Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Unexpected Weakness in July PMIs

China's **official manufacturing PMI** fell to a five-month low of 49.2 in July, missing all market estimates and pointing to weaker supply and demand conditions. The new orders subindex declined to a three-year low of 48.5, while the production subindex slipped below the expansion threshold to 49.9. The slowdown was likely exacerbated by heavy rainfall, typhoons and flooding, particularly in major industrial provinces such as Guangdong and Zhejiang. Notably, the PMI of large factories rarely falls below the expansion threshold, yet it declined to 49.5. By sector, the consumer goods PMI dropped to a more than three-year low of 47.8, while basic raw materials continued to underperform. High-tech manufacturing remained a bright spot, with its PMI holding firm at 53.3.

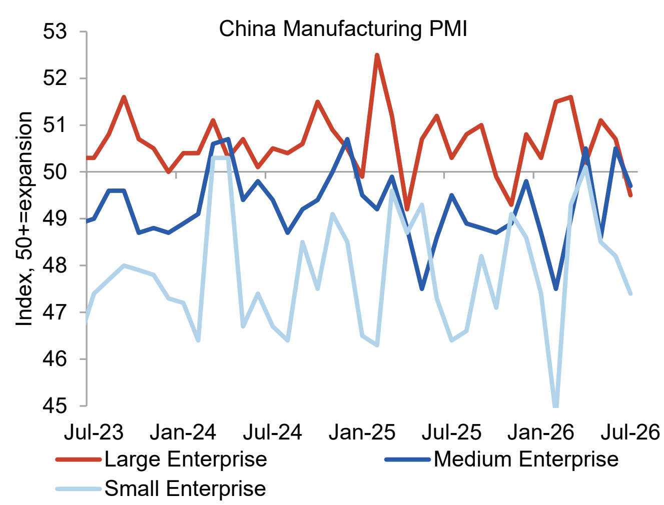
Conditions also weakened in **the non-manufacturing sector**, with both the services and construction PMIs falling below the expansion threshold. The construction PMI declined to 47.0, its lowest level since the pandemic, underscoring subdued demand from property and infrastructure projects. A rise in domestic COVID infections likely added to the weakness.

No Big Bang at Politburo Meeting

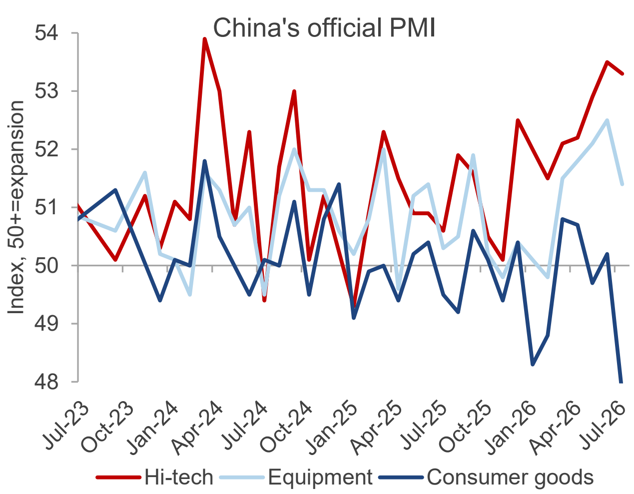
The **July Politburo meeting**, held last Thursday, delivered an outcome broadly in line with our expectations, albeit with a slightly more supportive tilt (see *Mizuho China Politburo Preview: A Calm Reply to Mounting Downside Pressures, 28 July 2026*). The meeting called for stronger countercyclical adjustment, faster implementation of existing measures and advance preparation of "pragmatic" incremental support. Notably, this appears to be the first use of "pragmatic" in this policy context. The meeting also emphasized the need to phase out outdated and inefficient capacity across both the industrial and services sectors, while comprehensively addressing "involution-style" competition.

On fiscal policy, policymakers called for faster fiscal spending and more effective deployment of government bond proceeds, alongside accelerated progress on projects related to the "six networks." **On the monetary front**, although the PBoC stopped short of explicitly committing to interest-rate or RRR cuts, its tone was more proactive, by pledging to maintain ample liquidity across short-, medium- and long-term maturities. The meeting also reiterated its **commitment to stabilizing the property market**, as policymakers seek to prevent a renewed downward correction amid mounting headwinds nationwide.

< A rare dip in the manufacturing PMI for large enterprises >



< Continued divergence across manufacturing sectors >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7719	6.7745	6.7423	6.7524	-194
USD/CNY	6.7693	6.7734	6.7457	6.7531	-180
CNY PBoC Fixing	6.7911	6.7928	6.7892	6.7894	-45
Shanghai Composite Index	3808.90	3858.31	3767.50	3832.26	18.06

#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)	-1834	31	CNH HIBOR (3mth)	1.585	-0.018
CNH Currency Swap (3yr)	1.225	0.000	CNH Implied yield (1Y)	1.307	-0.014

Recap

The offshore renminbi (CNH) strengthened notably last week after Fed Chair Warsh struck a less hawkish tone than markets had anticipated at the post-FOMC press conference. Softer-than-expected PCE inflation and GDP data further reduced expectations of a near-term Fed rate hike, briefly pushing USD/CNH below 6.75.

Domestic developments also supported the renminbi. The July Politburo meeting stopped short of explicitly signalling major easing measures, such as cuts to policy rates or the reserve requirement ratio. Against this more constructive backdrop, USD/CNH moved from trading at a discount to USD/CNY to a premium last week (Fig. 30).

That said, the CNH gained 0.3% against the US dollar over the week, lagging most of its regional peers. The PBoC stepped up efforts to moderate the pace of renminbi appreciation, setting Friday's daily fixing 0.7% weaker than the level implied by the CFETS model, compared with 0.3% the previous week (Fig. 27).

Elsewhere in the region, the JPY was the strongest performer, appreciating 4.1% WoW following coordinated intervention by the US and Japan. The KRW gained 1.4%, supported by a renewed hawkish tone by the BoK governor and a recovery in the domestic equity market. By contrast, the IDR was the only regional currency weakened, falling 0.3% as the resignation of the BI governor raised concerns about central bank independence.

Outlook

This week, attention in China will turn to the release of trade data on Friday, followed by inflation data on Sunday. Outside China, the main focus will be on US labour-market indicators, particularly Friday's nonfarm payrolls report. Progress in US-Iran ceasefire negotiations could provide a modest tailwind for CNH spot, although it is unlikely to be a decisive driver. Against this backdrop, **USD/CNH is likely to trade within a relatively tight range around 6.76 over the coming weeks.**

Further out, we expect CNH appreciation to moderate in Q3 as weak domestic demand and a less clear outlook for the US Fed rate path. While Beijing is expected to deliver additional policy support, the policy mix should remain tilted toward targeted fiscal measures rather than broad-based monetary easing. **We forecast USD/CNH at 6.75 by quarter-end.**

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: growth in supply lagged that in demand

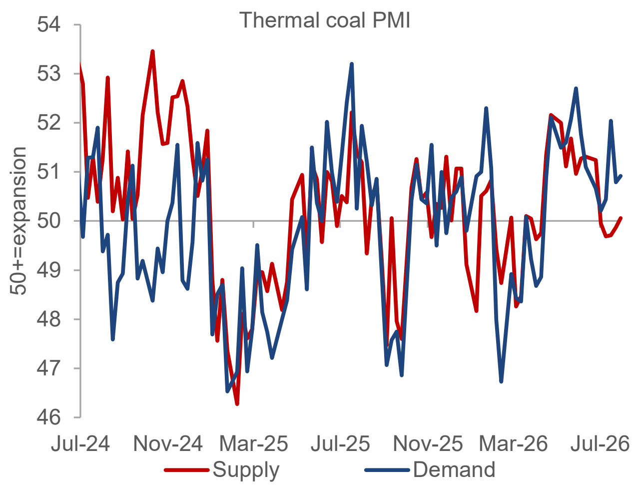


Fig 2 PTA production recorded a new low in July

Source: Wind, Mizuho

Fig 3 Steel production: saw renewed YoY declines in July

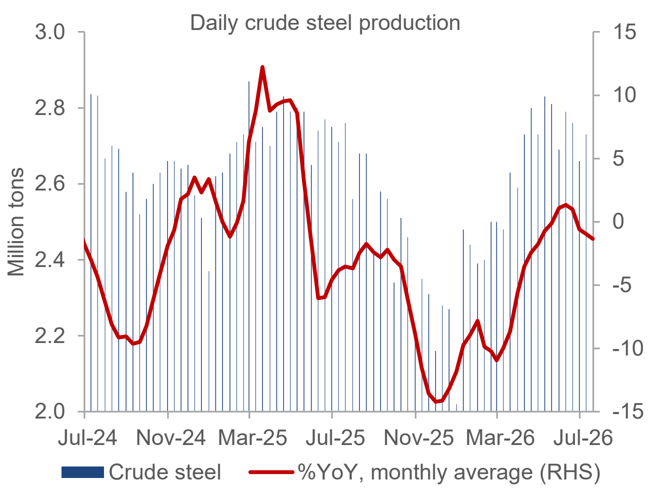
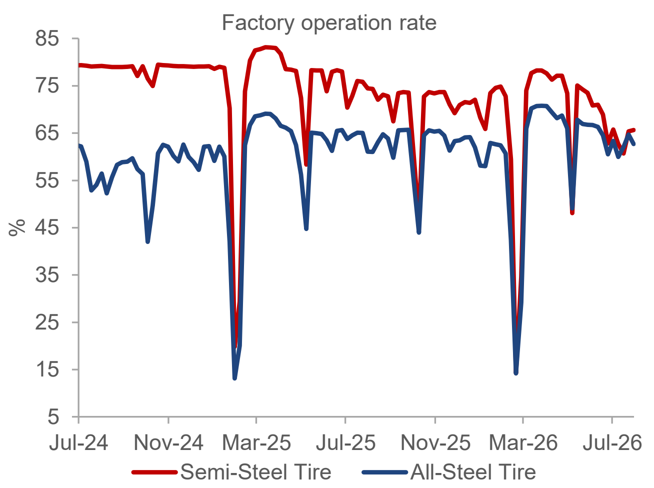


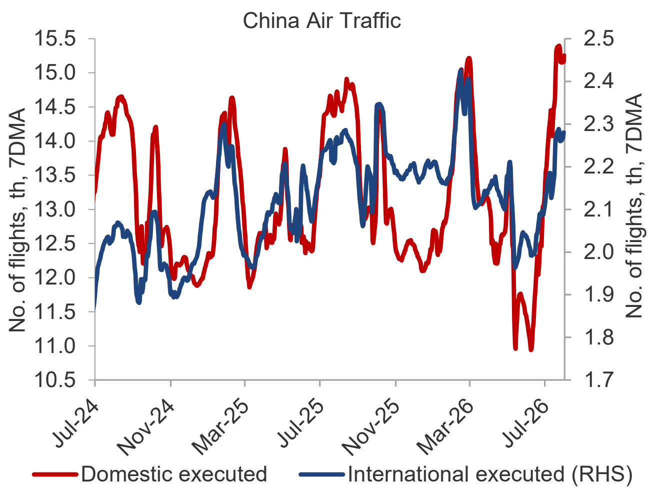
Fig 4 Steel tire production notably moderated in July



Source: Wind, Mizuho

Fig 5 CCFI: demand for outward shipments likely weakened

Fig 6 Air traffic: domestic travel spiked on summer demand



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity rose to a new high since Mar

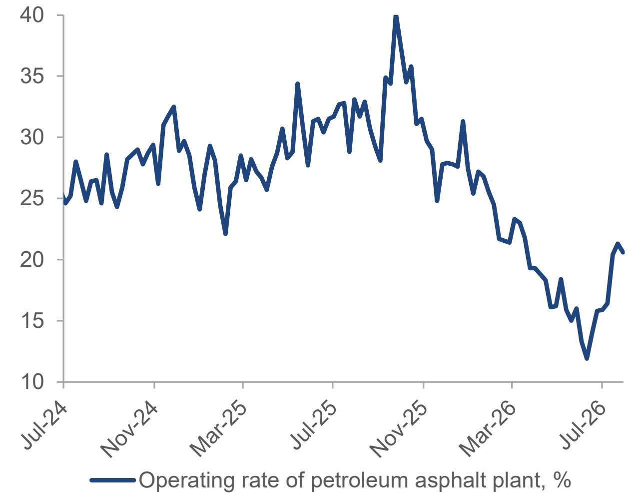
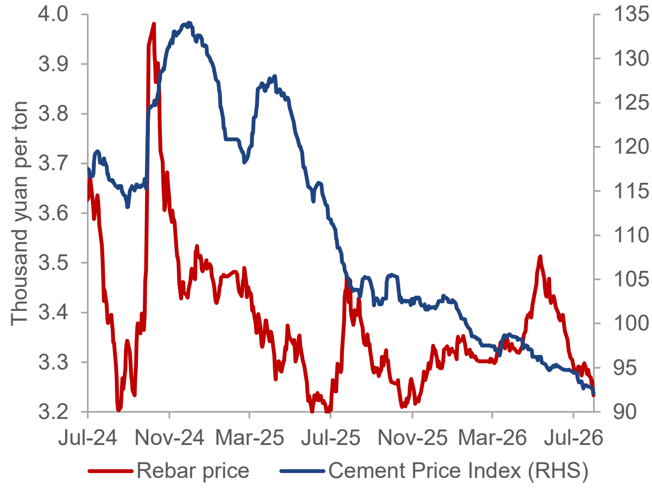


Fig 8 Construction material prices: both cement and rebar prices fell



Source: Wind, Mizuho

Fig 9 Land sales saw persistent YoY declines

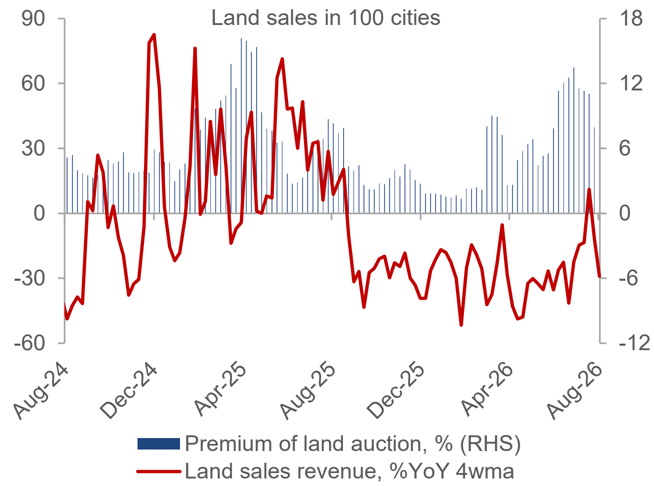
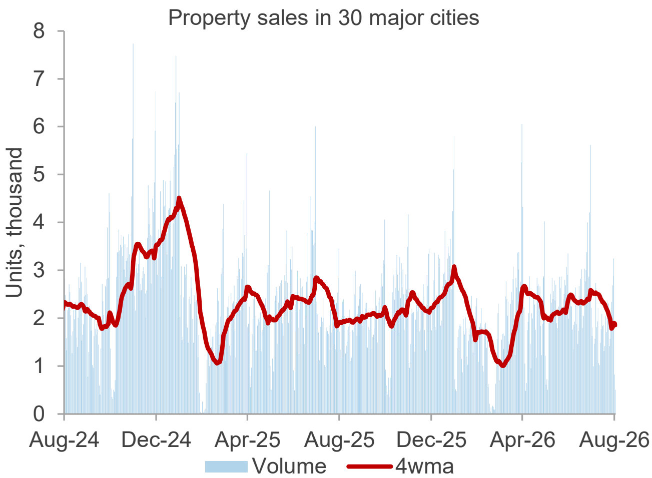


Fig 10 New home sales: a lack of improvement at the national level



Source: Wind, Mizuho

Fig 11 Movie box office revenue buoyed by summer holiday

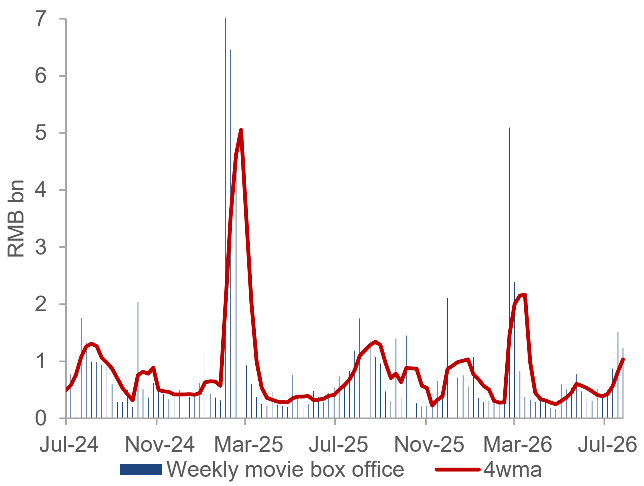
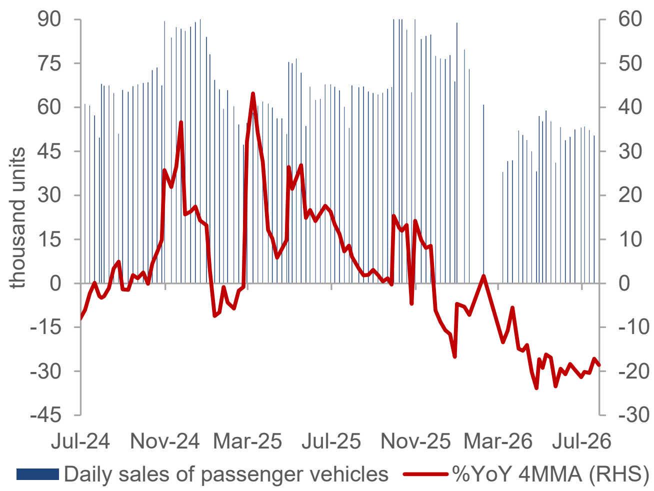


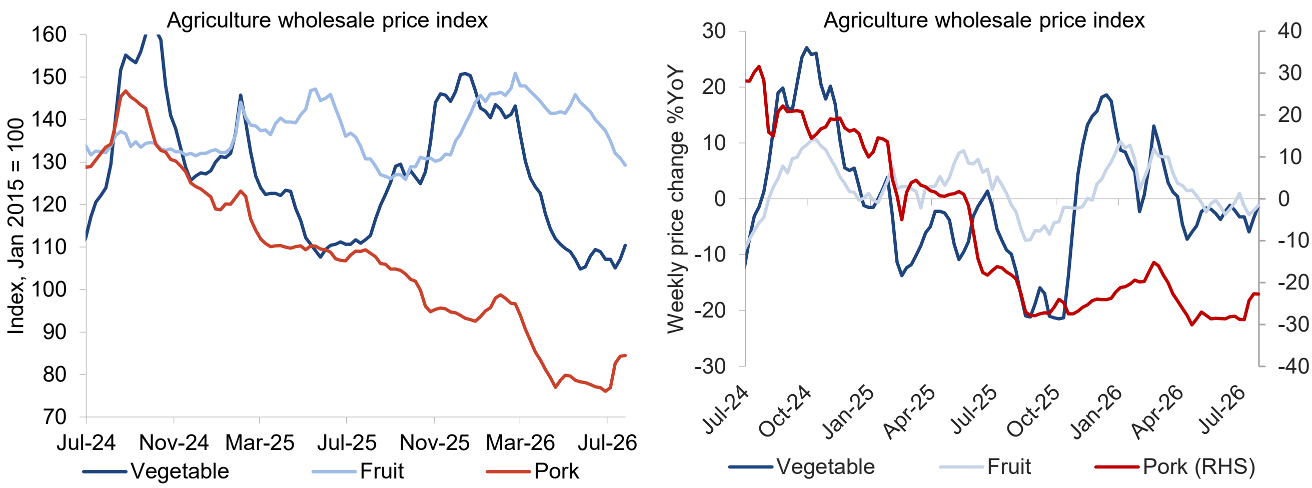
Fig 12 PV sales continued to see notable YoY declines



Source: Wind, Mizuho

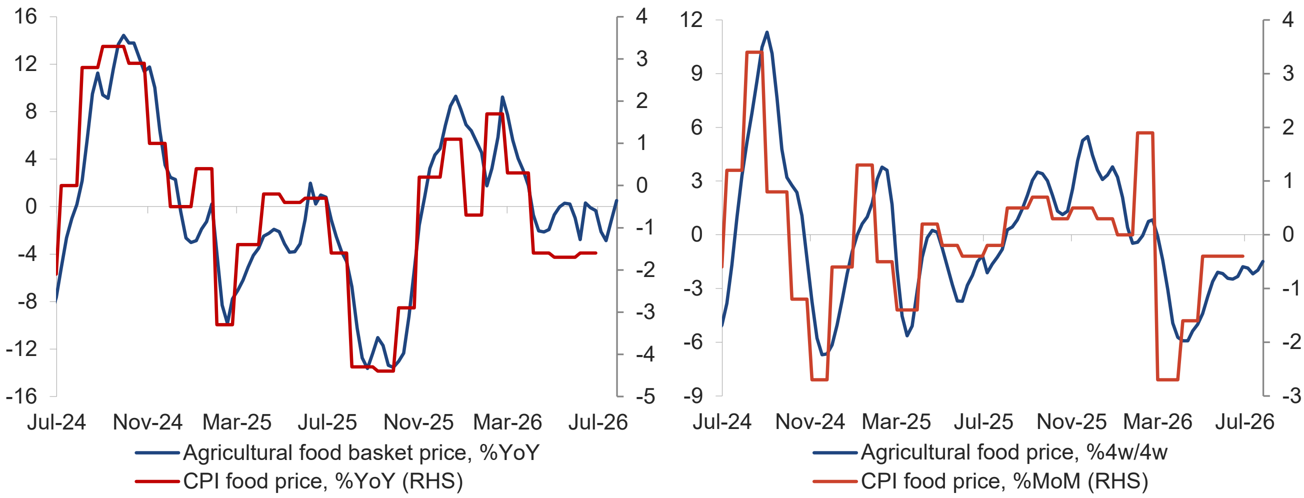
Price monitor

Fig 13 Major food items: Pork prices rebounded notably after heavy rainfall and flooding in China



Source: Wind, Mizuho

Fig 14 Wholesale food prices have seen continued weakness in July



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices have been trending up

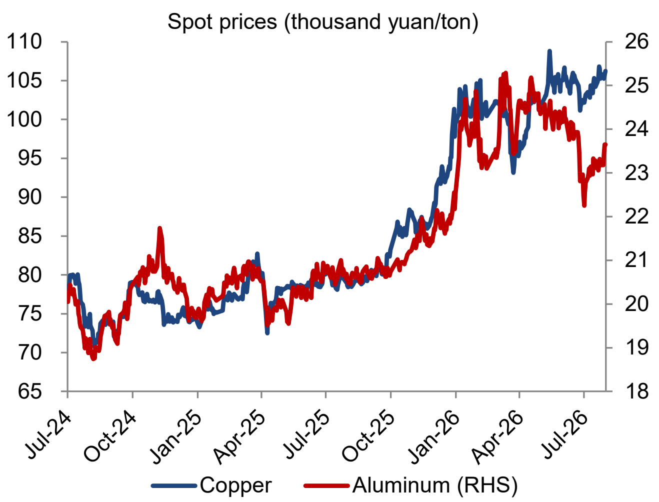
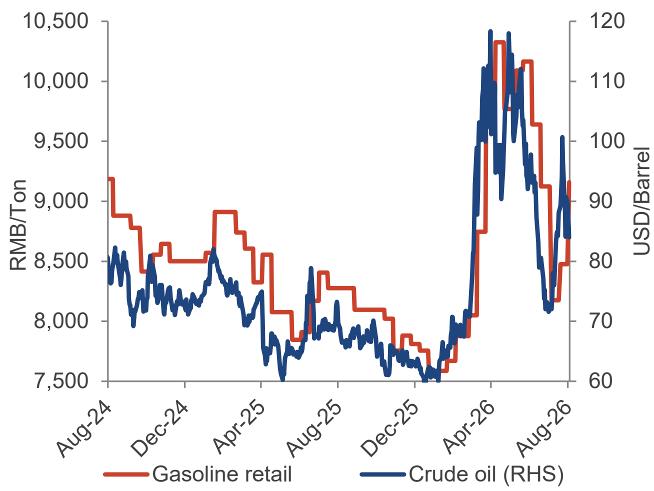


Fig 16 Oil prices: domestic fuel prices rose again



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB822b during 27 - 31 Jul

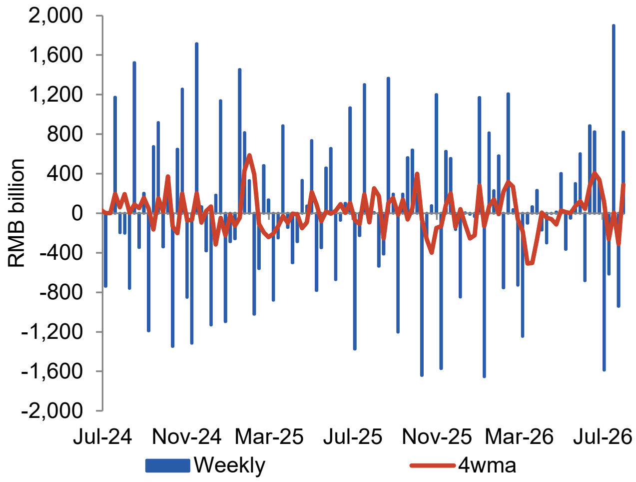
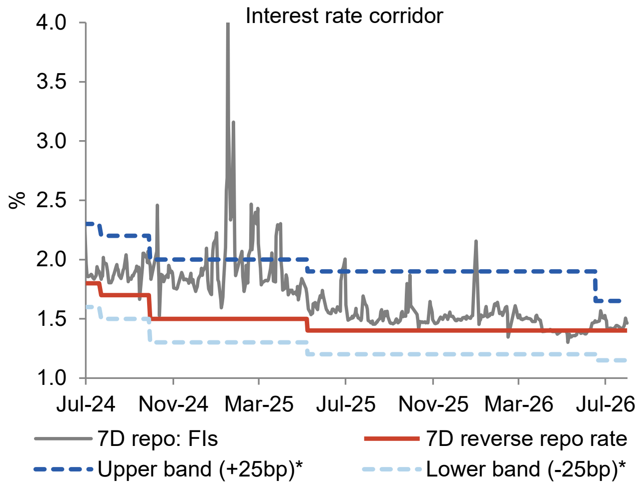


Fig 18 7D repo for FIs ticked up at the month end



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

Fig 19 Short-end CGB yields saw a small pickup at the 1Y tenor

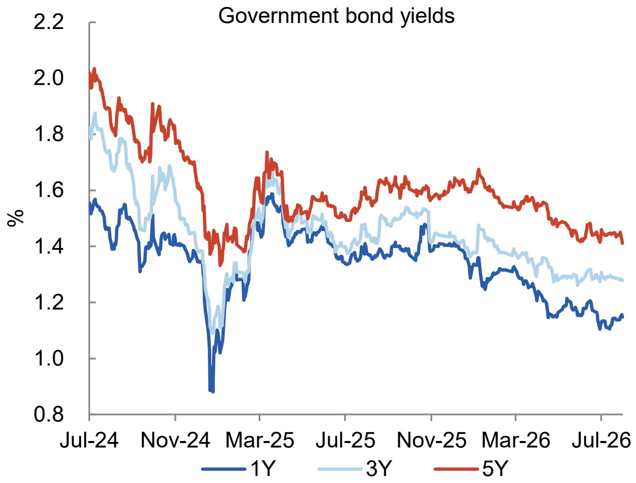
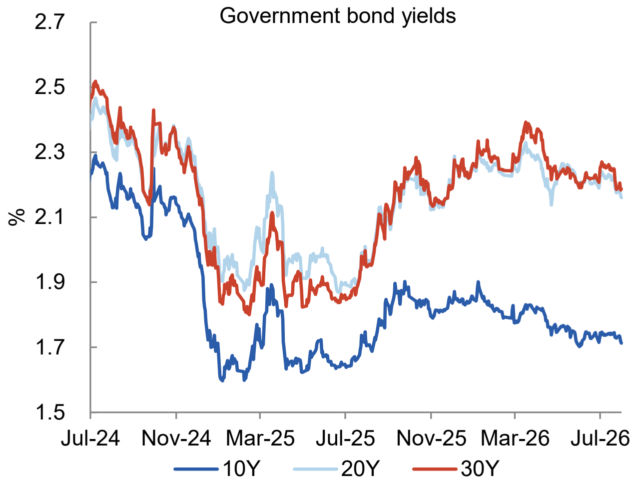
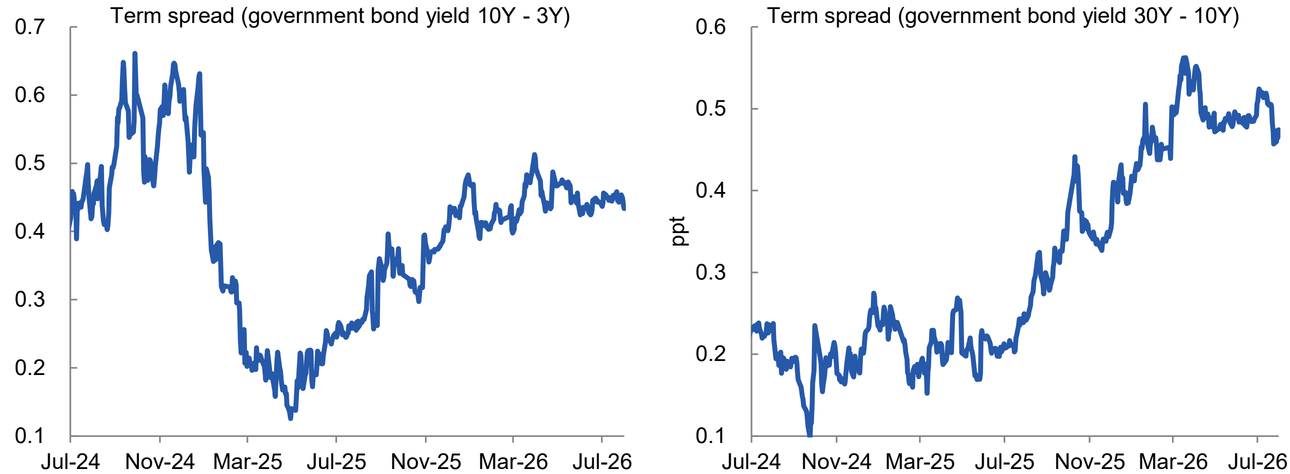


Fig 20 Long-end CGB yields: ultra-long yields fell notably



Source: CEIC, Mizuho

Fig 21 CGB term spreads tightened notably at the right part of the curve



Source: CEIC, Mizuho

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Credit monitor

Fig 22 Onshore IG credit yields ticked up last week

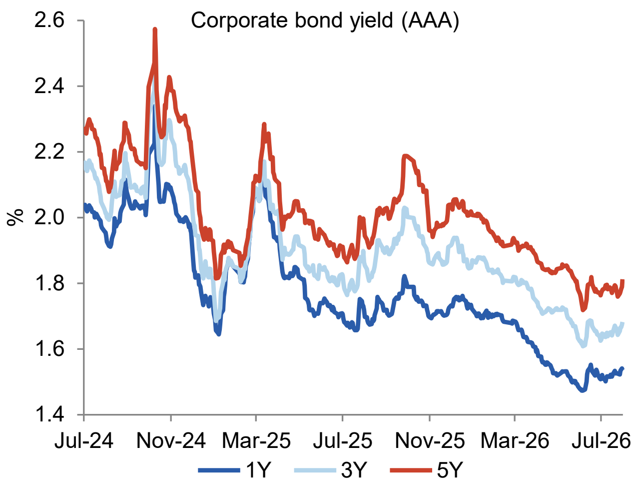
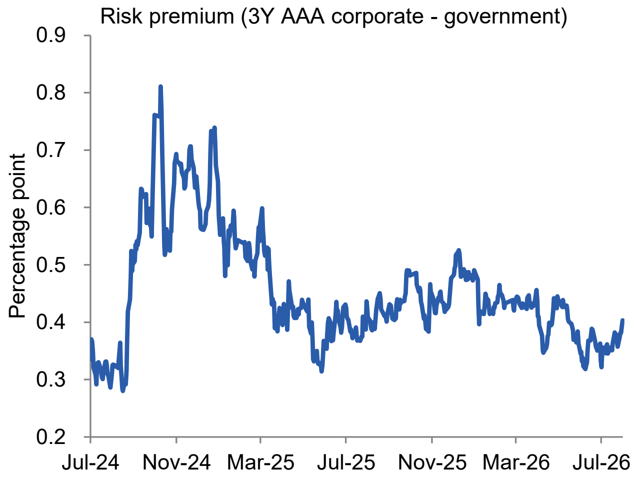


Fig 23 IG corporate risk premium rose notably last week



Source: Wind, Mizuho

Fig 24 Onshore HY credit yields moved lower in the 3Y tenor

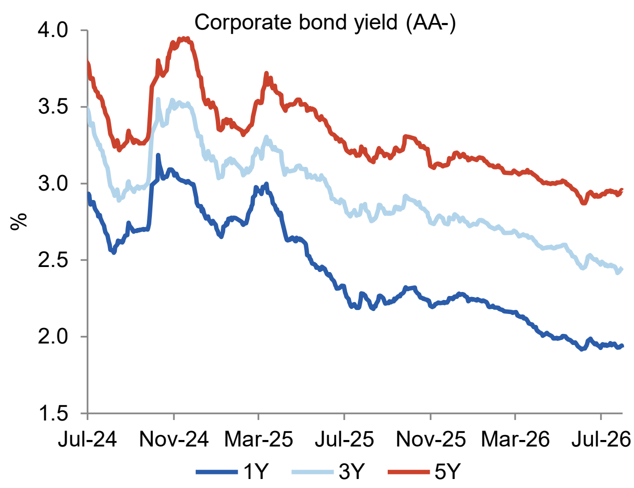
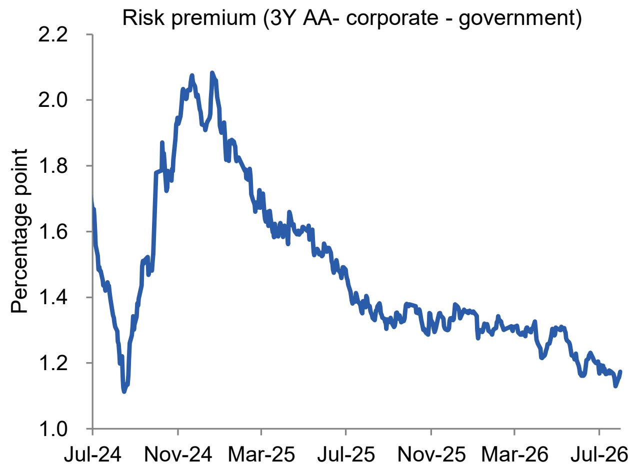


Fig 25 HY corporate risk premium rose moderately last week



Source: Wind, Mizuho

Fig 26 China USD credit spreads finished mixed last week as the treasury curve steepened

Source: IHS Markit, Mizuho

FX monitor

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

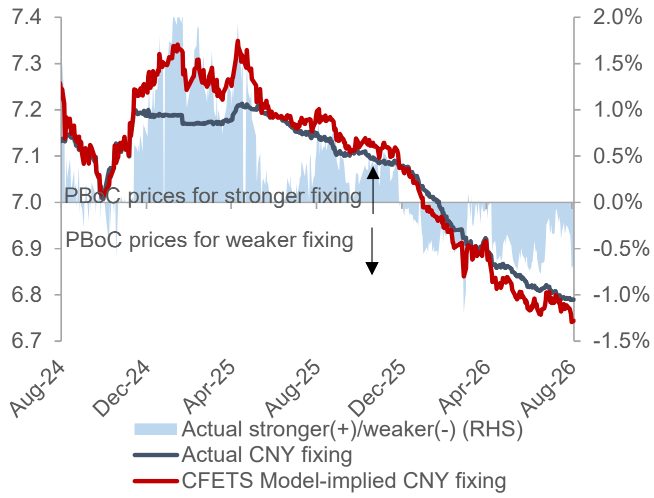
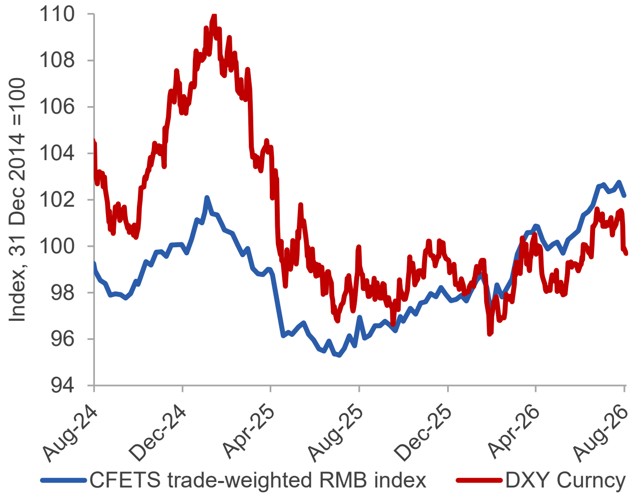
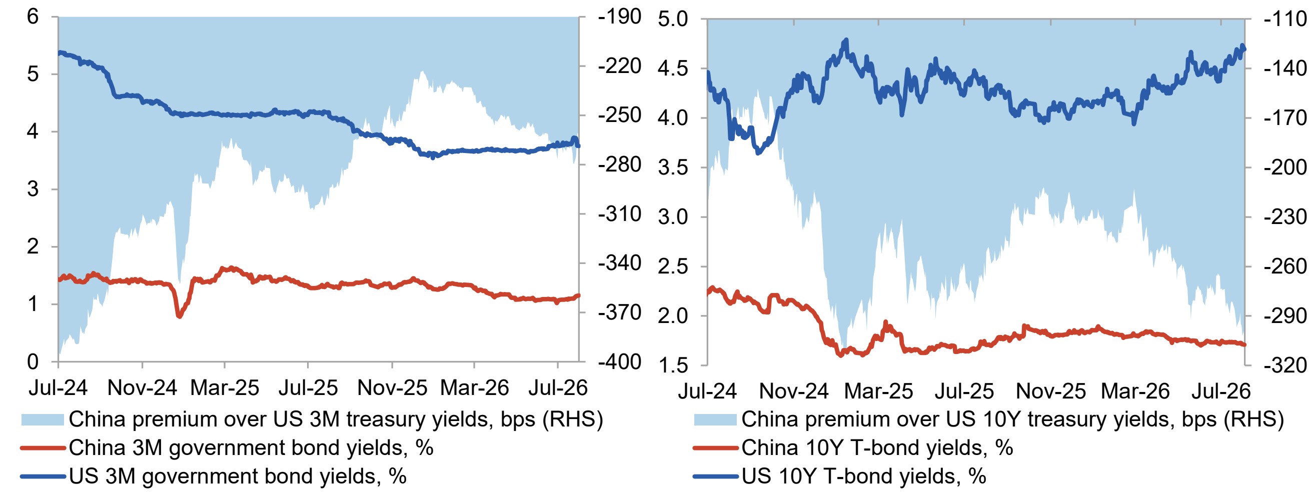


Fig 28 RMB trade-weighted index weakened with the dollar index



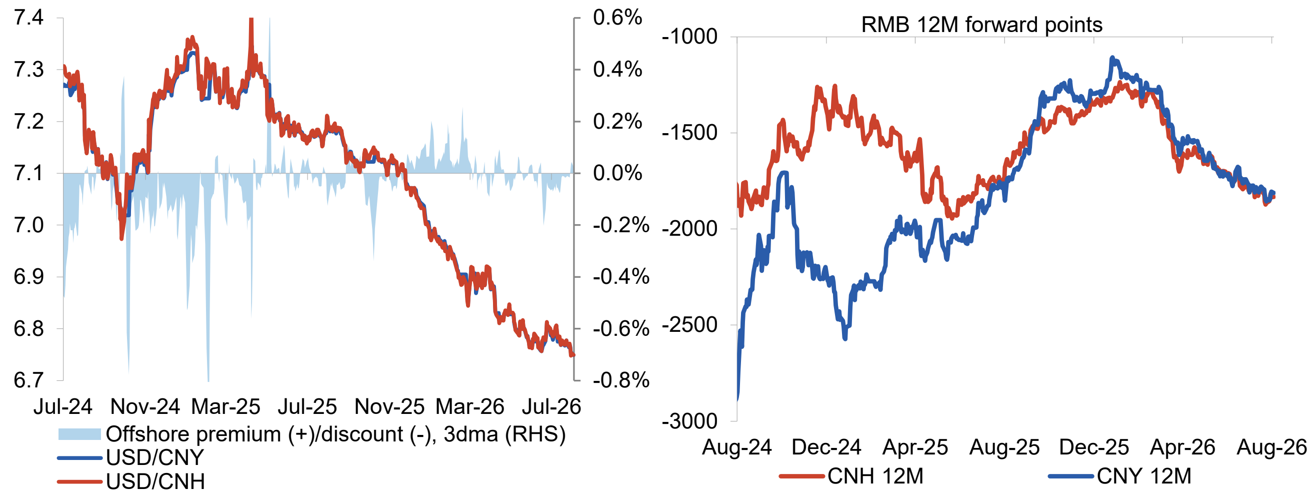
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads moved wider at the back end amid steepening UST yield curve



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH): the discount in USD/CNH to USD/CNY disappeared last week



Source: Bloomberg, Mizuho

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