

China Weekly Outlook

Mild Uptick in Quarter-End Rates

Despite typically tight liquidity conditions at quarter-end, China's 7-day repo rate for non-depository financial institutions (R007) rose only modestly at the end of June (Fig. 18), supported by the PBoC's newly introduced overnight liquidity operations. The central bank conducted overnight reverse repos on the final two days of the month, injecting a total of RMB900bn at a fixing rate of 1.25%. Given that DR001 had been trading at around 1.4% in the preceding weeks, the move highlights the PBoC's intention to alleviate quarter-end funding pressures through a highly targeted liquidity tool.

That said, unless the PBoC deploys this tool more frequently beyond quarter-end liquidity management, such operations alone do not provide sufficient evidence that the central bank is turning toward much easier monetary policy or attempting to engineer a de facto rate cut through the overnight reverse repo rate.

Peaking Inflation Pressures in June

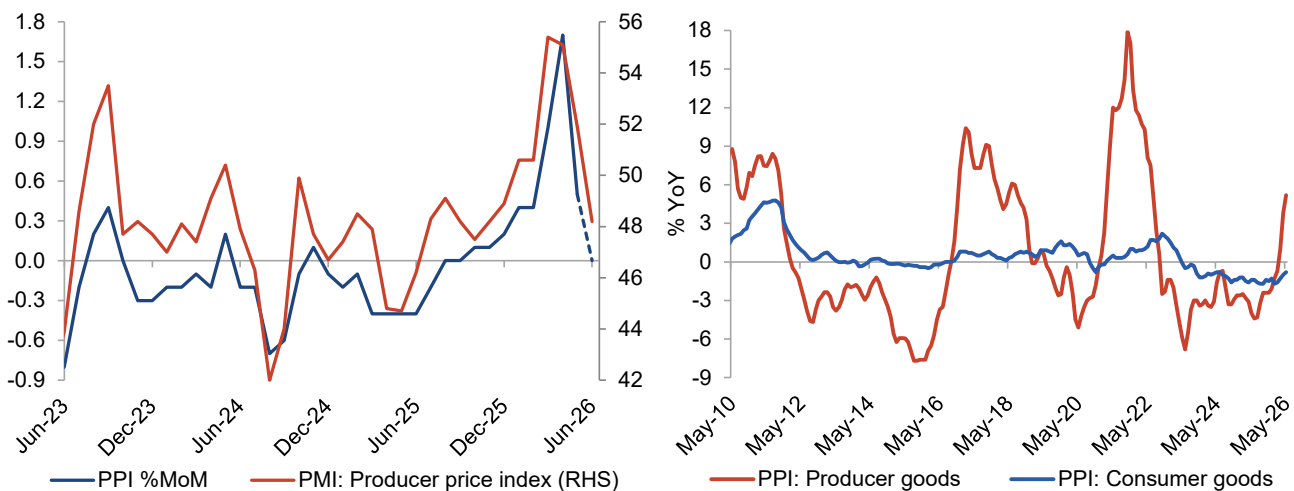
Looking ahead, attention will turn to the June price indicators due this Thursday. We expect inflationary pressures to have peaked in June, particularly for CPI. Imported price pressures appear to have started easing, with the PMI gauge for producer prices falling below the expansion threshold for the first time in six months. Against this backdrop, we expect June PPI to hold flat from the previous month, although YoY growth is likely to accelerate to 4.4%, largely due to a low base from last year.

CPI inflation is expected to moderate slightly to 1.1% YoY in June, mainly reflecting lower fuel costs and continued softness in food prices. Domestic fuel prices declined by an average of 4.7% MoM in June, following a 0.6% MoM drop in May. Food prices are likely to register another sequential decline, weighed down by lower pork and fruit prices.

However, the widening gap between PPI and CPI inflation would further highlight manufacturers' ongoing difficulty in passing higher costs downstream amid still subdued domestic demand. While we expect Beijing's policy support to remain measured and targeted, additional fiscal aids may be introduced to help manufacturers alleviate cost pressures and cope with squeezed margins.

< Muted sequential growth in PPI expected for June >

< Difficulties for manufacturers to pass higher costs downstream >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.8019	6.8074	6.7811	6.7853	-196
USD/CNY	6.8033	6.8048	6.7781	6.7787	-217
CNY PBoC Fixing	6.8175	6.8175	6.8047	6.8047	-119
Shanghai Composite Index	4026.69	4143.31	3992.55	4043.64	16.38

#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	-12	CNH HIBOR (3mth)	1.681
CNH Currency Swap (3yr)	1.280	-0.005	CNH Implied yield (1Y)	1.284

Recap

The offshore renminbi strengthened last week, with USD/CNH briefly dipping to 6.781 as broader risk sentiment improved, supported by easing concerns over oil flows through the Strait of Hormuz. That said, price action may have been somewhat exaggerated by thin liquidity, with US markets closed last Friday for Independence Day, while the JPY also gained on renewed concerns over possible official intervention. Turning to the following Monday (6 July), CNH had softened modestly against the dollar, with spot drifting back toward the 6.80 level.

While CNH was trading at a mild discount to the onshore renminbi for the third consecutive week, it did not breach the PBoC's daily fixing midpoint during the period, suggesting relatively constructive market flows. Last week, the PBoC set the daily fixing on average around 0.3% weaker than levels implied by the CFETS model.

Across Asia, CNH's 0.29% weekly gain against the dollar outperformed JPY (+0.25%), SGD (+0.18%) and HKD (-0.01%), but lagged KRW (+0.33%) and MYR (+0.41%). MYR outperformed for a second consecutive week, supported by BNM's stabilisation measures, while THB led regional gains, rising 0.68% alongside a recovery in gold prices. By contrast, INR was the weakest performer (-0.86%) amid fragile risk sentiment.

Outlook

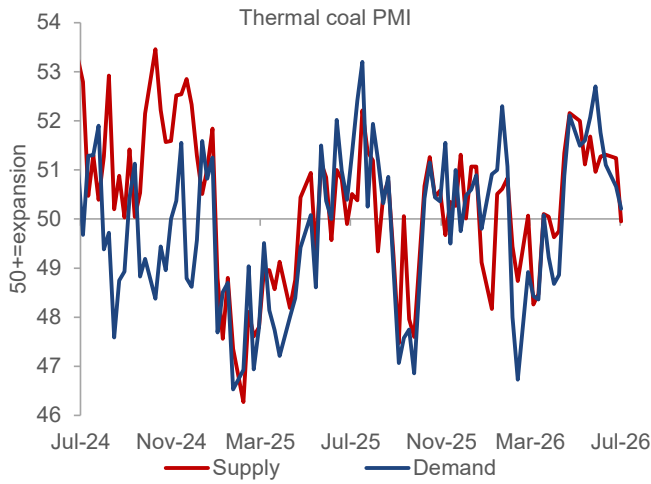
Looking ahead, China's June CPI data and the US FOMC meeting minutes will be the key macro catalysts for CNH this week. In the near term, we do not expect a material shift by the PBoC toward easier monetary policy. Instead, RMB direction is likely driven primarily by dollar dynamics and market expectations around the Fed's policy path. Against this backdrop, **USD/CNH is expected to trade in a slightly wider range around the 6.80 level in the coming weeks.**

Further out, we expect CNH appreciation against the dollar to moderate in Q3 amid continued sectoral divergence in domestic growth. While additional policy support from Beijing remains likely, particularly given pressure on manufacturing margins, the policy mix is expected to lean more toward targeted fiscal measures. **We forecast USD/CNH at 6.75 by quarter-end.**

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: sentiment weakened amid lower oil prices



Source: Wind, Mizuho

Fig 2 PTA production dipped again in early July

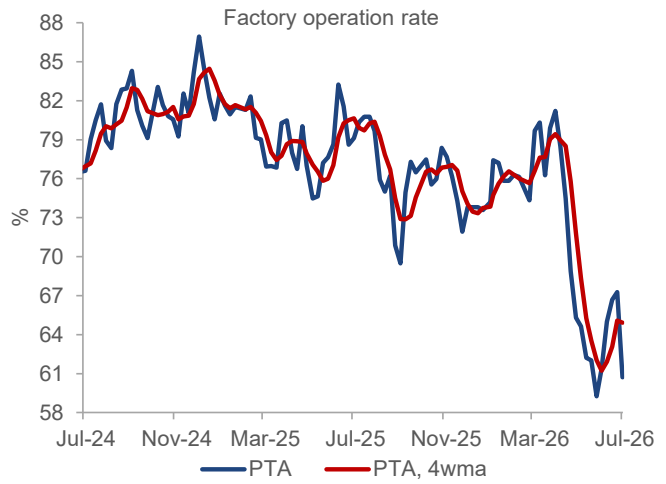
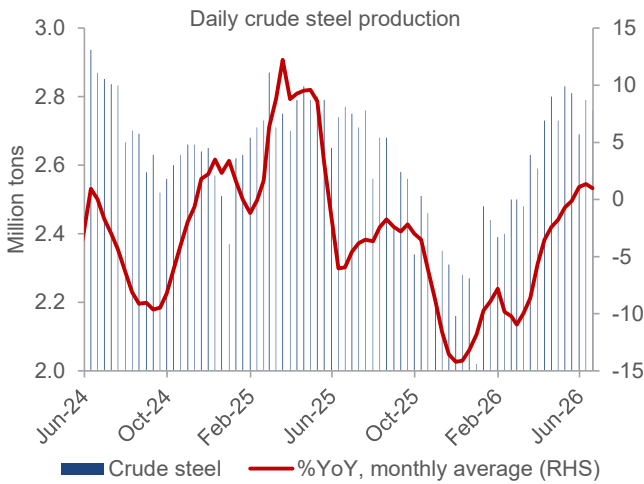


Fig 3 Steel production: the YoY change turned positive in June



Source: Wind, Mizuho

Fig 4 Steel tire production has moderated in recent weeks

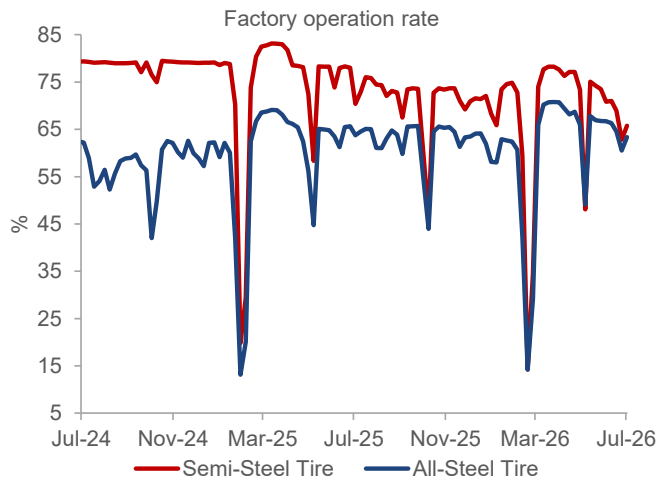
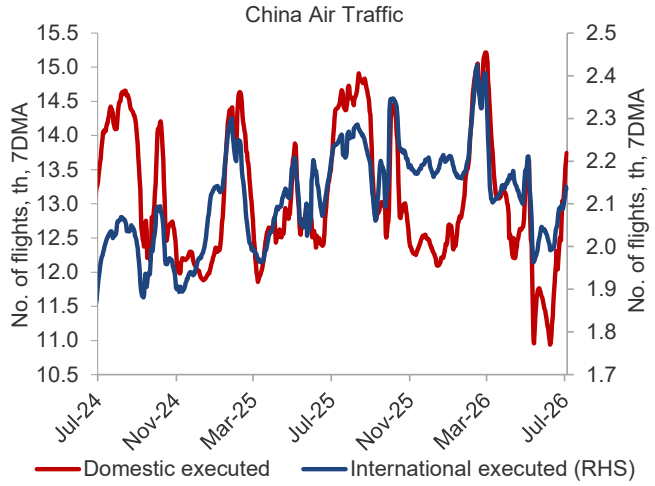


Fig 5 CCFI: prices for outward shipments rose at a faster pace



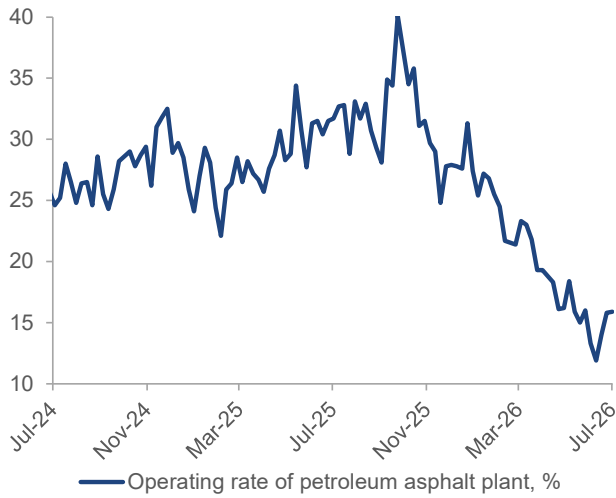
Source: Wind, Mizuho

Fig 6 Air traffic: domestic travel continued to pick up in summer



Activity monitor (2/2)

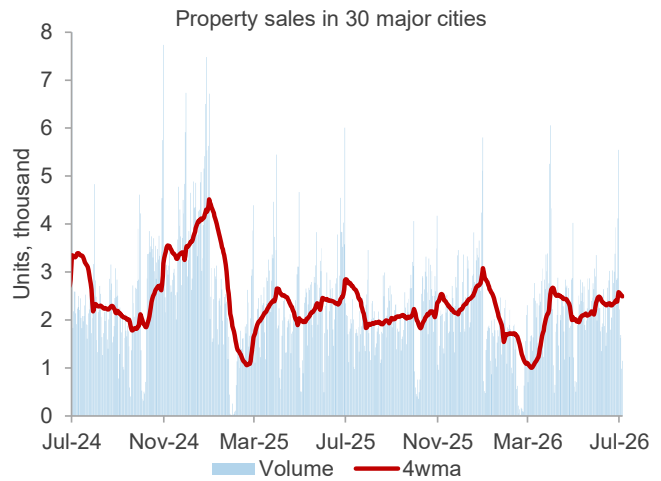
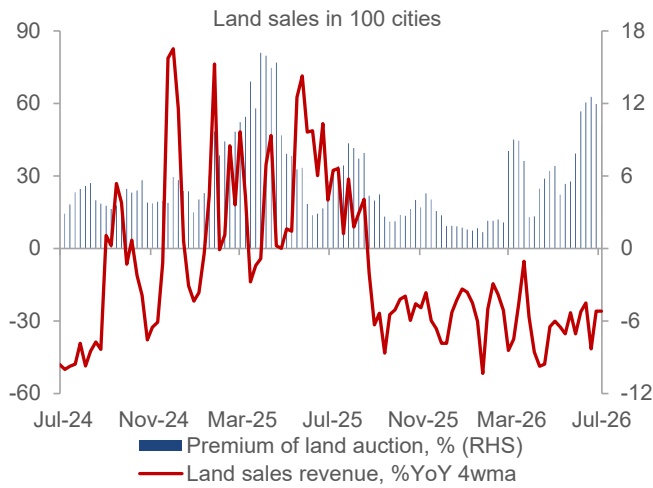
Fig 7 Road construction activity climbed for three weeks in a row **Fig 8 Construction material prices: rebar prices fell notably**



Source: Wind, Mizuho

Fig 9 Land sales saw persistent YoY declines

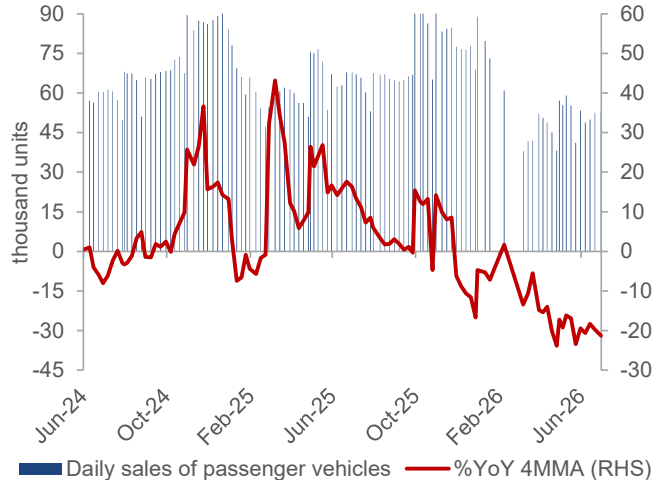
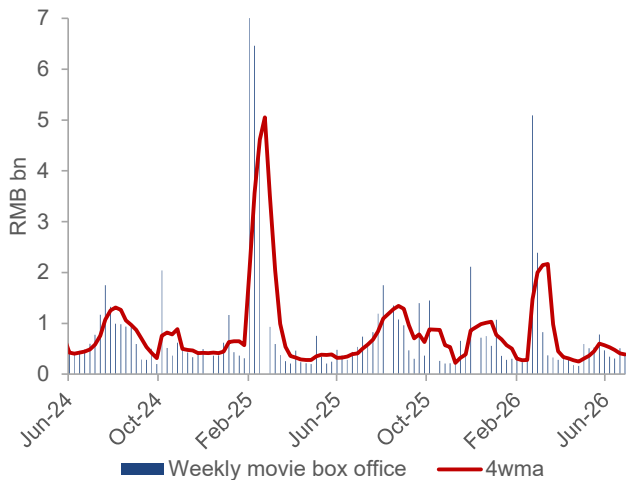
Fig 10 New home sales: a lack of improvement at the national level



Source: Wind, Mizuho

Fig 11 Movie box office revenue remained sluggish

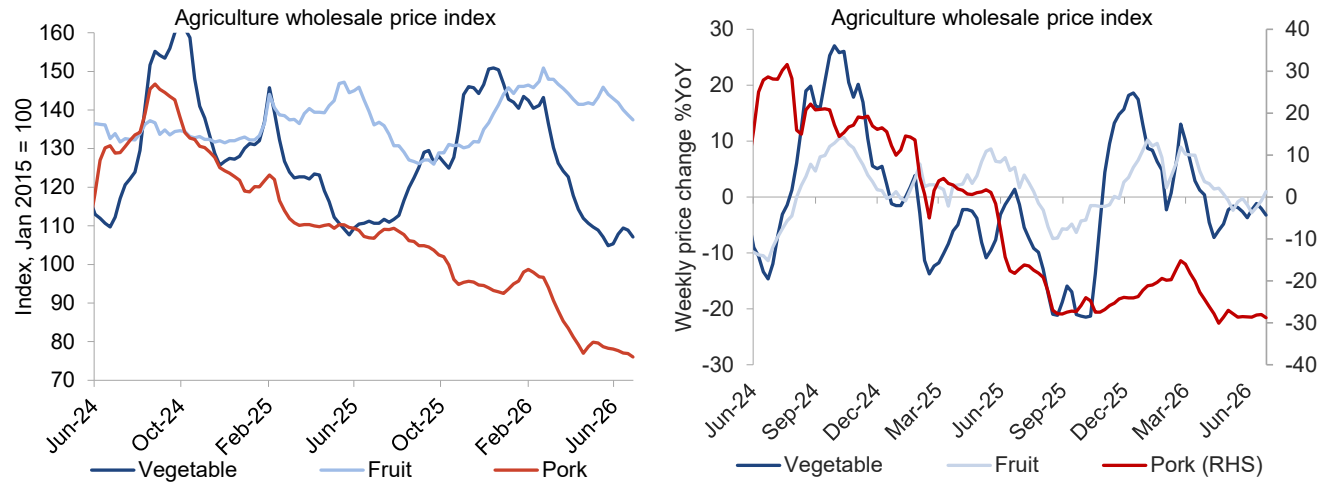
Fig 12 PV sales continued to see significant YoY declines



Source: Wind, Mizuho

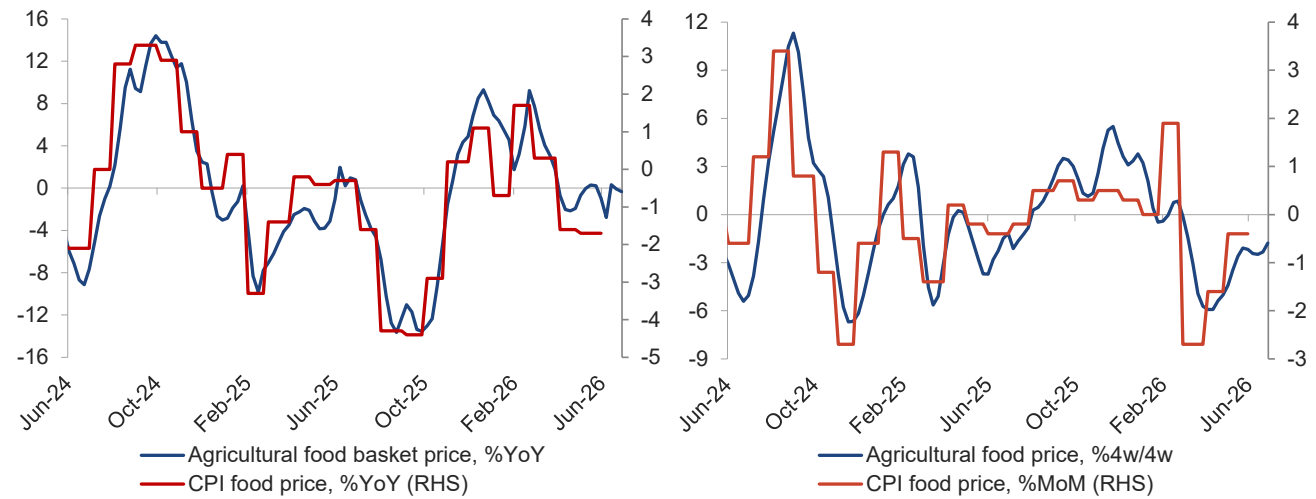
Price monitor

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



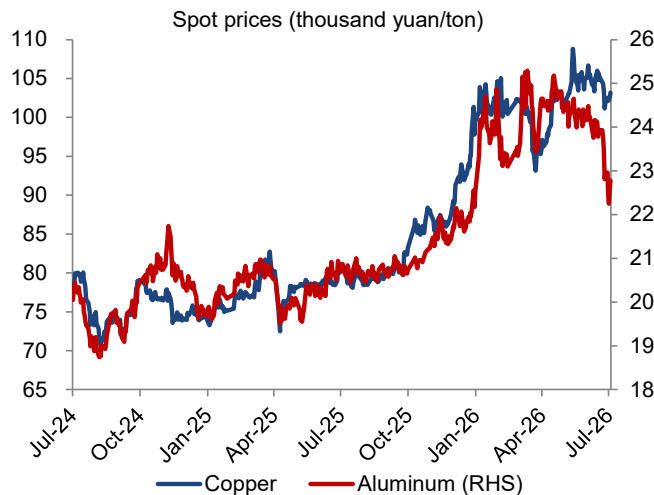
Source: Wind, Mizuho

Fig 14 Wholesale food prices have seen continued weakness in July



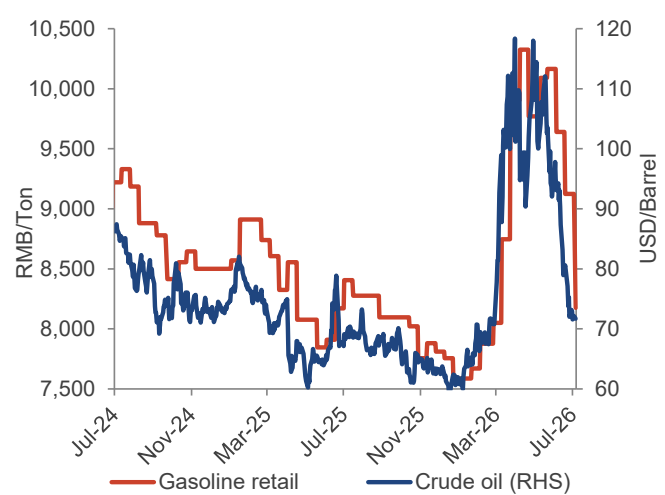
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices dropped notably



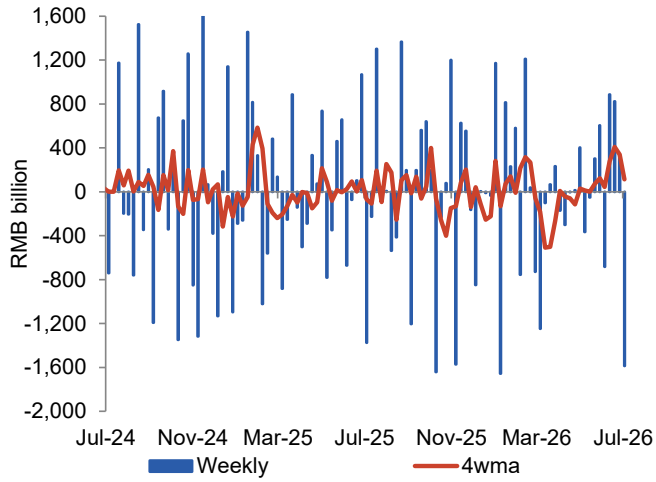
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices: fuel prices fell by over 10% in the latest adjustment



Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB1587b during 29 Jun – 3 Jul



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

Fig 18 7D repo for FIs returned to its benchmark level in early July

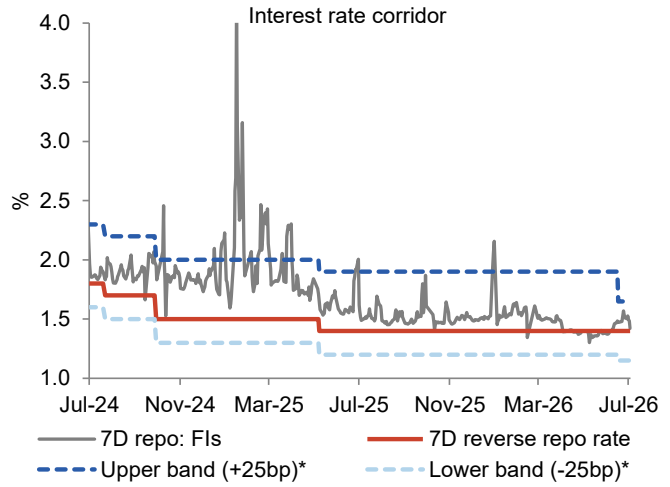
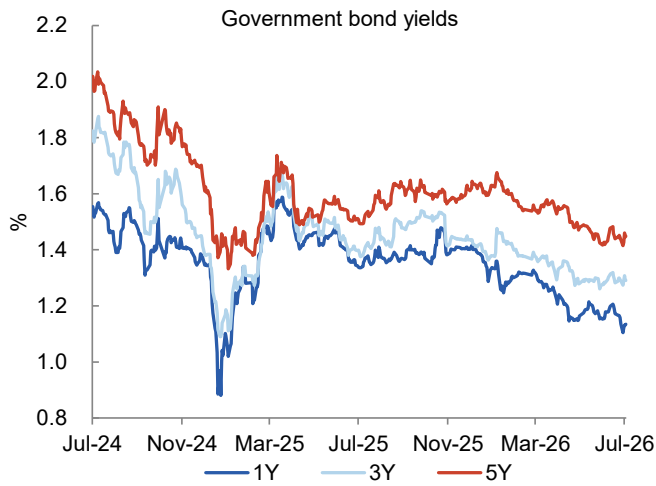


Fig 19 Short-end CGB yields fell at the front end last week



Source: CEIC, Mizuho

Fig 20 Long-end CGB yields ticked up at the ultra-long end

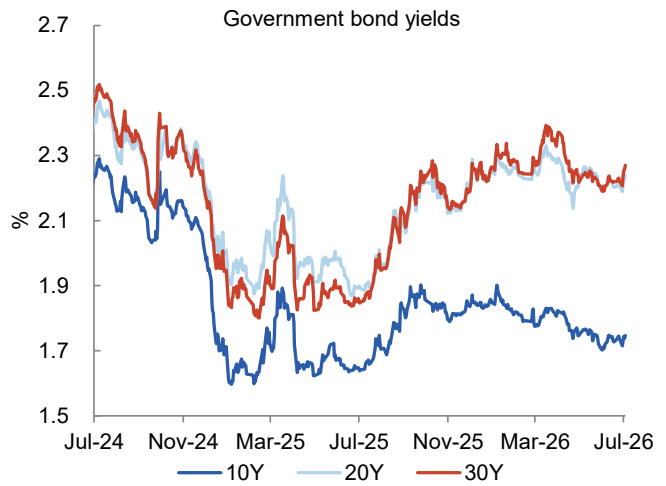
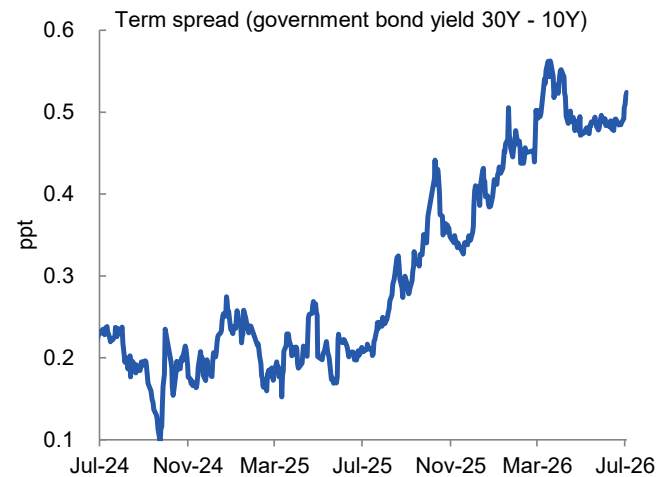
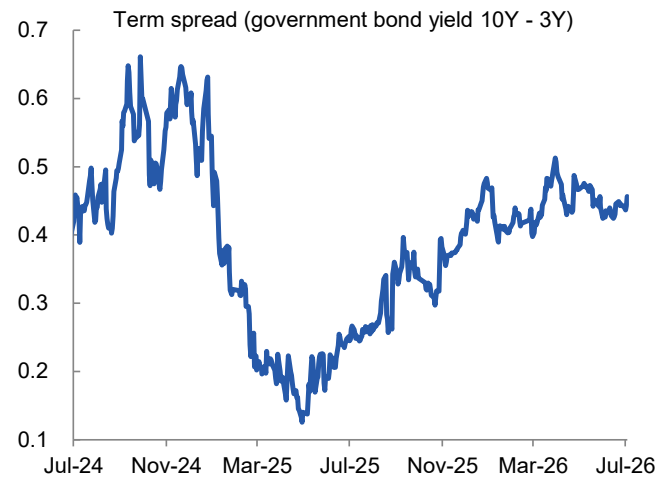


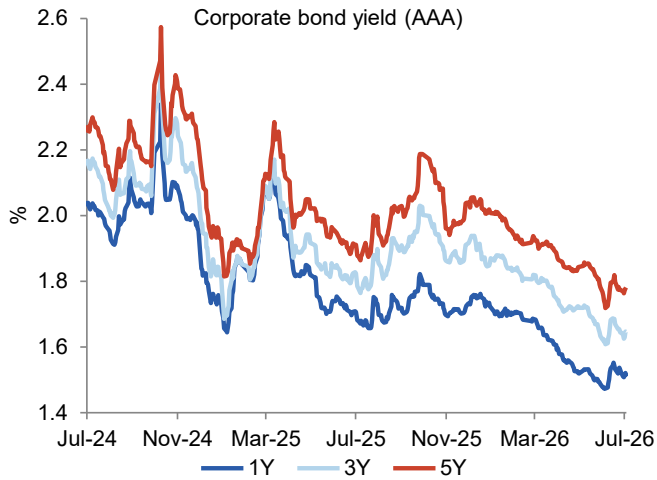
Fig 21 CGB term spreads widened across the curve last week



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields fell across maturities



Source: Wind, Mizuho

Fig 23 IG corporate risk premium squeezed tighter last week

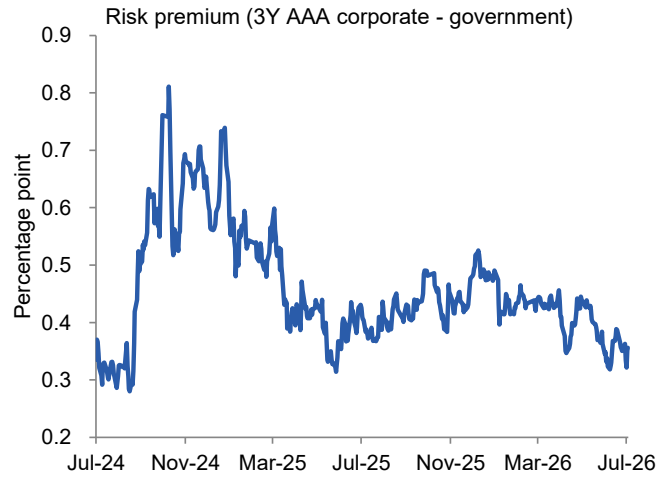
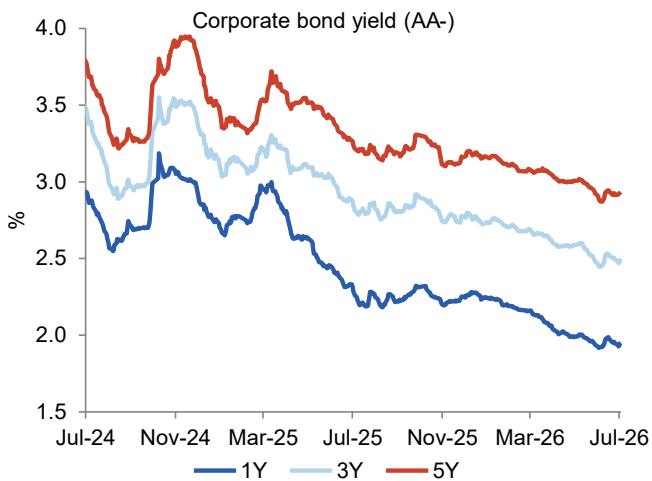


Fig 24 Onshore HY credit yields edged lower last week



Source: Wind, Mizuho

Fig 25 HY corporate risk premium also pushed tighter



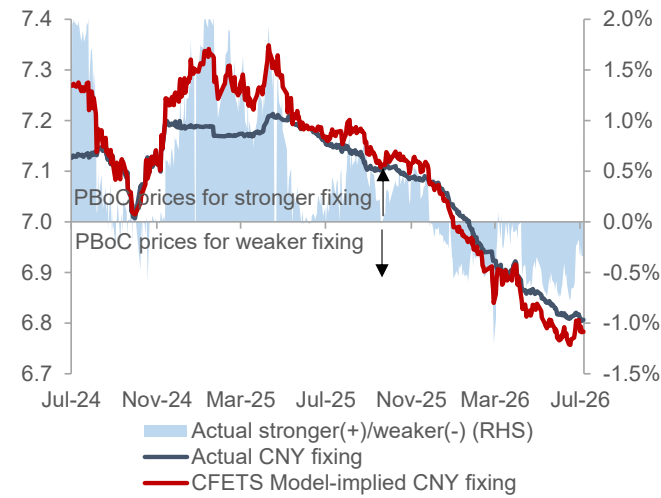
Fig 26 China USD credit spreads squeezed tighter last week amid higher UST yields and a risk-on tone



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: spots once moved closer to the mid-rate



Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index rose alongside stronger USD

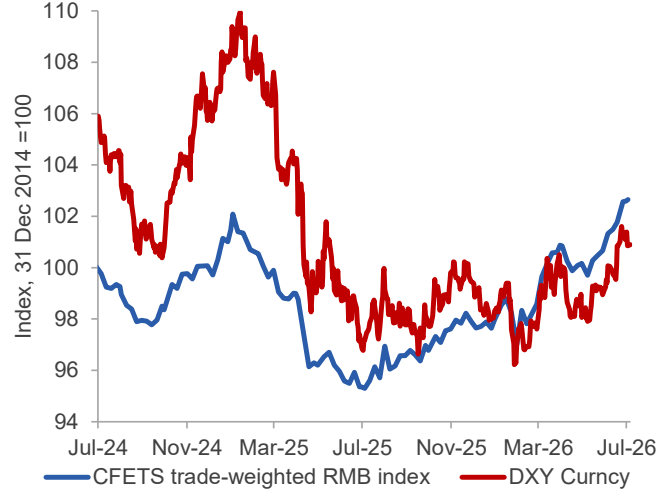
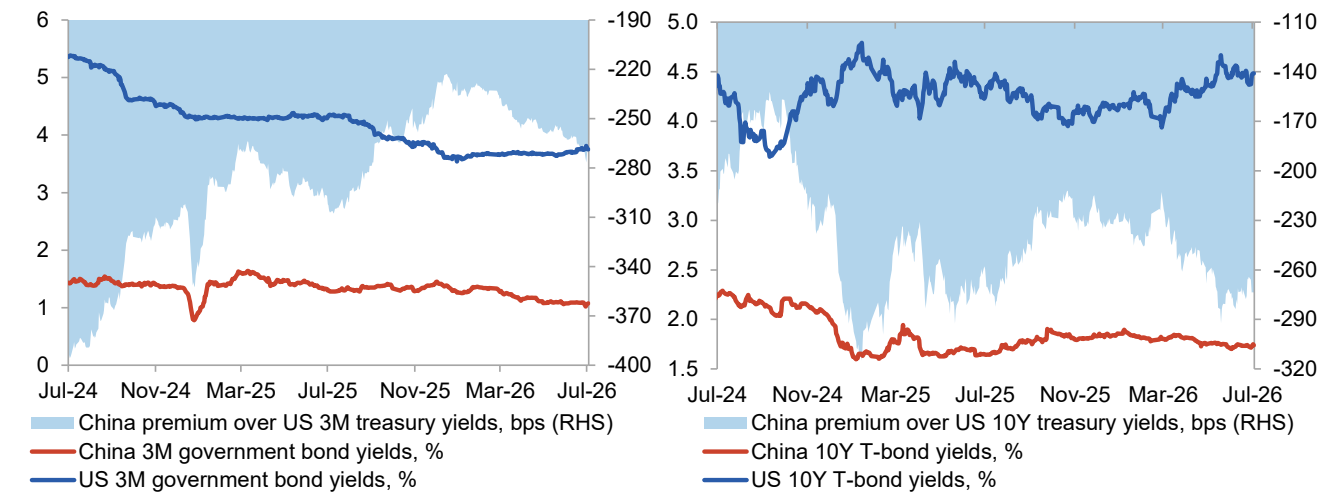
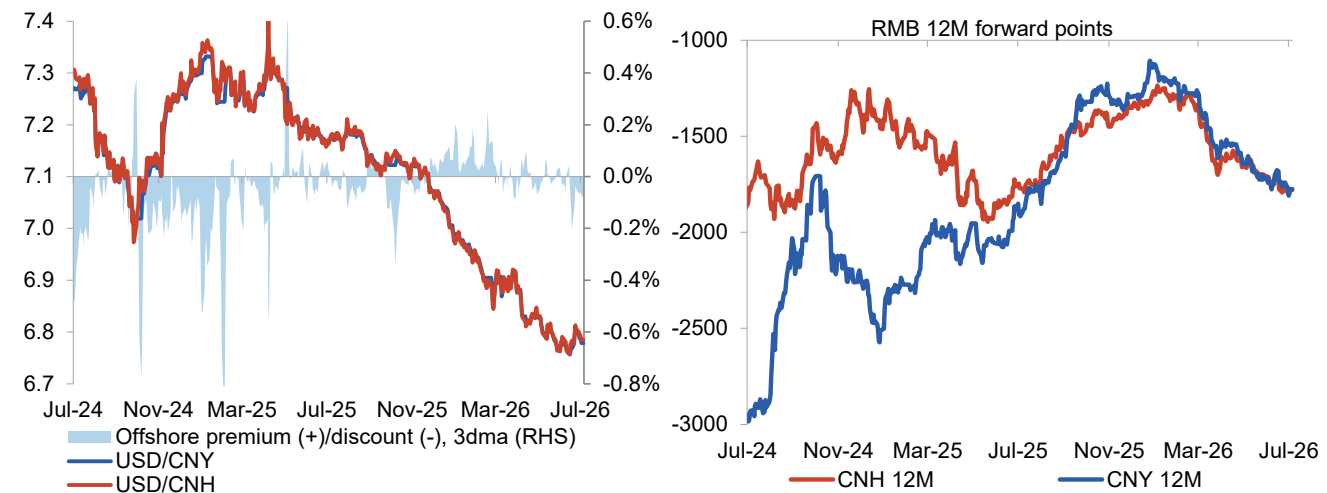


Fig 29 China-US interest rate spreads moved wider at both the front end and back end last week



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH): is trading at a mild discount to CNY in recent weeks



Source: Bloomberg, Mizuho

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