Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

18 August 2026

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China Weekly Outlook

July Undershot

China's July activity data undershot market expectations. **On the supply side**, industrial value-added growth eased to 4.5% YoY, although high-tech manufacturing remained a bright spot, expanding 16.9% YoY, its fastest pace in nearly five years. **On the demand side**, fixed asset investment declined 6.7% YoY in the first seven months of the year, with both public and private investment weakening further amid ongoing softness in infrastructure and real estate activity. While retail sales retained a positive increase of 0.6% YoY, spending on big-ticket items without government subsidies, including jewellery and automobiles, continued to contract, underscoring subdued consumer confidence. By contrast, mobile phone sales rose 20.4% YoY, supported by government subsidies and higher semiconductor prices.

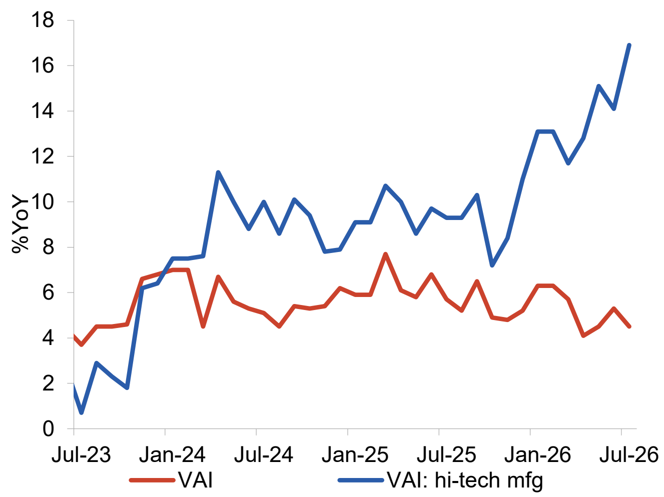
July credit data was also weaker than expected, even after accounting for typical seasonal softness. Loans fell by RMB340bn from the previous month, with bank lending to the real economy contracting by RMB581bn, the largest decline on record. The weakness was broad-based across both households (-RMB460bn) and corporates (-RMB130bn), as well as short-term (-RMB214bn) and medium-to-long-term lending (-RMB350bn).

In contrast, total social financing (TSF) remained resilient, supported by strong corporate (RMB454bn) and government bond issuance (RMB1.3tn), exceeding levels seen a year ago. The divergence highlights persistently weak demand for bank credit amid relatively high real borrowing costs, while eligible corporates seek cheaper financing from the capital market. For context, average corporate loan rates stood at 3.04% in 2Q26, compared with around 1.5% yields for AAA-rated one-year corporate bonds. As a result, TSF growth held steady at 7.4% YoY in July, while loan growth slowed further to a record low of 5.1% YoY.

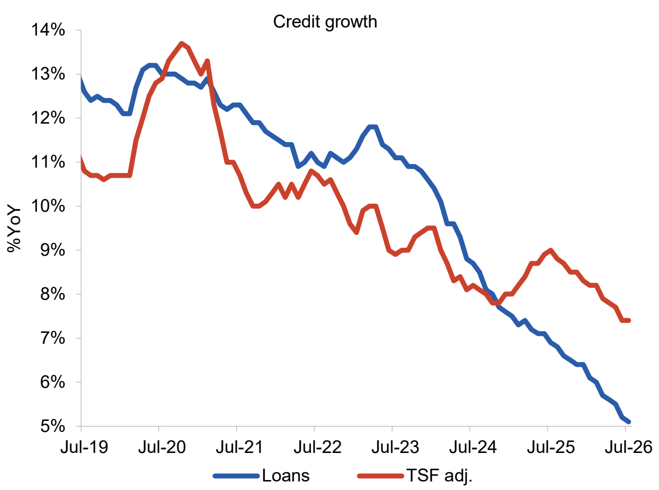
Support with Existing Tools

Overall, **the data continue to point to a two-speed economy**, with strength in high-tech manufacturing and direct financing offset by weak domestic demand and loan growth. In this environment, **broad-based monetary easing, including policy rate or RRR cuts, appears unlikely in the near term**. Instead, as government bond issuance accelerates in 3Q, we expect the PBoC to make greater use of existing liquidity tools, such as outright reverse repos, to keep liquidity conditions stable across maturities. Its mid-month overnight reverse repo operations already suggest increased authority attention to volatility in front-end rates. Meanwhile, the operating rate of petroleum asphalt plants has more than doubled from its mid-June low, offering an early indication that faster government bond issuance may be starting to translate into infrastructure activity.

< Divergence in industrial value-added growth >



< TSF growth held up relatively well compared with loan growth >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7456	6.749	6.7401	6.7446	17
USD/CNY	6.7456	6.7473	6.7412	6.7425	-29
CNY PBoC Fixing	6.7884	6.79	6.7878	6.7878	-26
Shanghai Composite Index	3943.82	3968.48	3903.71	3927.18	-12.86

#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)	-1773	28	CNH HIBOR (3mth)	1.616	0.016
CNH Currency Swap (3yr)	1.230	-0.010	CNH Implied yield (1Y)	1.276	0.012

Recap

The offshore renminbi (CNH) traded in a tight 6.74-6.75 range last week. Despite a notable weakening of the US dollar following Friday's softer-than-expected PPI data, the PBoC stepped up its resistance to further renminbi appreciation. The daily fixing was set, on average, 0.6% weaker than the level implied by the CFETS model, compared with a 0.3% gap in July.

Against this backdrop, CNH edged 0.03% lower against the US dollar over the week, while the onshore renminbi gained 0.04%. Elsewhere in Asia, TWD was the clear outperformer, appreciating 0.9% WoW on strong equity inflows. By contrast, JPY was the weakest performer, falling 1.0% against the dollar amid higher oil prices and persistent fiscal concerns surrounding government spending plans.

Outlook

The data calendar is relatively light for both China and the US this week, leaving Wednesday's FOMC minutes as the key event. A less hawkish-than-expected tone could provide some additional support to the renminbi. The futures market is currently pricing in less than a full rate hike by year-end, compared with nearly two hikes ahead of the July FOMC meeting.

Against the backdrop of elevated Fed tightening expectations in July, the PBoC's foreign exchange purchase position declined marginally by RMB2bn, compared with average monthly inflows of RMB95bn in 2Q26. All things considered, USD/CNH is likely to remain confined to a relatively tight range around 6.74 this week.

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>

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Activity monitor (1/2)

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

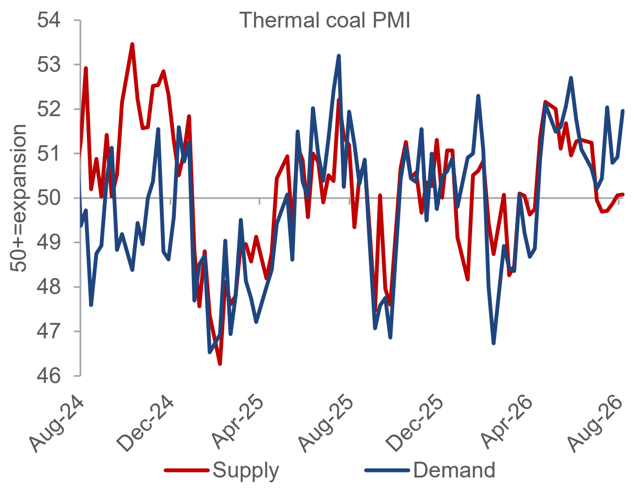
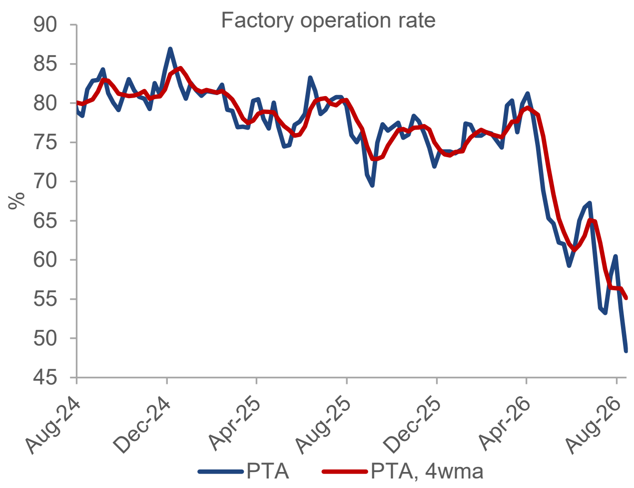


Fig 2 PTA production recorded a new low last week



Source: Wind, Mizuho

Fig 3 Steel production: saw renewed YoY declines in July

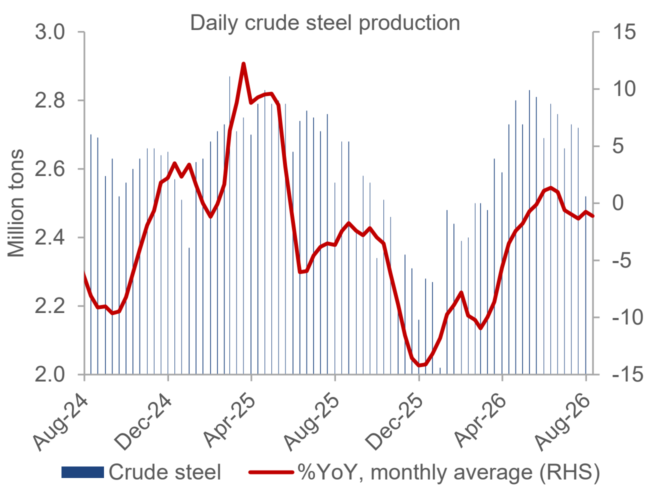


Fig 4 Steel tire production notably moderated in July

Source: Wind, Mizuho

Fig 5 CCFI: demand for outward shipments likely weakened

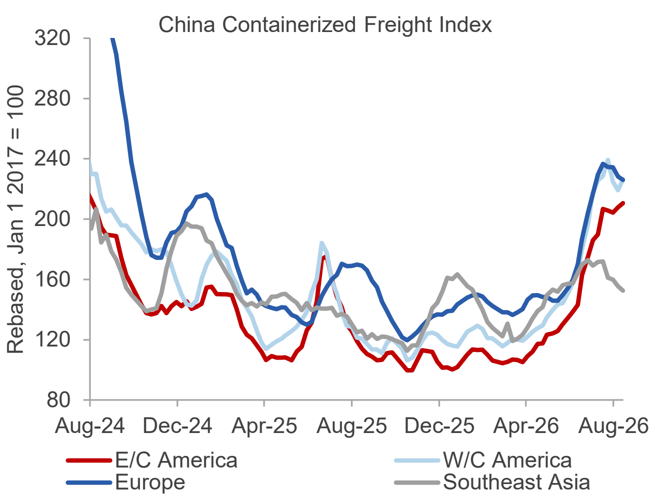
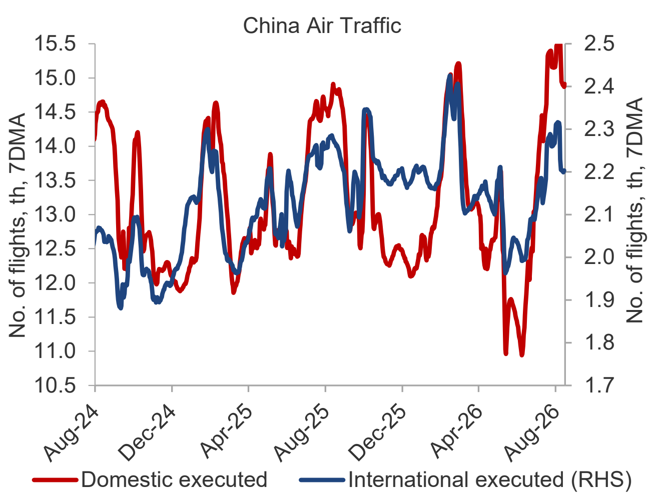


Fig 6 Air traffic: domestic travel spiked on summer demand



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity rebounded notably since July

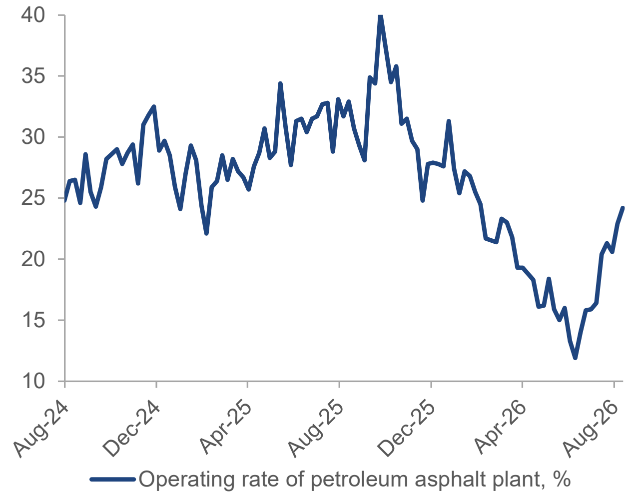


Fig 8 Construction material prices: both cement and rebar prices fell

Source: Wind, Mizuho

Fig 9 Land sales: sales growth has turned positive in August

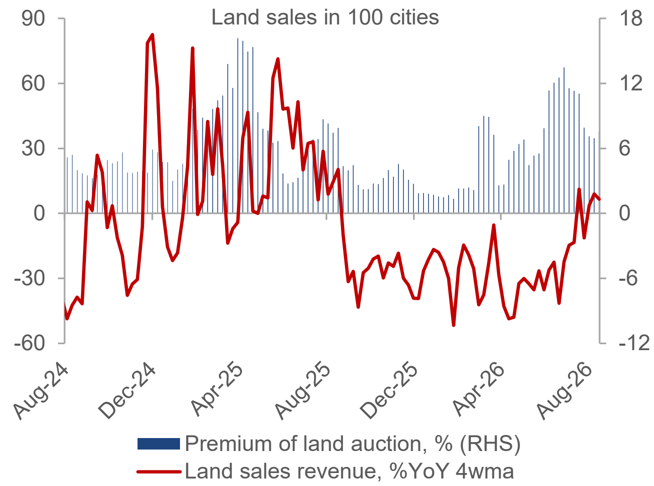
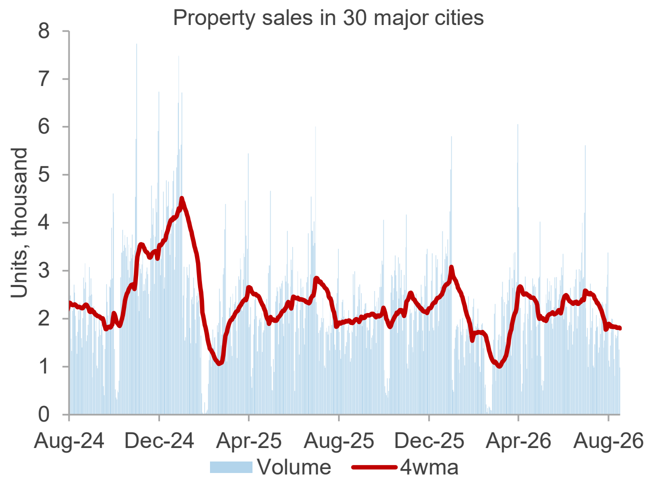


Fig 10 New home sales: a lack of improvement at the national level



Source: Wind, Mizuho

Fig 11 Movie box office revenue buoyed by summer holiday

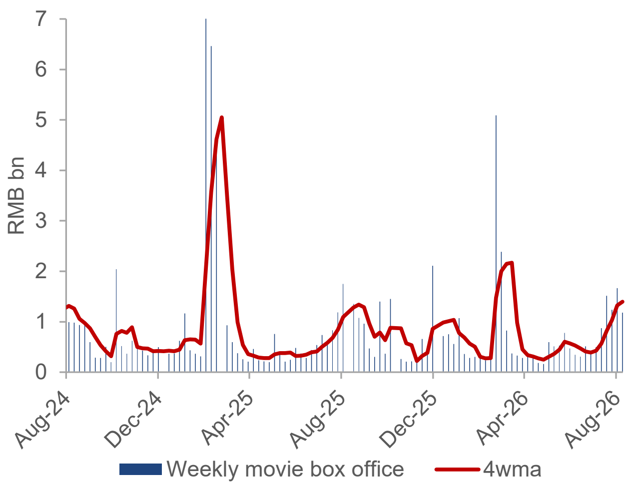
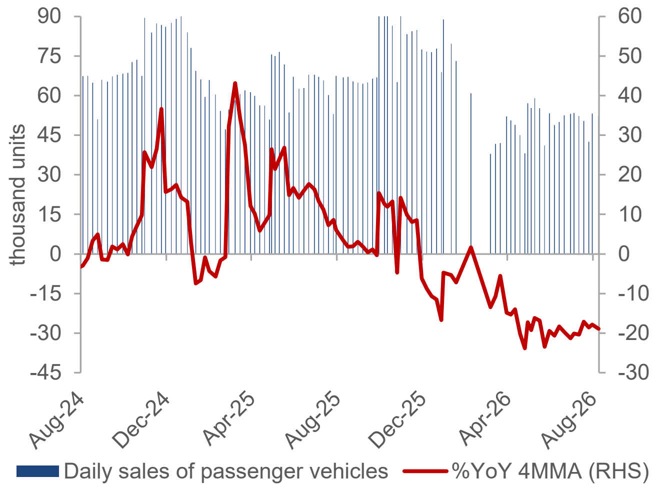


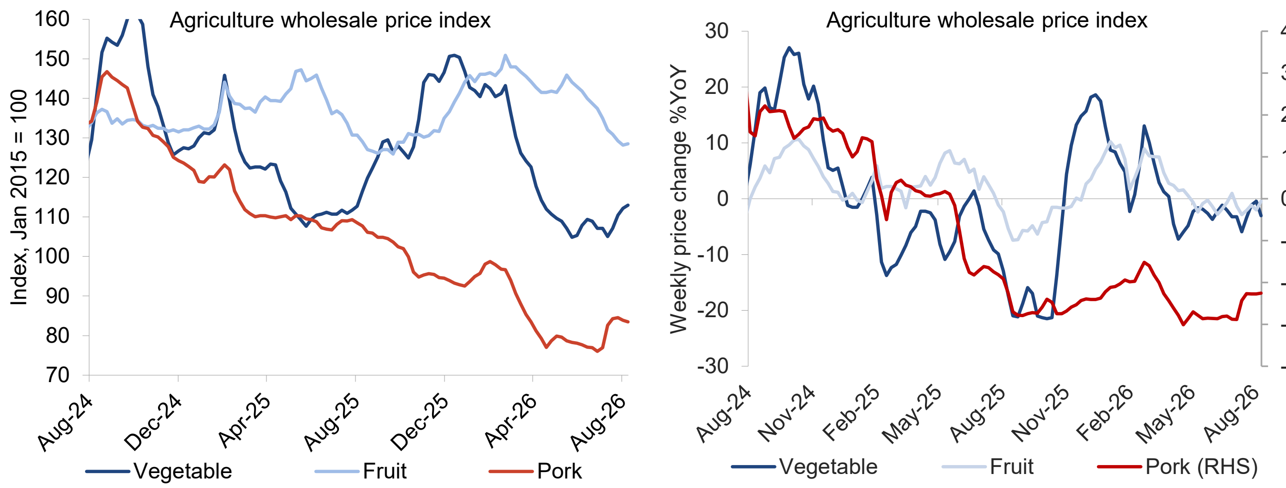
Fig 12 PV sales continued to see notable YoY declines



Source: Wind, Mizuho

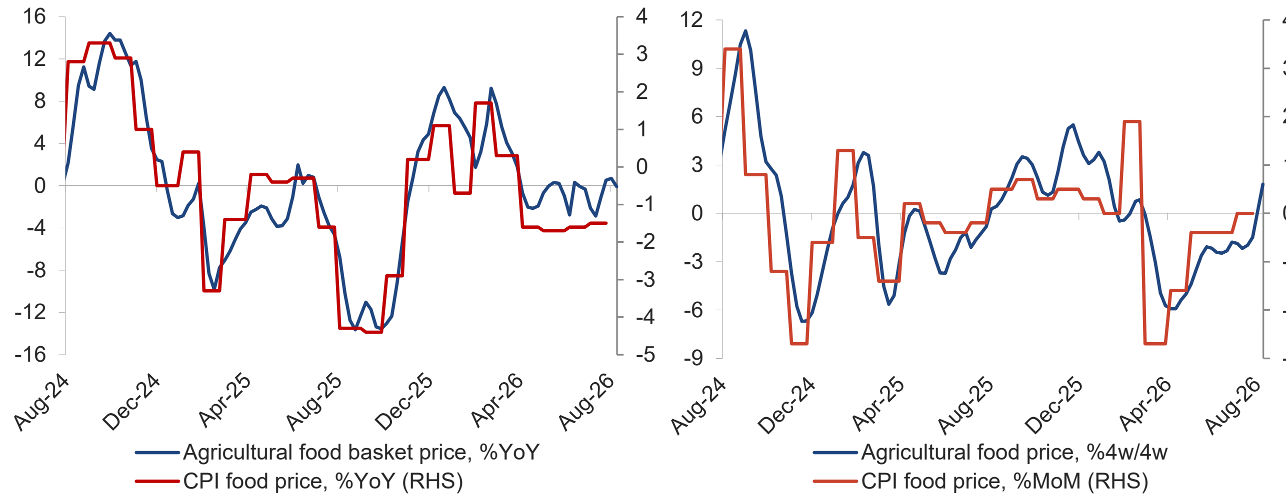
Price monitor

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



Source: Wind, Mizuho

Fig 14 Wholesale food prices started to pick up in recent weeks



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices have been trending up

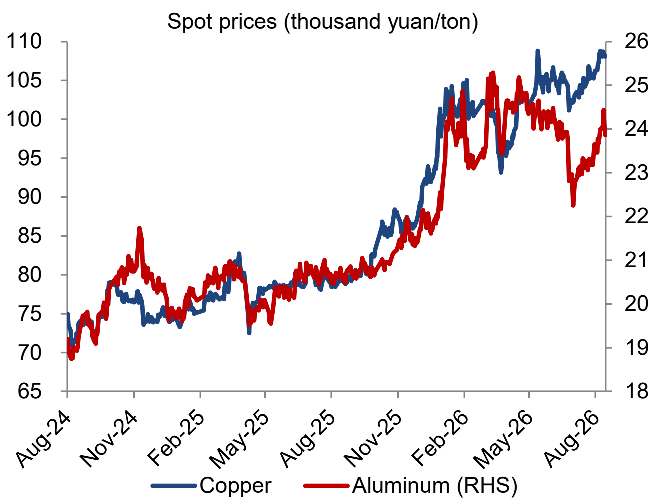
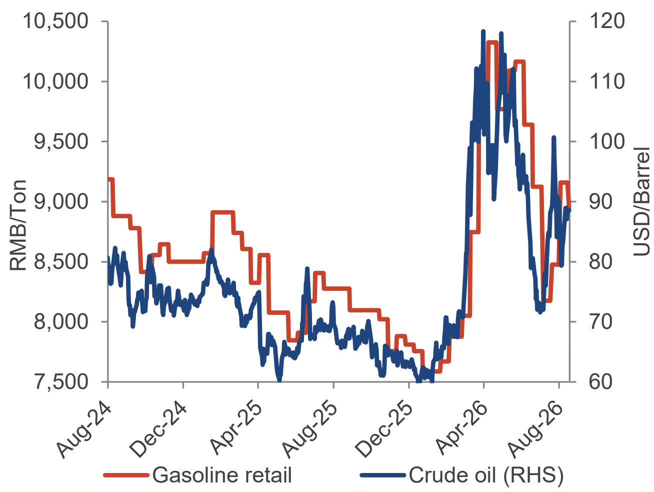


Fig 16 Oil prices: domestic fuel prices rose again



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB250.5b during 10 – 14 August

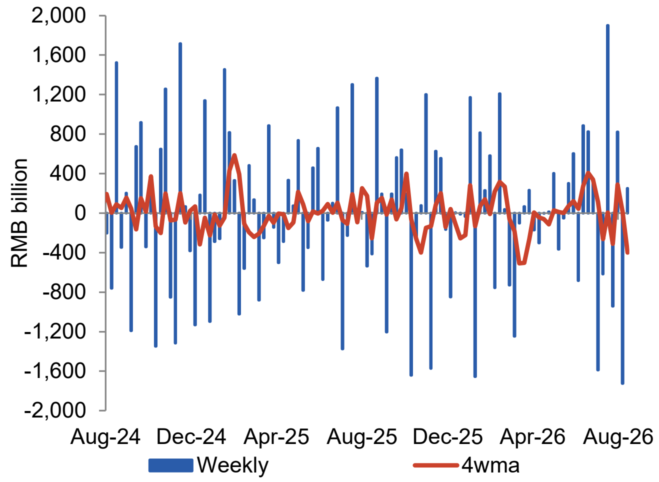
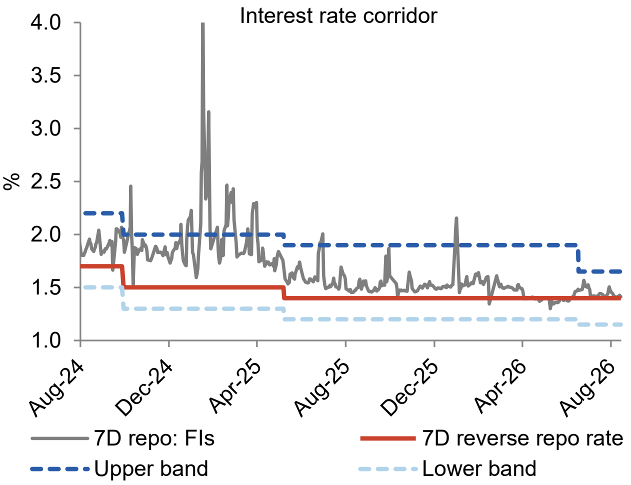


Fig 18 7D repo for FIs staying close to its target level



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

Fig 19 Short-end CGB yields saw a notable rise at the 1Y tenor

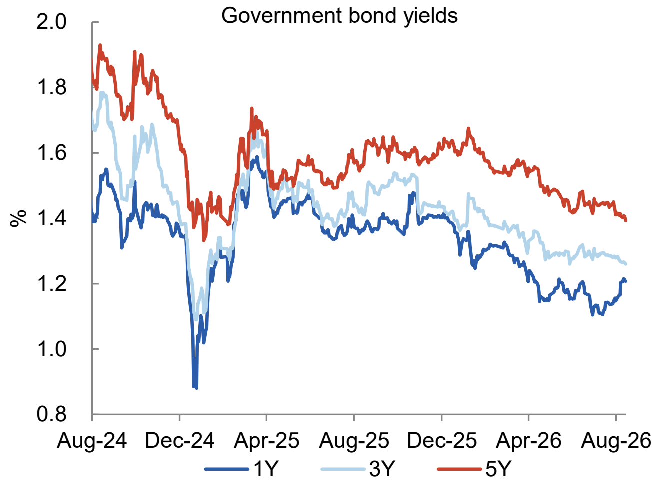
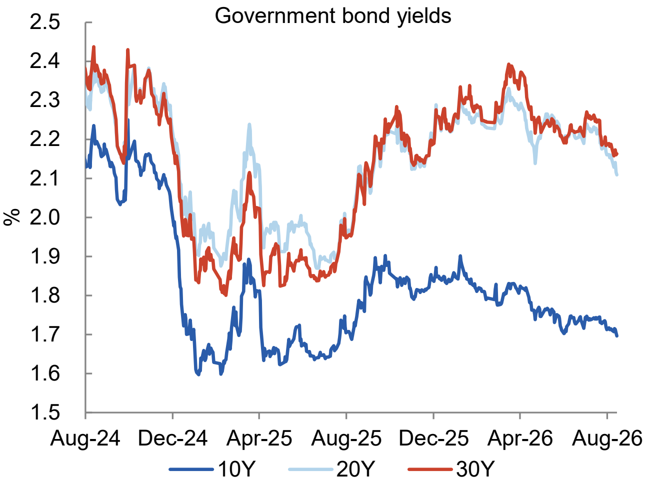
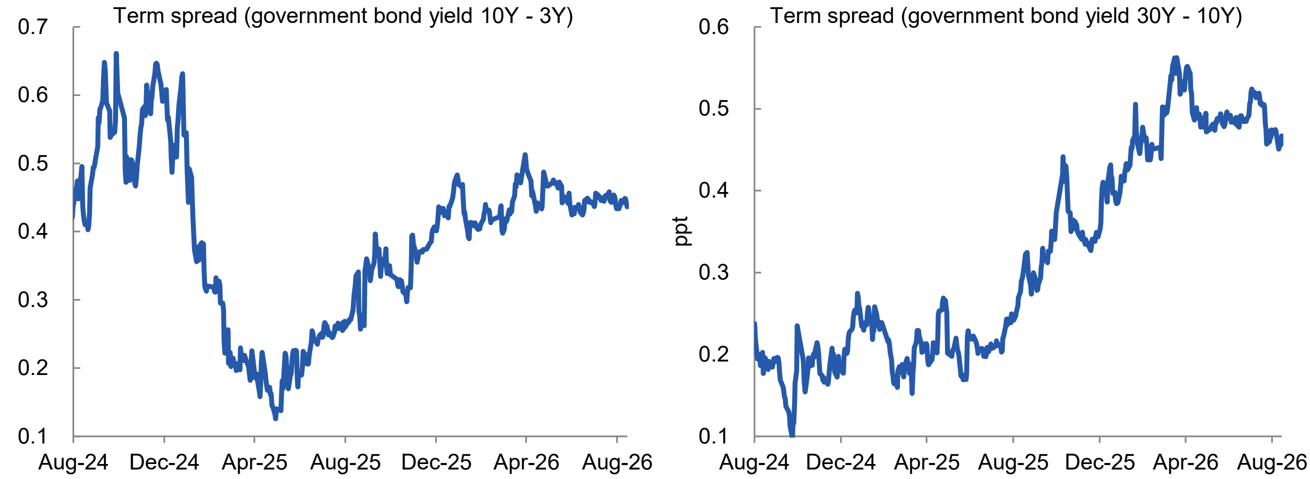


Fig 20 Long-end CGB yields: ultra-long yields fell notably



Source: CEIC, Mizuho

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



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields continued to trend up

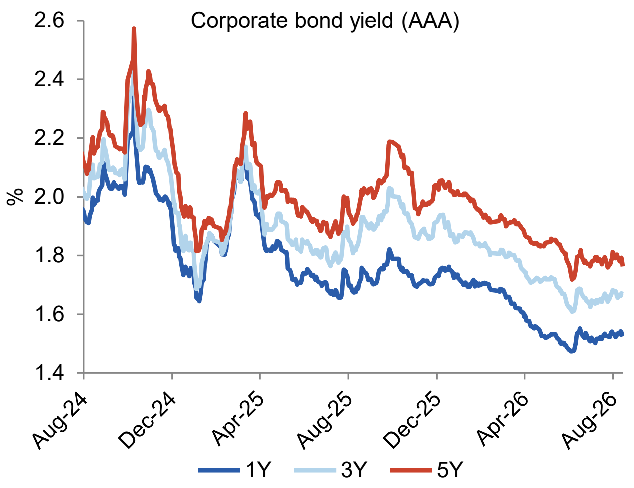


Fig 23 IG corporate risk premium rose notably in recent weeks

Source: Wind, Mizuho

Fig 24 Onshore HY credit yields stayed much flat

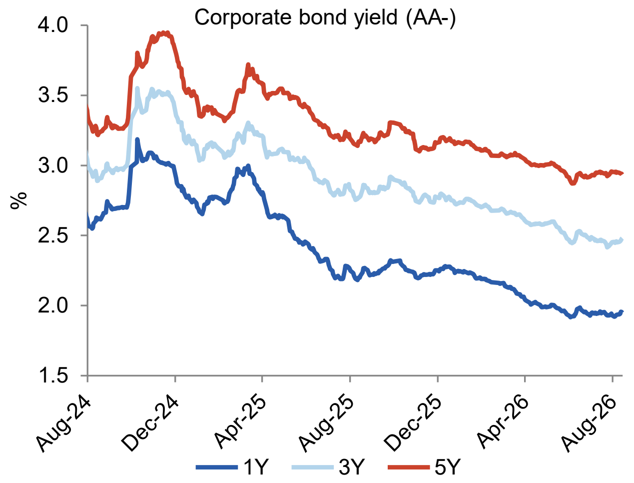
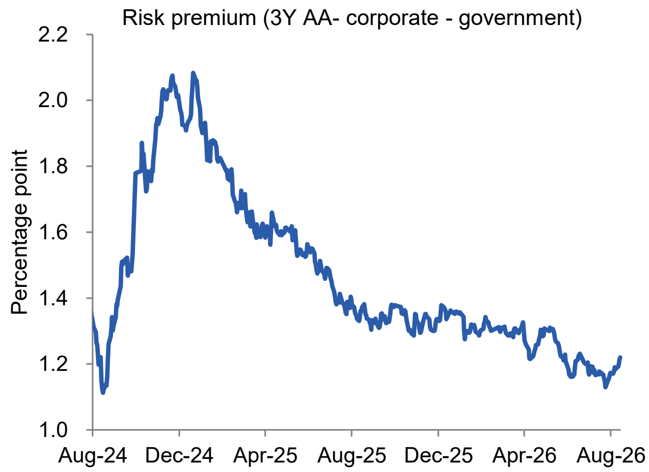


Fig 25 HY corporate risk premium rose from the bottom



Source: Wind, Mizuho

Fig 26 China USD credit spreads were little changed last week amid higher oil prices and softer-than-expected US inflation data

Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: spots moved away from the mid-rate

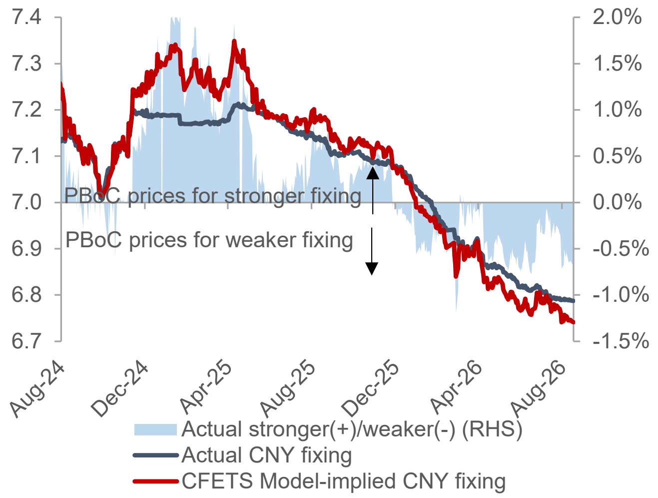
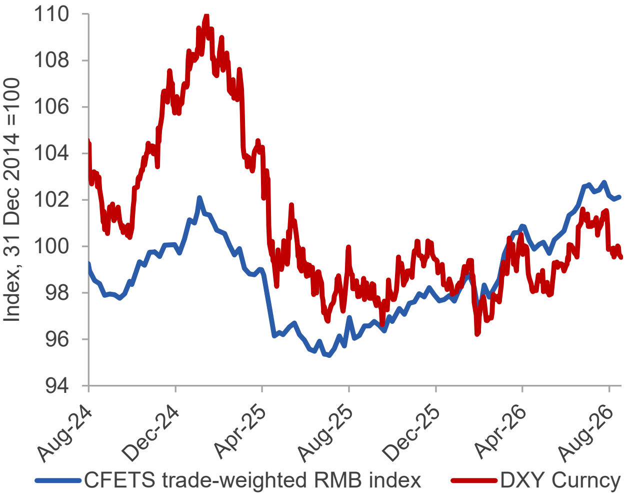
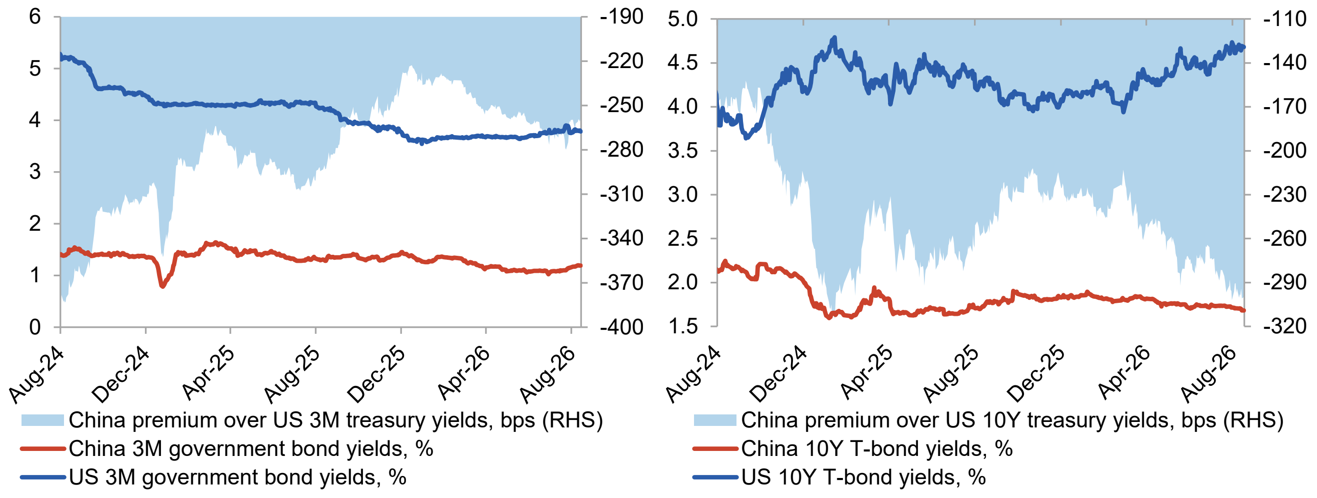


Fig 28 RMB trade-weighted index weakened with the dollar index



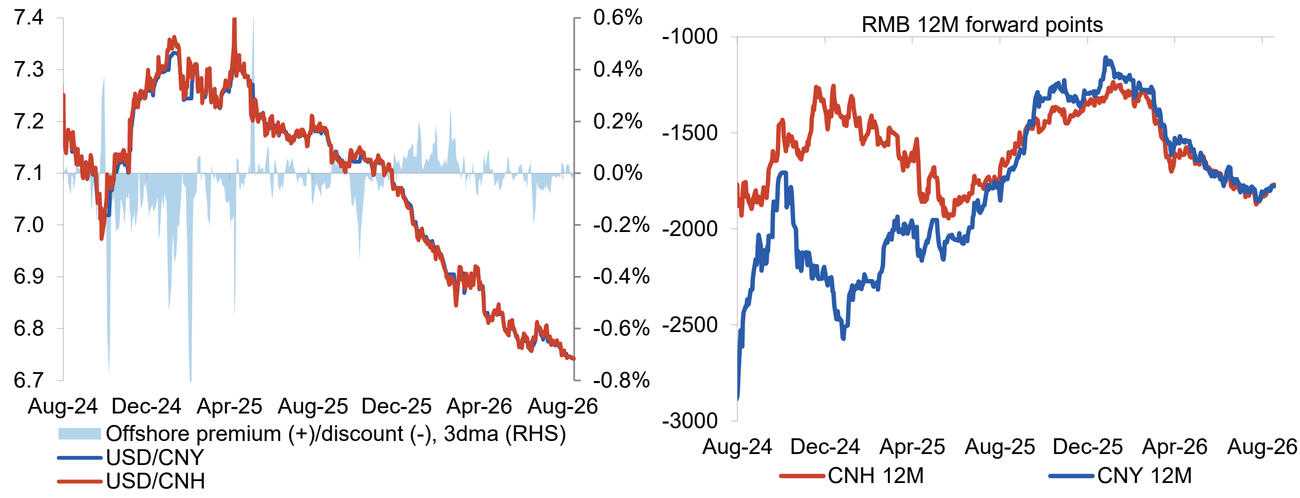
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads moved tighter at the front end but wider at the back end



Source: CEIC, Bloomberg, Mizuho

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



Source: Bloomberg, Mizuho

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