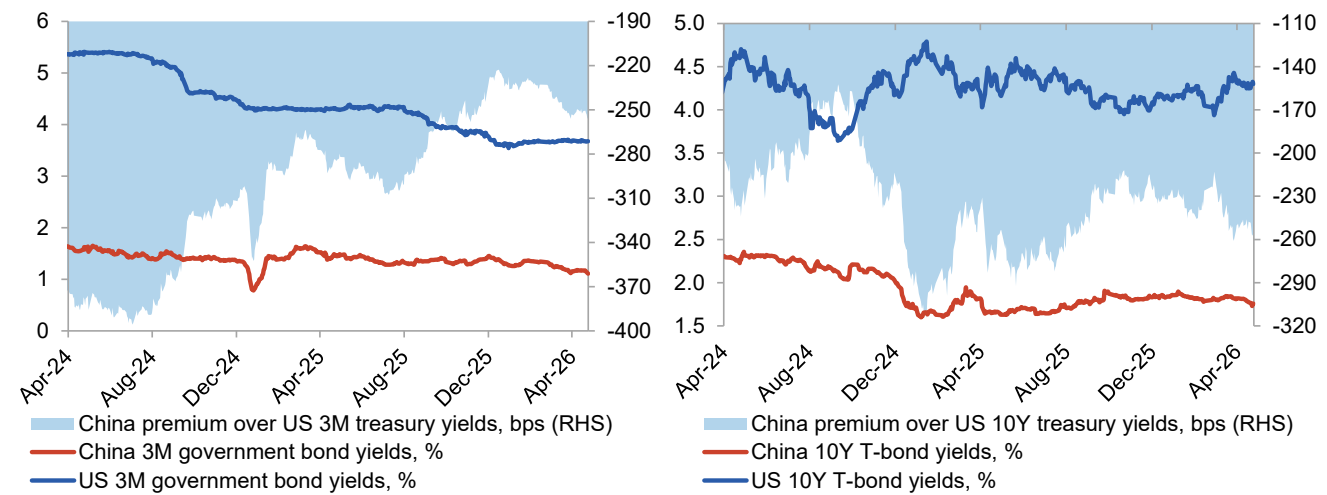
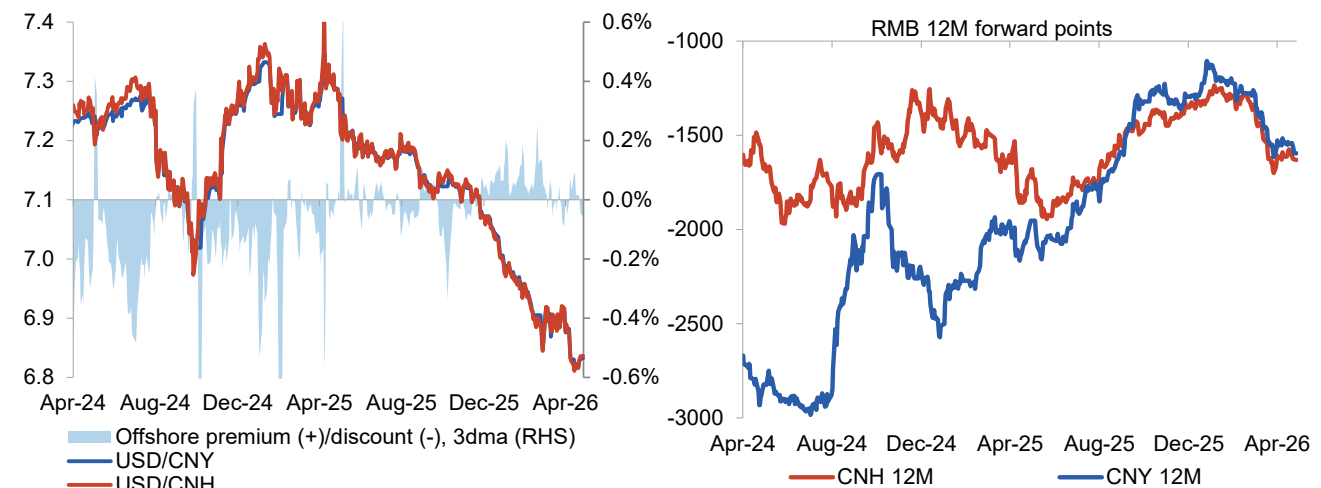


Fig 29 China-US interest rate spreads have moved a touch wider at both the front end and back end since late March



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading almost on par to the CNY again



Source: Bloomberg, Mizuho

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