

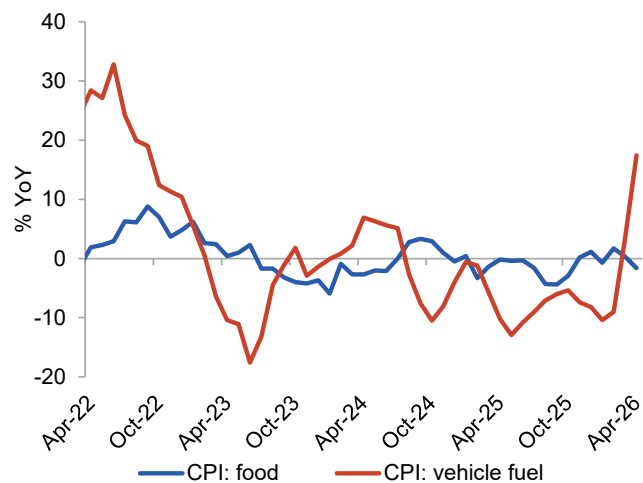
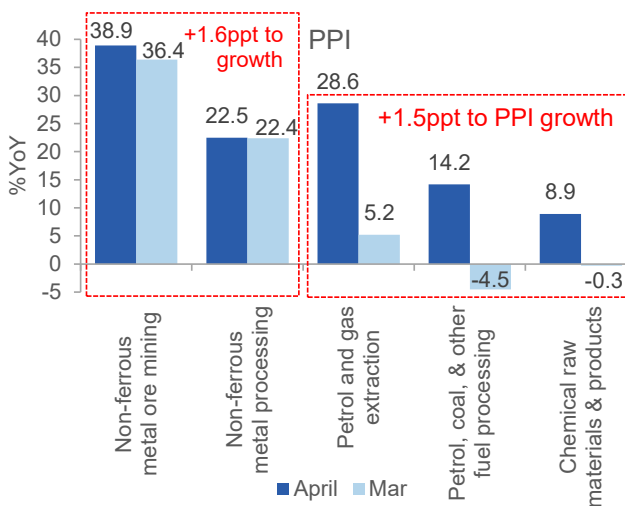
## Less easing, not tightening

Given China's firmer inflation figures, as well as the ongoing stalemate in US-Iran negotiations, **we see reduced scope for broad-based monetary easing this year**. The PBoC is likely to adopt more targeted easing measures to mitigate downside risks to China's growth outlook. Compared with our earlier expectation of two policy rate cuts this year, **we now forecast only one 10bp policy rate cut, along with a RRR cut of 25bp, in 4Q26**.

Note that both CPI and PPI for April rose faster than expected. The PPI, in particular, increased by 2.8% YoY in April, marking the fastest pace since 2022. Beyond robust AI-related demand, imported inflation from surging global oil prices contributed around 1.5ppt to headline PPI growth (Fig. 1). CPI inflation also edged up to 1.2% YoY, driven mainly by higher oil prices, which contributed 0.56ppt to headline growth (Fig. 2).

**Fig 1** Robust AI demand and surging oil prices drove PPI growth

**Fig 2** Higher oil prices also reflected in consumer inflation

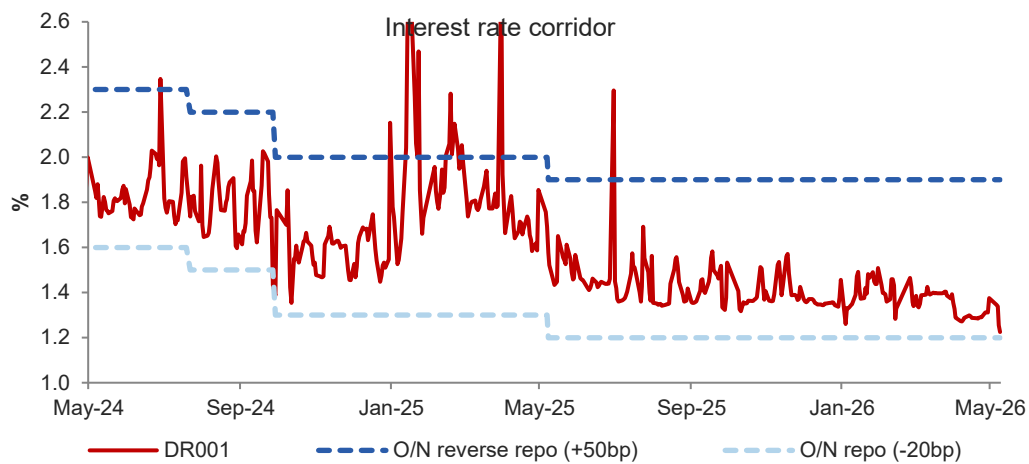


Source: CEIC, Wind, Mizuho

Our expectation for **delayed interest rate and RRR cuts is broadly consistent with the tone of the PBoC's latest monetary policy report**. In its Q1 Monetary Policy Report released earlier this week, the central bank pledged to "implement moderately accommodative monetary policy in a precise and effective manner" in order to better cope with domestic and external challenges. Compared with the previous report, however, the PBoC removed explicit references to "interest rate and RRR cuts."

That said, **we do not interpret this as a shift towards monetary tightening in response to rising imported inflation**. Some market participants have viewed the PBoC's pledge to "guide the overnight rate to stay around the policy rate" as a hawkish signal, given that the overnight repo rate is staying slightly above 1.2%, notably below the benchmark policy rate or 7-day reverse repo rate of 1.4%. In our view, this interpretation risks comparing apples with oranges.

The PBoC established an interest rate corridor for overnight repo rates in July 2024, supported by temporary repo and reverse repo operations conducted after market hours. The corridor ceiling and floor are set at 50bp above and 20bp below the PBoC's policy rate, currently at 1.9% and 1.2%, respectively (Fig. 3).

**Fig 3** The overnight repo rate is marching closer to the floor of its interest rate corridor

Source: Wind, Mizuho

This latest rate guidance should therefore be interpreted as **a signal that the PBoC remains attentive to overly loose liquidity conditions rather than as an indication of a broader tightening bias**, especially where overnight rates risk breaching the lower bound of the corridor. In practice, the central bank is likely to rein in excessive easing only at the margin, primarily to safeguard the integrity of the interest rate corridor.

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