

## China Weekly Outlook

### PBoC's first overnight OMO

The PBoC injected overnight liquidity through open market operations on Monday for the first time, with a total amount of RMB300bn. Notably, the central bank did not disclose the fixing rate, despite wide market anticipations. In our view, this **suggests the PBoC has limited intention for the overnight rate to replace the 7-day repo rate as the new benchmark**. In fact, the new rate corridor recently outlined by Governor Pan remains anchored around the 7-day reverse repo rate.

This also points to a lower likelihood that the PBoC will deliver policy easing via the overnight rate. With the 7-day reverse repo rate unchanged at 1.4% and its 15bp gap with the 14-day tenor, we believe the new overnight operation would only be interpreted as a rate cut if the fixing were set below 1.25%. For now, **the overnight tool appears more likely a precision instrument to smooth quarter-end funding pressures, particularly for non-bank financial institutions**, rather than as a channel for rate cuts or a replacement for the existing benchmark rate.

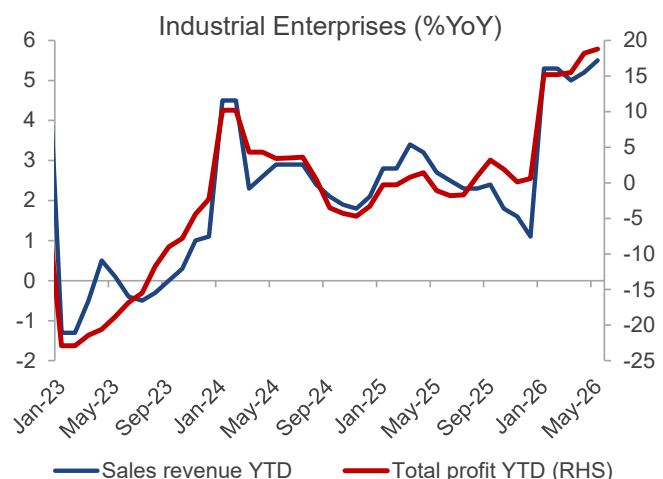
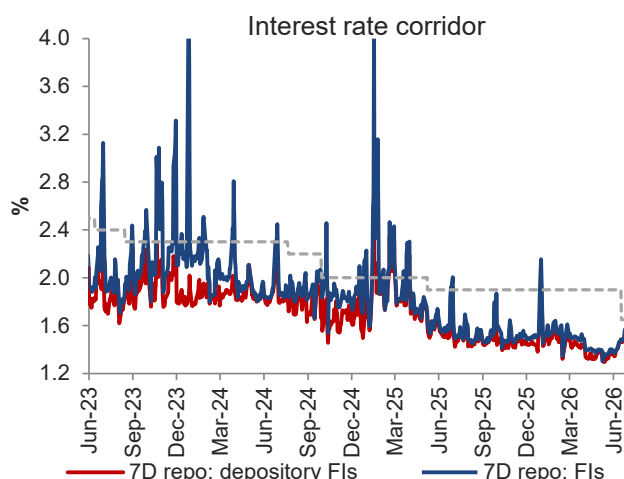
### Ongoing Industrial Divergence

Meanwhile, **China's headline industrial profits remained resilient in May, although divergence continued across sectors**. Industrial profit growth moderated to 21.1% YoY in May, but still marking the second-fastest monthly increase year-to-date. At the sector level, year-to-date profits in non-ferrous metal smelting and telecommunications more than doubled from a year earlier. By contrast, ferrous metal smelting, automobiles, and electrical equipment posted double-digit declines, underscoring the uneven nature of the profit recovery.

### A Modest Rise in PMI?

Looking ahead, China's **official Manufacturing PMI, due on Tuesday, is likely to rise modestly to 50.1 in June**. This improvement should be supported by higher factory operating rates, helped by recovering energy flows through the Strait of Hormuz and the normalization of energy costs. For example, the operating rate of PTA plants has recovered by more than 8ppt from the trough at May-end (Fig. 2). In addition, export-related freight rates have risen to their highest levels since late 2024, particularly on US-bound routes (Fig. 5), suggesting solid external demand.

< Non-bank financial institutions more sensitive to liquidity squeeze > < Industrial profit growth remains solid at the headline level >



Source: CEIC, Mizuho

## CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7847	6.8195	6.773	6.8049	211
USD/CNY	6.7768	6.8129	6.7710	6.8004	322
CNY PBoC Fixing	6.8150	6.8209	6.8150	6.8166	36
Shanghai Composite Index	4093.96	4175.35	4007.86	4027.27	-63.22

#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)	-1767	13	CNH HIBOR (3mth)	1.700
CNH Currency Swap (3yr)	1.285	-0.010	CNH Implied yield (1Y)	1.307

### Recap

The offshore renminbi weakened last week, with USD/CNH briefly approaching 6.82 amid continued dollar strength and heightened volatility across Asian equity markets. This weakness came despite the resumption of energy flows through the Strait of Hormuz and oil prices retreating to levels seen before recent Middle East conflicts.

That said, the weakness proved short-lived. USD/CNH ended the week only marginally above 6.80 and broke below the level on Monday morning. More importantly, CNH did not breach the PBoC's daily fixing midpoint during this period, suggesting contained depreciation pressure. Note that The PBoC continued to set the daily fixing on the weaker side last week, with the rate on average around 0.4% weaker than levels implied by the CFETS model.

Across Asia, CNH's 0.31% weekly depreciation against the dollar represented a relatively resilient performance versus several emerging market currencies, including THB (-1.6%), PHP (-0.85%) and IDR (-0.71%). However, it underperformed developed-market Asian currencies such as HKD (-0.06%), SGD (-0.22%) and JPY (-0.27%). Meanwhile, MYR was the clear outlier, gaining 1.2% against the dollar after Bank Negara Malaysia announced a series of measures aimed at encouraging foreign inflows, including steps to support repatriation.

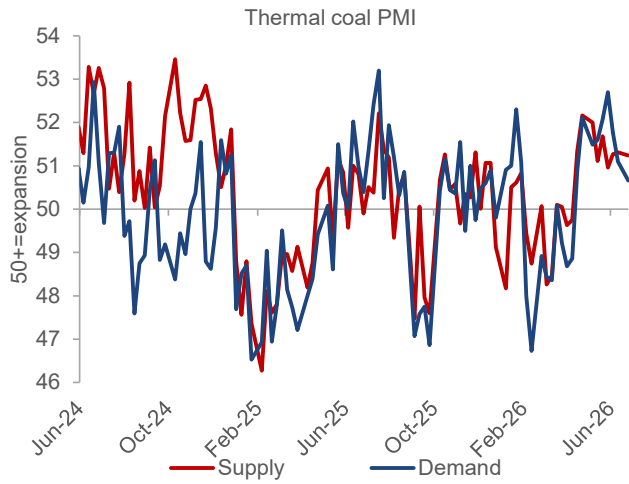
### Outlook

Looking ahead, China's June PMI releases and the US nonfarm payrolls report will be the key macro catalysts for FX markets this week. On the domestic side, we do not expect the PBoC to respond with broad-based monetary easing in the near term. As a result, RMB direction is likely to remain more sensitive to external dollar dynamics and broader risk sentiment. Against this backdrop, **we expect CNH volatility to rise in the coming weeks, with USD/CNH likely to trade in a wider range around the 6.80 level.**

<FX Charts on Page 8>

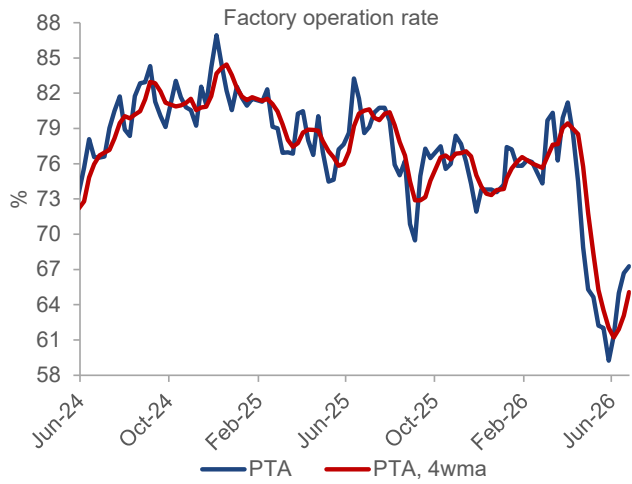
# Activity monitor (1/2)

**Fig 1 Thermal coal: upbeat sentiment amid higher oil prices**

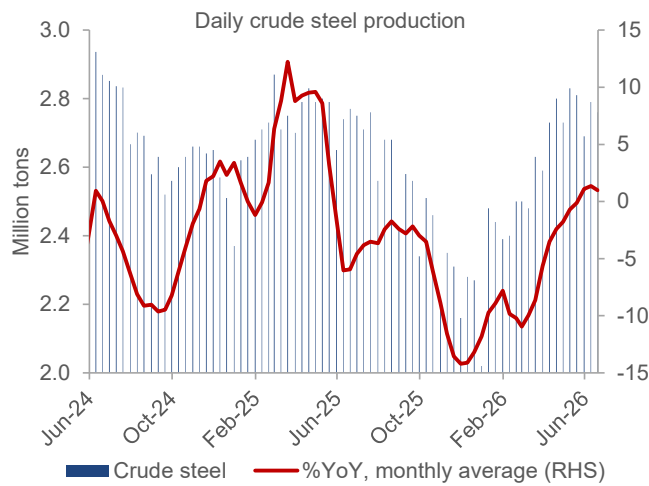


Source: Wind, Mizuho

**Fig 2 PTA production has seen notable recovery since May end**



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

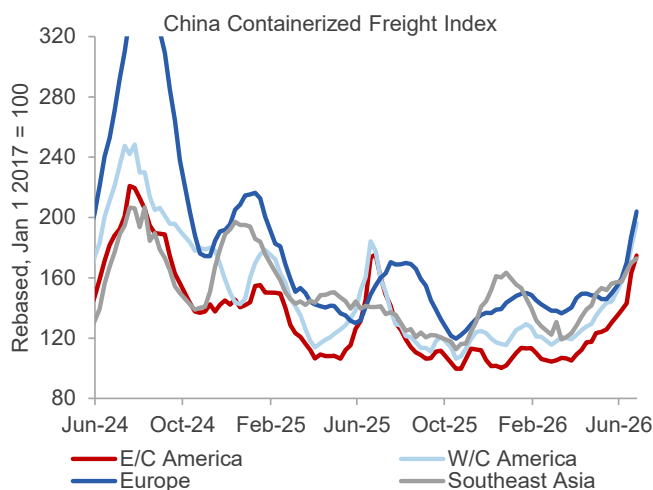


Source: Wind, Mizuho

**Fig 4 Steel tire production has moderated in recent weeks**

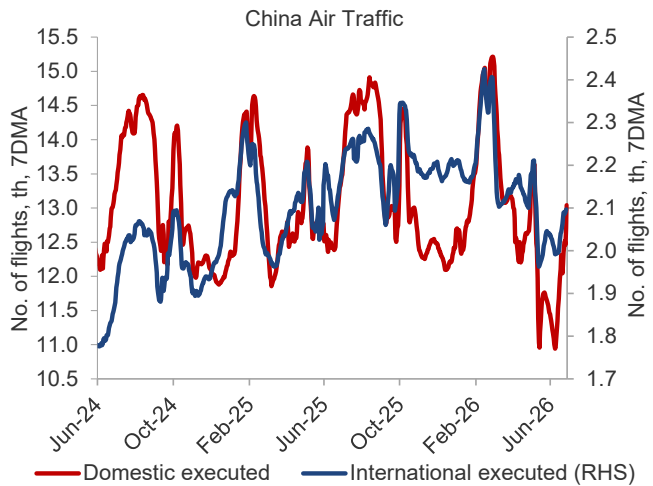


**Fig 5 CCFI: prices for outward shipments rose at a faster pace**



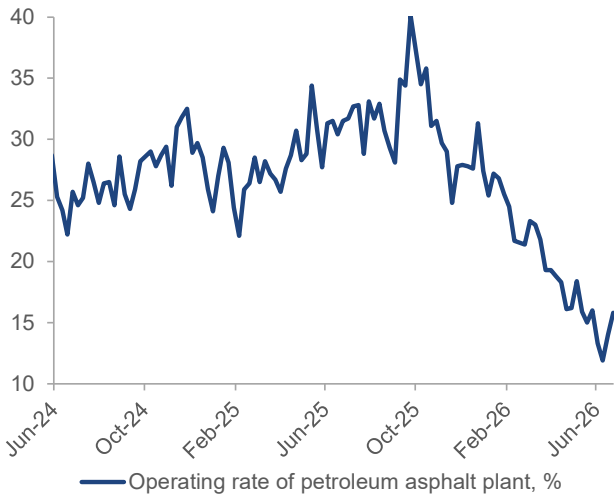
Source: Wind, Mizuho

**Fig 6 Air traffic: domestic travel picked up during the national holiday**



# Activity monitor (2/2)

**Fig 7 Road construction activity** rose for two weeks in a row

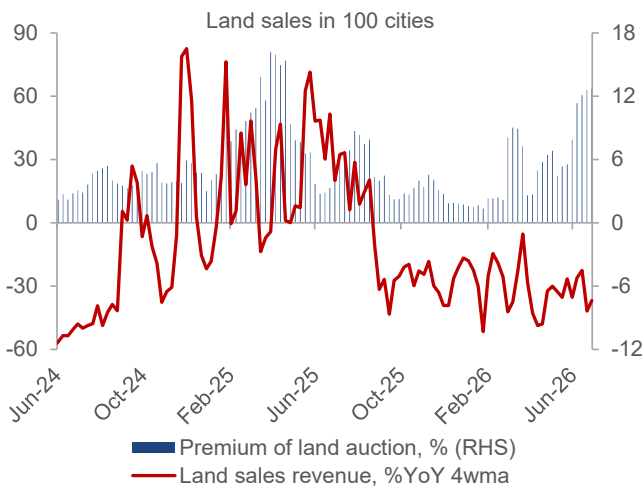


Source: Wind, Mizuho

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

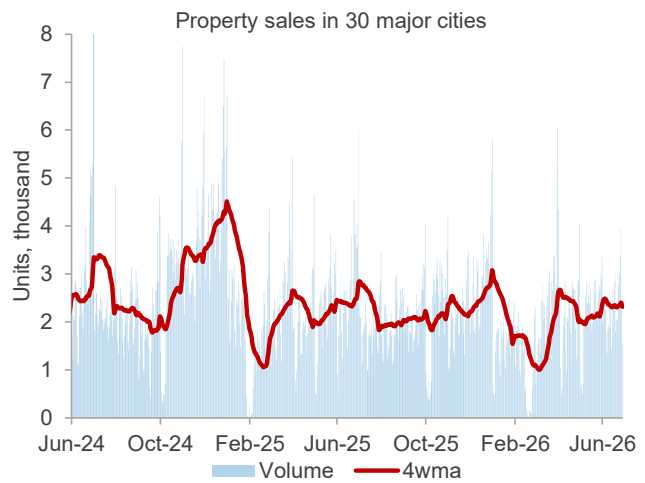


**Fig 9 Land sales** saw persistent YoY declines

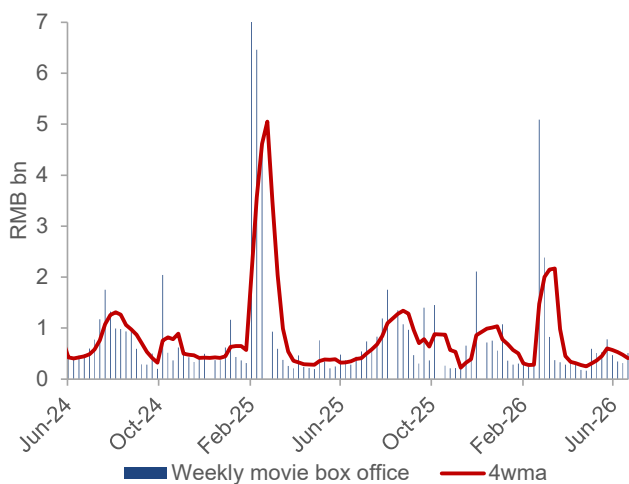


Source: Wind, Mizuho

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

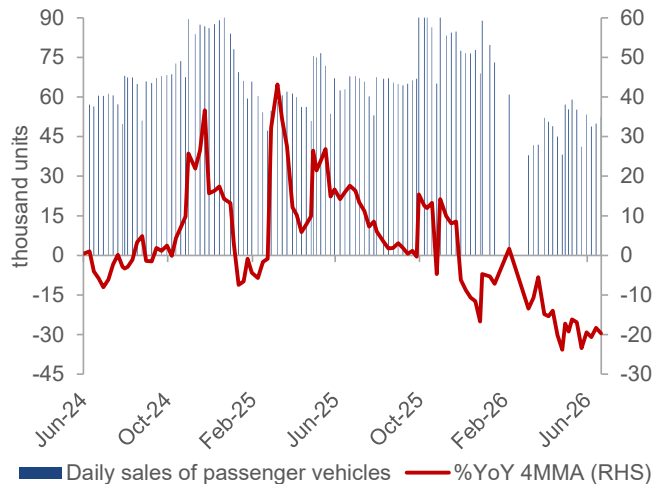


**Fig 11 Movie box office revenue** remained sluggish



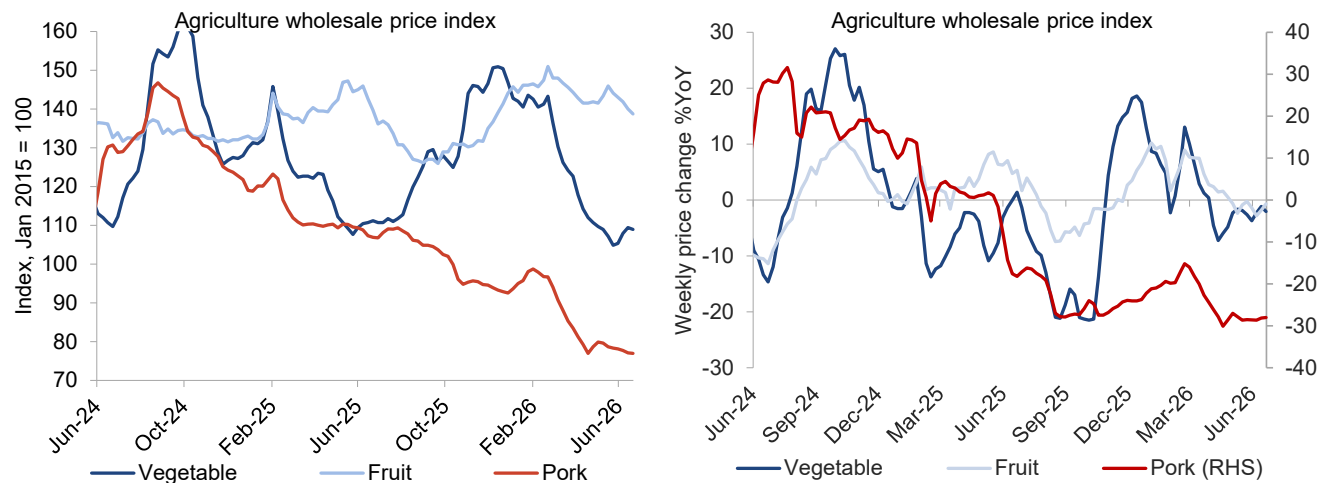
Source: Wind, Mizuho

**Fig 12 PV sales** continued to see significant YoY declines



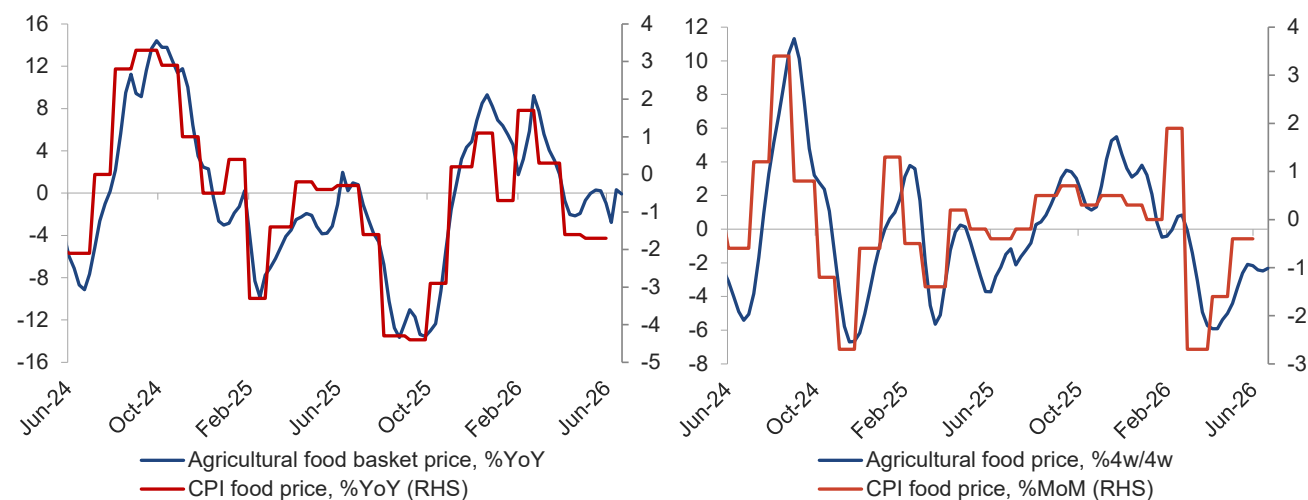
## Price monitor

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



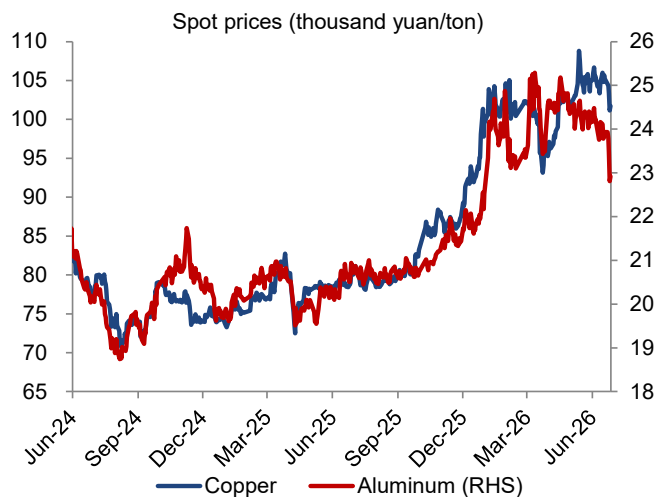
Source: Wind, Mizuho

**Fig 14 Wholesale food prices** have seen continued weakness in June

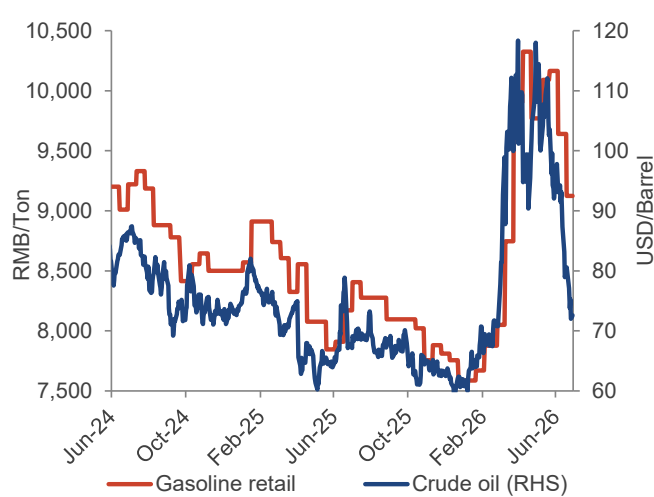


Source: CEIC, Mizuho

**Fig 15 Non-ferrous metal prices** dropped notably last week



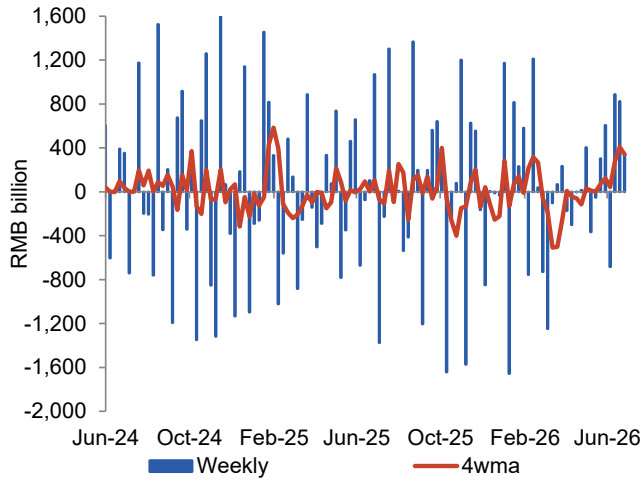
**Fig 16 Oil prices:** domestic fuel prices declined by another 5%



Source: CEIC, Wind, Mizuho

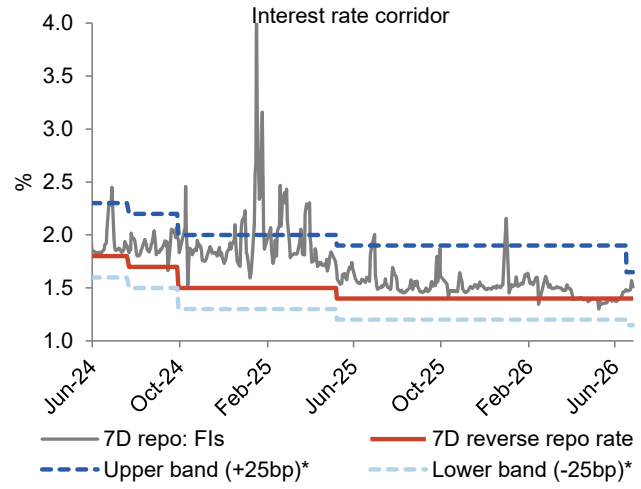
# Liquidity monitor

**Fig 17 OMOs: net injection of RMB330b during 22 - 26 Jun**

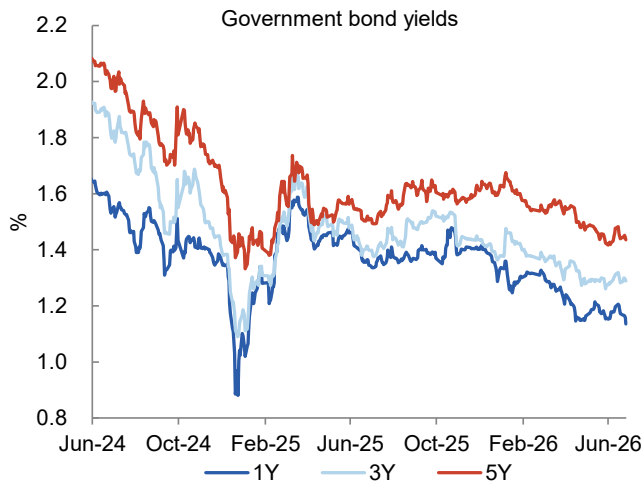


\*Effective 17 June 2026. Source: CEIC, Wind, Mizuho

**Fig 18 7D repo for FIs ticked up notably at the quarter-end**

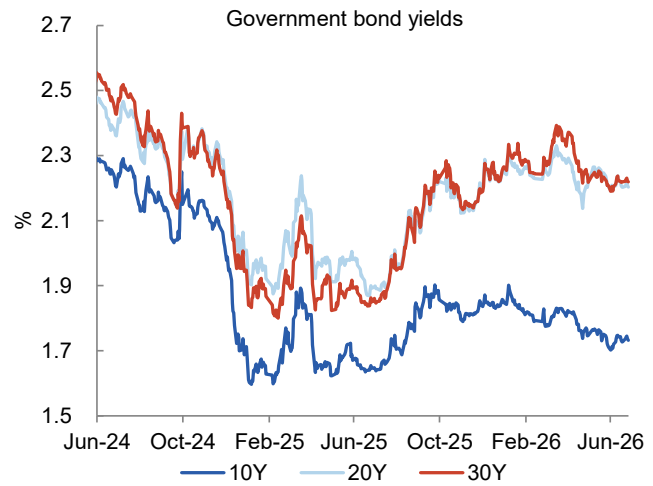


**Fig 19 Short-end CGB yields fell at the front end last week**

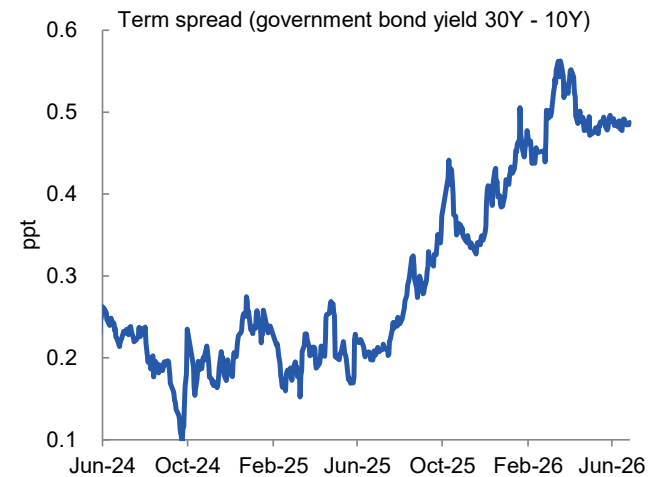
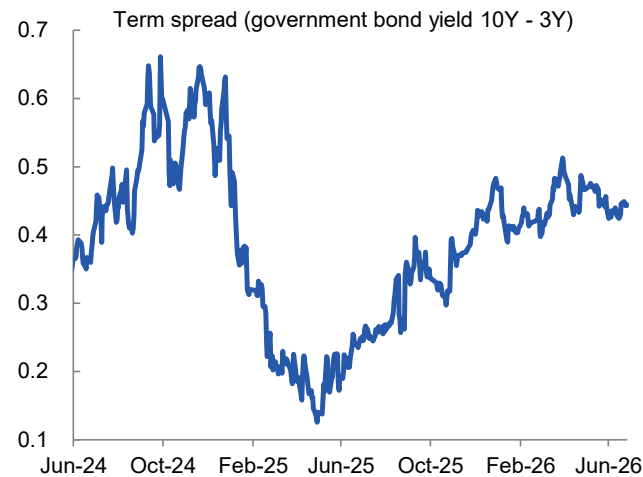


Source: CEIC, Mizuho

**Fig 20 Long-end CGB yields saw muted movements last week**



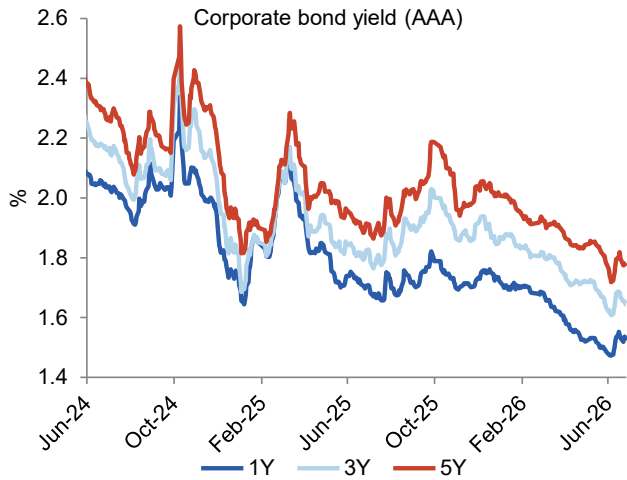
**Fig 21 CGB term spreads stayed much unchanged last week**



Source: CEIC, Mizuho

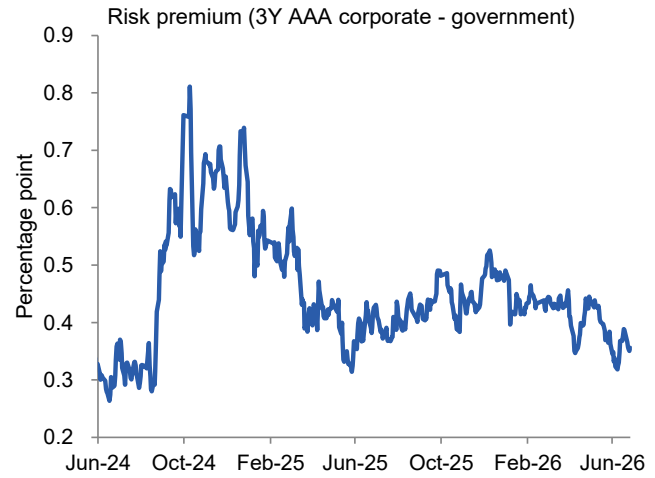
# Credit monitor

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

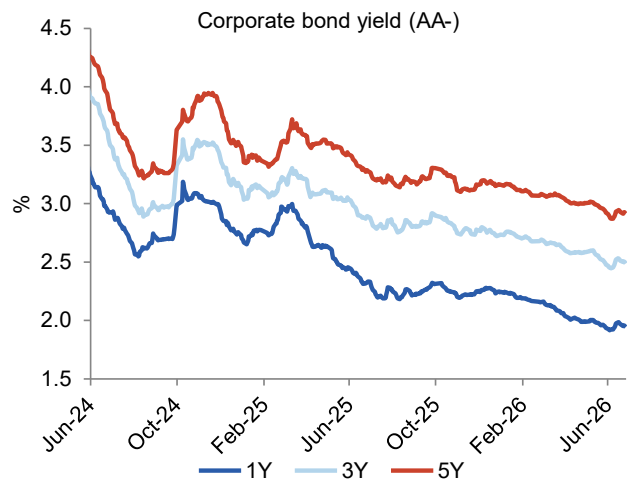


Source: Wind, Mizuho

**Fig 23 IG corporate risk premium squeezed tighter last week**

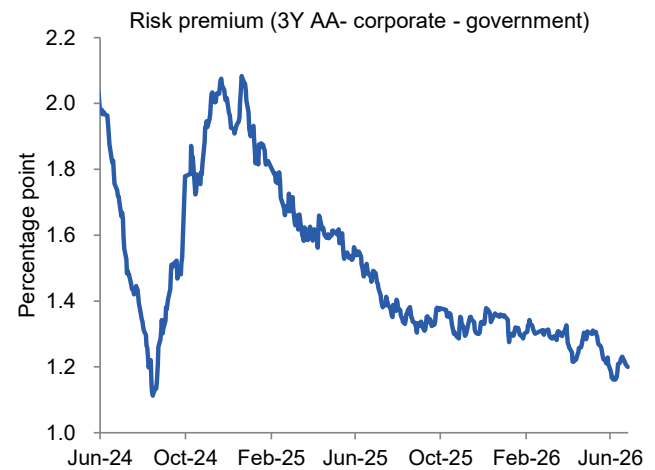


**Fig 24 Onshore HY credit yields edged lower last week**



Source: Wind, Mizuho

**Fig 25 HY corporate risk premium also pushed tighter**



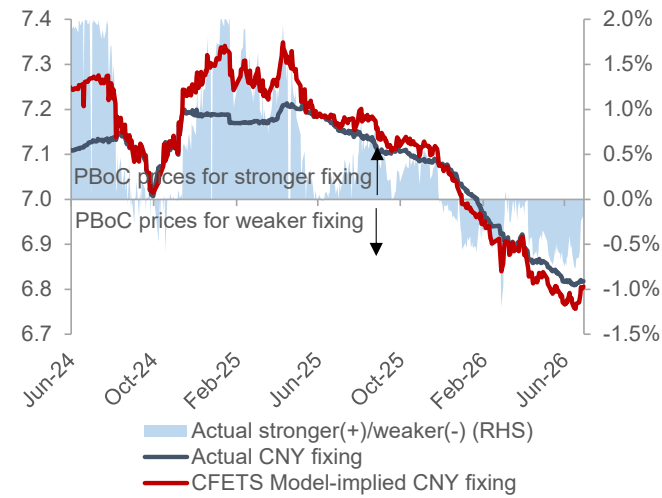
**Fig 26 China USD credit spreads widened last week, led by a rally in UST, volatility in Asian markets, and weakness in China tech**



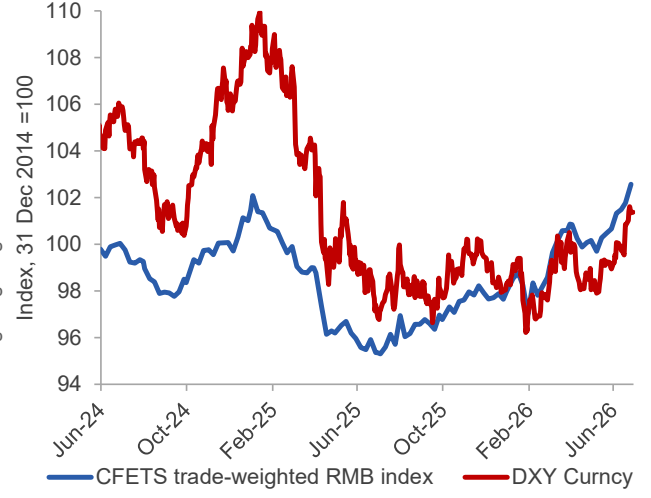
Source: IHS Markit, Mizuho

# FX monitor

**Fig 27 RMB fixing rate: spots moving towards the mid-rate**

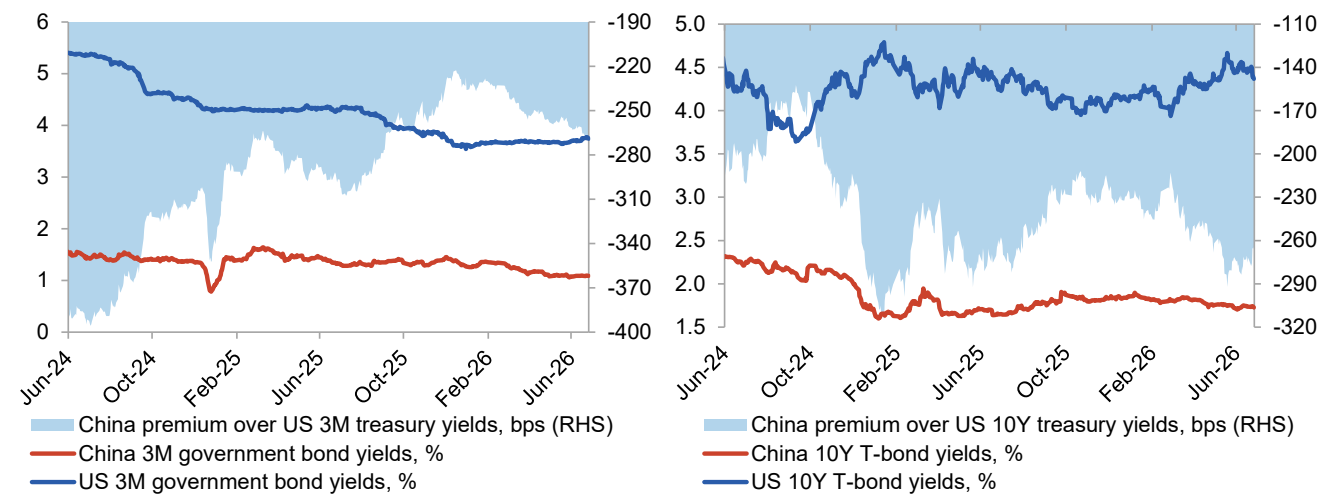


**Fig 28 RMB trade-weighted index rose alongside stronger USD**



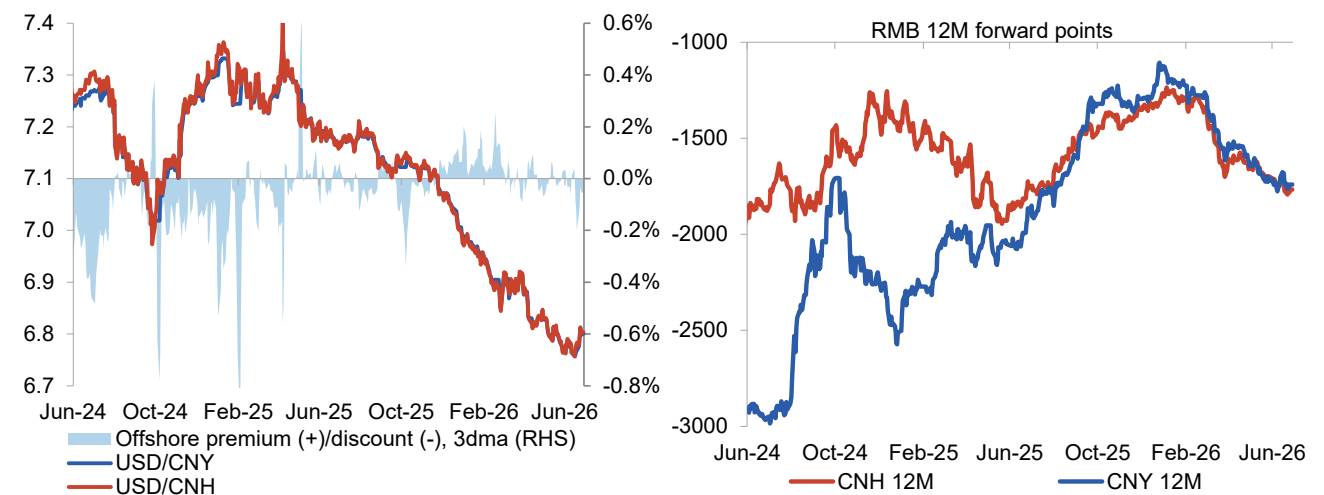
Source: CEIC, Bloomberg, Mizuho

**Fig 29 China-US interest rate spreads moved much wider at the front-end last week**



Source: CEIC, Bloomberg, Mizuho

**Fig 30 Offshore RMB (CNH): forward points for CNY and CNH have reversed lately**



Source: Bloomberg, Mizuho

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