

China Weekly Outlook

Trade Growth Supported by Prices

China's May trade growth exceeded market expectations, partly supported by higher export and import prices. While official May trade price indices are not yet available, elevated energy and raw material prices likely remained a key driver amid disruptions in the Strait of Hormuz. This was evident in oil imports and rare earth exports: import and export value rose 15.3% and 237% YoY, respectively, despite a decline of 29% and 6% in volume.

Beyond price effects, export resilience was also supported by strong shipments of high-tech products. In particular, exports of electronic integrated circuits rose 111% YoY, while automatic data processing machines increased 66%.

Little Cost Passthrough

Rising import prices are also feeding through to producer inflation. China's PPI increased 3.9% YoY in May, the fastest pace in nearly four years. More important than the headline figure, in our view, is the growing margin pressure on manufacturers. Within PPI, producer goods prices rose 5.2% YoY, driven by higher mining and raw material costs, while consumer goods prices remained in deflation at -0.8% YoY. Core CPI also eased to 1.1% YoY from 1.2%, reflecting still-subdued domestic demand. This divergence suggests manufacturers continue to face difficulty passing higher input costs downstream, leaving profitability under pressure.

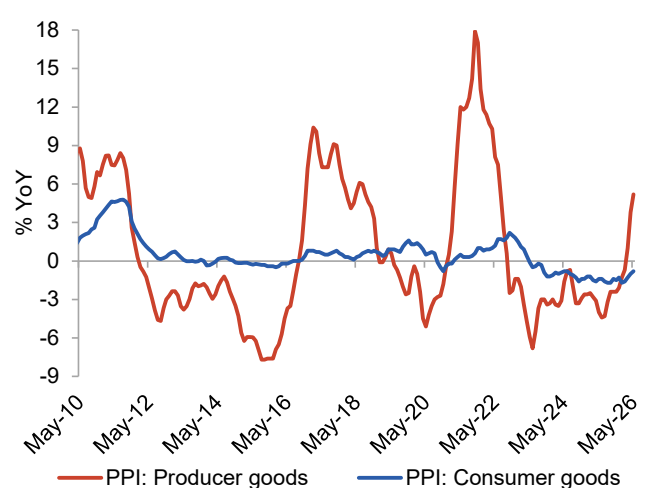
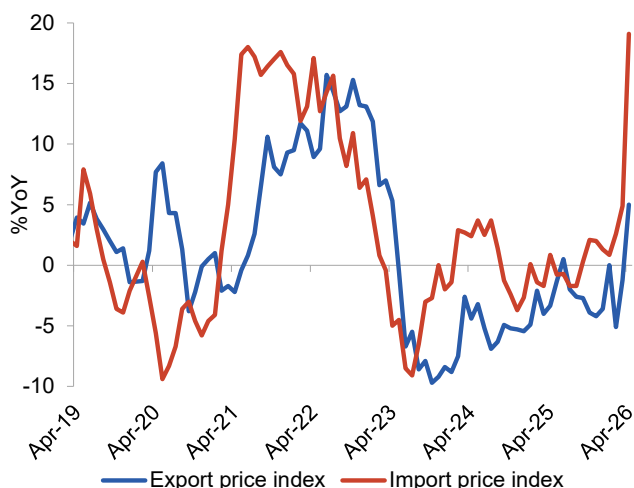
Weak Credit Momentum

Credit data also point to weak underlying demand. The increase in both new loans and aggregate financing remained significantly softer than in the same period last year. New loans rose by only RMB520bn, entirely driven by short-term financing (RMB573bn), while medium- to long-term loans contracted again. Corporates relied mainly on bill financing and bond issuance, while households deleveraged further across consumer loans and mortgages.

Despite weak credit momentum, **we expect the PBoC to remain in wait-and-see mode in the near term**, particularly if the Strait of Hormuz reopens as expected this week. That said, Chinese policymakers are likely to **step up targeted fiscal and credit support aimed at easing cost pressures for the manufacturing sector**.

< Solid trade growth partly supported by higher prices >

< Little passthrough from higher costs to higher downstream prices >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7898	6.7924	6.7592	6.7636	-271
USD/CNY	6.7891	6.7891	6.7608	6.7627	-256
CNY PBoC Fixing	6.8198	6.8198	6.8109	6.8109	-48
Shanghai Composite Index	3938.71	4060.27	3927.85	4031.51	3.78

#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)	-1712	20	CNH HIBOR (3mth)	1.583
CNH Currency Swap (3yr)	1.280	-0.010	CNH Implied yield (1Y)	1.287

Recap

The offshore renminbi (CNH) faced resilience tests for much of last week, as the DXY hovered around the 100 level. USD/CNH began the week with a weak bias, trading slightly above 6.79 amid renewed concerns over a potential Fed rate hike this December. However, the pair subsequently reversed all of its earlier weakness and ended the week 0.4% stronger. CNH also traded at a narrower premium to the daily fixing, at around 0.5% stronger than levels implied by the CFETS model. Entering this week, CNH extended its gains, supported by positive headlines around a potential US-Iran peace deal.

Slightly tighter onshore liquidity conditions may have also contributed to CNH's resilience. Last week, the PBoC reportedly instructed large national banks to reduce their fund lending in the interbank market, to prevent market rates from drifting notably below policy rates. As a result, the 7-day repo rate for financial institutions edged up by 2.4bp on Thursday and a further 2.3bp on Friday (Fig. 18), while CGB yields also moved higher across the curve (Fig. 19 & 20).

Across Asia, CNH underperformed the Korean won (+2.8%), Indonesian rupiah (+0.8%) and Singapore dollar (+0.5%) over the week. The Korean won was supported by forceful action from the authorities, including investigations into bank trading activity that potentially destabilise KRW. The Indonesian rupiah also benefited from Bank Indonesia's surprise rate hike, as well as the announcement of measures aimed at attracting inflows by lowering hedging costs.

Outlook

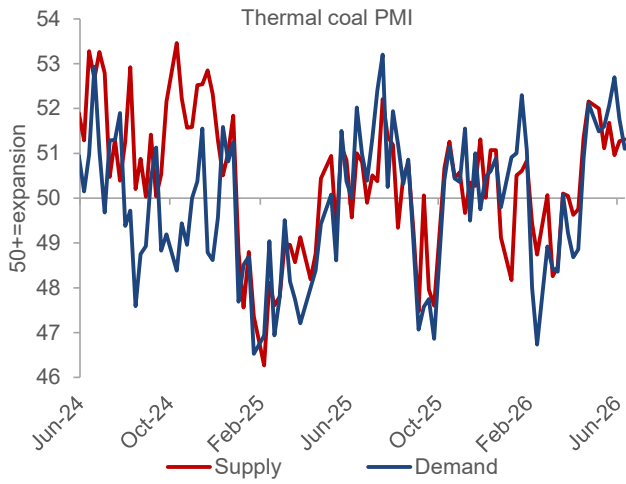
With the US and Iran expected to sign their deal this Friday, **CNH is likely to face renewed appreciation pressure, with spot potentially testing the downside of the 6.75 level.** In addition, this week's BoJ and Fed rate decisions will be closely watched. While a rate hold at the June FOMC meeting is widely expected, the bigger focus will be on how new Fed Chair Kevin Warsh articulates the Fed's policy framework and reaction function, a key footing for the USD and broader FX market outlook.

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 continued global geopolitical uncertainty. 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 saw some recovery in early June

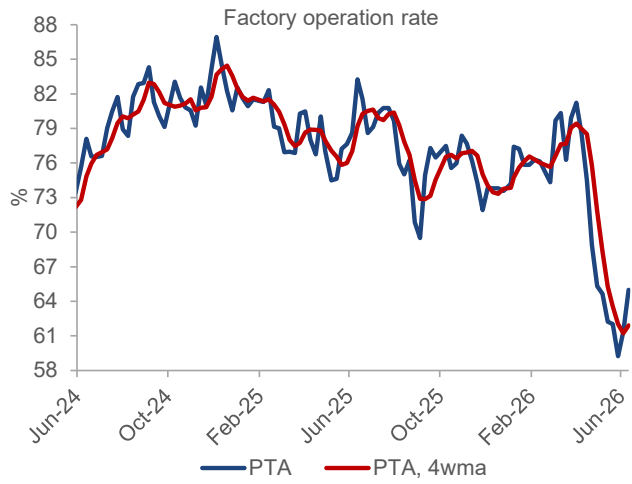
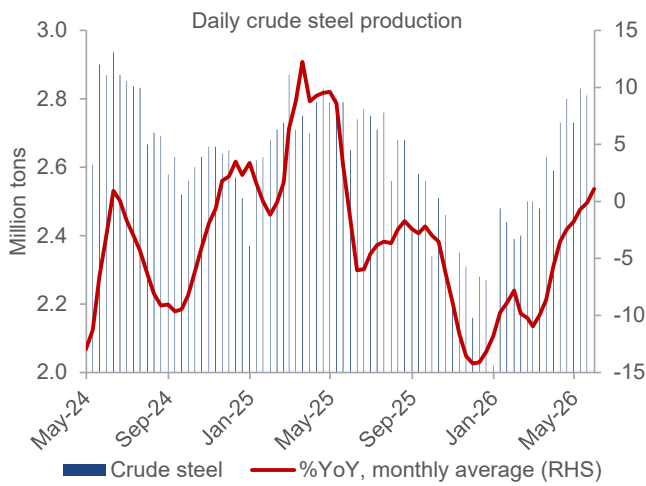


Fig 3 Steel production: the YoY change turned positive in May

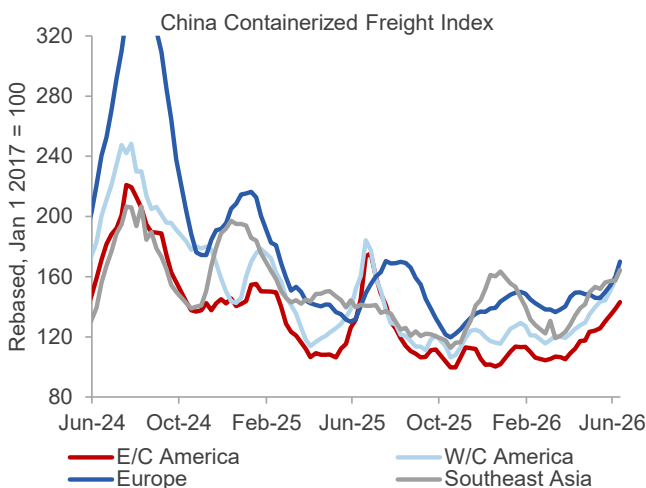


Source: Wind, Mizuho

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

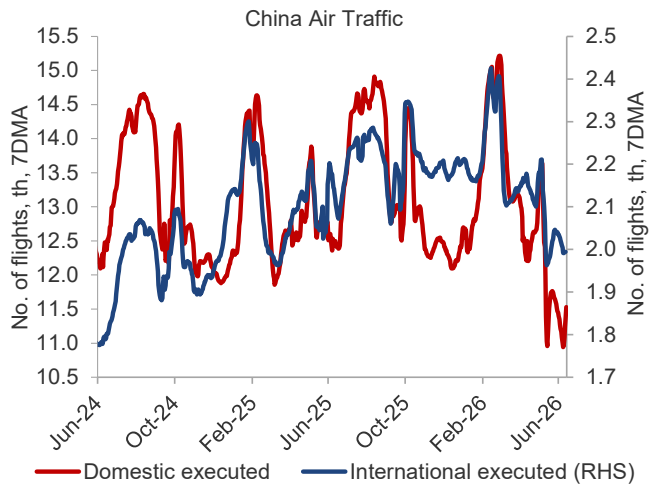


Fig 5 CCFI: prices for outward shipments continued to climb



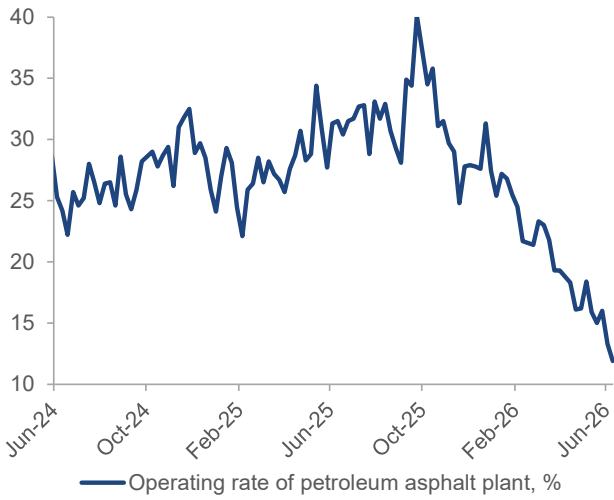
Source: Wind, Mizuho

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

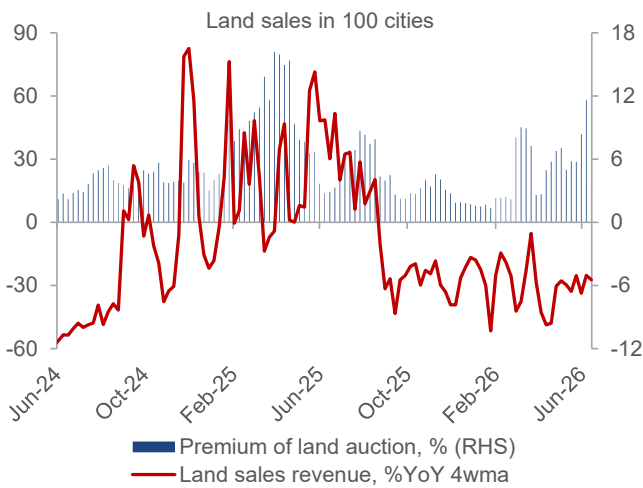


Source: Wind, Mizuho

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

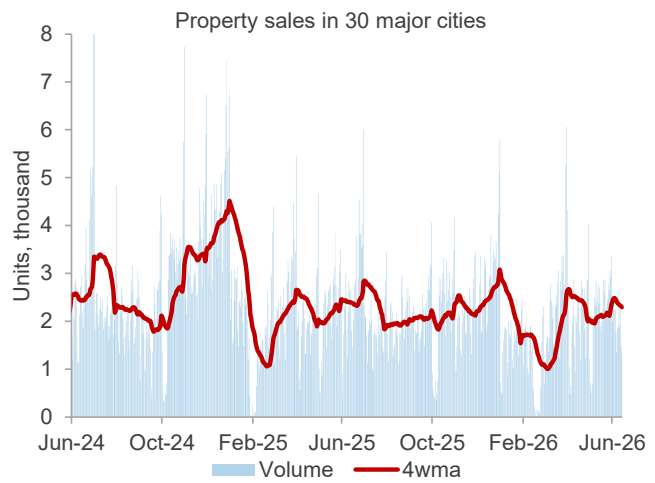
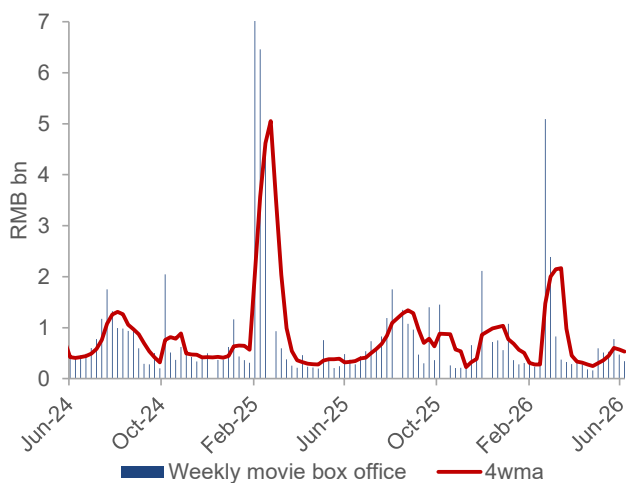
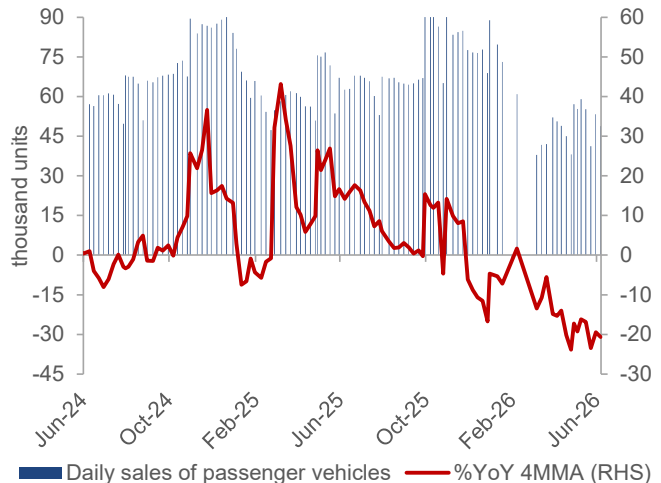


Fig 11 Movie box office revenue slightly improved in May



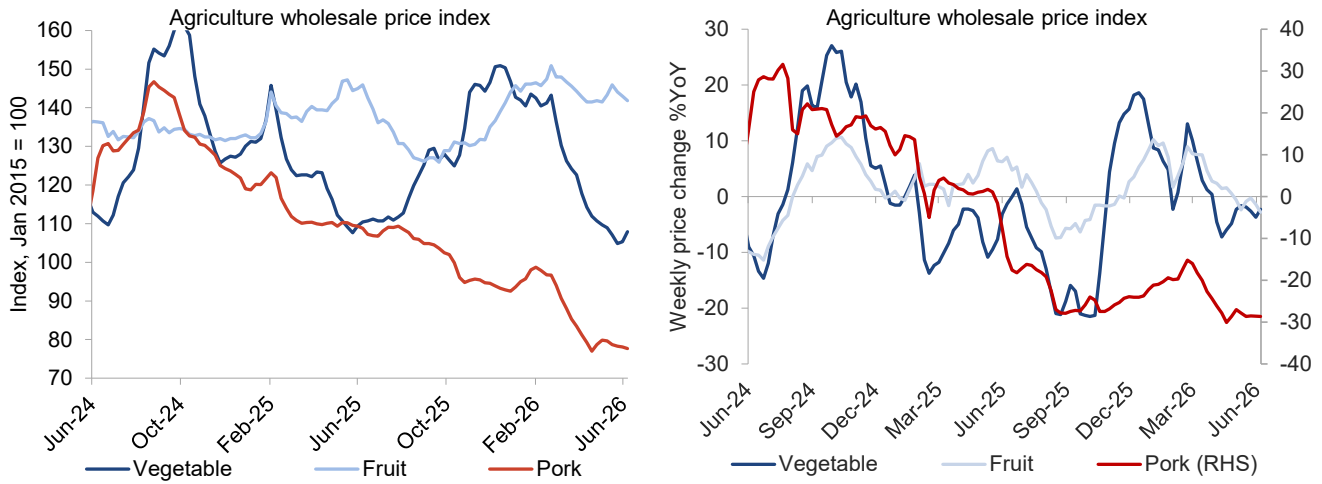
Source: Wind, Mizuho

Fig 12 PV sales: the fast decline has continued



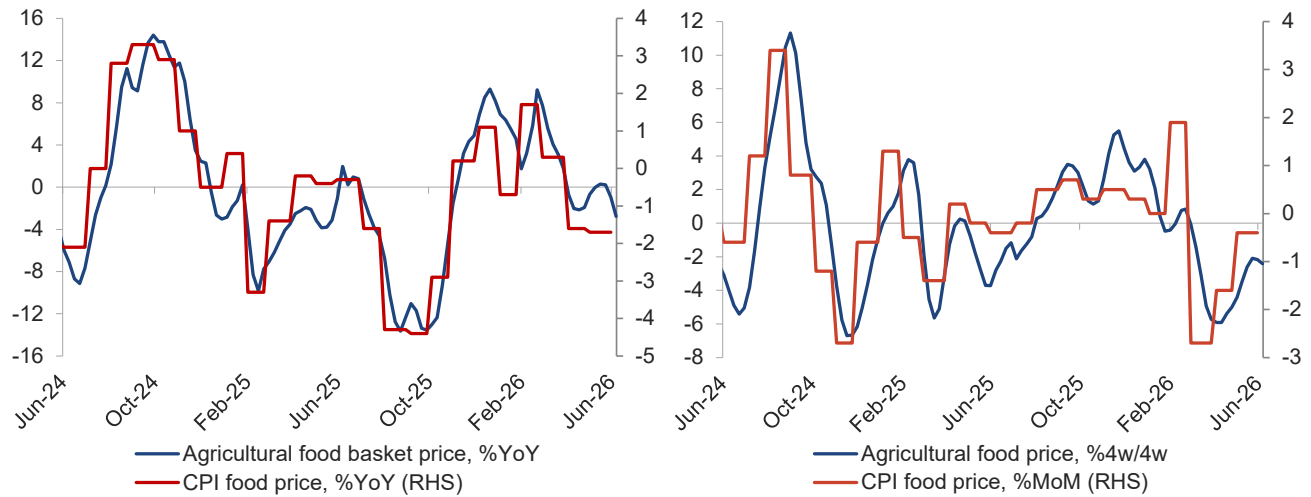
Price monitor

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



Source: Wind, Mizuho

Fig 14 Wholesale food prices saw renewed weakness in early June



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices remain relatively elevated

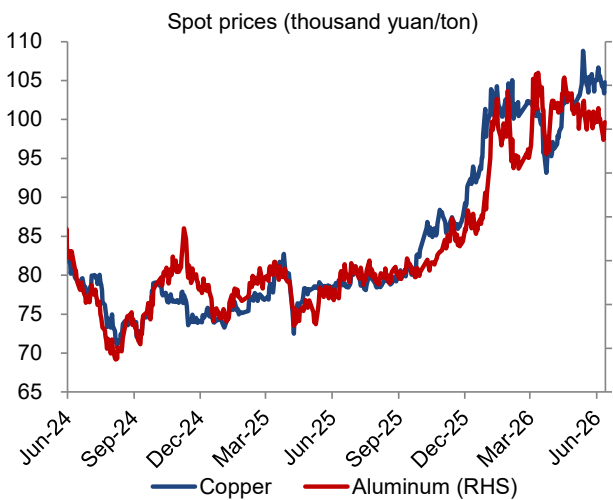
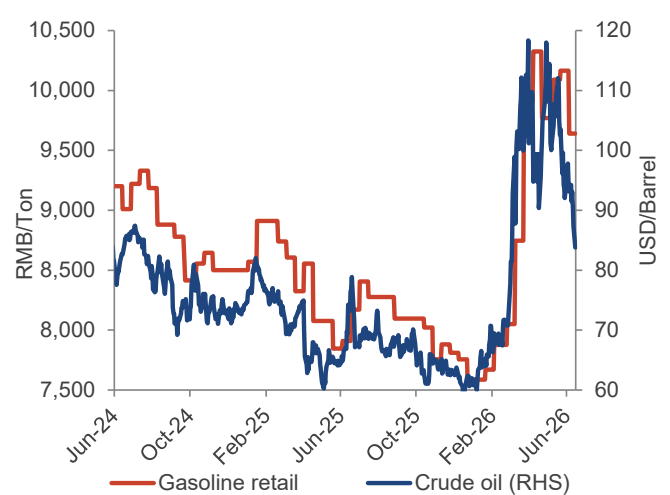


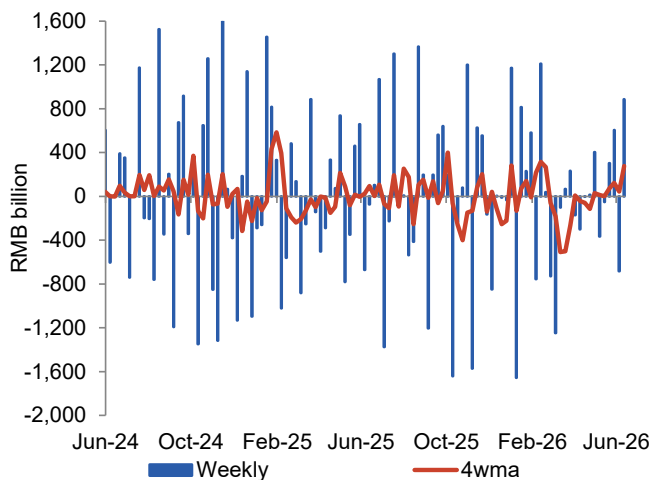
Fig 16 Oil prices: domestic fuel prices declined by over 5% in early June



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB886b during 8 - 12 Jun



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs ticked up as last week

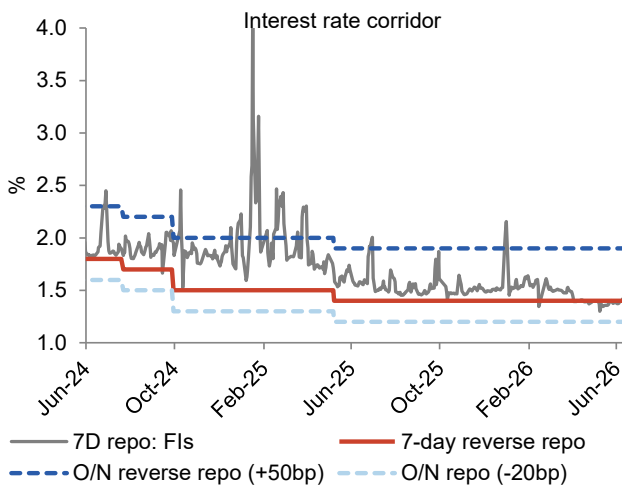
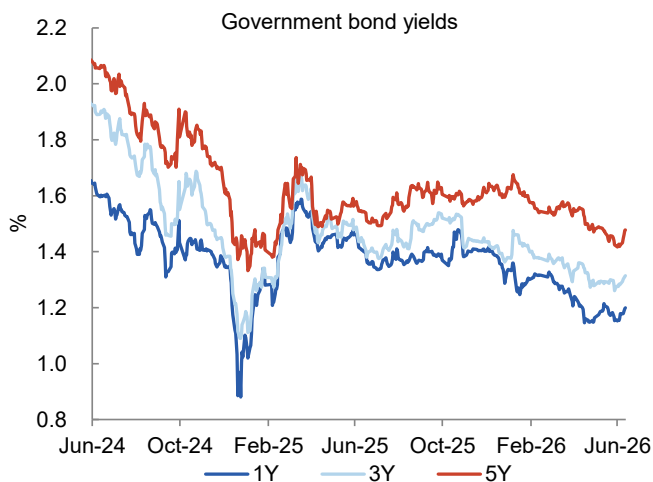


Fig 19 Short-end CGB yields all rose last week



Source: CEIC, Mizuho

Fig 20 Long-end CGB yields also moved higher

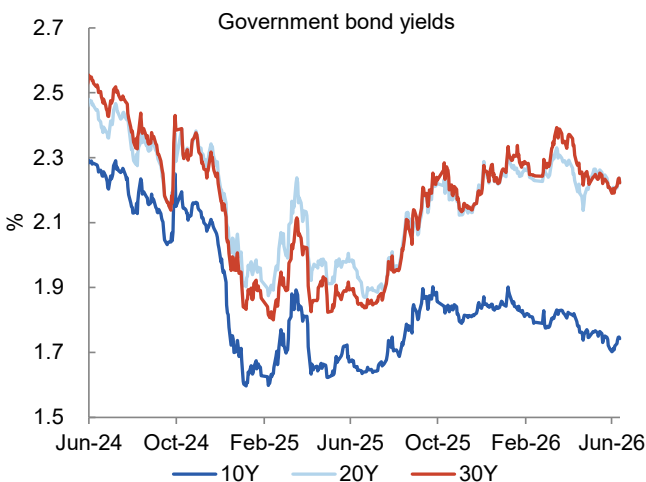
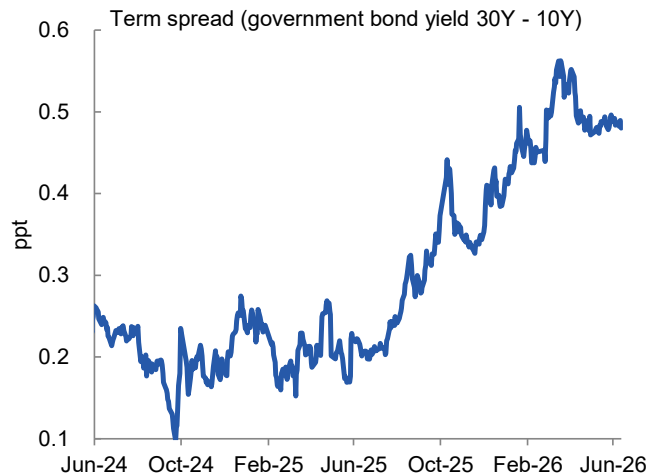


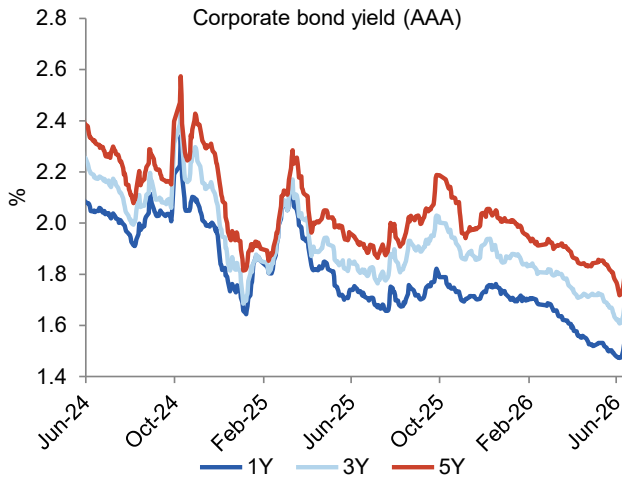
Fig 21 CGB term spreads: tightened at the left part of the yield curve, but much unchanged at the right part



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields rose across maturities



Source: Wind, Mizuho

Fig 23 IG corporate risk premium gapped wider

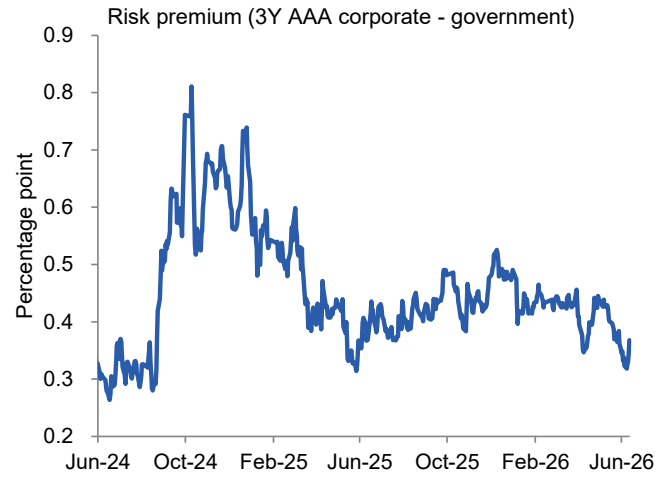
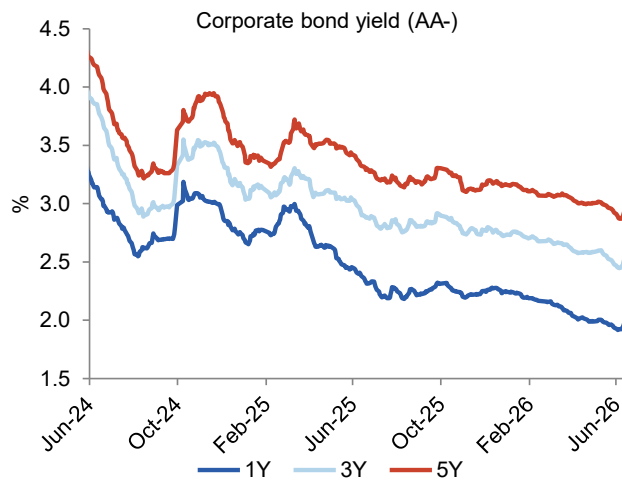


Fig 24 Onshore HY credit yields also ticked up



Source: Wind, Mizuho

Fig 25 HY corporate risk premium slightly widened

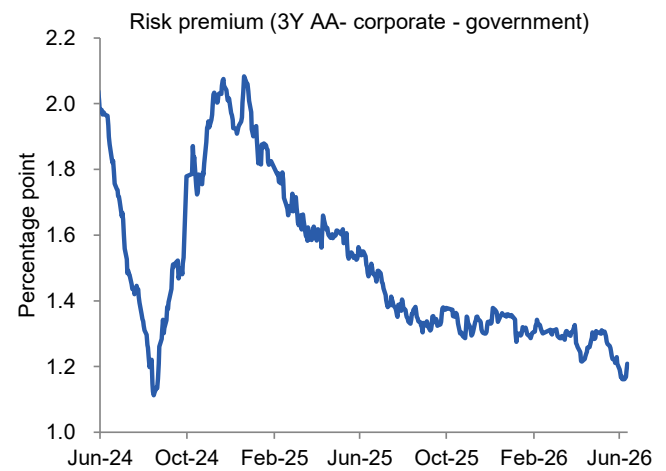
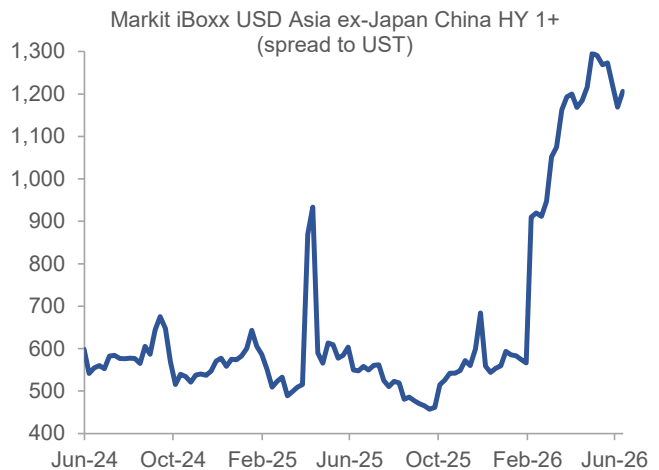


Fig 26 China USD credit spreads pushed wider as US treasuries rallied and the Pentagon expanded the list of China military-linked companies



Source: IHS Markit, Mizuho

FX monitor

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

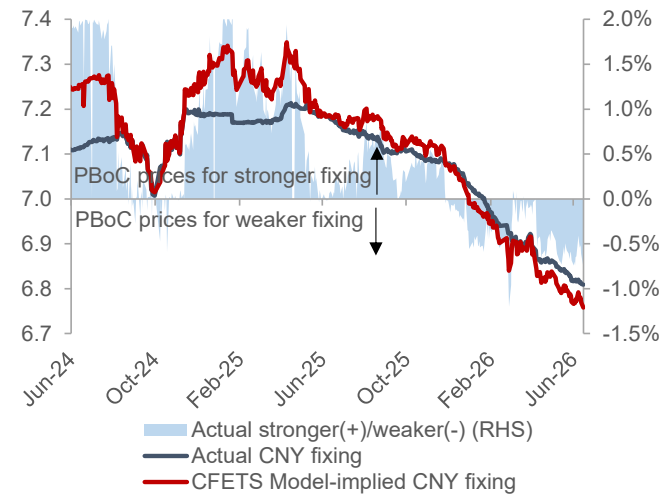
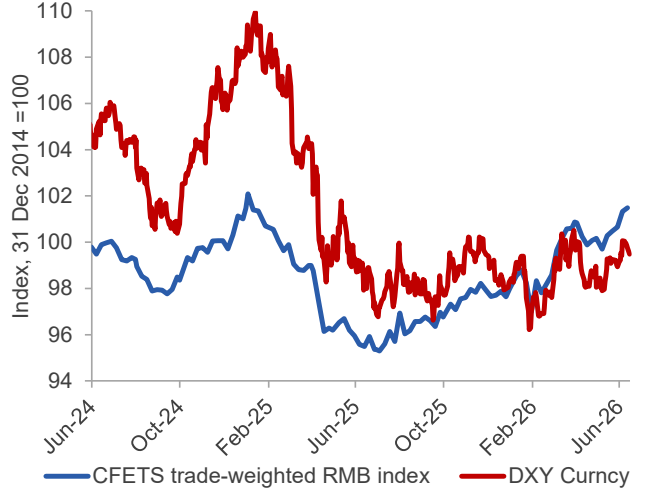
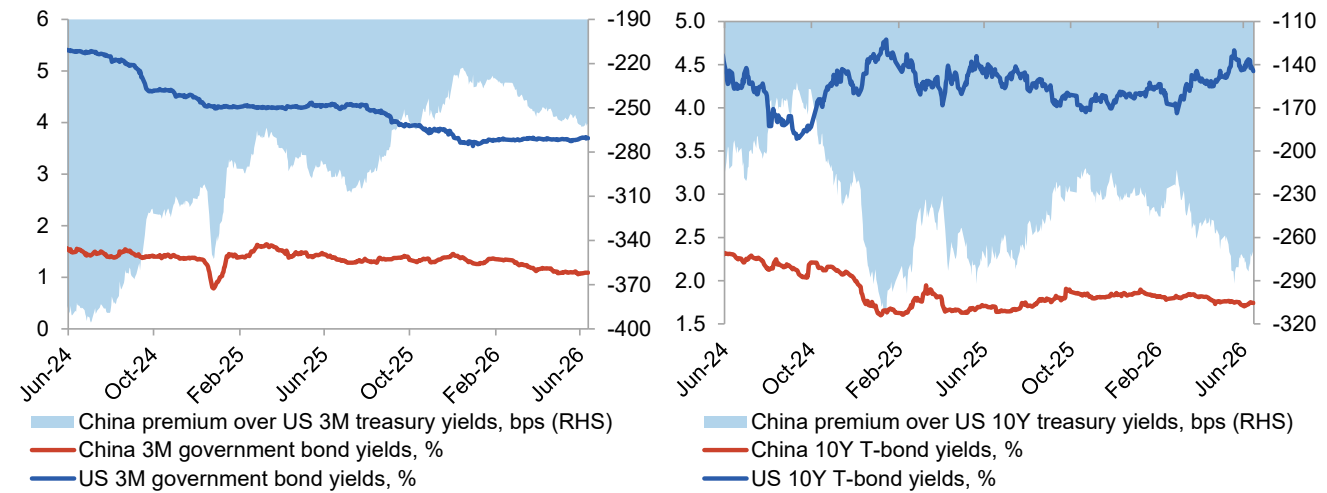


Fig 28 RMB trade-weighted index rose alongside stronger USD



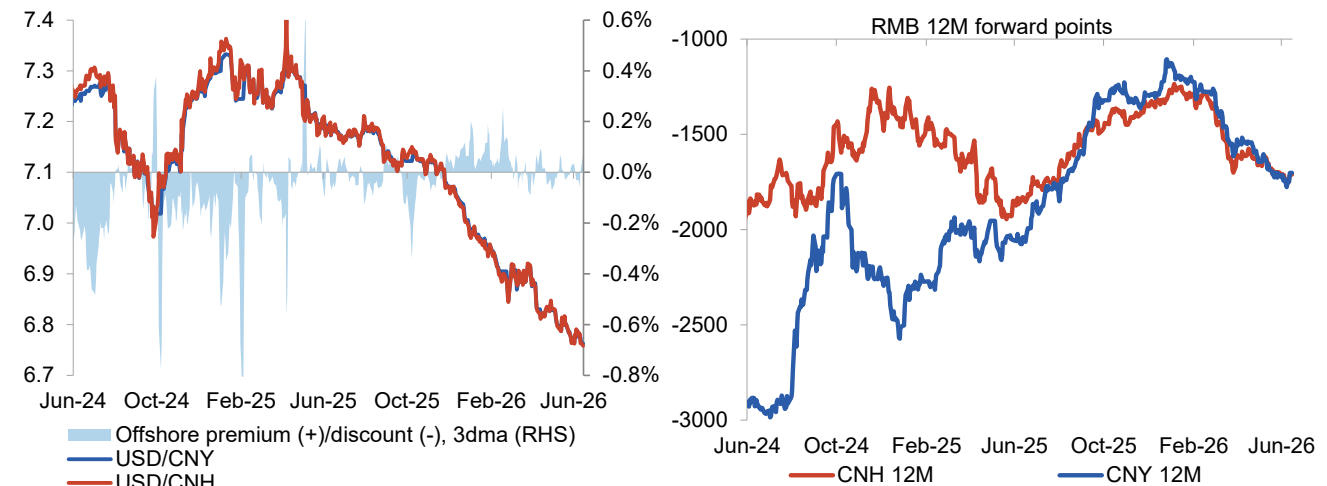
Source: CEIC, Bloomberg, Mizuho

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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