

## China Weekly Outlook

### Foreign Reserves at 11-year High

China's foreign reserves rose to USD3.44trn in May, the highest level since 2015, despite negative valuation effects from weaker gold prices. The PBoC also reported net gold purchases of 320,000 ounces, marking the 19th consecutive month of net increase. While details remain absent, the persistent rise in reserves was likely driven by stronger demand for USD settlement and RMB purchases, mainly by Chinese exporters, amid growing expectations of RMB resilience. Despite the still-wide US-China interest rate differential, the relative return from holding RMB rather than USD has become more attractive since late last year, with USD/CNY appreciating 4.3% in 2025 and another 3% year-to-date.

Such FX settlement should continue to inject liquidity into the economy and help contain potential increases in China government bond yields. In the first four months of this year, the PBoC's position for FX purchases rose by around RMB299bn, equivalent to roughly a 15bp RRR cut.

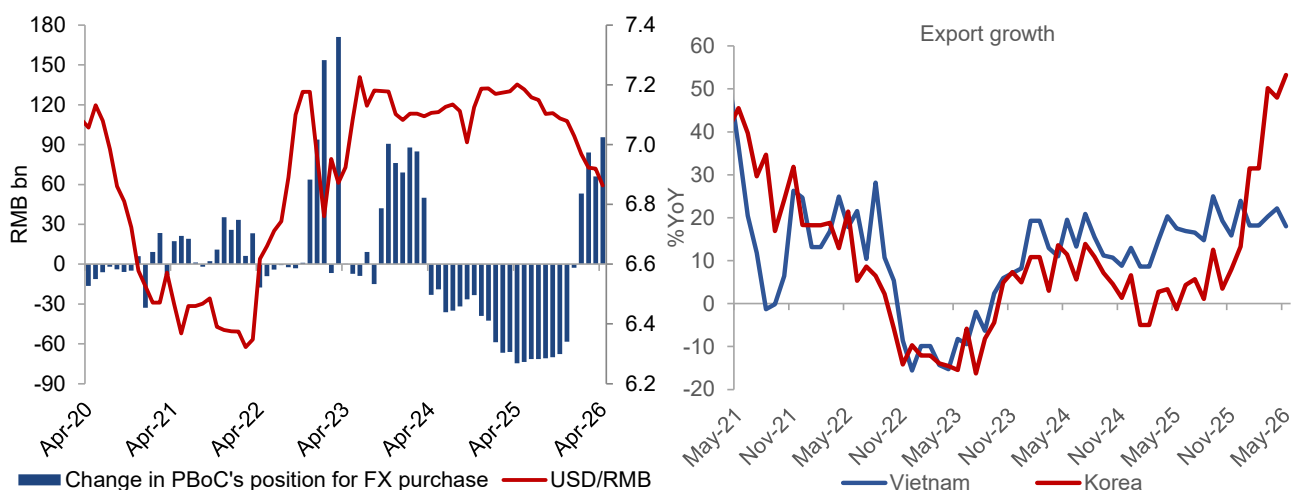
### Upcoming Trade & Inflation Data

Looking ahead to this week's data releases, China's trade growth is likely to remain supported by relatively resilient external demand. Exports from Korea and Vietnam recorded another month of double-digit YoY growth, while the RatingDog manufacturing PMI, which better captures export-oriented private firms, stayed firmly in expansionary territory at 51.8. That said, trade-related indicators in China's official PMI weakened in May, pointing to ongoing challenges from raw material supply disruptions as the blockage in the Strait of Hormuz enters its fourth consecutive month, without signs of an imminent breakthrough.

On inflation, imported price pressures remain in place amid the continued stalemate in US-Iran negotiations. Although PMI gauges for raw material costs and producer prices eased from recent peaks, both remained in expansionary territory for a fifth consecutive month. Against this backdrop, we expect PPI inflation to accelerate to around 4% YoY in May. CPI inflation, meanwhile, is likely to remain broadly stable, as higher fuel costs are offset by softer food prices (Fig. 14 & 16), while PPI passthrough to core CPI remains muted. Notably, wholesale pork prices remain near their lowest levels since 2010 (Fig. 13), reflecting significant oversupply that is likely to persist in the near term (for more details, see [Mizuho China Data Preview: Divergence Remains the Theme, 4 June 2026](#)).

< FX settlement that brought new liquidity into the economy >

< Exports from Korea and Vietnam stayed resilient in May >



Source: CEIC, Mizuho

## CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7628	6.792	6.7581	6.7907	272
USD/CNY	6.7682	6.7887	6.7614	6.7883	220
CNY PBoC Fixing	6.8167	6.8203	6.8157	6.8157	-19
Shanghai Composite Index	4067.16	4107.05	4015.06	4027.74	-40.83

#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)	-1732	-31	CNH HIBOR (3mth)	1.573	0.014
CNH Currency Swap (3yr)	1.290	0.015	CNH Implied yield (1Y)	1.309	0.061

### Recap

The offshore renminbi (CNH) traded on a weaker footing against the US dollar for most of last week, moving past the 6.79 level after US non-farm payrolls beat all market estimates. The stronger-than-expected labour market data pushed the DXY index past the 100 mark and prompted futures markets to price in a full Fed rate hike by year-end. That said, USD/CNH retraced part of the move during today's Asian trading hours, trading a touch below 6.79 in spite of a resilient DXY.

Last week, the PBoC continued to lean against renminbi strength, setting the daily fixing around 0.7% weaker than levels implied by the CFETS model. Over the same period, CNH depreciated by 0.4% against the dollar.

Across Asia, however, CNH weakness was relatively contained. The Korean won and Malaysian ringgit underperformed more notably, falling 3.6% and 1.6% during the week, respectively. The won came under pressure from significant foreign equity outflows, while the ringgit was weighed down by political uncertainty ahead of upcoming state elections. By contrast, the Philippine peso and Indian rupee both strengthened marginally.

### Outlook

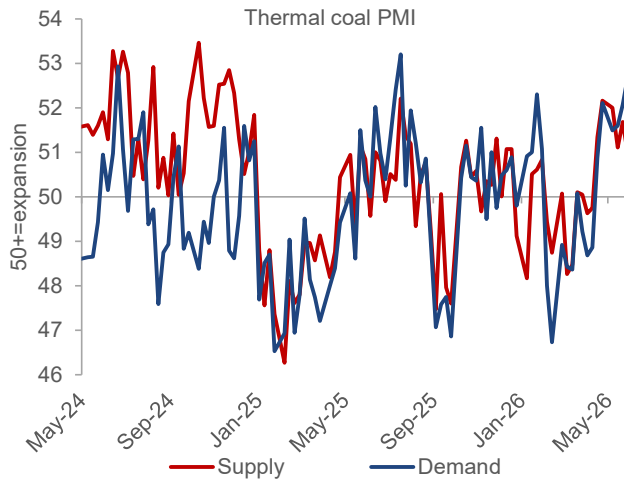
Looking ahead, **CNH is likely to remain range-bound between 6.75 and 6.80 against the dollar this week**, barring meaningful progress in US-Iran peace talks or major surprises in upcoming inflation data. While a near-term US rate hike does not appear to be an immediate threat, declining CGB yields — amid subdued domestic credit and investment demand — could leave the renminbi slightly vulnerable to a widening US-China yield differential toward month-end.

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 heightened geopolitical tension in the Middle East. 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>

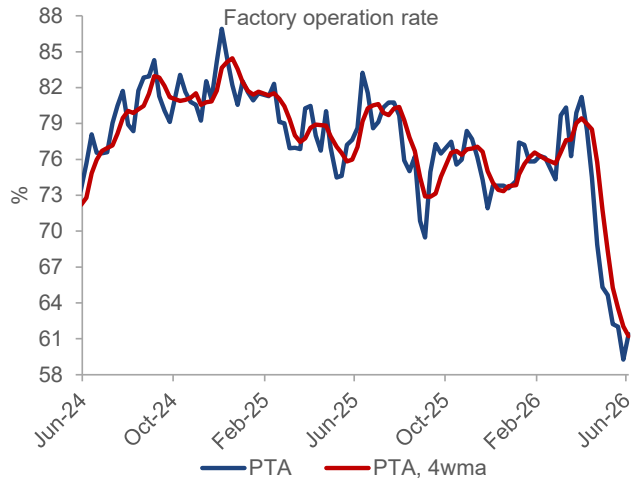
# Activity monitor (1/2)

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

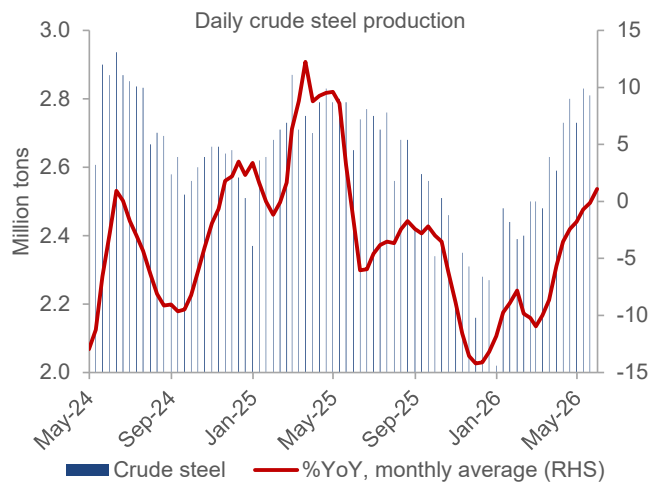


Source: Wind, Mizuho

**Fig 2 PTA production dropped to its lowest level since 2015**

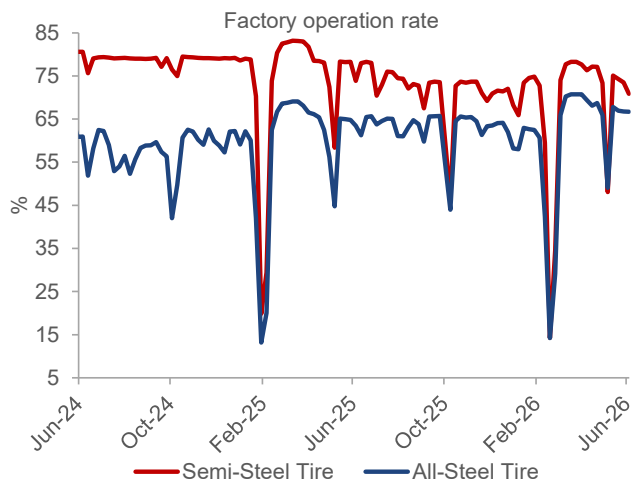


**Fig 3 Steel production: the YoY change has turned positive**

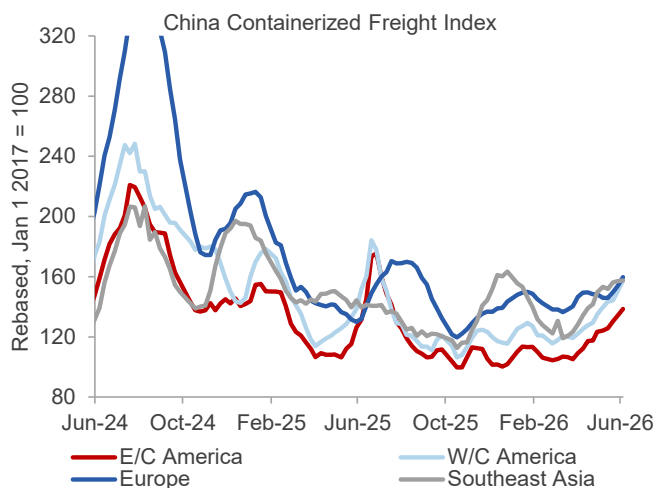


Source: Wind, Mizuho

**Fig 4 Steel tire production suggests slower PV industry from last year**

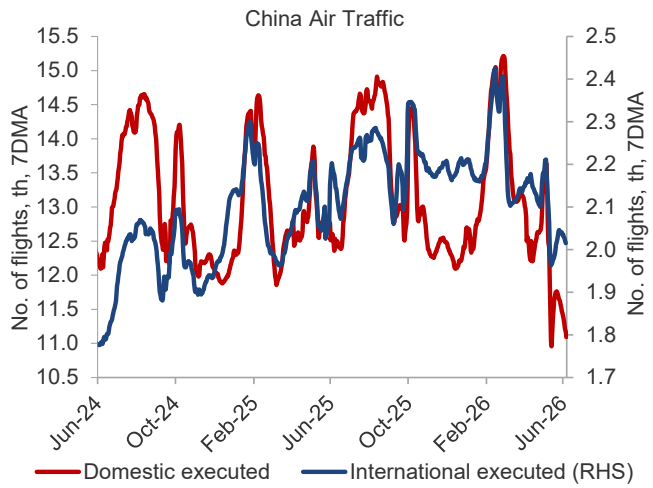


**Fig 5 CCFI: prices for outward shipments continued to climb**



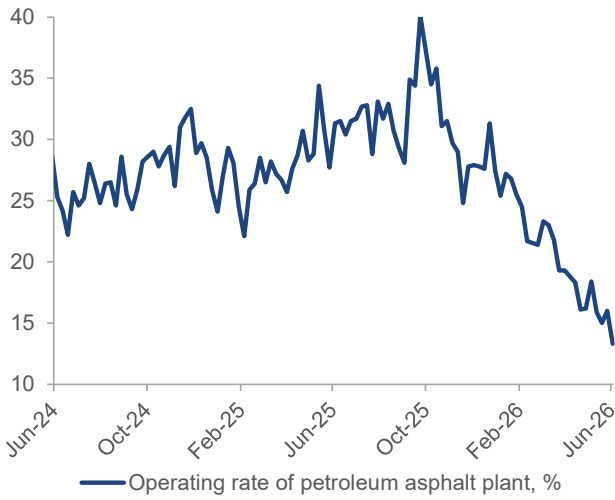
Source: Wind, Mizuho

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



## Activity monitor (2/2)

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

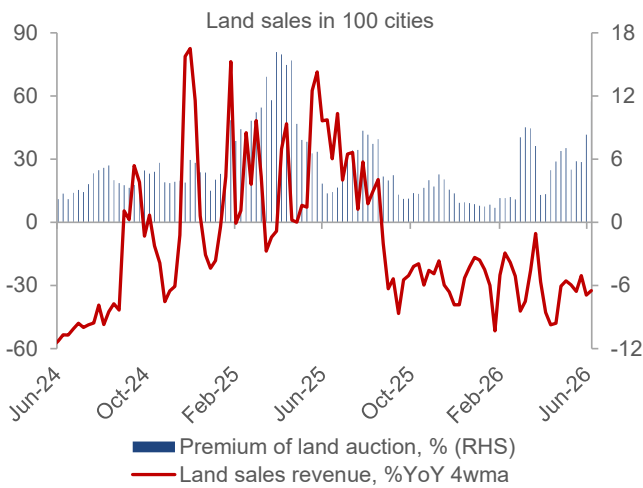


Source: Wind, Mizuho

**Fig 8 Construction material prices:** rebar prices softened recently

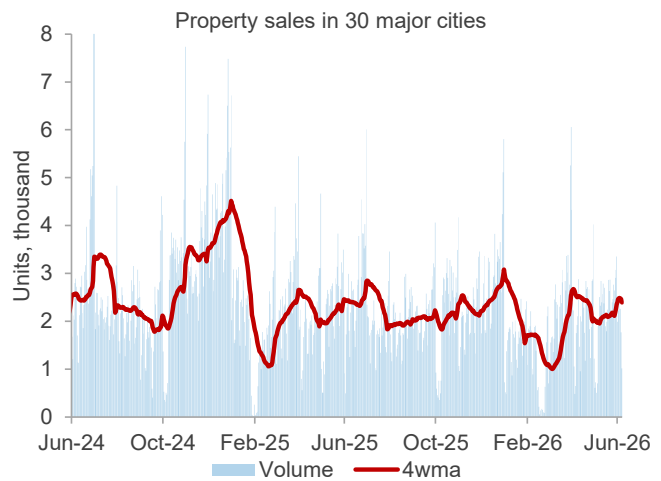


**Fig 9 Land sales** saw persistent YoY declines

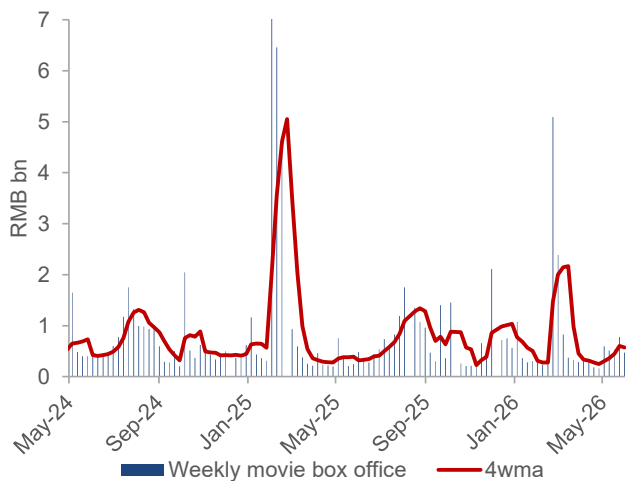


Source: Wind, Mizuho

**Fig 10 New home sales:** a lack of improvement in property sales

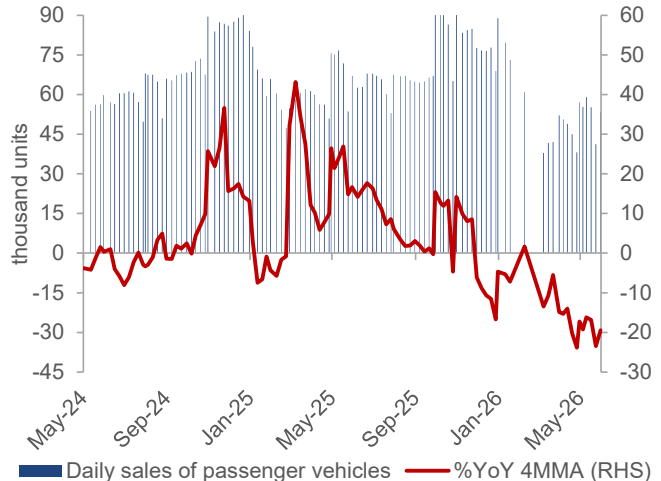


**Fig 11 Movie box office revenue** slightly improved in May



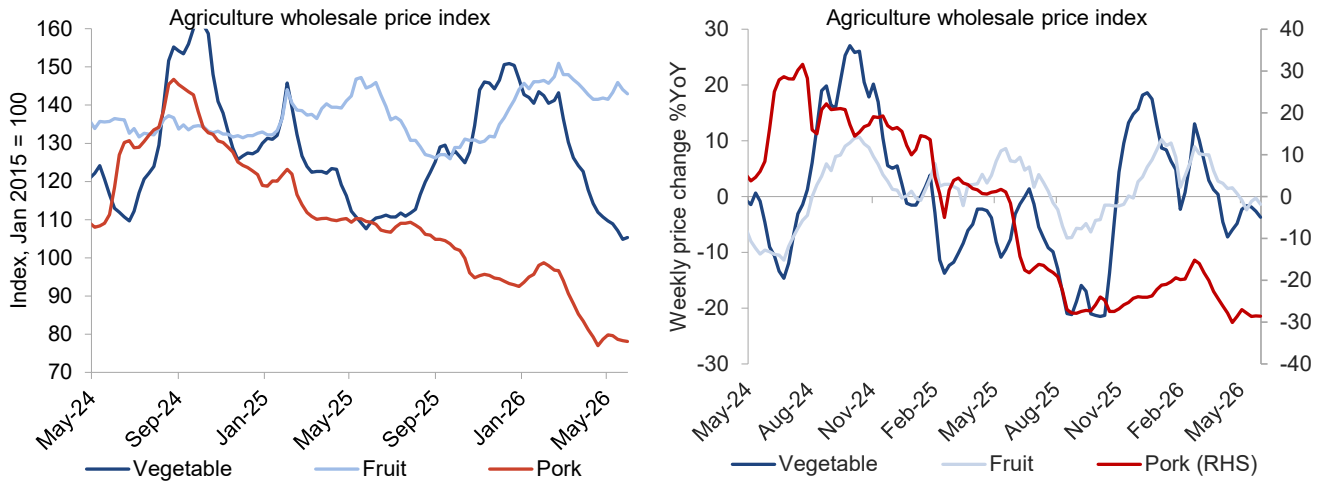
Source: Wind, Mizuho

**Fig 12 PV sales:** the fast decline continued in May



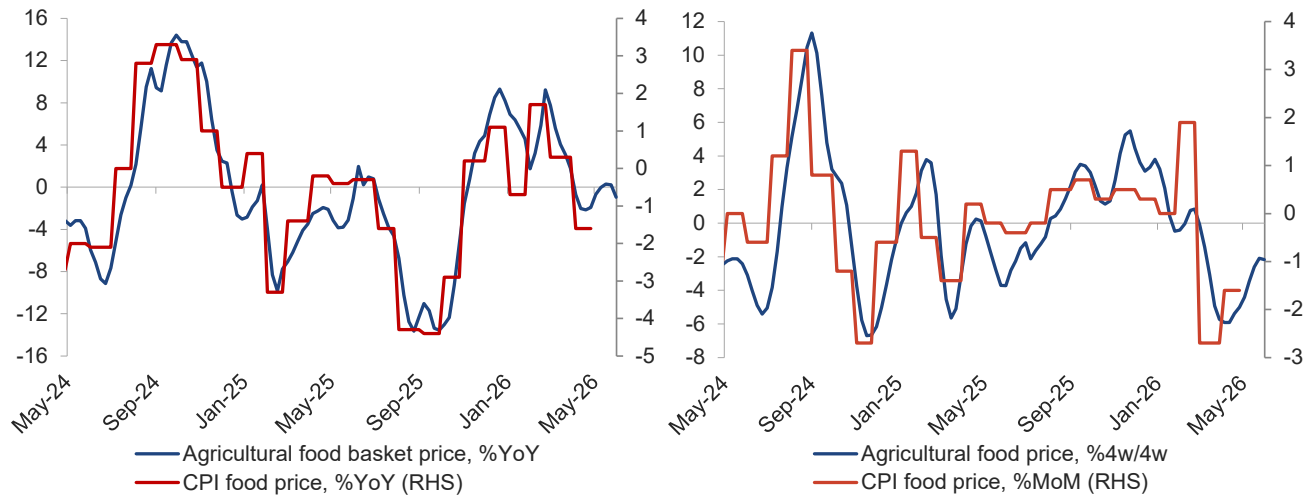
# Price monitor

**Fig 13 Major food items:** pork prices stay around their lowest level in nearly 16 years



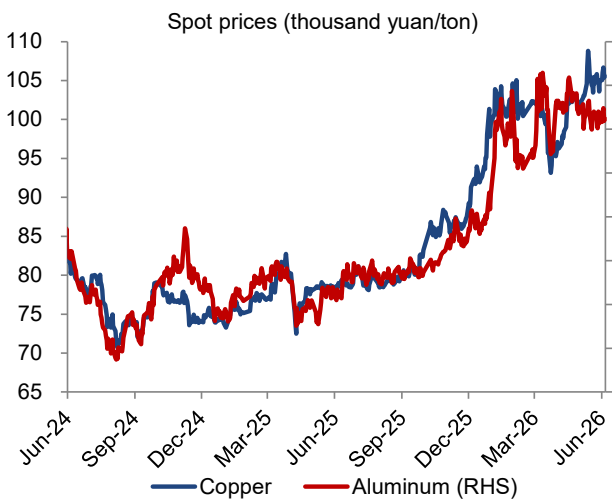
Source: Wind, Mizuho

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

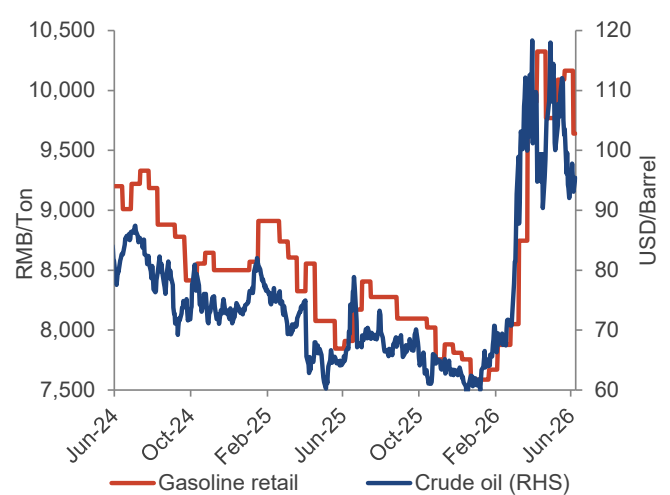


Source: CEIC, Mizuho

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



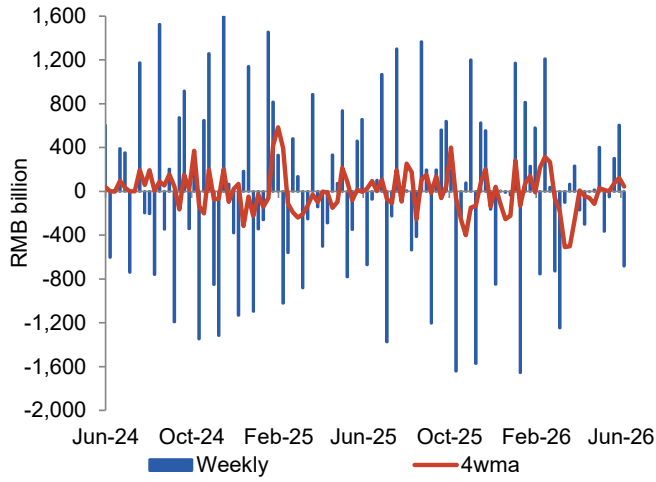
**Fig 16 Oil prices:** domestic fuel prices declined by over 5% in early June



Source: CEIC, Wind, Mizuho

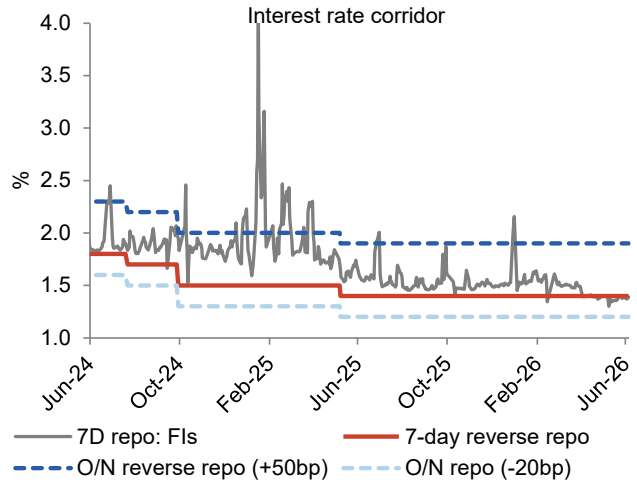
# Liquidity monitor

**Fig 17 OMOs: net withdrawal of RMB683b during 1 - 5 Jun**

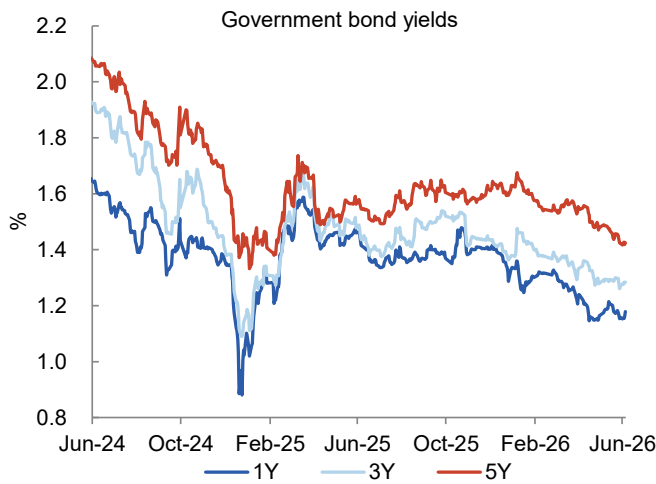


Source: CEIC, Wind, Mizuho

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

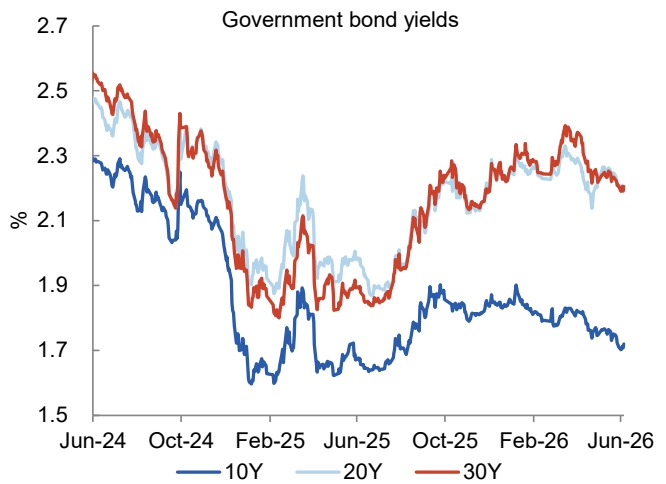


**Fig 19 Short-end CGB yields moved lower last week in general**

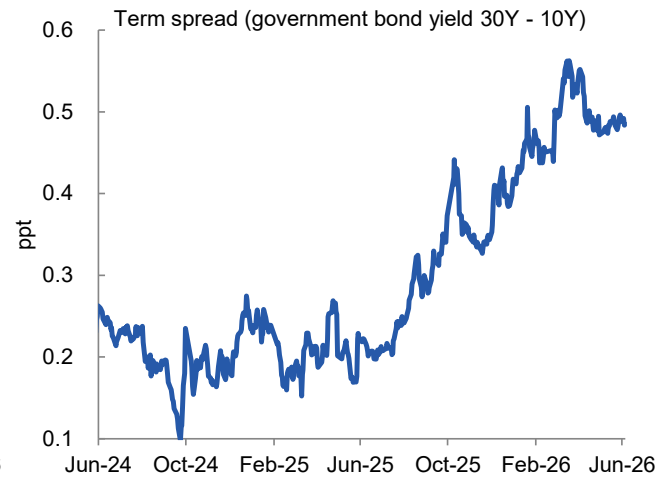


Source: CEIC, Mizuho

**Fig 20 Long-end CGB yields also edged lower**



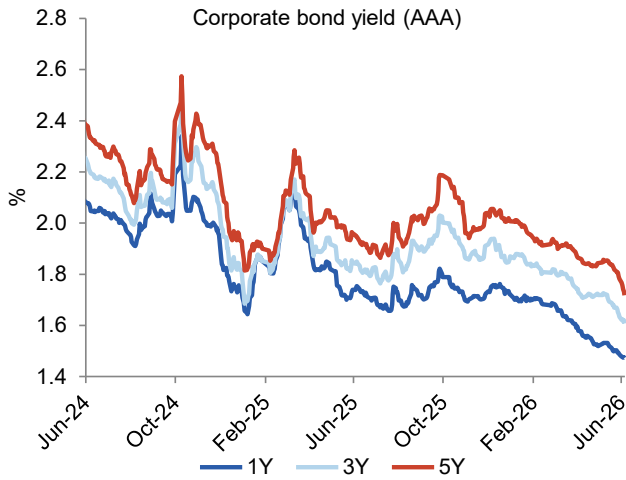
**Fig 21 CGB term spreads: tightened at the left part of the yield curve, but slightly widened at the right part**



Source: CEIC, Mizuho

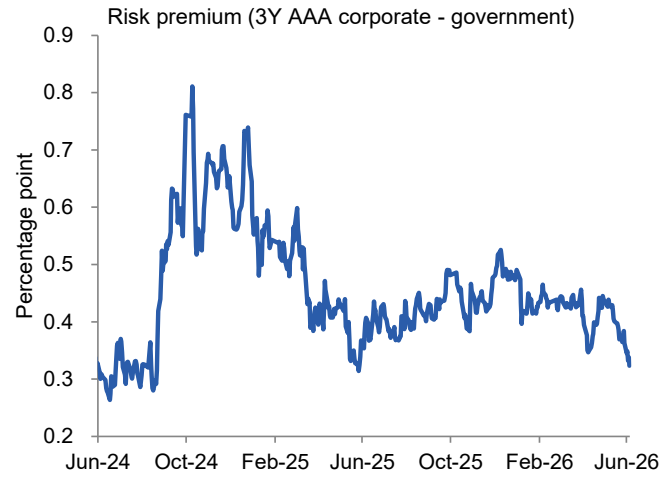
# Credit monitor

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

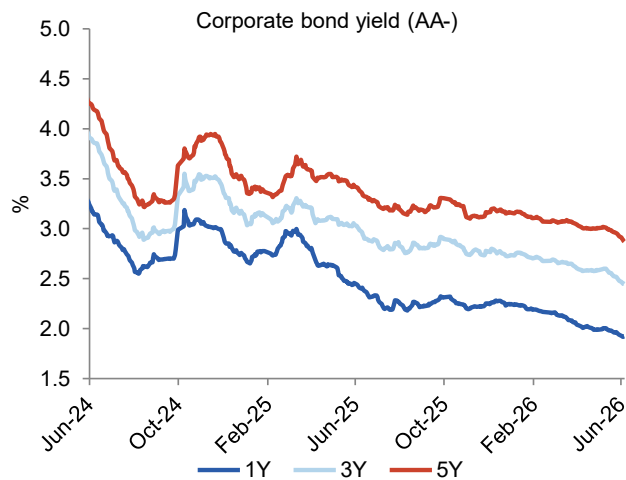


Source: Wind, Mizuho

**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** tightened further



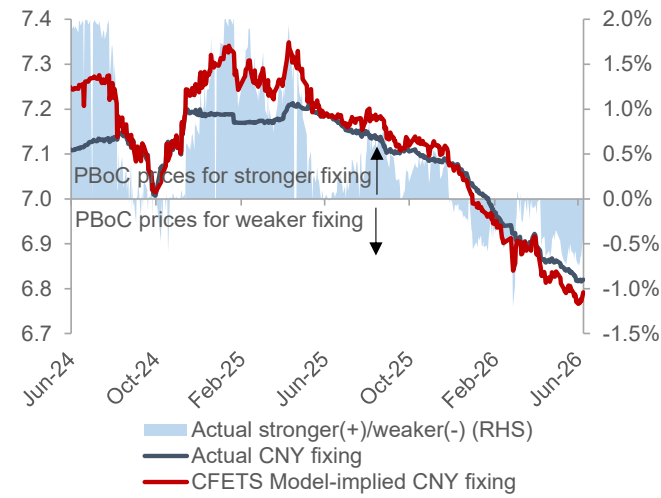
**Fig 26 China USD credit spreads** tightened last week supported by higher UST yields and positive corporate headlines



Source: IHS Markit, Mizuho

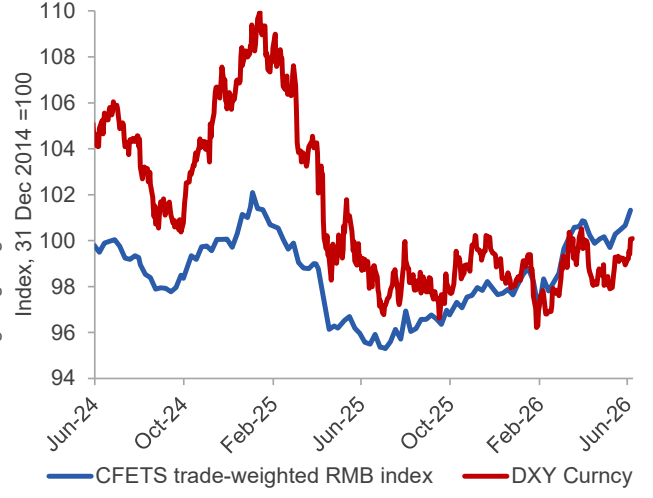
# FX monitor

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

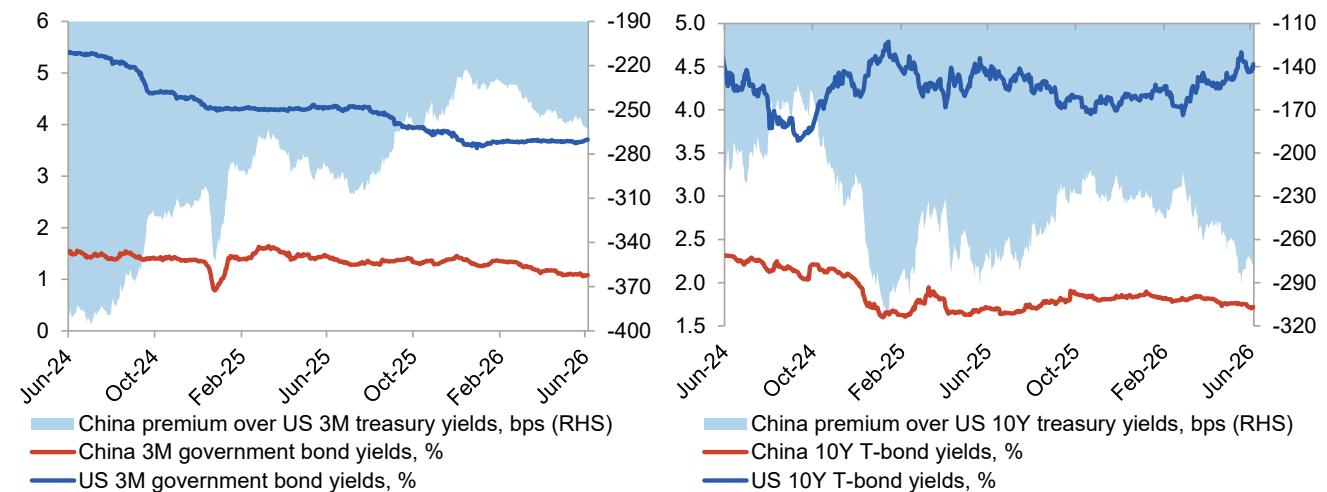


Source: CEIC, Bloomberg, Mizuho

**Fig 28 RMB trade-weighted index rose alongside stronger USD**

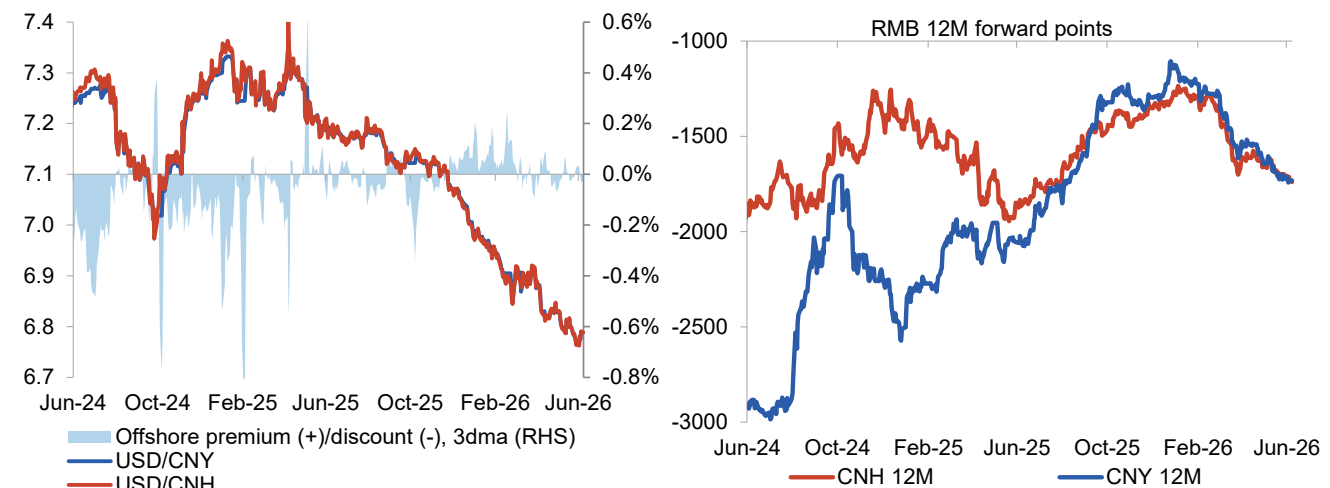


**Fig 29 China-US interest rate spreads have moved wider at both the front and back ends**



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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