

China Weekly Outlook

Upstream inflation pressures

China's CPI and PPI both rose faster than expected. The PPI, in particular, increased by 2.8% YoY and 1.7% MoM in April, marking the strongest sequential gain since 2021. This surge was largely driven by higher mining and raw-material prices, while inflation in the manufacturing sector remained relatively mild (1.5% YoY; 0.4% MoM).

CPI inflation edged up to 1.2% YoY, led by rising oil prices, which contributed 0.56ppt to headline growth. In contrast, food prices fell 1.6% after a short-lived increase in February and March, subtracting 0.28ppt. Core inflation, excluding food and energy, also registered at 1.2% YoY in April, slightly up from 1.1% in March.

Reduced scope for easing

Given firmer domestic inflation and the continued stalemate in US-Iran talks, we see reduced scope for broad-based monetary easing this year. The PBoC is likely to maintain a calibrated policy stance. Relative to our earlier expectation of two rate cuts, we now forecast one 10bp policy rate cut in 4Q26.

Solid trade momentum

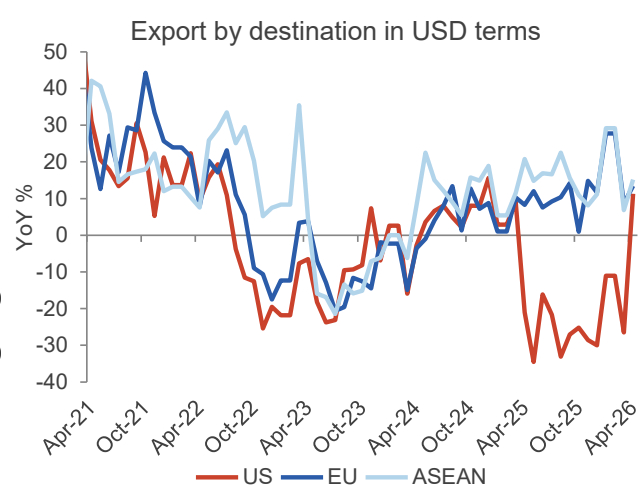
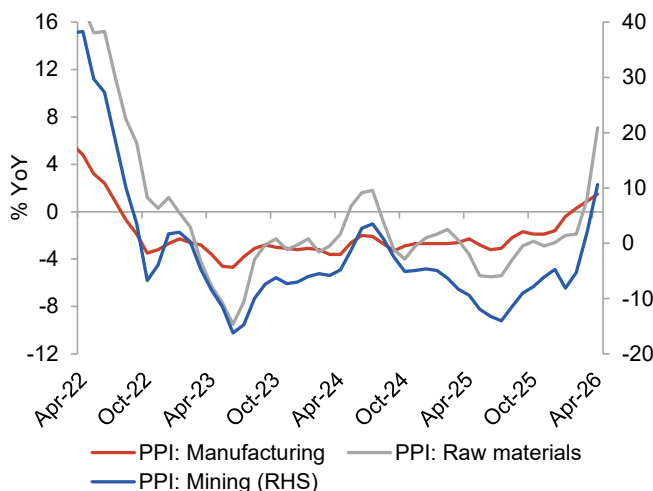
Trade data also surprised on the upside. Exports rose 14.1% YoY in April, rebounding sharply from 2.5% in March, consistent with resilient growth in exports from Korea and Vietnam. Growth was driven by AI- and clean-energy-related products, with strong performances in electronic ICs (+100% YoY), automatic data-processing equipment and parts (+47%), and automobiles (+44%). By destination, exports to ASEAN and the EU remained robust, while shipments to the US rose 11% YoY, the fastest pace since 2024, partly reflecting a favourable base effect.

Crude oil imports fell 20% YoY in volume amid supply disruptions from the Strait of Hormuz, leaving China's exports of refined petroleum declining 7.5% YoY. That said, exports of oil-related products such as fertilizers (+46%) and plastic articles (+8%) remained relatively resilient, and aluminium exports jumped 31% YoY due to suspended Middle East supply.

Imports rose a solid 25.3% YoY in April, driven mainly by processing and entrepôt trade, pointing to stronger re-export activity rather than a pickup in domestic demand.

< PPI reflation led by mining and raw materials >

< A notable rebound in exports to the US >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.8293	6.836	6.7955	6.7971	-339
USD/CNY	6.8421	6.8427	6.8005	6.8005	-276
CNY PBoC Fixing	6.8628	6.8628	6.8487	6.8502	-126
Shanghai Composite Index	4107.30	4183.06	4100.97	4179.95	67.79

#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	46	CNH HIBOR (3mth)	1.576
CNH Currency Swap (3yr)	1.295	0.015	CNH Implied yield (1Y)	1.298

Recap

The offshore renminbi (CNH) broke through the 6.8 mark late last week, buoyed by optimism over a potential US-Iran peace agreement that can lead to the reopening of the Strait of Hormuz. Even after today's headlines indicated that President Trump and Iran had rejected each other's latest peace proposals, the renminbi showed remarkable resilience, with both CNH and onshore CNY strengthening through 6.8 per dollar this Monday.

Market optimism has also been underpinned by the upcoming Trump-Xi summit in Beijing scheduled later this week (13-15 May). Discussions are expected to extend beyond bilateral trade to include issues such as Iran, AI governance, and China's potential increases in purchases of US goods. That said, the chance of a breakthrough in trade agreement appears slim, given the lack of substantive high-level engagement ahead of the meeting.

Despite last week's gains, the renminbi underperformed most of its Asian peers, as the PBoC stepped up efforts to temper one-way appreciation expectations. The PBoC has set the daily fixing around 0.6% weaker than levels implied by the CFETS model since last Thursday.

Across Asia, the rally was led by Southeast Asian currencies, with the Philippine peso (+1.4%), Malaysian ringgit (+1.3%), and Thai baht (+1.2%) posting strong rebounds. The Indonesian rupiah was the notable laggard, slipping 0.1% even after the government introduced measures aimed at stabilising the currency.

Outlook

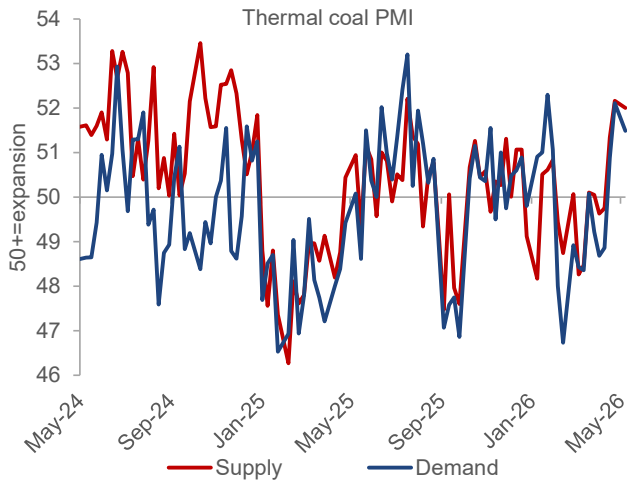
In the run-up to the Trump–Xi summit, sentiment toward the renminbi is likely to remain broadly supported, underpinned by ongoing geopolitical uncertainty in the Middle East. However, CNH volatility could pick up toward the weekend if the talks conclude without a major US-China agreement. Overall, we expect **CNH to trade in a narrow range around 6.8 this week, with a gradual bias toward weakness.**

Further out, **we anticipate the underlying increase in demand for renminbi-dominated assets 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 of almost 5%.**

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: upbeat sentiment amid oil supply disruptions



Source: Wind, Mizuho

Fig 2 PTA production saw a marked decline in early May

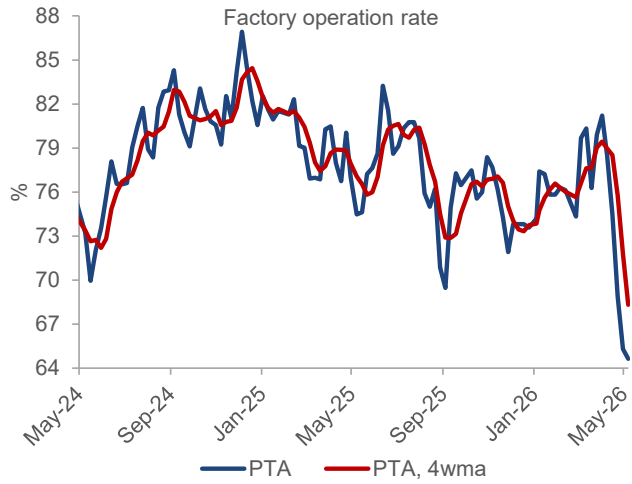
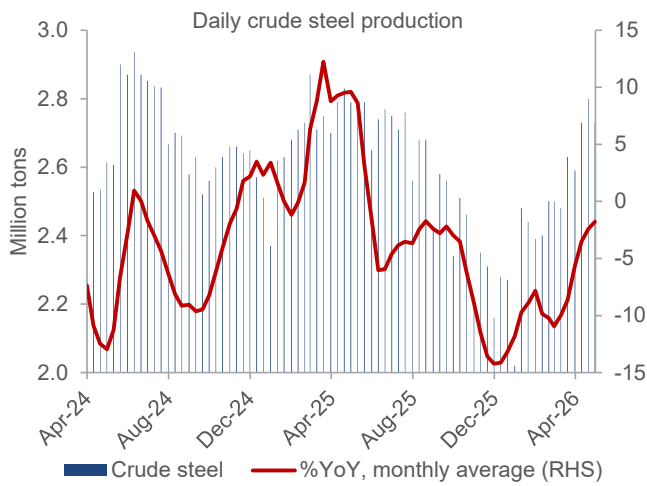


Fig 3 Steel production posted a slower YoY contraction



Source: Wind, Mizuho

Fig 4 Steel tire production dipped during the 5-day national holiday

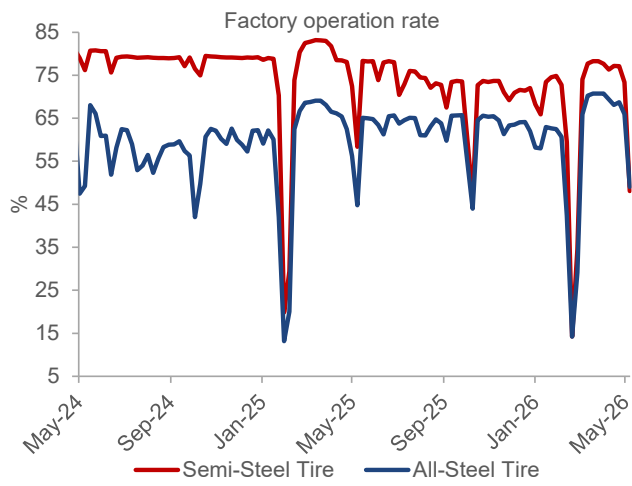
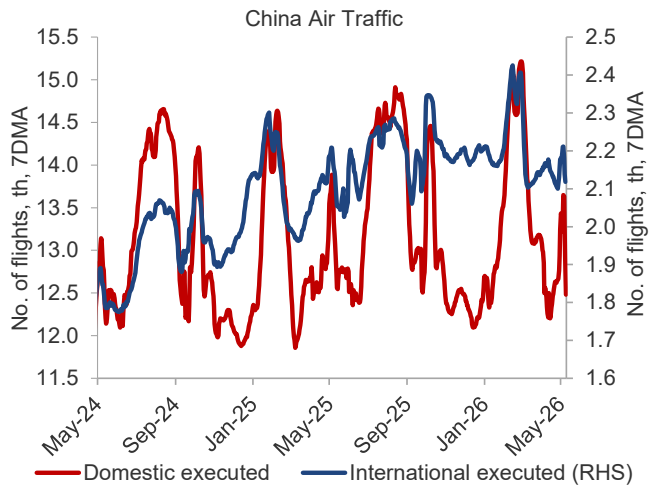


Fig 5 CCFI: prices for outward shipments are picking up



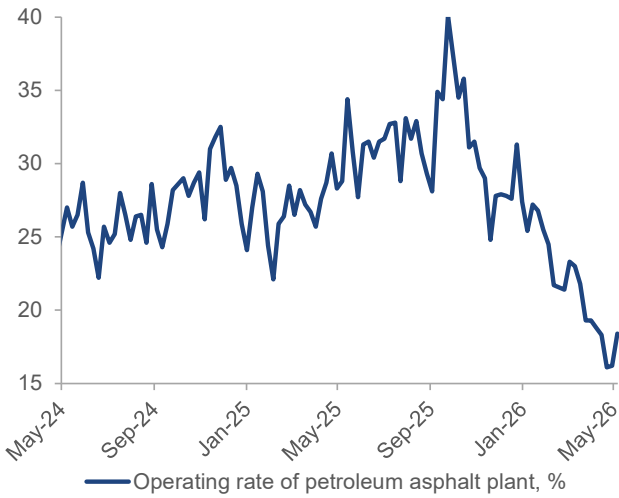
Source: Wind, Mizuho

Fig 6 Air traffic: the holiday uptick was milder than last year



Activity monitor (2/2)

Fig 7 Road construction activity recovered mildly last week



Source: Wind, Mizuho

Fig 8 Construction material prices: rebar prices on the rise

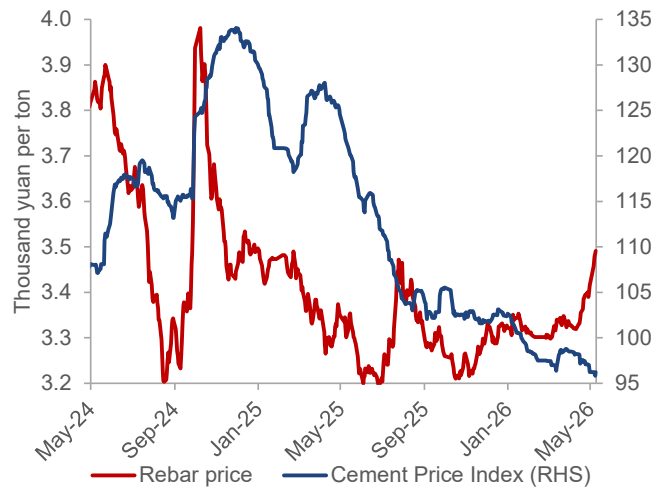
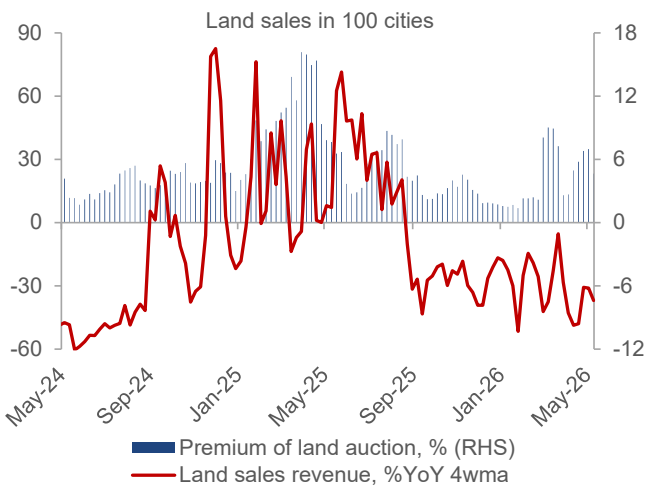


Fig 9 Land sales continued to see notable YoY declines



Source: Wind, Mizuho

Fig 10 New home sales: a lack of pickup at the national level

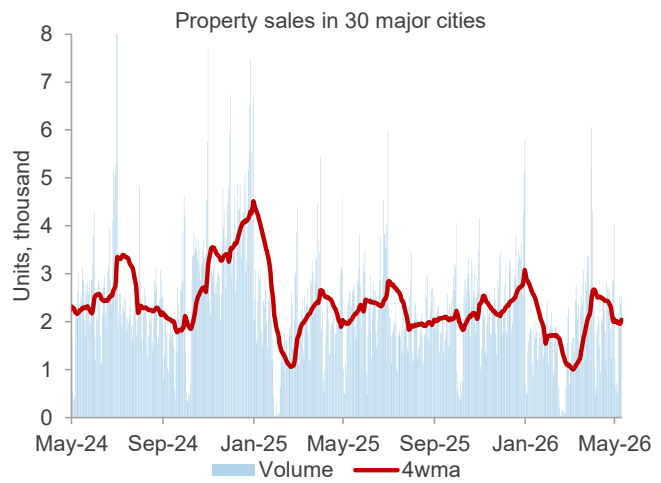
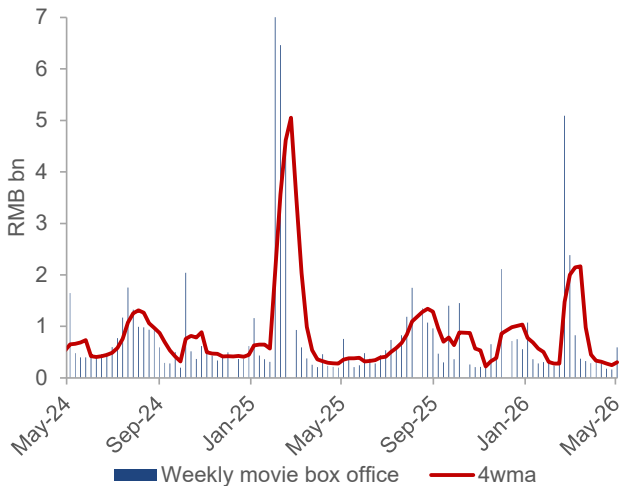
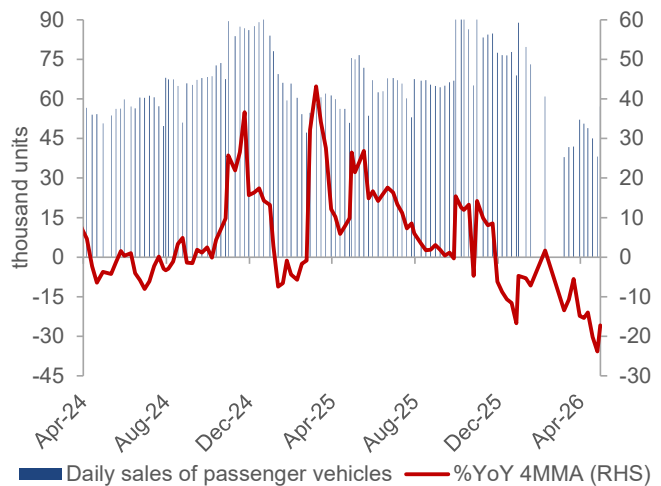


Fig 11 Movie box office revenue remains relatively subdued



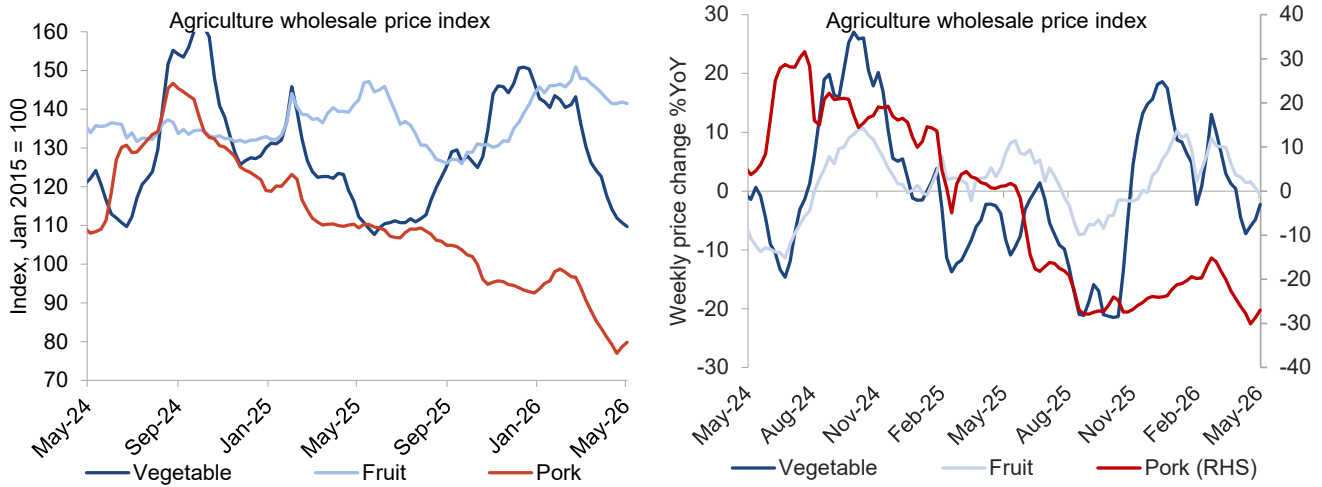
Source: Wind, Mizuho

Fig 12 PV sales: April saw the fastest decline since 2023



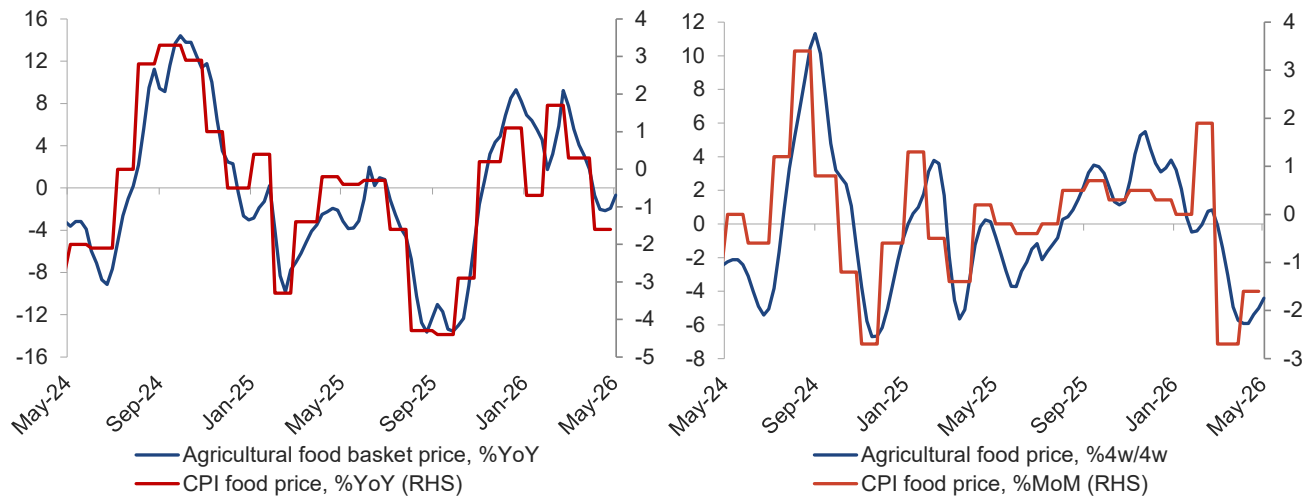
Price monitor

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 at a slower YoY pace in early May



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices remain relatively elevated

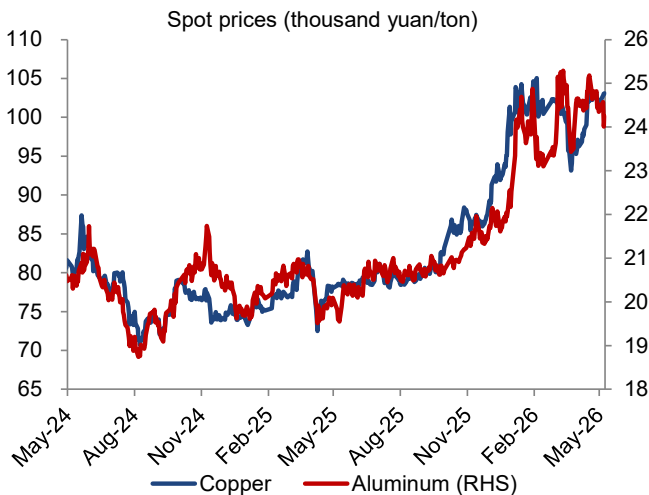
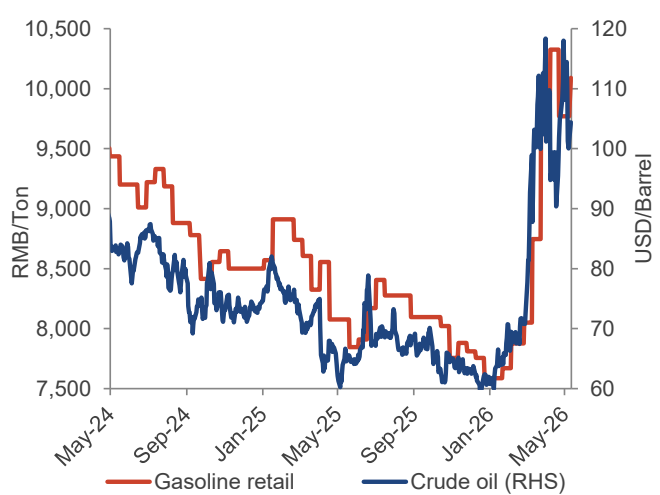


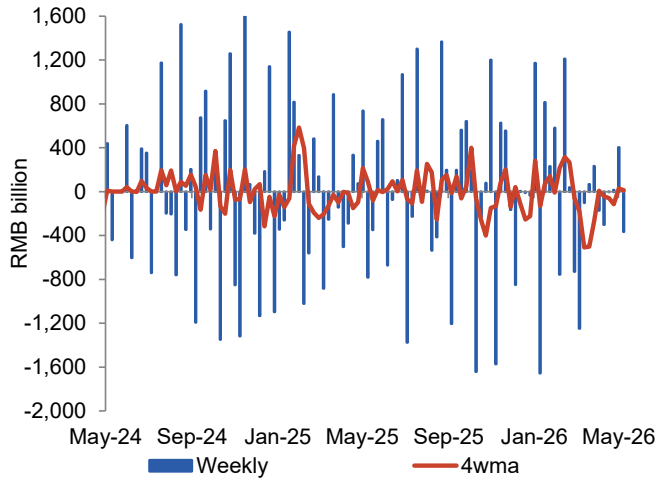
Fig 16 Oil prices: domestic fuel prices remain 2% lower than the peak



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB366b during 4 - 8 May



Source: CEIC, Wind, Mizuho

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

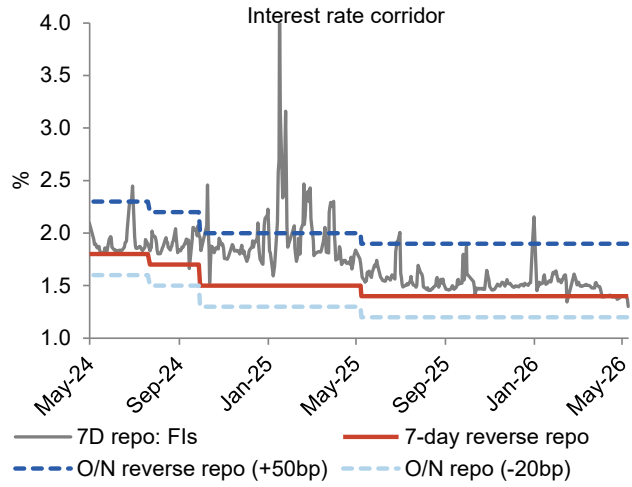
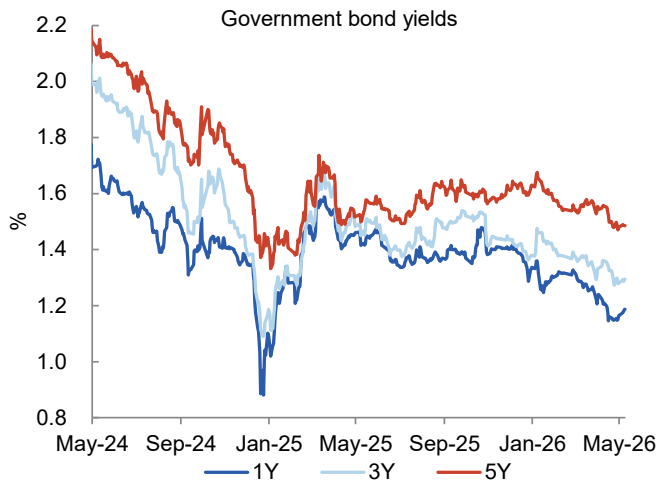


Fig 19 Short-end CGB yields: 1Y yields picked up last week



Source: CEIC, Mizuho

Fig 20 Long-end CGB yields picked up across maturities

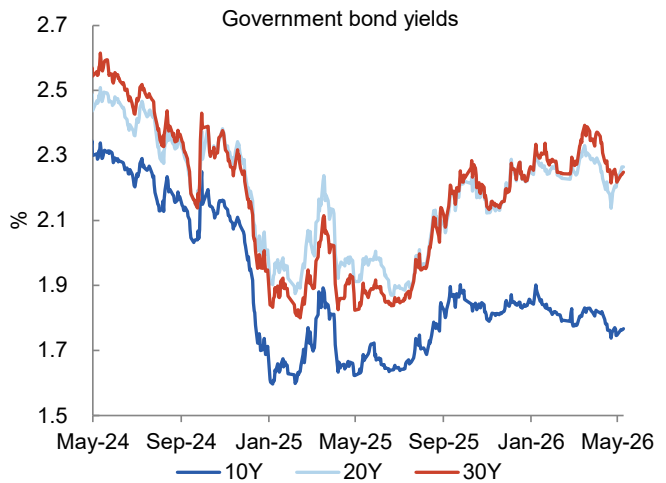
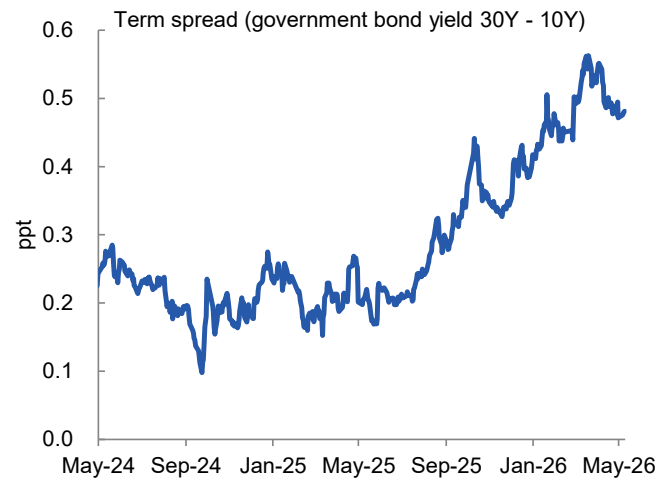


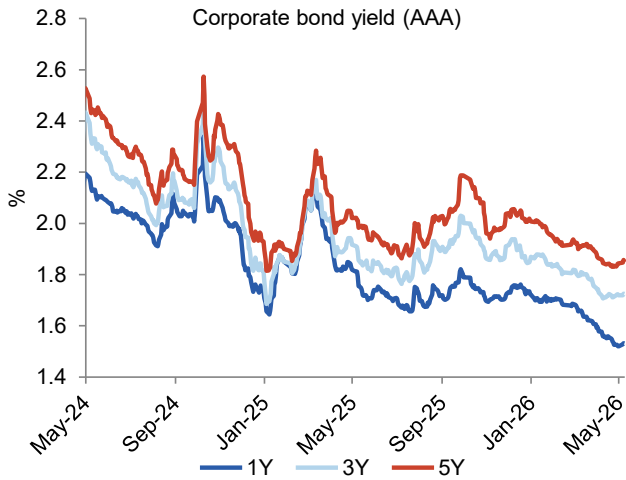
Fig 21 CGB term spreads: a flattening was seen across the curve last week



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields rose along higher CGB rates



Source: Wind, Mizuho

Fig 23 IG corporate risk premium resumed to its average level

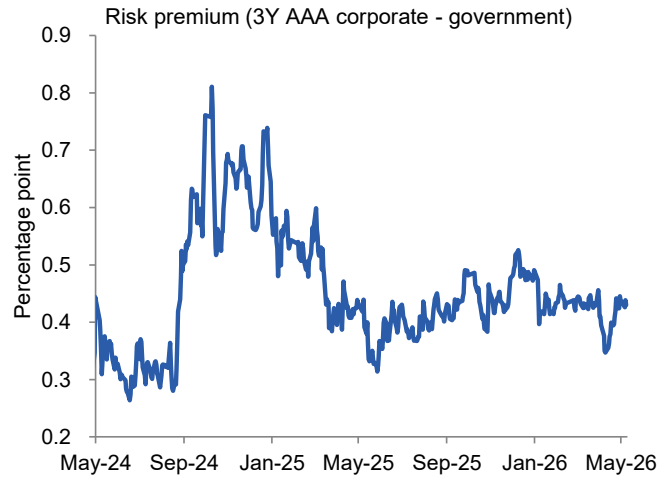
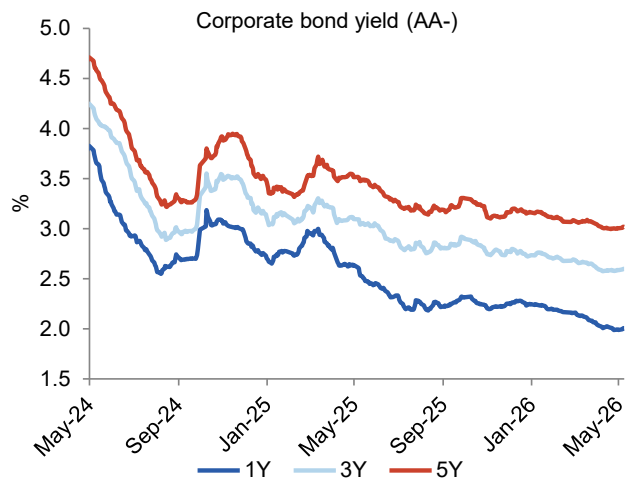


Fig 24 Onshore HY credit yields broadly unchanged

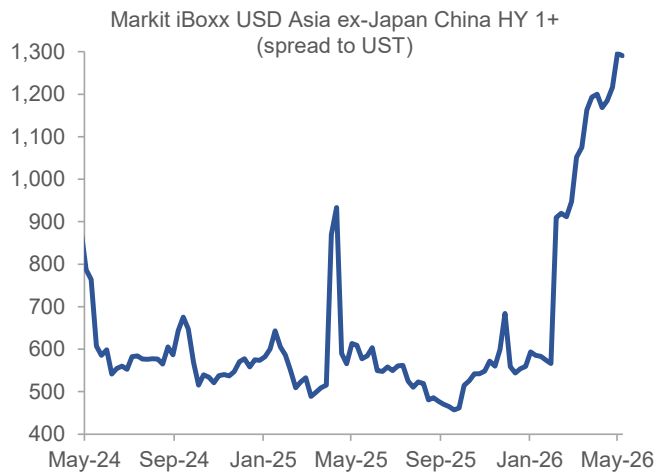


Source: Wind, Mizuho

Fig 25 HY corporate risk premium remained relatively tight



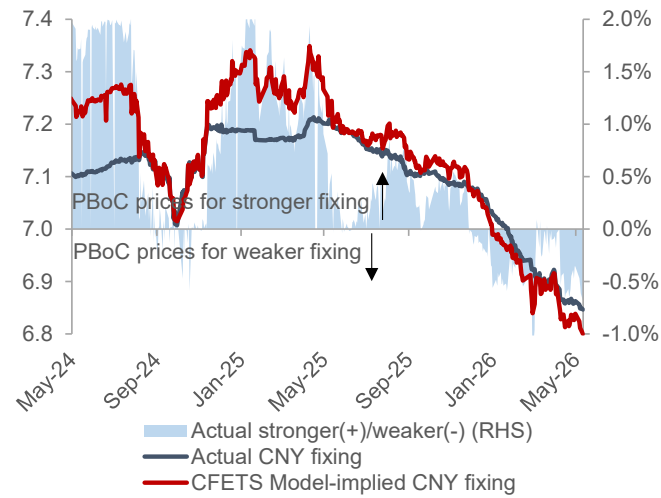
Fig 26 China USD credit spreads tightened last week amid hopes for a US-Iran deal, ongoing optimism around AI and supportive US data



Source: IHS Markit, Mizuho

FX monitor

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



Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index: weakened along softer DXY

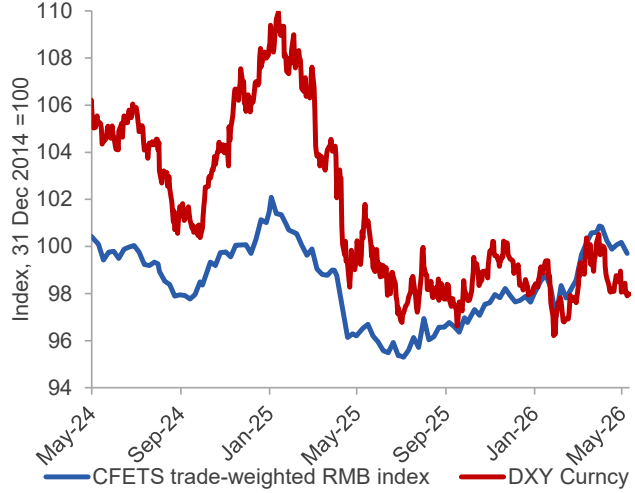
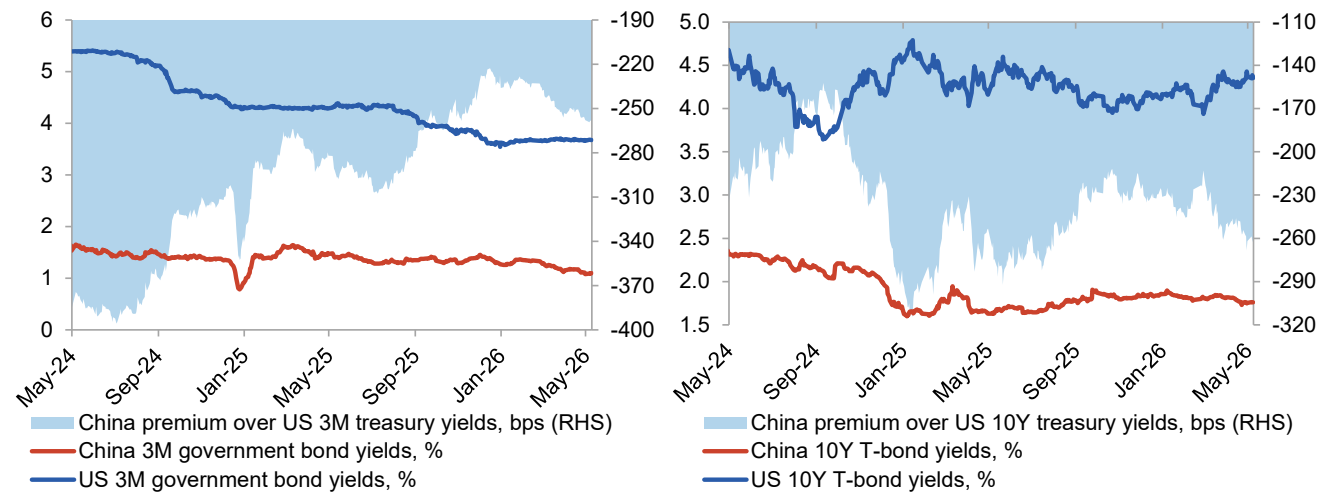
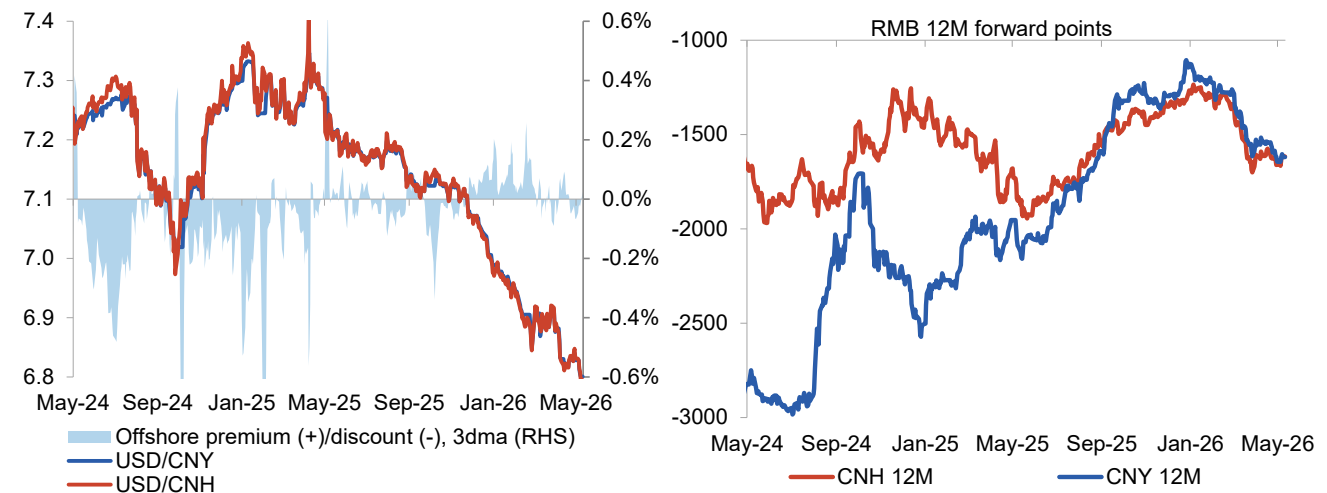


Fig 29 China-US interest rate spreads have moved wider at both the front end and back end



Source: CEIC, Bloomberg, Mizuho

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



Source: Bloomberg, Mizuho

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