

## China Weekly Outlook

### Divergent Impact from Oil Shocks

During May, China's high-frequency activity indicators delivered a mixed signal, shaped in part by disruptions to oil supply. On the one hand, activity in sectors with heavy exposure to oil-related inputs weakened notably month-to-date. For instance, the operating rate of PTA producers fell to its lowest level since 2022, averaging just 63% during the first three weeks of May (Fig. 2). Similarly, the operating rate of petroleum asphalt plants, a useful proxy for road construction activity, dropped to a record low amid shortages of heavier crude supply, averaging only 16.4% over the same period, nearly half of last year's level (Fig. 7). Higher fuel costs also appeared to weigh on air travel, with domestic flight cancellations rising 75% YoY month-to-date (Fig. 6).

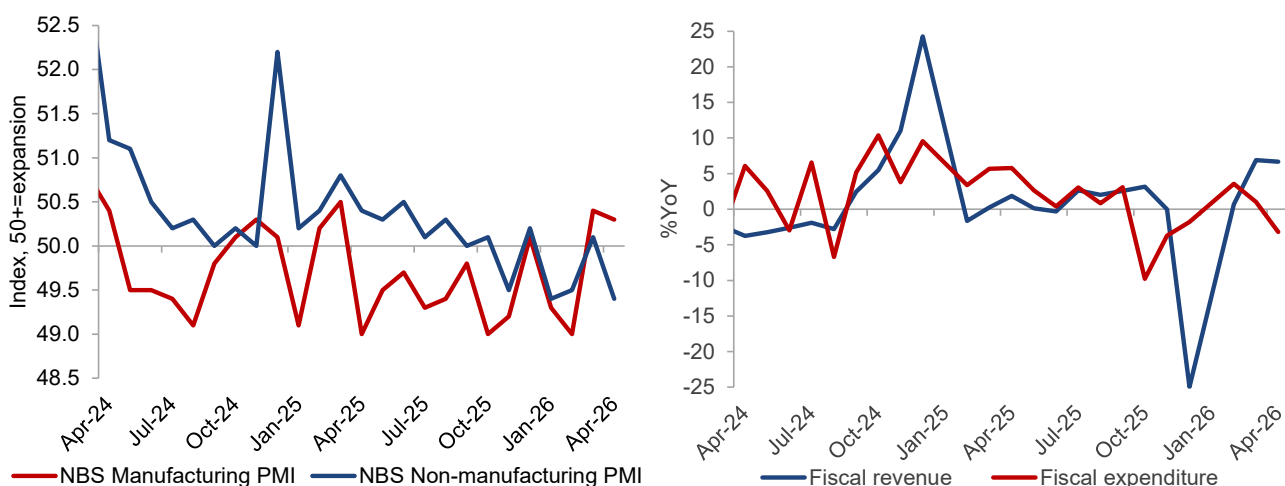
On the other hand, coal demand seems to have benefited from disruptions to oil supply. The weekly PMI for thermal coal, which is primarily used in power generation, remained comfortably above the expansion threshold in May, compared with an average of 49.2 during the same period last year (Fig. 1). Meanwhile, export-related shipping rates continued to rise broadly, particularly on routes to the US (Fig. 5), hinting at resilient external demand. Advanced manufacturing also appears relatively well supported, as indicated by relatively solid operating rates for steel tires (Fig. 4) and elevated copper prices (Fig. 15).

### Non-manufacturing to Underperform

Taking these crosscurrents into account, we expect the official manufacturing PMI (due 31 May) to ease only modestly to 50.0 in May, from 50.3 in April. By contrast, the non-manufacturing PMI is likely to remain below the 50 mark, pointing to another month of sequential contraction in both services and construction amid subdued domestic demand.

While higher oil prices have raised concerns over potential inflation spillovers elsewhere, China might be the exception with the backdrop of soft underlying demand. April retail sales declined notably in categories seeing higher prices, including jewelry (-21.3% YoY) and petroleum (-6.5% YoY), highlighting fragile consumer sentiment as the boost from government trade-in subsidies faded. Note that fiscal support lost momentum in April, with fiscal expenditure declining 3.2% YoY, versus a 2.6% increase in 1Q26.

< Less-supported non-manufacturing amid soft domestic demand >    < Fiscal support lost its momentum in April >



Source: CEIC, Mizuho

## CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.8134	6.8215	6.7922	6.7983	-156
USD/CNY	6.8121	6.8192	6.7926	6.7963	-164
CNY PBoC Fixing	6.8435	6.8435	6.8349	6.8373	-42
Shanghai Composite Index	4120.14	4199.53	4067.75	4112.90	-22.49

#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)	-1720	-37	CNH HIBOR (3mth)	1.578
CNH Currency Swap (3yr)	1.300	-0.005	CNH Implied yield (1Y)	1.314

### Recap

Last week, the offshore renminbi (CNH) traded in a tight range, holding mostly above 6.80 against the US dollar. However, it broke below the 6.80 level on Friday amid growing market optimism around a potential US-Iran peace deal. CNH strengthened further after both the US and Pakistan separately indicated on Monday that an agreement between the US and Iran was close to being reached, with the currency remaining firmly below 6.79 thereafter.

Throughout this period, the PBoC continued to lean against renminbi strength by setting the daily fixing around 0.6% weaker than levels implied by the CFETS model.

Despite such intervention, CNH outperformed most regional peers across Asia, gaining 0.23% last week. This contrasted with losses of 1.4% in the Indonesian rupiah and 1.3% in the Korean won. The Indian rupee was the only major regional currency to outperform the yuan, rising 0.28% during the week, supported by RBI intervention as a temporal backstop.

### Outlook

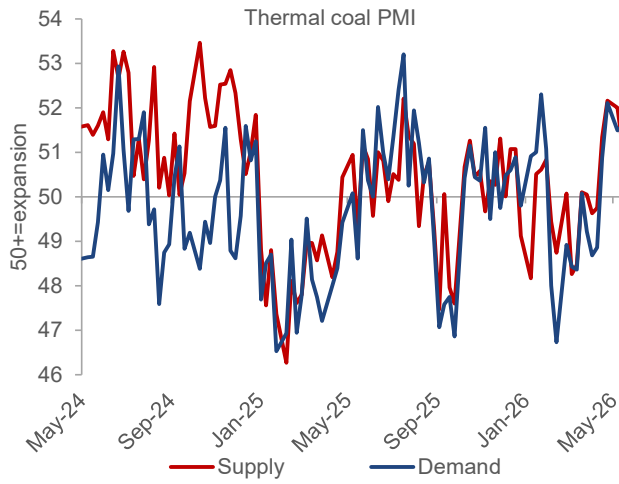
Looking ahead, concerns over potential inflation spillovers in the US are likely to keep US-China rate differentials relatively wide, if not wider. This should help temper one-way RMB appreciation expectations and allow the current gap between renminbi's spot rates and official fixing to narrow gradually (see [Mizuho China Macro: When RMB Optimism Meets a Wide Gap](#), 22 May 2026). Overall, **we expect CNH to remain range-bound around 6.80 in the near term.**

Further out, we expect underlying demand for renminbi-denominated assets to continue improving over the medium term. Key supportive factors include elevated policy uncertainty from the White House and US Fed. At the same time, the PBoC's continued efforts to smooth excessive FX volatility suggest that the current appreciation cycle may proceed at a measured pace, but with greater durability. **We therefore maintain our view of modest RMB appreciation and continue to forecast USD/CNH at 6.65 by year-end**, implying full-year gains of nearly 5%.

<FX Charts on Page 8>

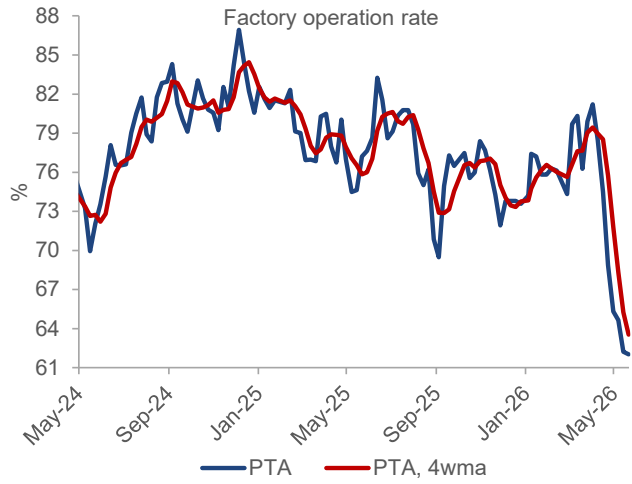
# Activity monitor (1/2)

**Fig 1 Thermal coal: upbeat sentiment amid oil supply disruptions**

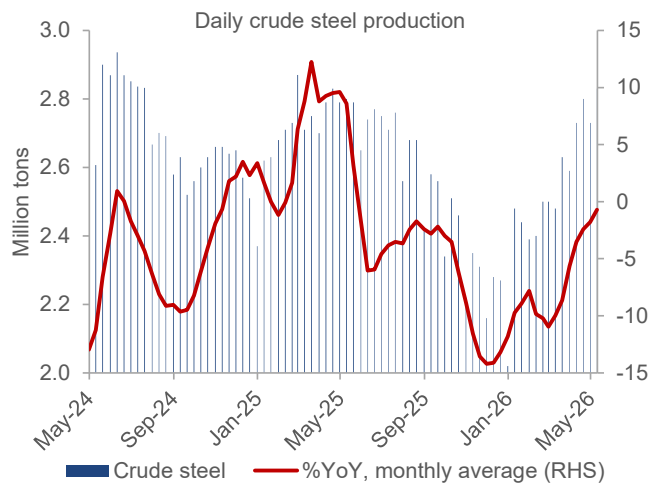


Source: Wind, Mizuho

**Fig 2 PTA production dropped to its lowest level since 2022**

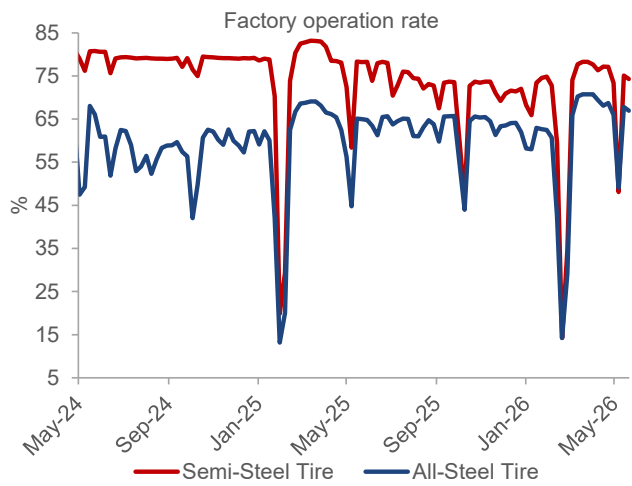


**Fig 3 Steel production: the YoY decline slowed notably in May**

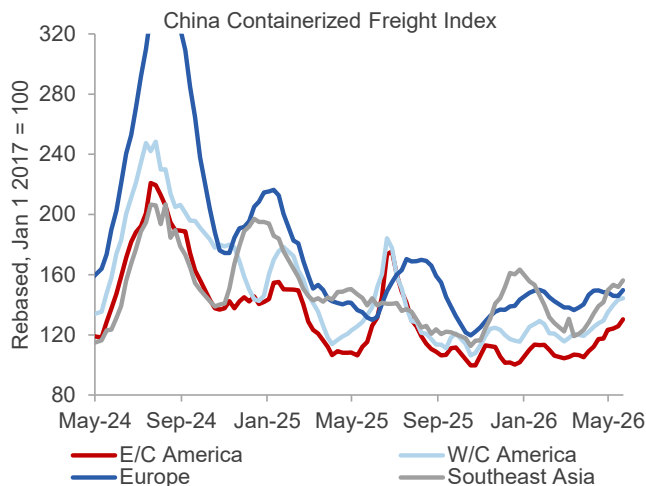


Source: Wind, Mizuho

**Fig 4 Steel tire production stayed relatively supported**

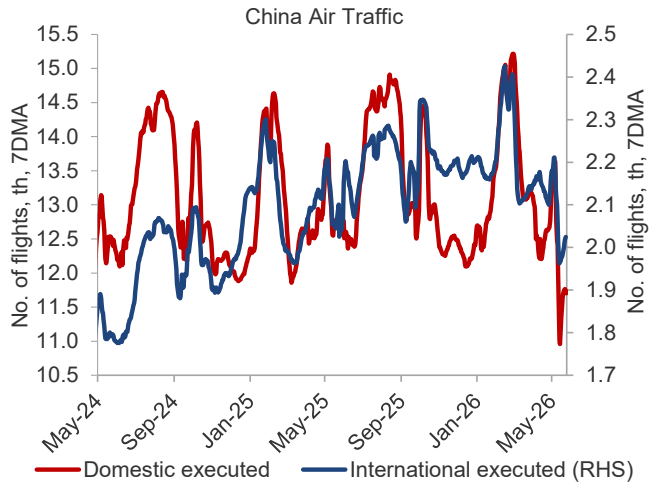


**Fig 5 CCFI: prices for outward shipments continued to climb**



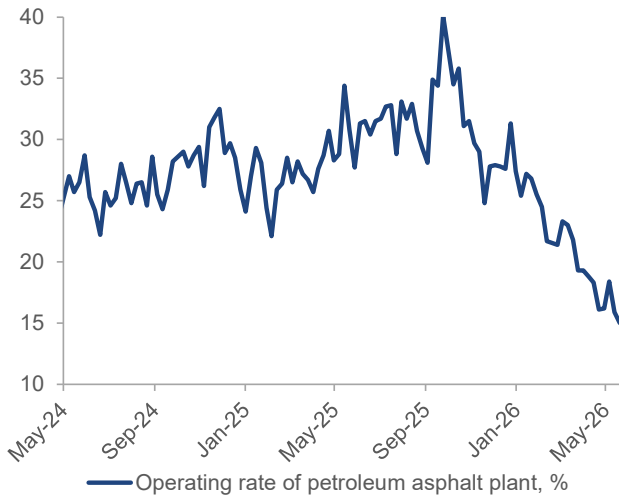
Source: Wind, Mizuho

**Fig 6 Air traffic: domestic travel dropped notably amid higher fuel prices**



## Activity monitor (2/2)

**Fig 7 Road construction activity** dipped amid supply disruptions

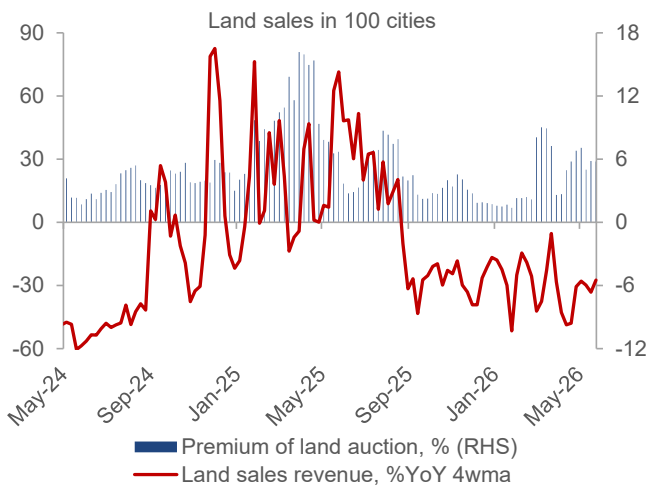


Source: Wind, Mizuho

**Fig 8 Construction material prices: rebar prices on the rise**

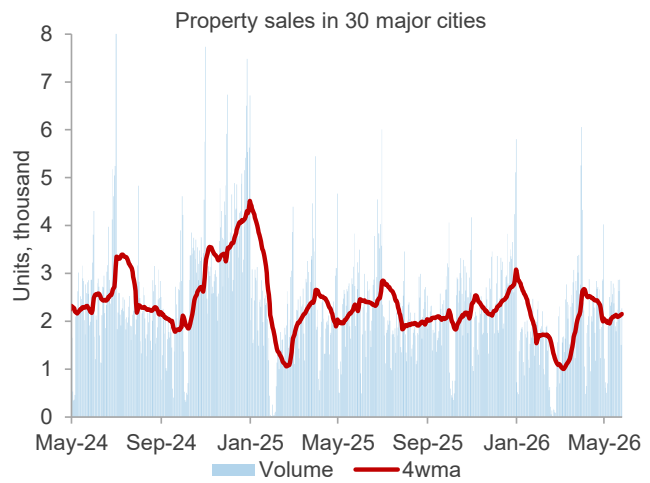


**Fig 9 Land sales** saw persistent YoY declines

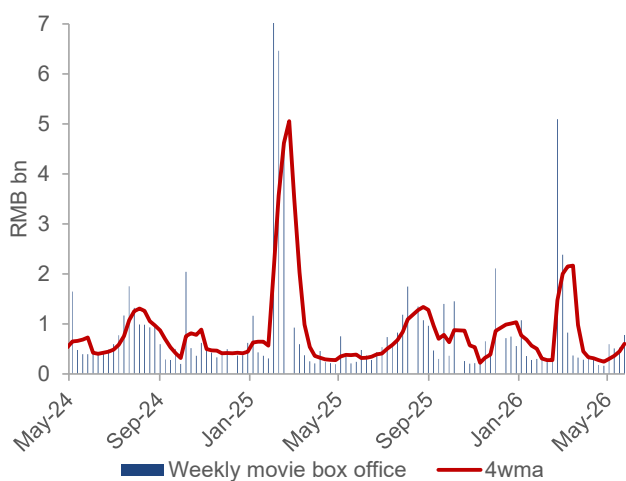


Source: Wind, Mizuho

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

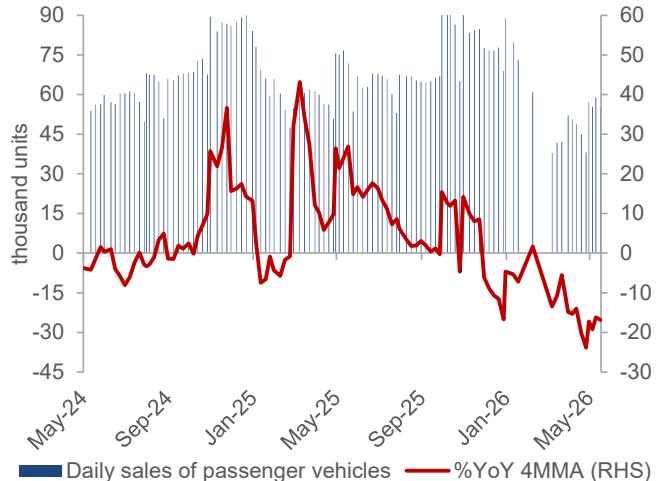


**Fig 11 Movie box office revenue** slightly improved in May



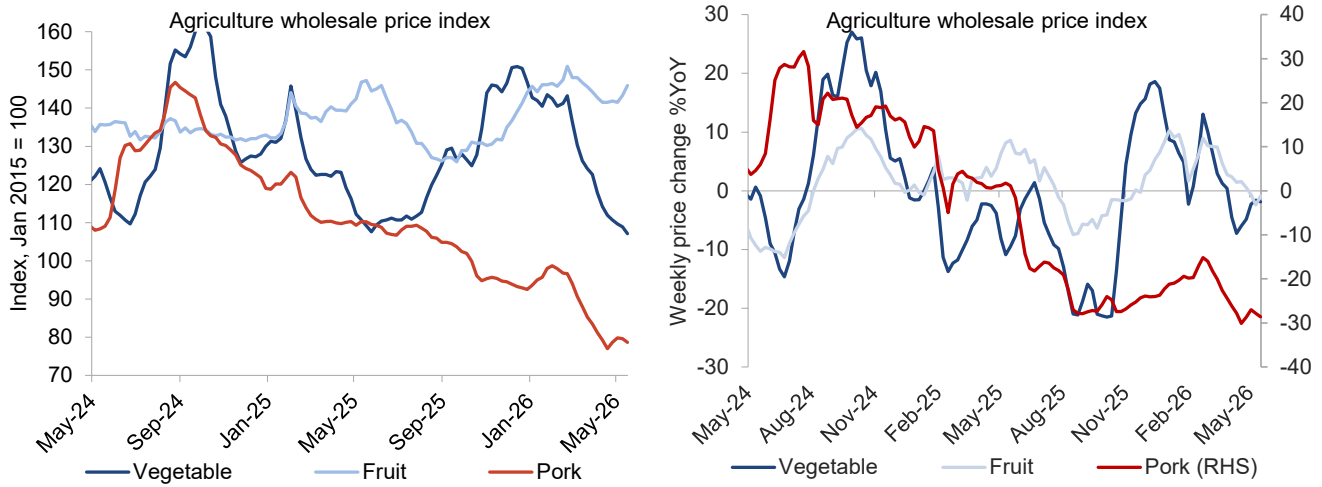
Source: Wind, Mizuho

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



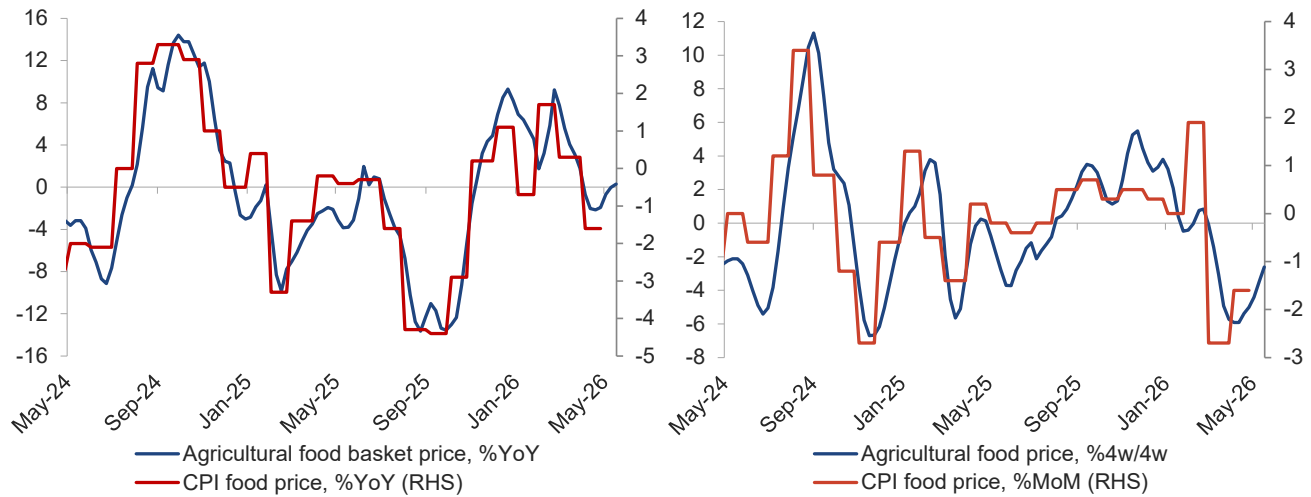
# Price monitor

**Fig 13 Major food items:** the decline in pork prices slowed after the price level hit a 10Y low



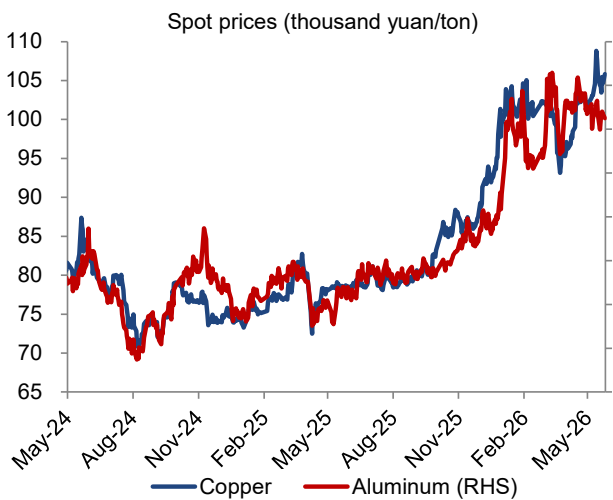
Source: Wind, Mizuho

**Fig 14 Wholesale food prices** decreased at a slower pace in May

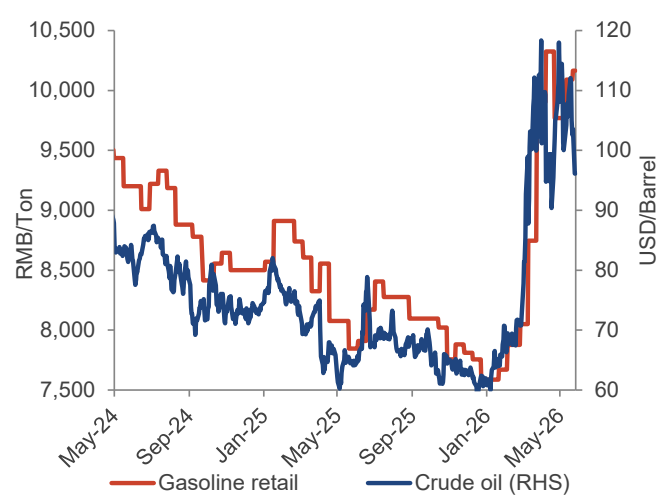


Source: CEIC, Mizuho

**Fig 15 Non-ferrous metal prices** remain relatively elevated



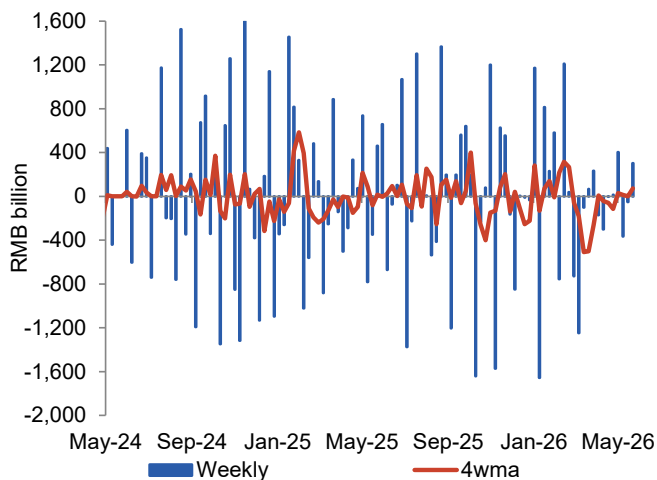
**Fig 16 Oil prices:** domestic fuel prices ticked up by 1% last week



Source: CEIC, Wind, Mizuho

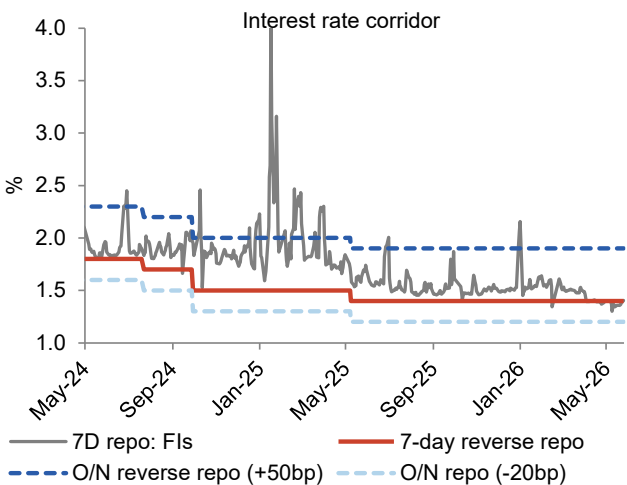
# Liquidity monitor

**Fig 17 OMOs: net injection of RMB302b during 18 - 22 May**

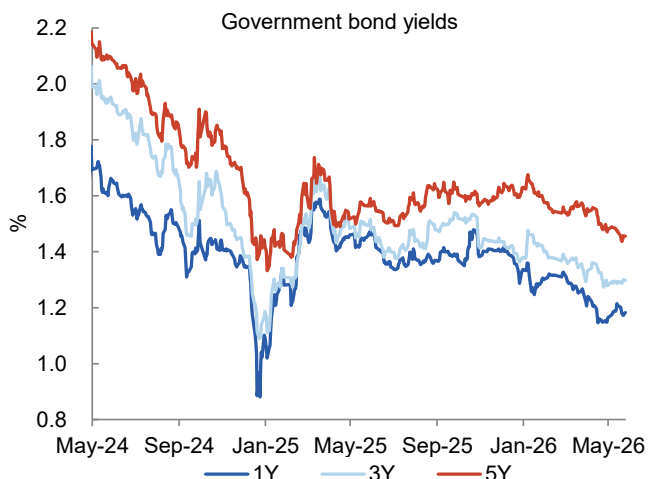


Source: CEIC, Wind, Mizuho

**Fig 18 7D repo for FIs stayed below the target level**

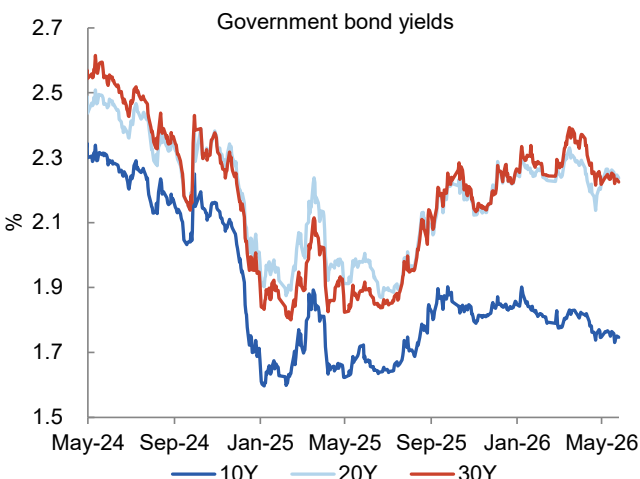


**Fig 19 Short-end CGB yields saw mixed movements last week**

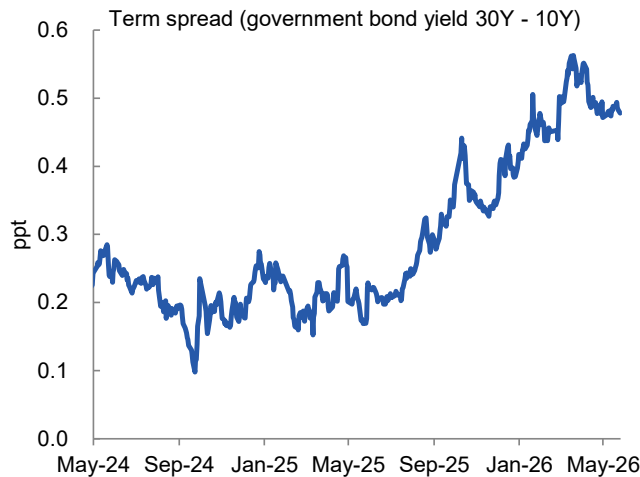
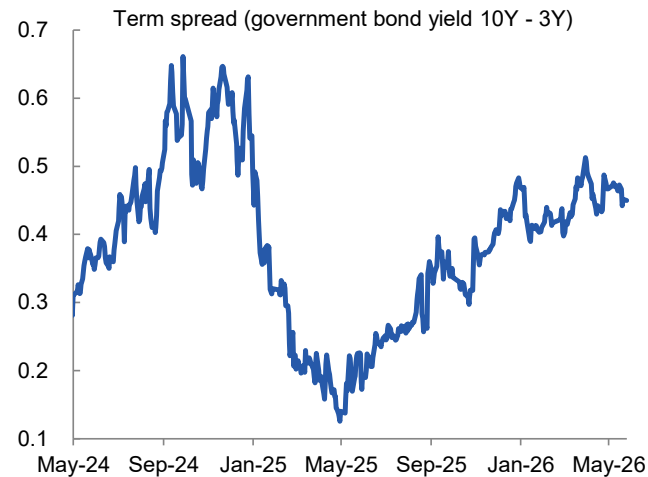


Source: CEIC, Mizuho

**Fig 20 Long-end CGB yields edged lower last week**



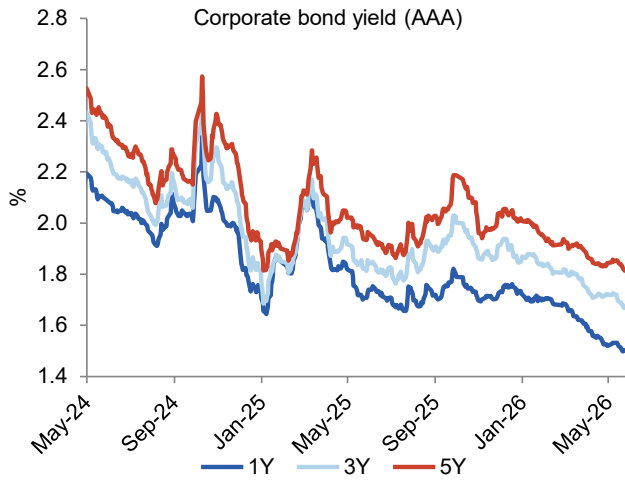
**Fig 21 CGB term spreads: slightly flattened at the left part of the curve last week**



Source: CEIC, Mizuho

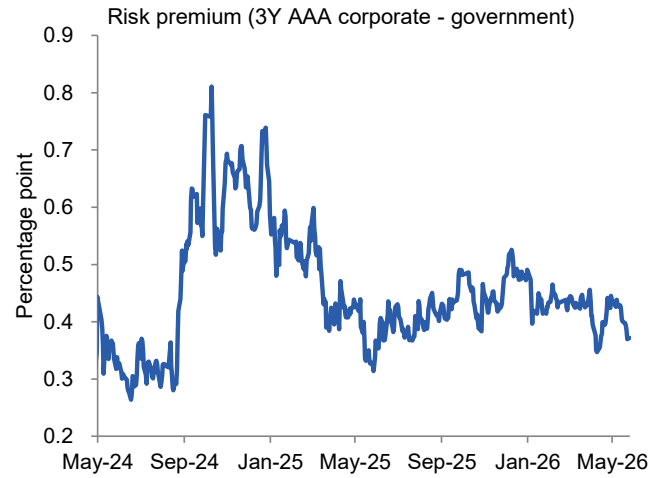
# Credit monitor

**Fig 22 Onshore IG credit yields fell across maturities**

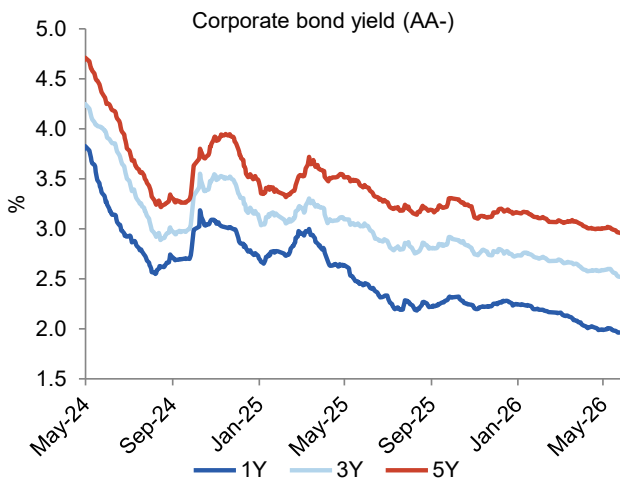


Source: Wind, Mizuho

**Fig 23 IG corporate risk premium gapped tighter**

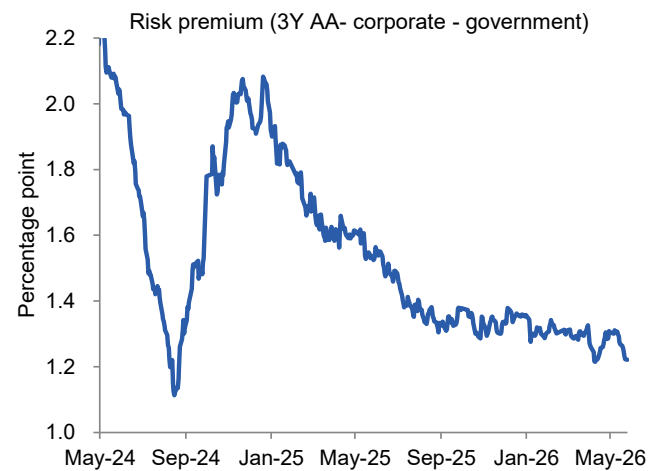


**Fig 24 Onshore HY credit yields continued to edge lower**



Source: Wind, Mizuho

**Fig 25 HY corporate risk premium remained relatively tight**



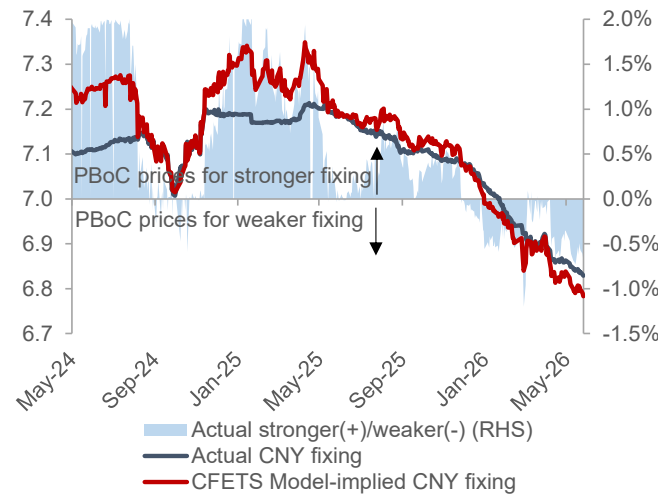
**Fig 26 China USD credit spreads: IG credit spreads squeezed tighter last week amid growing optimism about a US/Iran peace deal**



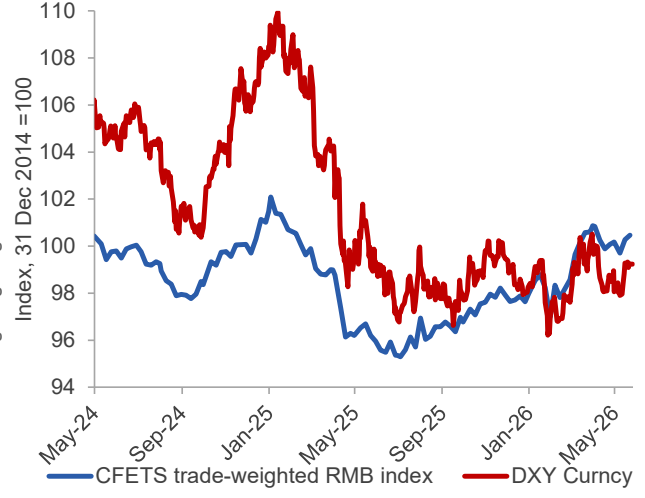
Source: IHS Markit, Mizuho

# FX monitor

**Fig 27 RMB fixing rate: the PBoC leans against yuan strength**

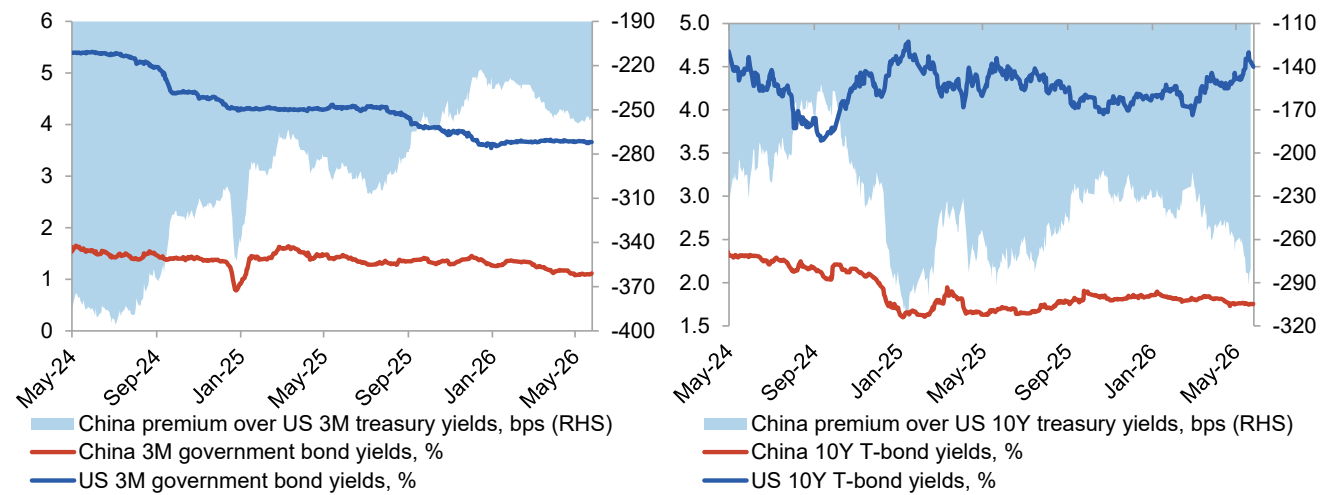


**Fig 28 RMB trade-weighted index remains relatively supported**



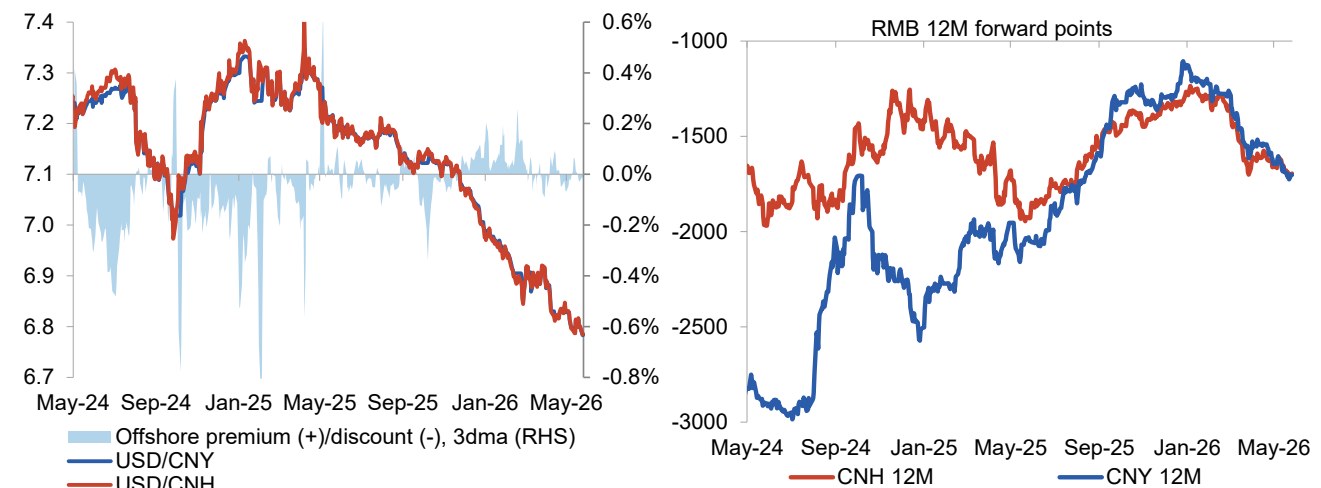
Source: CEIC, Bloomberg, Mizuho

**Fig 29 China-US interest rate spreads have moved wider, especially at the back end**



Source: CEIC, Bloomberg, Mizuho

**Fig 30 Offshore RMB (CNH) is trading almost on par to the CNY amid broadening cross-border flows**



Source: Bloomberg, Mizuho

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