

China Weekly Outlook

Supply Outperforming Demand

Divergence in China's May activity data persisted, with supply significantly outperforming domestic demand. Industrial value-added growth accelerated to 6.0% YoY in May, or 0.4% MoM (4.9% annualized), likely supported by resilient exports and strong AI-related demand. In contrast, retail sales contracted 0.6% YoY in May, marking the first decline since late 2022. Beyond high-base effects from last year's government subsidies, discretionary spending, including jewelry, sports and recreation, and automobiles, recorded notable weakness in May, highlighting still-subdued consumer confidence.

Fixed-asset investment (FAI) also weakened further, declining 4.1% YoY YTD, with the monthly contraction estimated at 12.5% YoY in May. The weakness was broad-based across sectors. Public-sector and infrastructure investment, which typically act as stabilizers during economic slowdowns, both posted muted growth as local governments prioritize fiscal resources toward resolving hidden debt. Moreover, the decline in property investment accelerated further in May, to 16.2% YTD or 24.4% YoY, despite some moderation in home sales declines.

K-sharped Recovery in Manufacturing

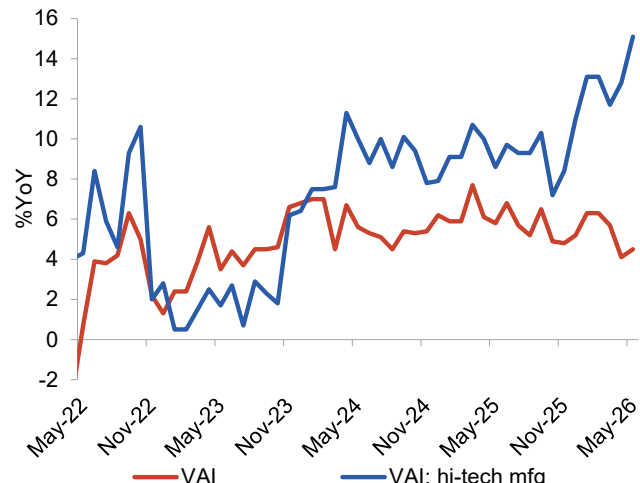
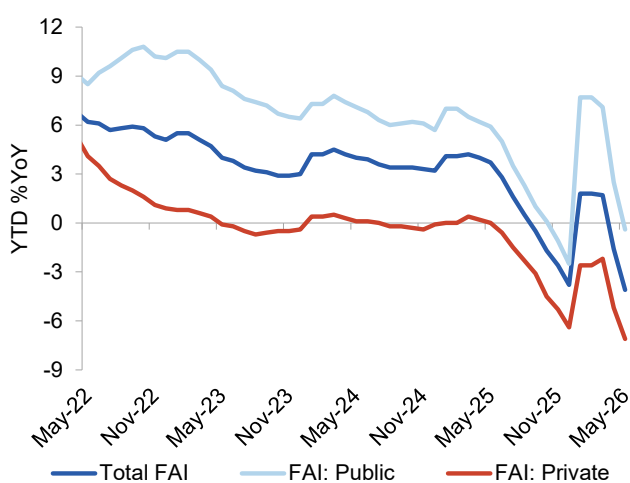
A K-shaped recovery is also evident within the industrial sector. High-tech manufacturing value-added rose 15.1% YoY in May, the fastest growth since 2021, led by strong performance in manufacturing of semiconductors, aircraft, and specialized electronic equipment. In contrast, traditional industries continued to lag, with furniture manufacturing contracting 9.6% YoY and non-metallic mineral products declining 5.6% YoY.

Targeted Easing, for Now

Against this backdrop, we expect the PBoC to continue favoring targeted liquidity support over broad-based easing in the near term. More aggressive easing would likely require a sharper deterioration in domestic consumption and investment, or a more pronounced decline in corporate earnings amid ongoing geopolitical uncertainties in the Middle East. That said, China's newly-introduced rate corridor not only helps reduce volatility in front-end rates but also embeds a modest easing bias, with the upper and lower bounds lowered by 25bp and 5bp, respectively (Fig. 18, see Mizuho China Macro: Steps towards Rate Liberalization and RMB Internationalization, 18 June 2026).

< Public-led FAI posted a YoY decline during the first five months >

< Growing divergence between headline and hi-tech manufacturing >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7636	6.798	6.7539	6.7838	202
USD/CNY	6.7598	6.7720	6.7555	6.7682	55
CNY PBoC Fixing	6.8088	6.813	6.8088	6.8130	21
Shanghai Composite Index	4053.58	4117.45	4051.07	4090.48	58.97

#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)	-1780	-68	CNH HIBOR (3mth)	1.632
CNH Currency Swap (3yr)	1.295	0.015	CNH Implied yield (1Y)	1.360

Recap

The offshore renminbi (CNH) weakened notably in the second half of last week, as the latest FOMC dot plot led markets to start pricing in “Fed rate hikes this year” as a base case rather than a tail risk. The hawkish FOMC takeaway outweighed the impact of lower oil prices and pushed the DXY index decisively above the 100 level.

Against this backdrop, USD/CNH moved higher last week, though the pair remained firmly below the 6.80 level. The CNY-CNH spread widened modestly during the period (Fig. 30), partly reflecting the closure of the onshore market for the Dragon Boat Festival holiday. Meanwhile, the PBoC appeared to lean more visibly against RMB strength, setting the daily fixing on-average 0.7% weaker than levels implied by the CFETS model last week.

Across Asia, several EM currencies outperformed as they recovered part of their losses triggered by heightened Middle East tensions. The Philippine peso and Indian rupee gained 1.0% and 0.8%, respectively, against the US dollar, while the Indonesian rupiah also benefited from another Bank Indonesia rate hike, appreciating by 0.5%. That said, CNH was more resilient than most developed Asian currencies last week, including the Singapore dollar and Korean won, which depreciated 0.5% and 0.9%, respectively, against the dollar.

Outlook

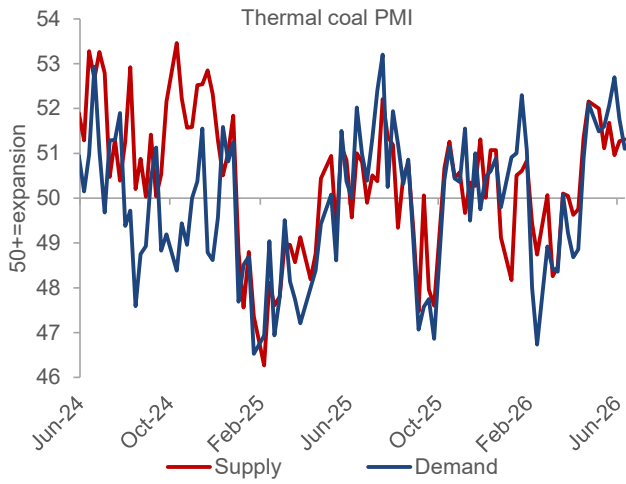
Looking ahead, market conditions are likely to be relatively quiet this week, with the US and Iran expected to focus on finalising the technical details of their interim agreement and no major US or China data releases on the calendar. In this environment, USD/CNH is likely to remain range-bound, with near-term trading between 6.75 and 6.80.

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

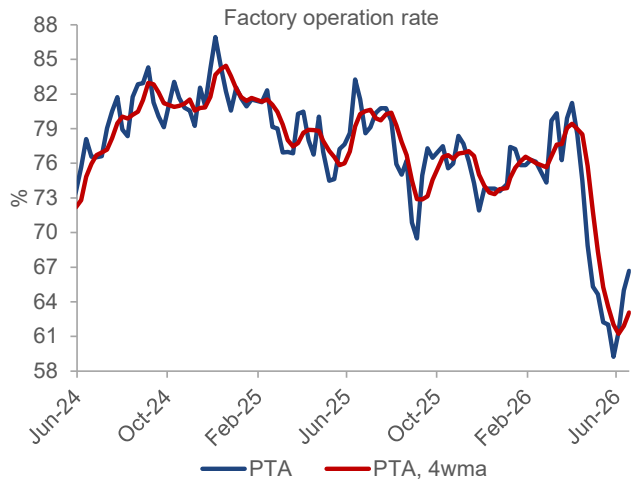
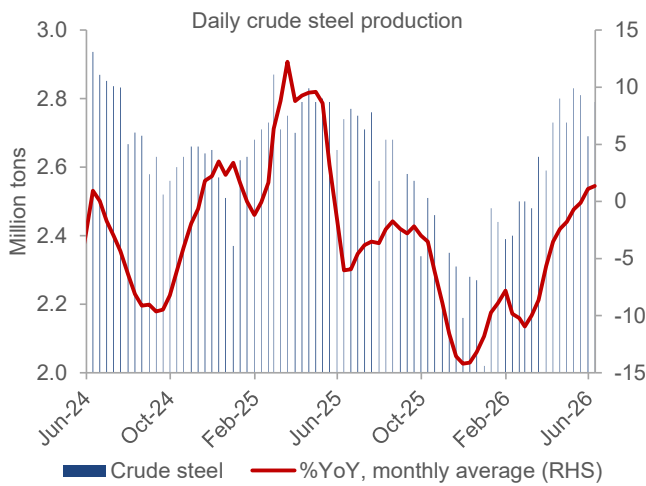


Fig 3 Steel production: the YoY change turned positive in June

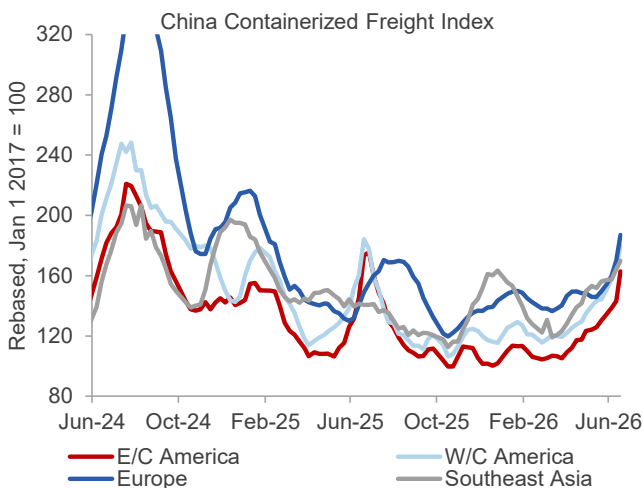


Source: Wind, Mizuho

Fig 4 Steel tire production has moderated in recent months

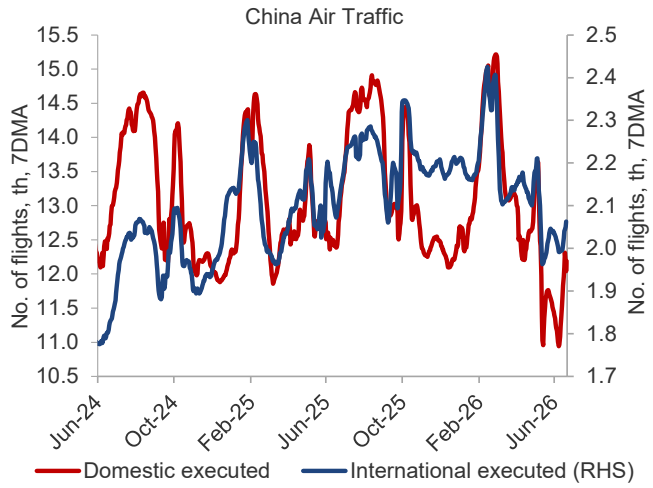


Fig 5 CCFI: prices for outward shipments continued to climb



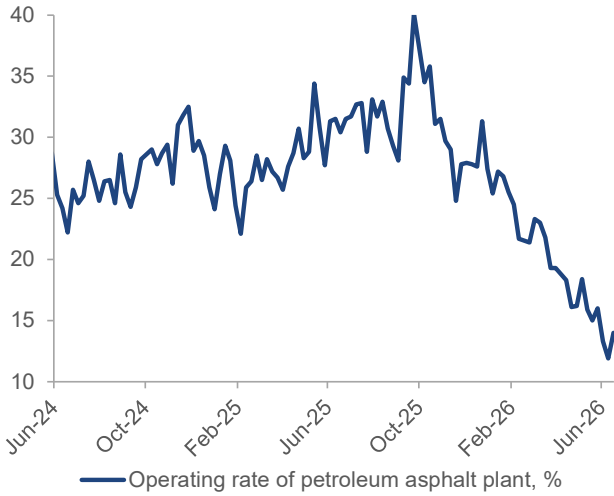
Source: Wind, Mizuho

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

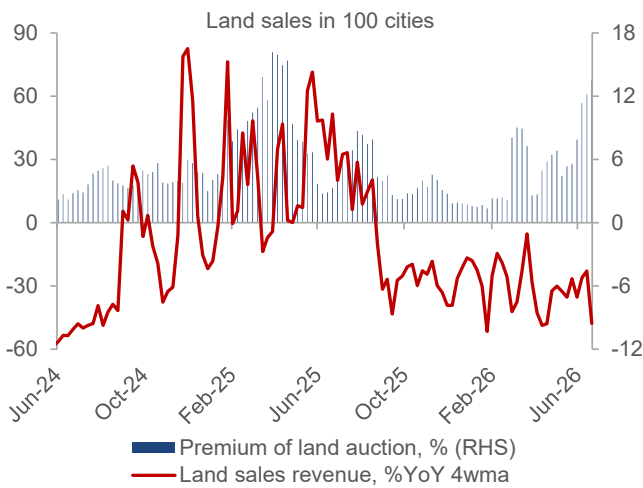


Source: Wind, Mizuho

Fig 8 Construction material prices: rebar prices softened notably



Fig 9 Land sales saw persistent YoY declines



Source: Wind, Mizuho

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

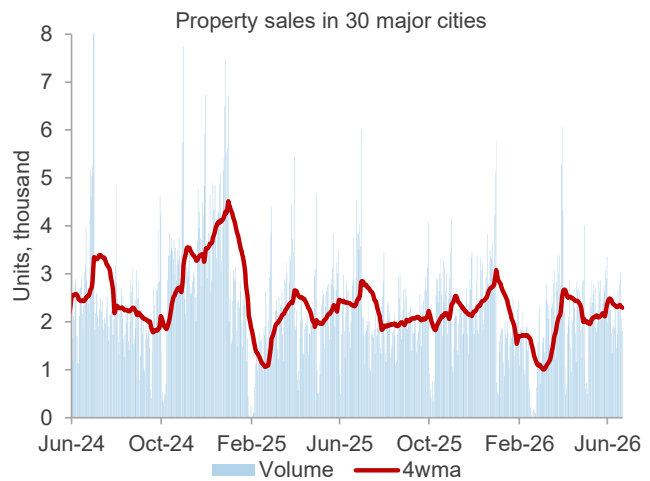
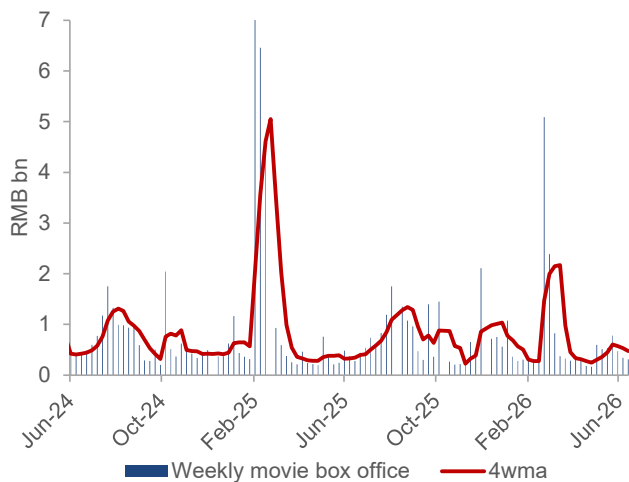
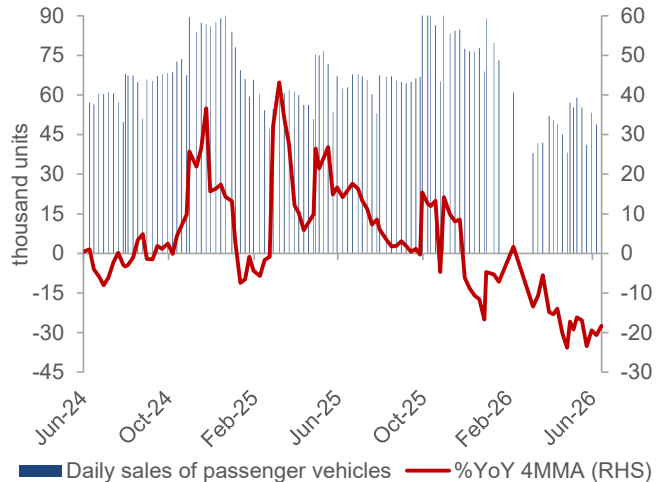


Fig 11 Movie box office revenue remained sluggish



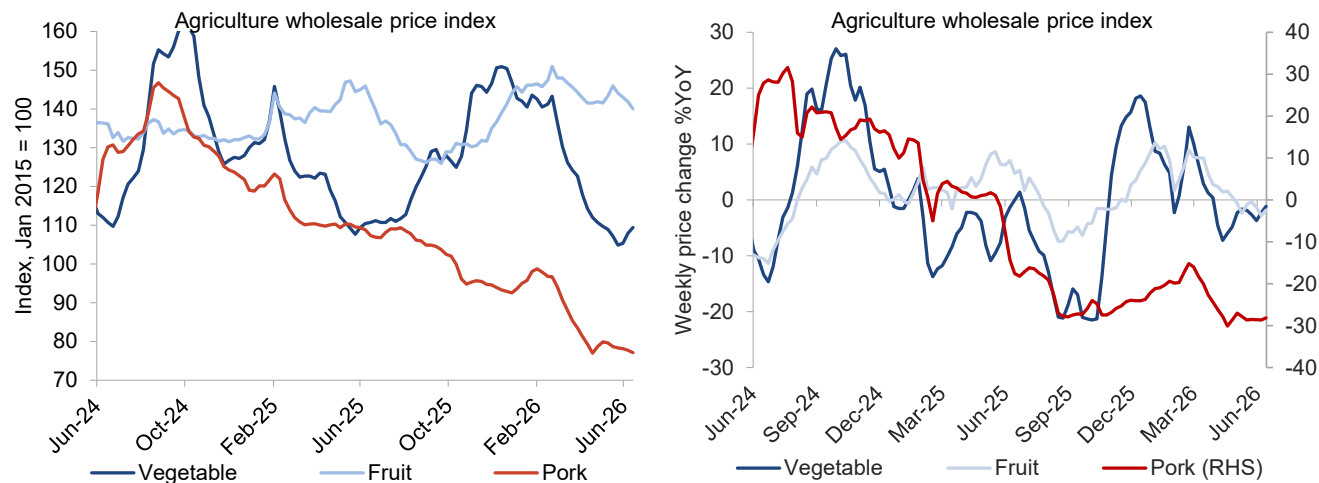
Source: Wind, Mizuho

Fig 12 PV sales continued to see significant YoY declines



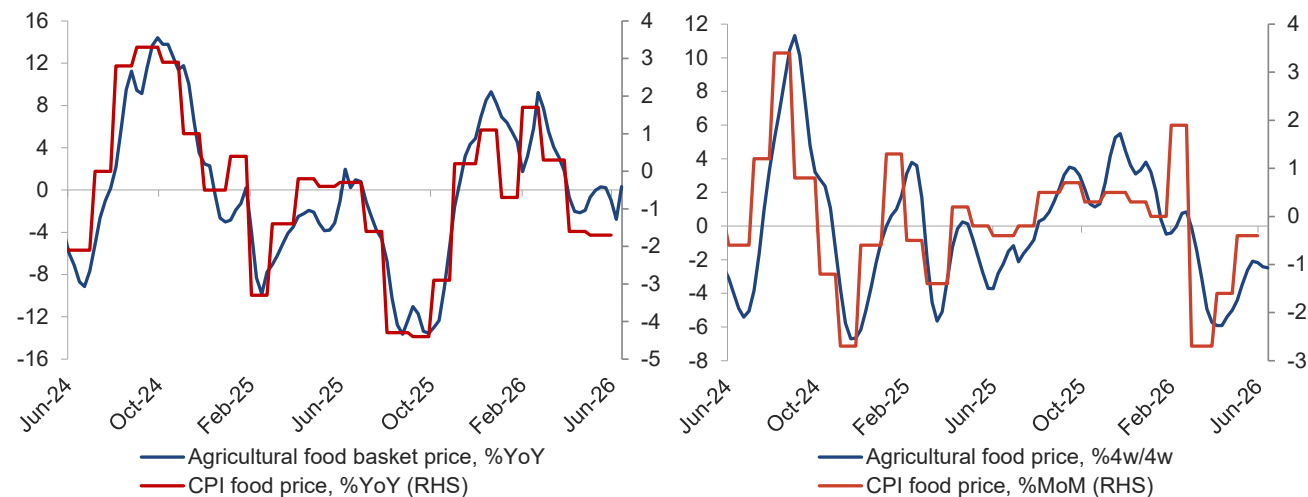
Price monitor

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



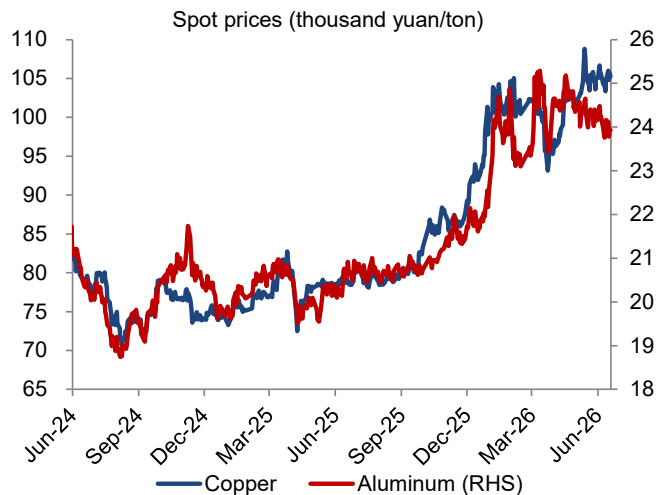
Source: Wind, Mizuho

Fig 14 Wholesale food prices saw continued weakness in early June



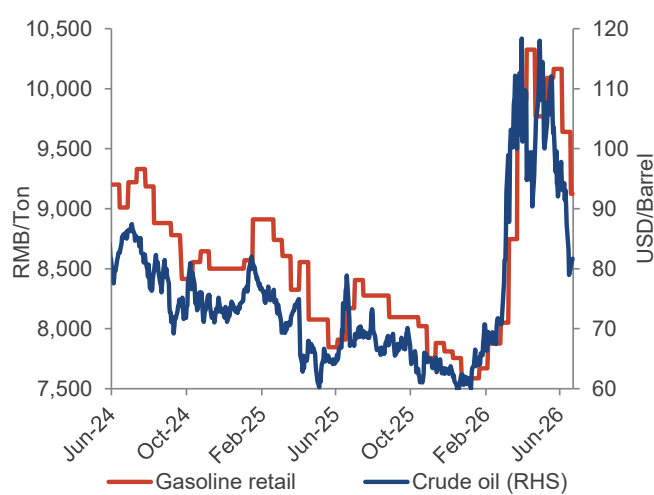
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices remain relatively elevated



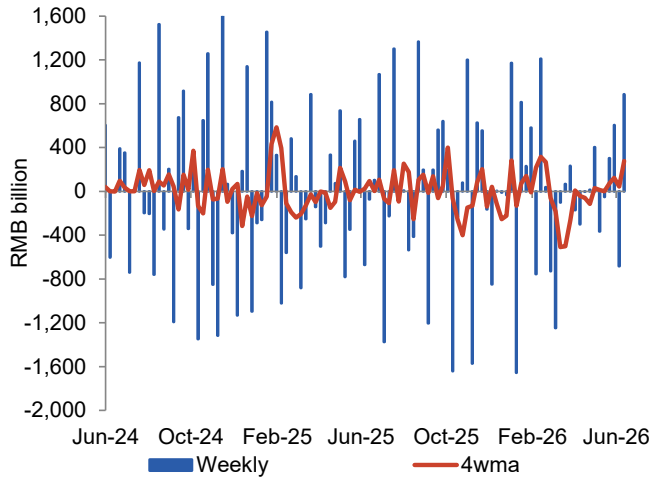
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices: domestic fuel prices declined by another 5% last week



Liquidity monitor

Fig 17 OMOs: net injection of RMB824b during 15 - 19 Jun



*Effective 17 June 2026. Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs ticked up, despite a narrower rate corridor

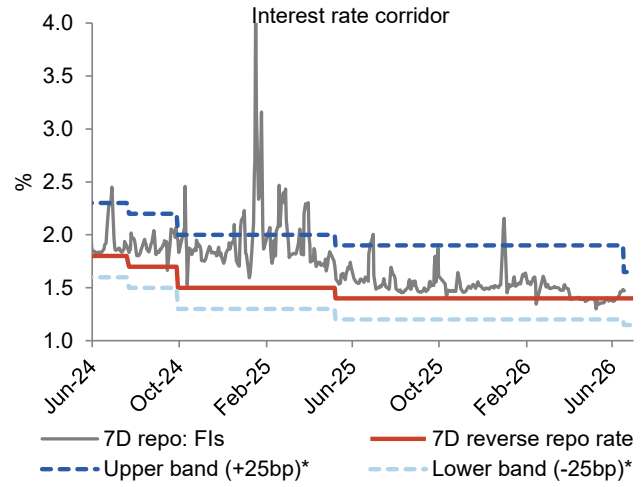
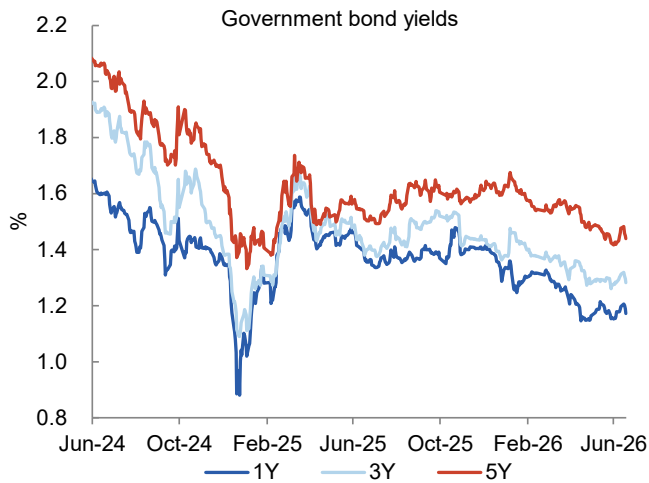


Fig 19 Short-end CGB yields all fell last week



Source: CEIC, Mizuho

Fig 20 Long-end CGB yields saw smaller declines

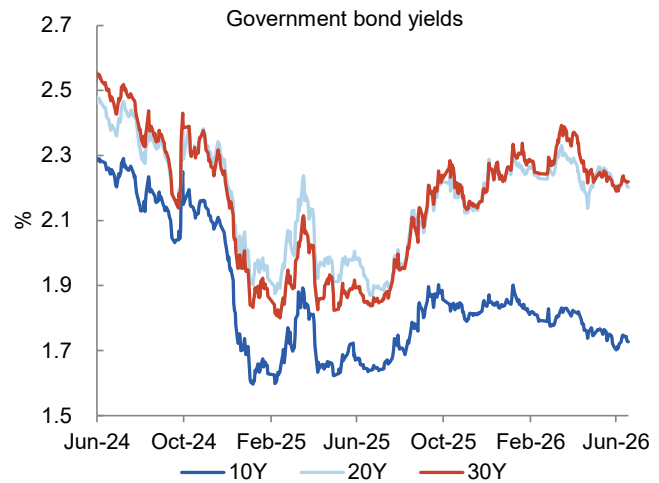
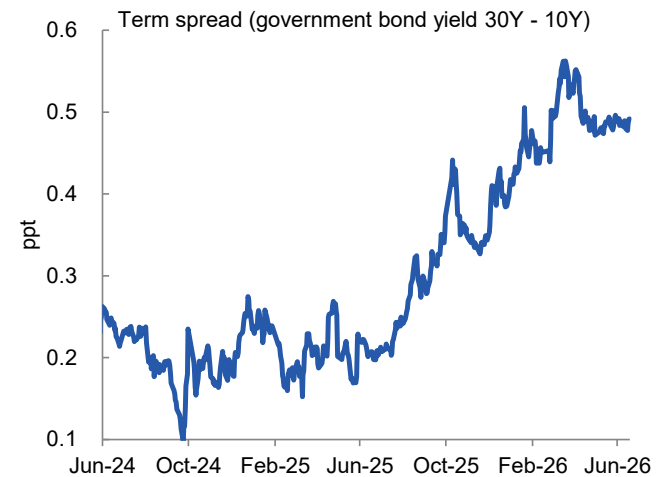


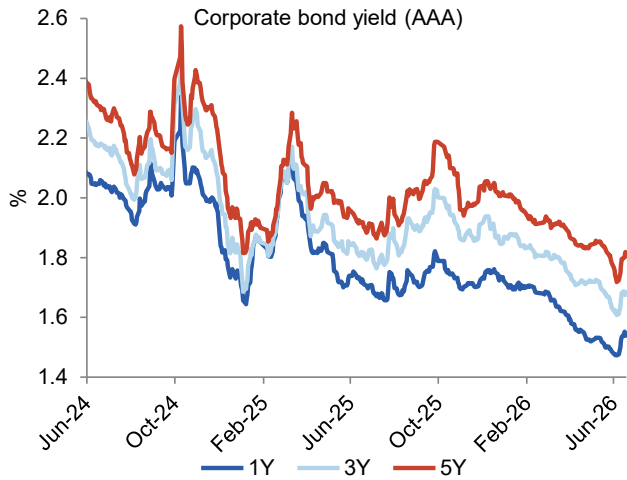
Fig 21 CGB term spreads stayed much unchanged last week



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

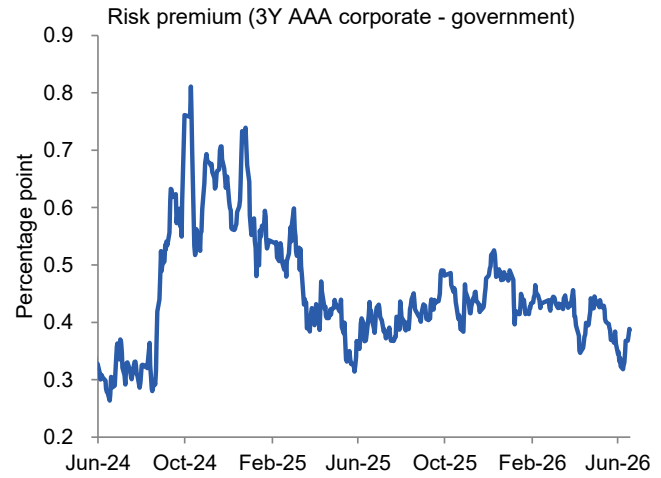
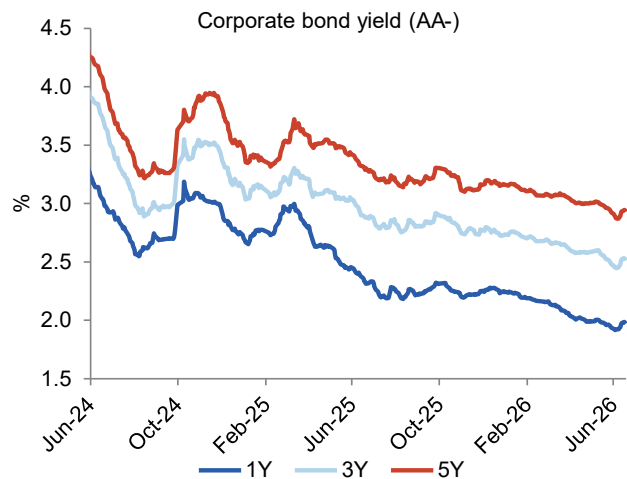


Fig 24 Onshore HY credit yields also ticked up

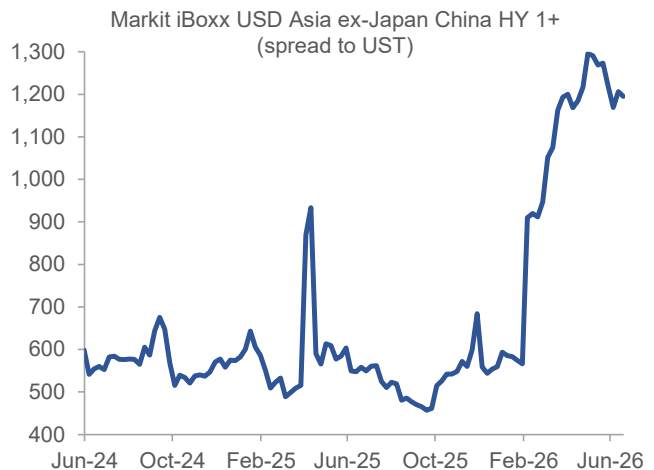


Source: Wind, Mizuho

Fig 25 HY corporate risk premium widened as well



Fig 26 China USD credit spreads edged tighter last week as the US treasury curve flattened



Source: IHS Markit, Mizuho

FX monitor

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

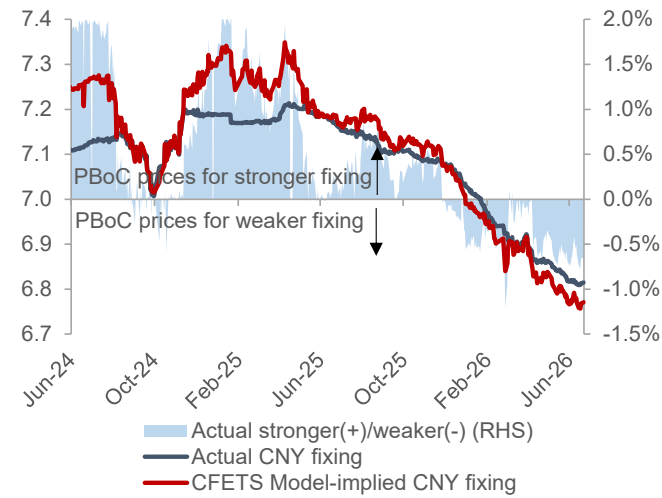
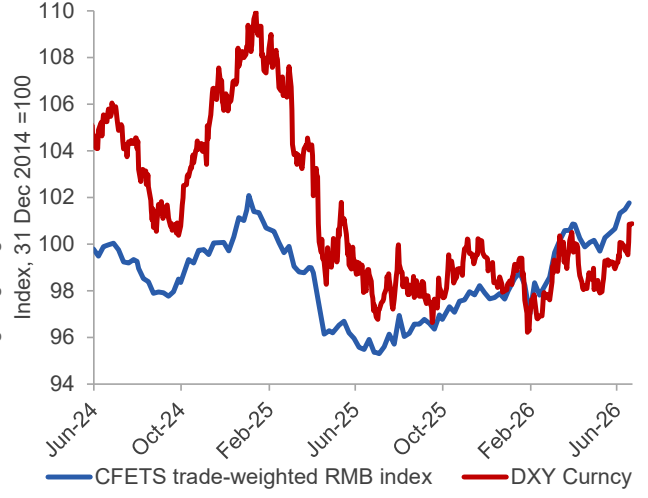
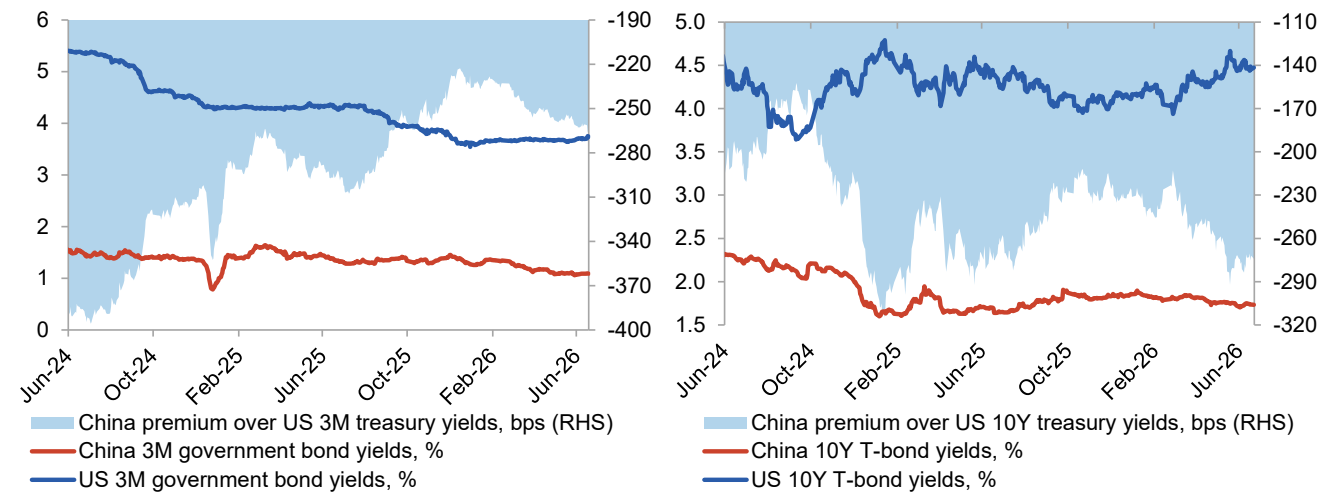


Fig 28 RMB trade-weighted index rose alongside stronger USD



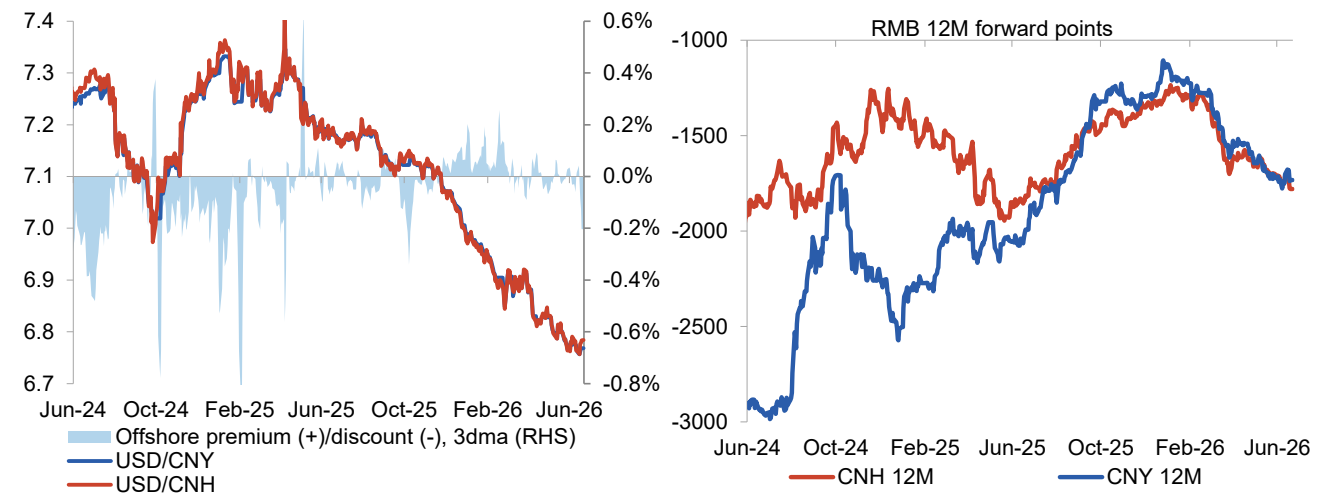
Source: CEIC, Bloomberg, Mizuho

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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