Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Replenishing Capital

China is preparing to inject at least RMB360bn of capital into eight financial institutions, both banks and insurers. The Ministry of Finance will provide RMB300bn through special government bond issuance. The funds will replenish core Tier-1 capital, supporting balance-sheet expansion and strengthening loss-absorption capacity. Around RMB260bn will be allocated to two major commercial banks, ICBC and Agricultural Bank of China, with the remainder directed to two policy banks and four insurance groups.

The move, first flagged in March's government work report, was broadly anticipated. In addition to bolstering financial stability, the capital injection should enhance the policy transmission mechanism by expanding banks' lending capacity and insurers' underwriting capacity, sending a clear pro-growth signal. For banks, fresh capital can support a multiple expansion in risk-weighted assets and ease constraints on credit growth. For insurers, it should mitigate asset-liability management pressures in a prolonged low-rate environment and reduce the need to curtail underwriting. The recapitalisation is particularly timely given banks' squeezed net interest margins, elevated provisions and write-offs, and growing profitability pressure from future potential rate cuts.

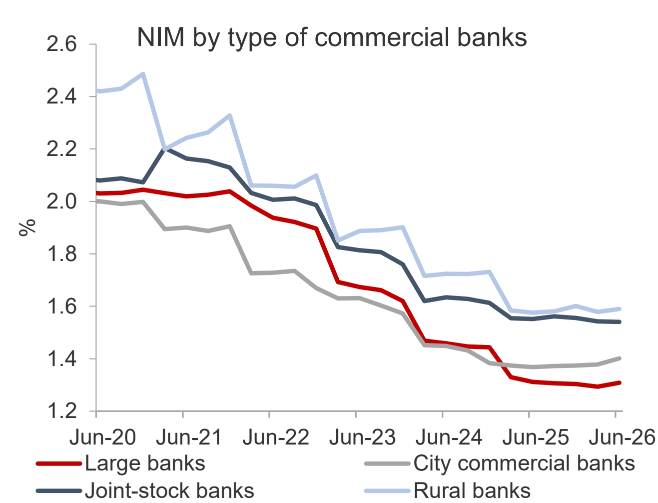
Trade Growth to Accelerate

Turning to this week's key data, export growth is expected to accelerate further in August despite renminbi appreciation. The official PMI's new export orders index returned to expansionary territory at 50.1, pointing to resilient external demand and trade sentiment.

Resurfaced Imported Inflation

At the same time, import-related price pressures have resurfaced. We expect PPI inflation to rise modestly to 3.6% YoY in August, while CPI inflation is likely to pick up to 1.0% YoY, supported by rebounding fuel costs and firmer food prices. Domestic fuel prices increased by an average of 7.5% MoM, following an 11.7% decline in July (Fig. 16). Pork and fresh vegetable prices also appear to have bottomed (Fig. 13), partly due to supply disruptions caused by typhoons and heavy rainfall. However, weak domestic demand should continue to limit the passthrough of higher energy costs to core inflation.

< Net interest margins for Chinese banks remain squeezed >



Source: Wind, CEIC, Mizuho

< Export sentiment returned to expansionary territory in August >

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7316	6.7321	6.7052	6.7080	-228
USD/CNY	6.7263	6.7266	6.7107	6.7112	-189
CNY PBoC Fixing	6.7828	6.7829	6.7787	6.7787	-24
Shanghai Composite Index	3926.53	3995.18	3915.22	3930.12	-22.06

#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)	-1840	-23	CNH HIBOR (3mth)	1.632	0.001
CNH Currency Swap (3yr)	1.255	0.017	CNH Implied yield (1Y)	1.320	-0.058

Recap

The offshore renminbi (CNH) extended its rally toward the 6.70 level, ending last week at 6.708 against the US dollar. However, the move was driven less by domestic developments and more by external factors. Specifically, the appreciation reflected the unwinding of market expectations for a weak Japanese yen, which in turn weighed on the US dollar. The DXY briefly broke below 99 before rising on the back of stronger-than-expected US payrolls data on Friday.

As markets increasingly priced in a 25bp rate hike at the BoJ's September meeting, board member Hajime Takata surprised on the hawkish side by suggesting a move larger than 25bp. Moreover, US Treasury Secretary Bessent reiterated support for Japan’s decisive market and monetary actions to address persistent yen undervaluation.

Against this backdrop, the PBoC unsurprisingly stepped up its resistance to further renminbi appreciation. Last week, the daily USD/CNY reference rate was set on average 0.9% weaker than levels implied by the CFETS model, compared with a 0.7% gap in August.

As a result, CNH underperformed most regional currencies despite gaining 0.34% against the dollar. JPY led Asian currencies with a 2.5% weekly advance, followed by KRW, which appreciated 1.8% amid expectations of further BoK tightening in response to sticky core inflation. In contrast, MYR and PHP were weighed by softer sentiment amid higher US Treasury yields and elevated oil prices.

Outlook

This week's focus will be on US PPI on Thursday and CPI on Friday, the major data releases before next week's Fed policy decision. In China, attention will centre on inflation data and, potentially, credit growth. While headline CPI may pick up on the back of renewed imported inflation pressures, we expect core inflation to remain subdued, reflecting still-soft domestic demand.

Overall, **USD/CNH volatility will probably rise this week, with the pair to trade sideways around 6.71.** Looking further ahead, **we now expect CNH to remain relatively firm through the rest of Q3, ending the quarter around 6.70 per dollar**, revised down from our previous forecast of 6.75. The adjustment reflects softer US dollar sentiment as markets move away from pricing a weak JPY or a 25bp Fed rate hike in September.

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: supply and demand both dipped

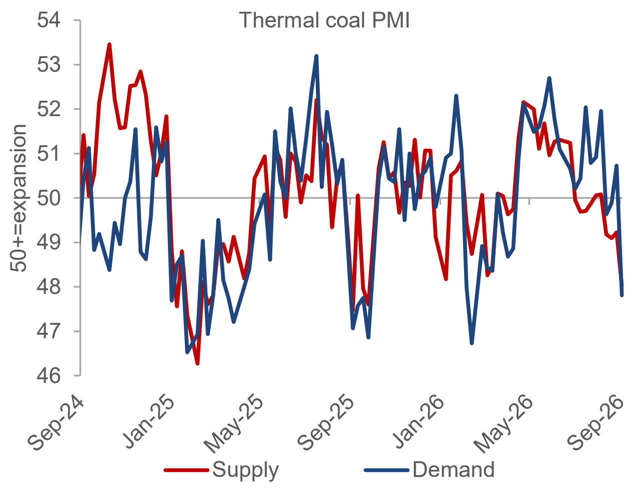
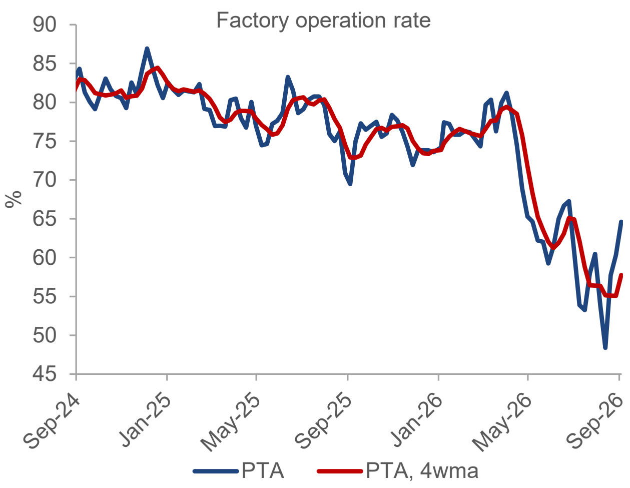


Fig 2 PTA production has picked up notably since late August



Source: Wind, Mizuho

Fig 3 Steel production has seen renewed YoY declines

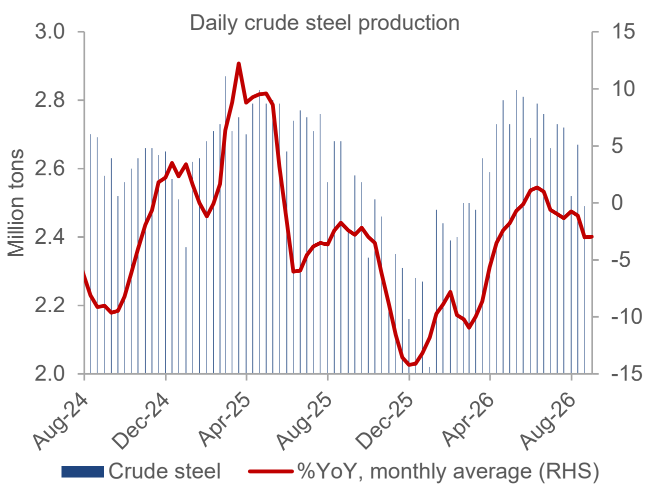


Fig 4 Steel tire production has moderated since July

Source: Wind, Mizuho

Fig 5 CCFI: a notable weakening in shipments to the EU

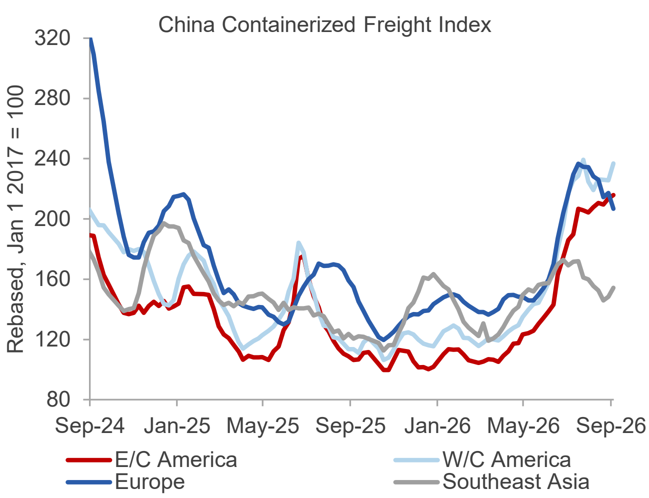
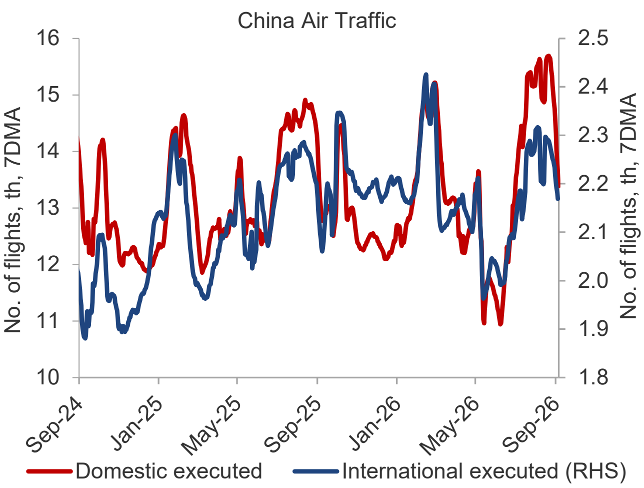


Fig 6 Air traffic: both international and domestic travel declined



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity rebounded notably

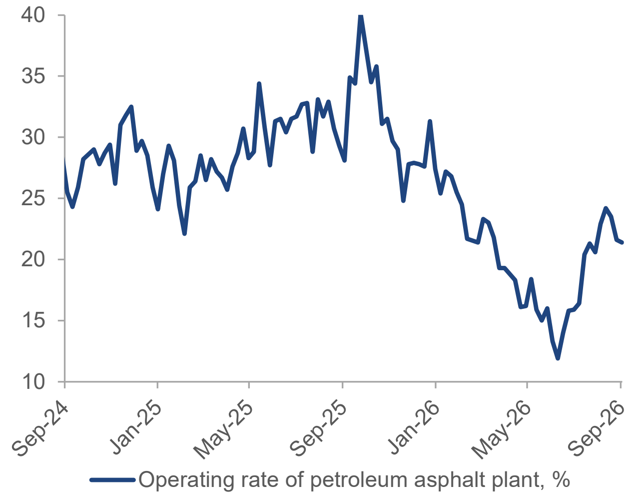
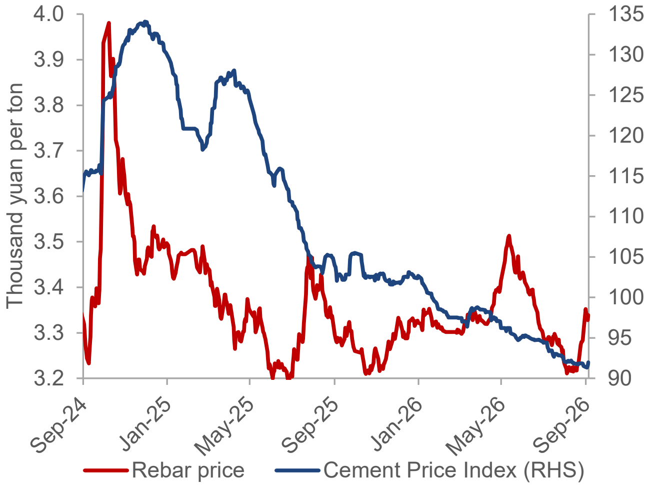


Fig 8 Construction material prices: rebar prices have bottomed



Source: Wind, Mizuho

Fig 9 Land sales: sales growth turned positive in August

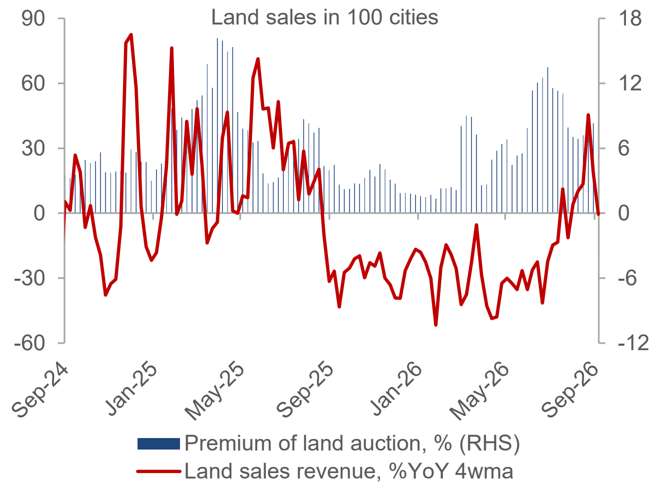
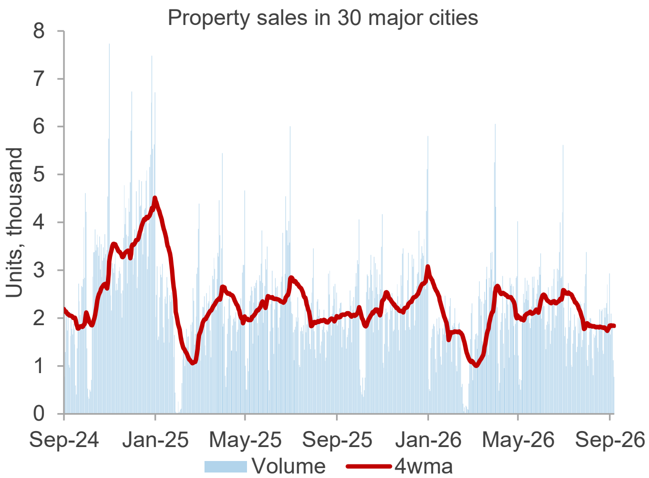


Fig 10 New home sales: a lack of improvement at the national level



Source: Wind, Mizuho

Fig 11 Movie box office revenue buoyed by summer holiday

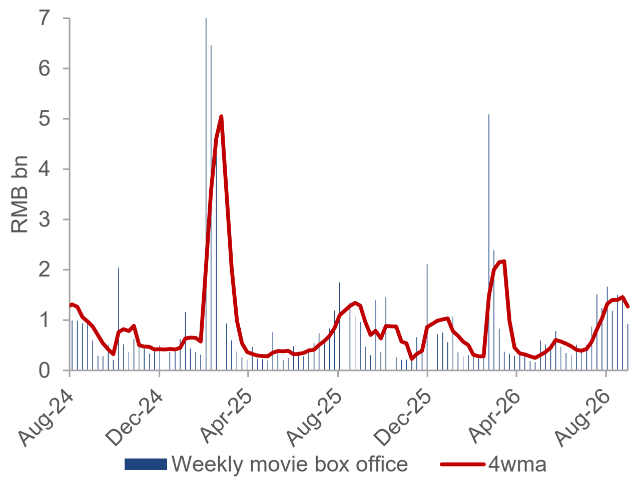
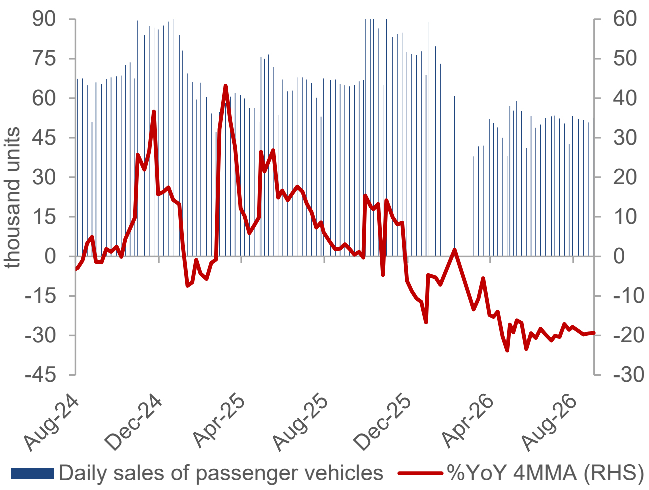


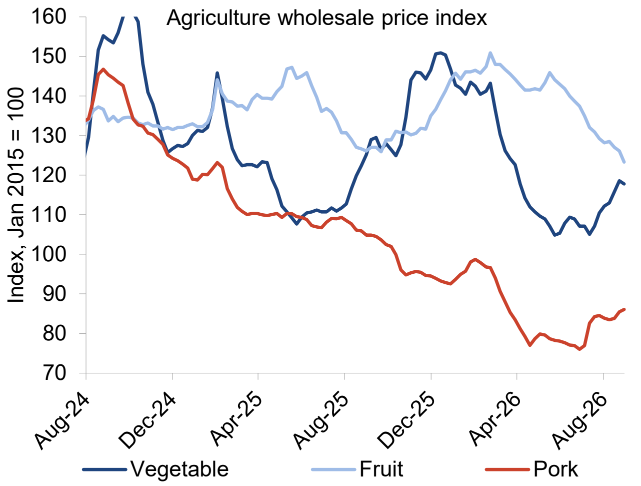
Fig 12 PV sales saw persistent and stable YoY declines

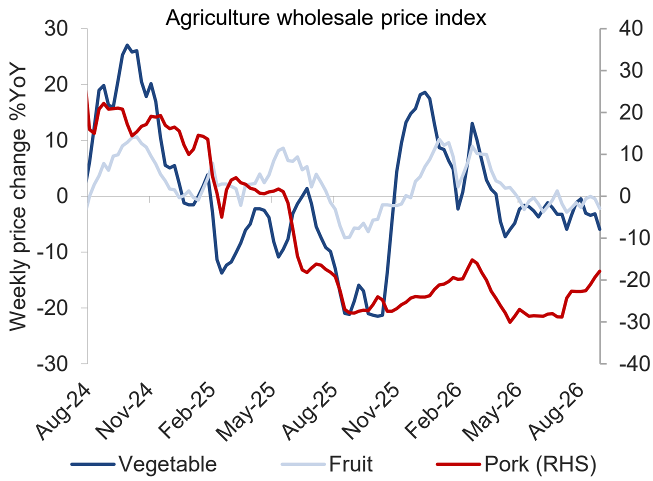


Source: Wind, Mizuho

Price monitor

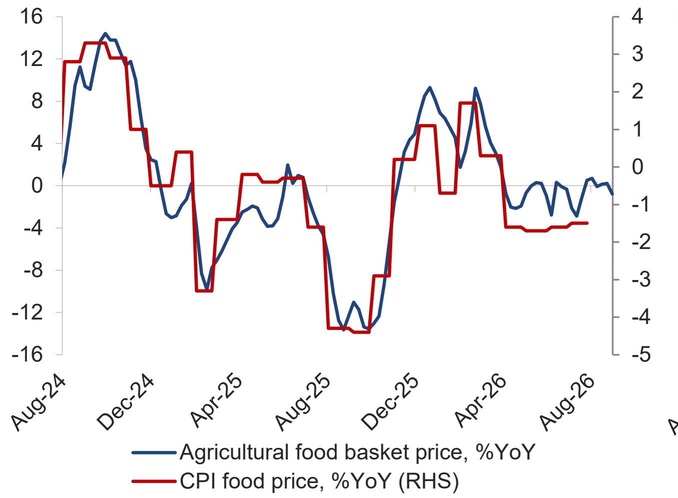
Fig 13 Major food items: Pork and fresh vegetable prices notably rebounded amid heavy rainfall and flooding

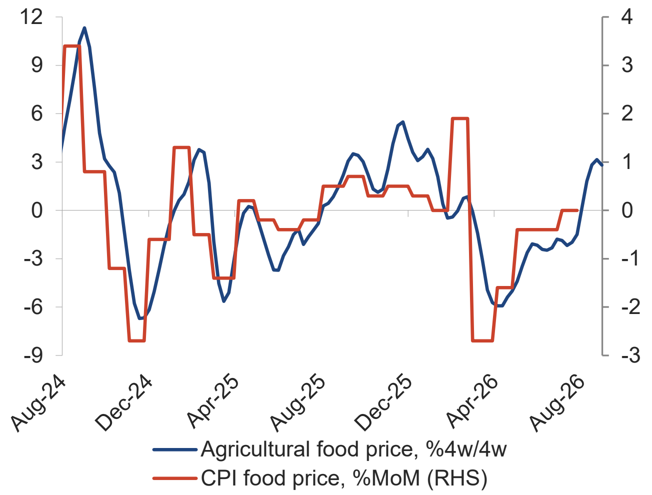




Source: Wind, Mizuho

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





Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices continued to climb

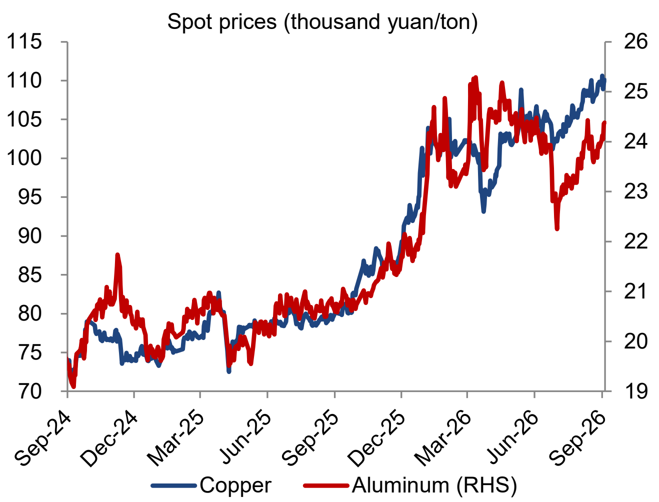
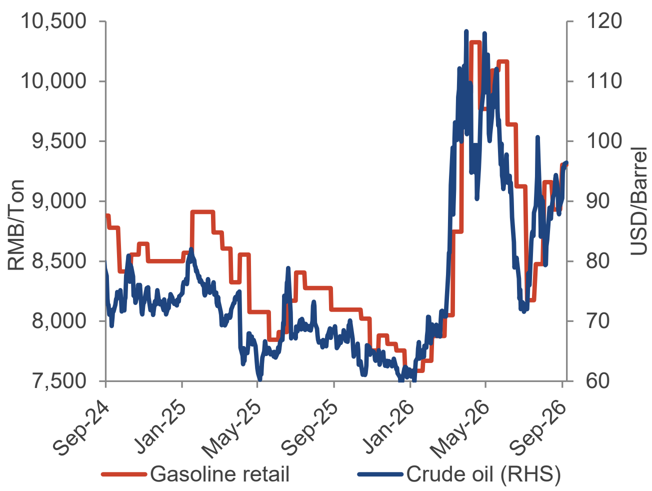


Fig 16 Oil prices: domestic fuel prices rose again



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB1.4trn during 31 Aug – 4 Sep

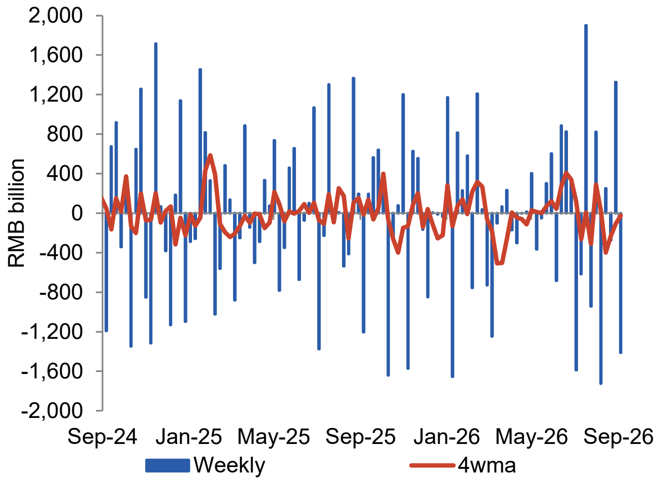
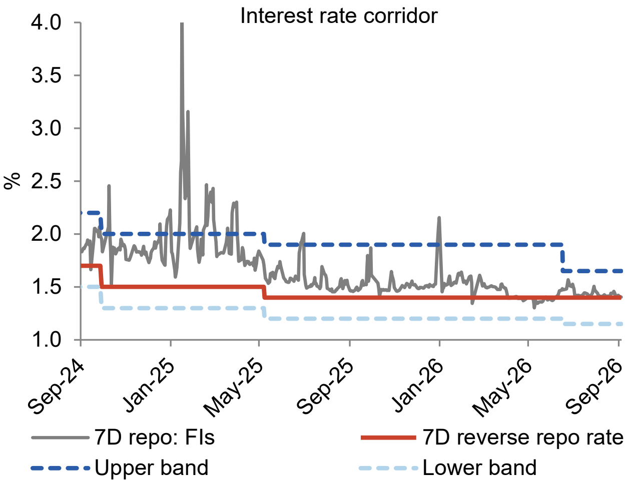


Fig 18 7D repo for FIs staying close to its target level



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

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

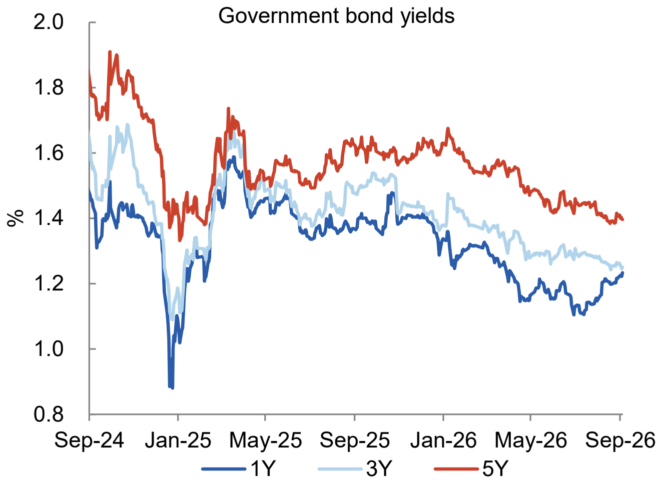
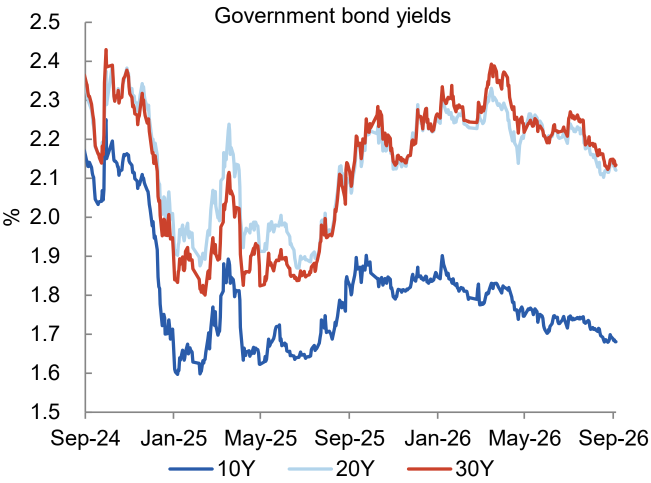
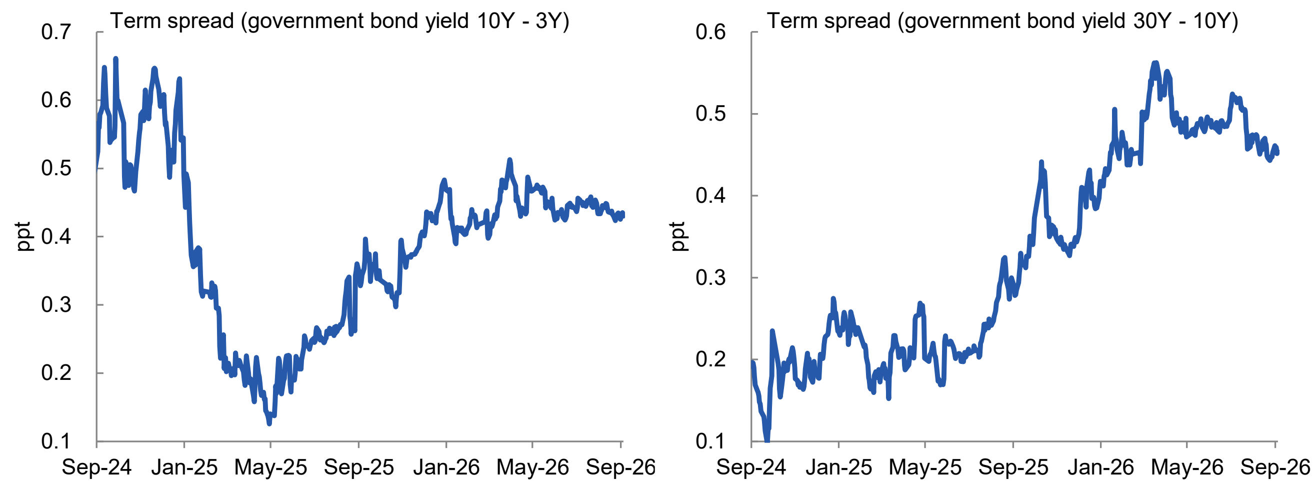


Fig 20 Long-end CGB yields: ultra-long yields fell notably



Source: CEIC, Mizuho

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



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields fell alongside lower 5Y rates

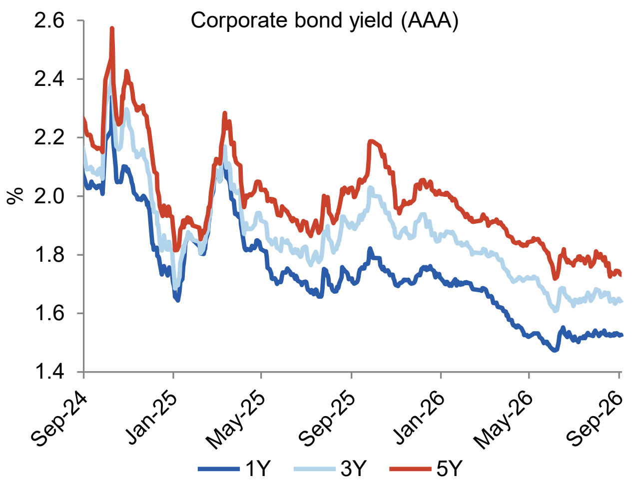
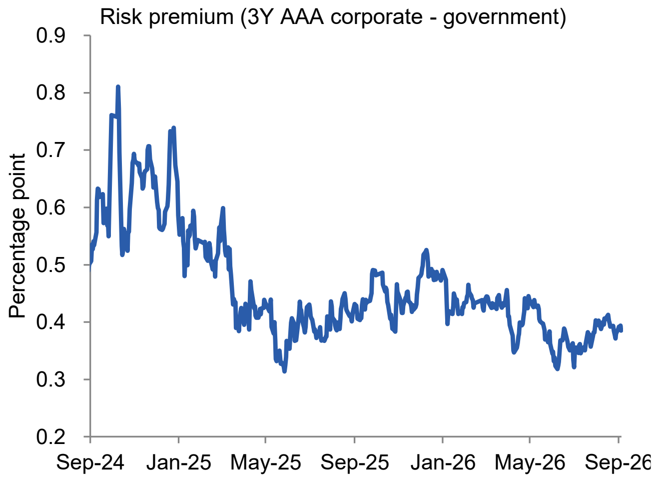


Fig 23 IG corporate risk premium slightly tightened



Source: Wind, Mizuho

Fig 24 Onshore HY credit yields stayed much flat

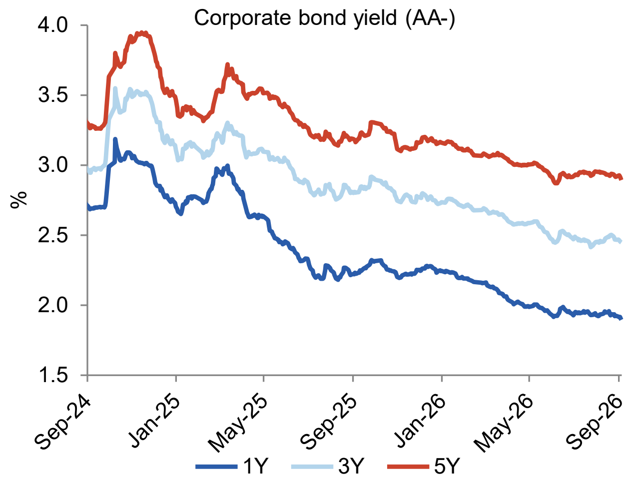
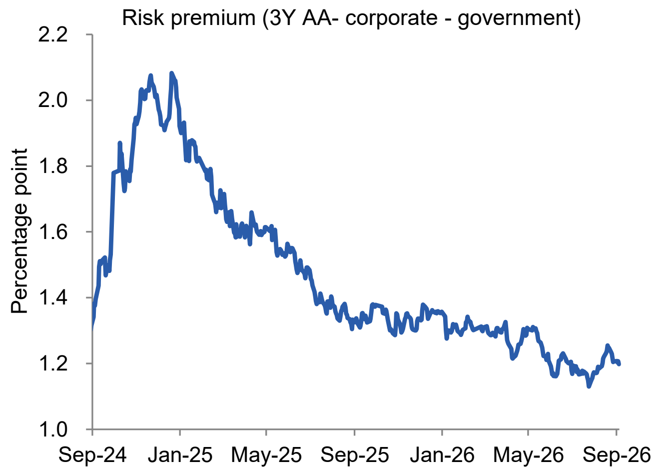
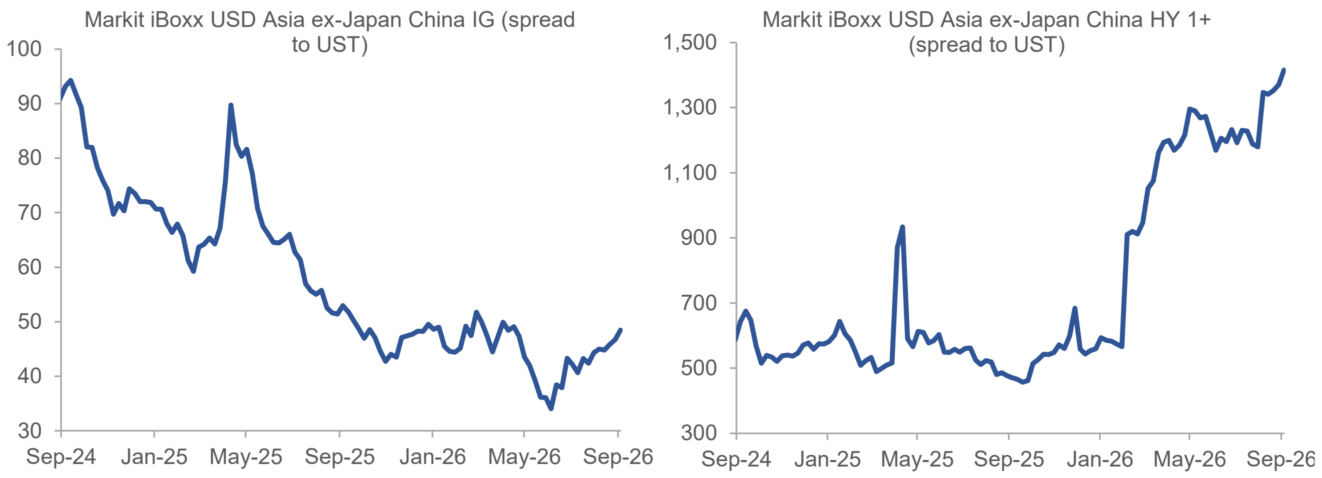


Fig 25 HY corporate risk premium rose from the bottom



Source: Wind, Mizuho

Fig 26 China USD credit spreads pushed wider last week amid escalating tensions between the US and Iran and higher oil prices



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: spots moved further away from mid rates

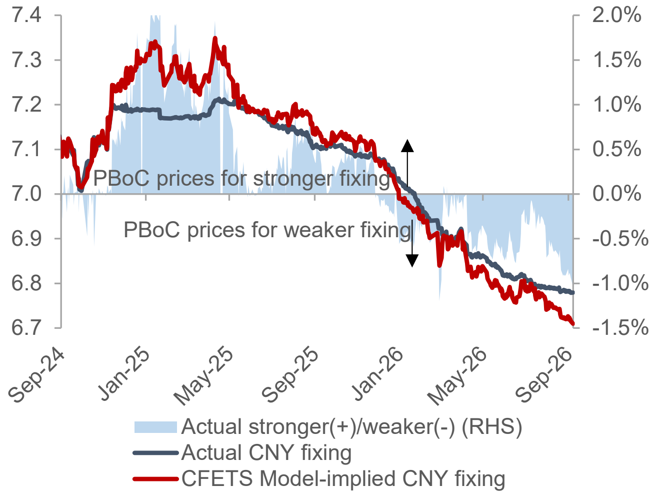
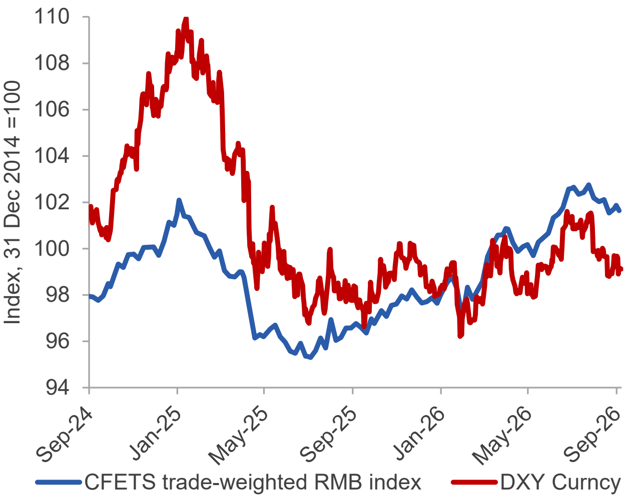
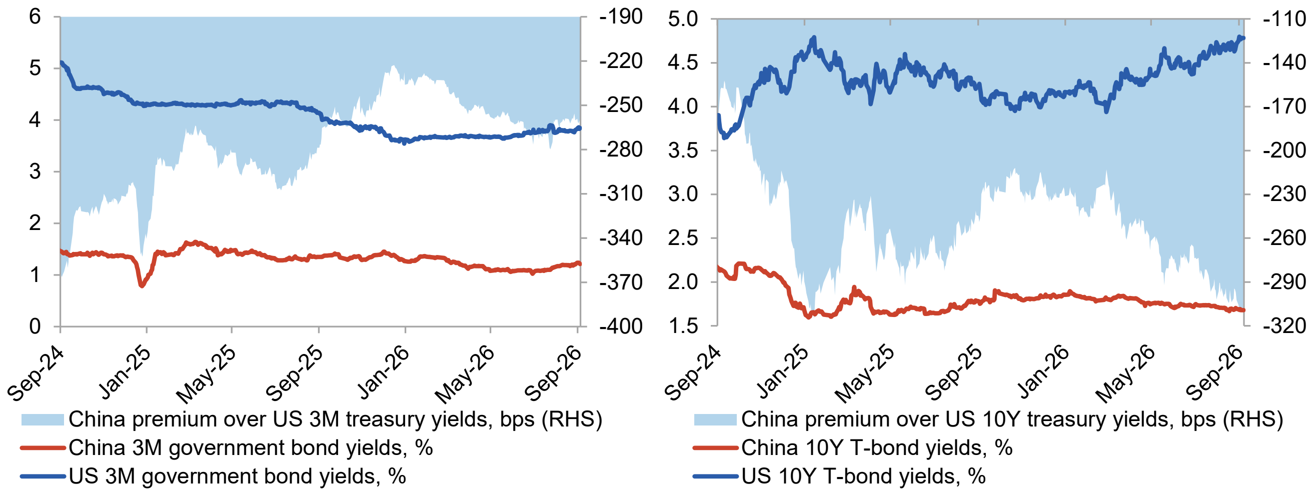


Fig 28 RMB trade-weighted index weakened with the dollar index



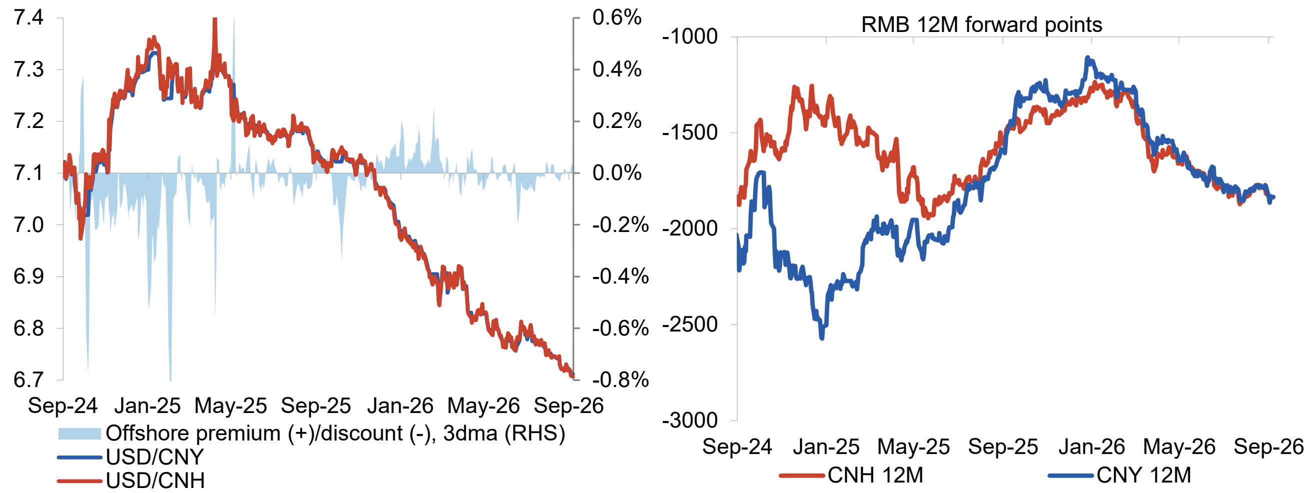
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads were much unchanged at the front end but notably wider at the back end



Source: CEIC, Bloomberg, Mizuho

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



Source: Bloomberg, Mizuho

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