Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

21 September 2026

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China Weekly Outlook

Two-speed Economy Persisted…

China's August activity data continued to point to a two-speed economy. On the supply side, industrial production exceeded expectations, accelerating to 5.2% YoY in August, supported by high-tech manufacturing and AI-related demand. In contrast, demand-side indicators broadly disappointed. Retail sales growth slowed to 0.4% YoY, led by weak discretionary spending on jewelry and automobiles. Fixed asset investment (FAI) contracted 7.2% YoY year-to-date, with monthly decline estimated at -11% in August. Moreover, both real estate investment and property sales continued to post notable double-digit YoY declines in both value and volume terms, indicating continued corrections in the sector.

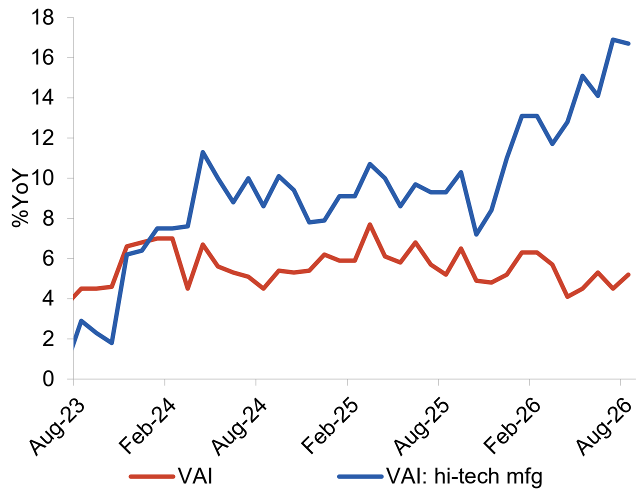
…with Stepped-up Fiscal Support

However, we have also observed signs of accelerating fiscal support. On a monthly basis, public FAI fell at its slowest pace in five months, at -5.8% YoY in August, consistent with the authorities' recent efforts to accelerate fiscal implementation and support infrastructure expenditure. Together with continued resilience in external demand, this should help stabilize growth momentum toward year-end. In this sense, we keep our full-year GDP forecast unchanged at 4.6% and expect an increase of 4.4% for 3Q26. Unless domestic demand weakens a lot more materially, the likelihood of broad-based monetary easing in Q4 has diminished in our view, particularly against the backdrop of a more hawkish US Fed.

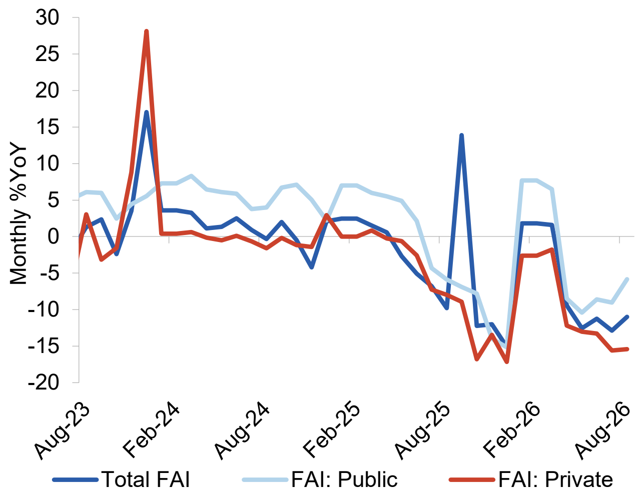
Upcoming Trump-Xi Summit

Looking ahead, eyes will be on the Trump-Xi summit expected this Thursday. While the two sides may find relatively limited common ground on AI regulation and national security, they are expected to extend the current trade truce for at least another year. Separately, there is a high possibility of a reduction in bilateral tariffs. China's Ministry of Commerce has confirmed that bilateral negotiations are under way on a US$30 billion reciprocal tariff-reduction package. Vice Premier He Lifeng reportedly met US Treasury Secretary Bessent and US Trade Representative Greer on Sunday to finalise the details on a potential trade agreement, along with other issues, ahead of the summit.

< VAI growth supported by high-tech manufacturing >



< Public FAI saw the slowest decline in five months >



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.7080	6.7162	6.6934	6.6955	-125
USD/CNY	6.7078	6.7148	6.6963	6.6977	-97
CNY PBoC Fixing	6.7698	6.7698	6.7521	6.7521	-222
Shanghai Composite Index	3867.02	3919.67	3842.72	3911.87	23.76

#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)	-2045	-86	CNH HIBOR (3mth)	1.632	0.015
CNH Currency Swap (3yr)	1.245	0.000	CNH Implied yield (1Y)	1.344	-0.042

Recap

Last week, the offshore renminbi (CNH) strengthened through 6.70 against the US dollar, reaching its strongest level in four years. The appreciation came despite the FOMC's 25bp rate hike and policymakers' projections for another increase by year-end.

In addition to self-reinforcing appreciation expectations since the outbreak of the Middle East conflict, anticipation of the upcoming Trump-Xi summit has provided further near-term support. While the US is unlikely to secure an explicit commitment from China on renminbi appreciation, the currency has historically tended to remain firm ahead of such high-level meetings.

The PBoC has also been guiding the daily fixing steadily lower since last Monday. The reference rate fell by 0.33% over the week, its largest decline since mid-April. Toward the end of the week, the PBoC set the reference rate around 0.7% higher than the level implied by the CFETS model, narrowing from an average deviation of 1.0% the previous week.

Across the region, the renminbi was the only currency to appreciate last week, with CNH and CNY gaining 0.19% and 0.14%, respectively. The Korean won was the worst performer, falling 3.2% against the dollar as the exporter-led recovery lost momentum amid renewed equity outflows. The Japanese yen followed, weakening by 2.1% on a classic "sell-the-fact" reaction.

Outlook

With the latest round of major central bank decisions behind us, attention this week will shift firmly toward the anticipated Trump-Xi summit. **CNH volatility may rise modestly, with USD/CNH potentially drifting lower through Thursday as optimism builds**. However, the CNY could weaken if the summit fails to produce any significant bilateral agreement with a boost to US-China trade relations or the Chinese economy.

Further ahead, we maintain our year-end USD/CNH forecast at 6.65, in view of the renminbi's self-reinforcing rally and growing consensus of further Fed rate hikes. A consensus has emerged among market participants and Fed officials that at least one more Fed rate increase may be required to contain US inflation expectations arising from geopolitical energy shocks.

<FX Charts on Page 8>

Activity monitor (1/2)

Fig 1 Thermal coal: sentiment partly recovered after suspensions

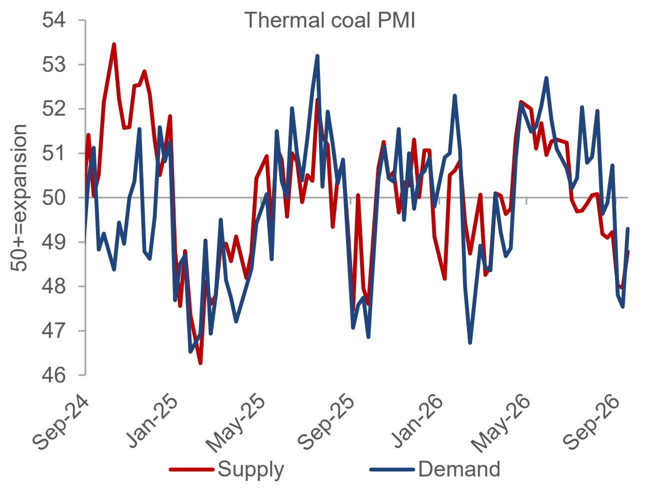
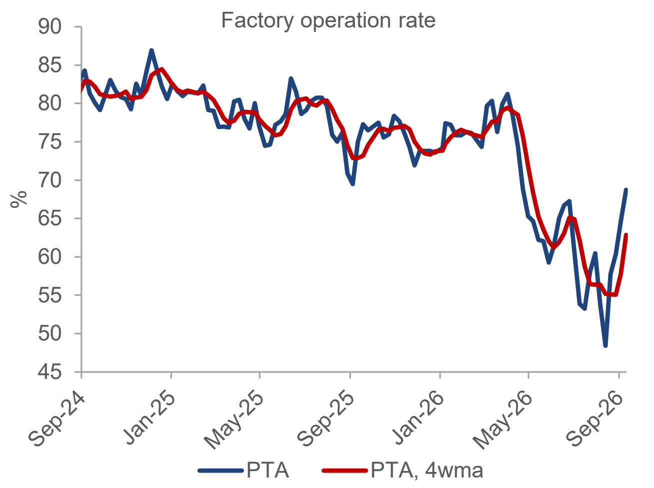


Fig 2 PTA production has picked up notably since late August



Source: Wind, Mizuho

Fig 3 Steel production has seen renewed YoY declines

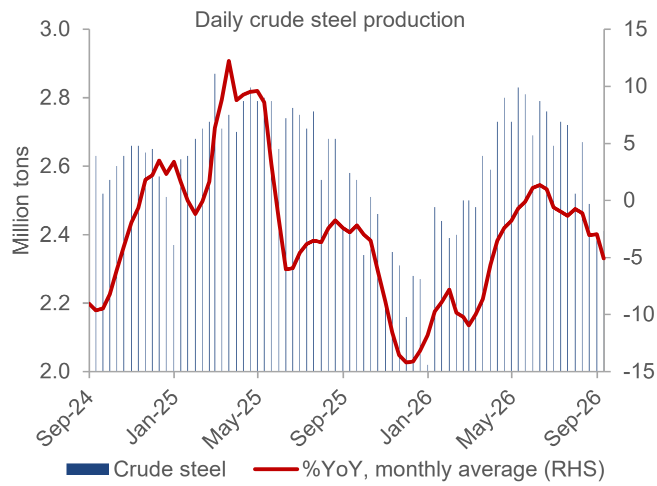


Fig 4 Steel tire production has moderated amid soft auto sales

Source: Wind, Mizuho

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

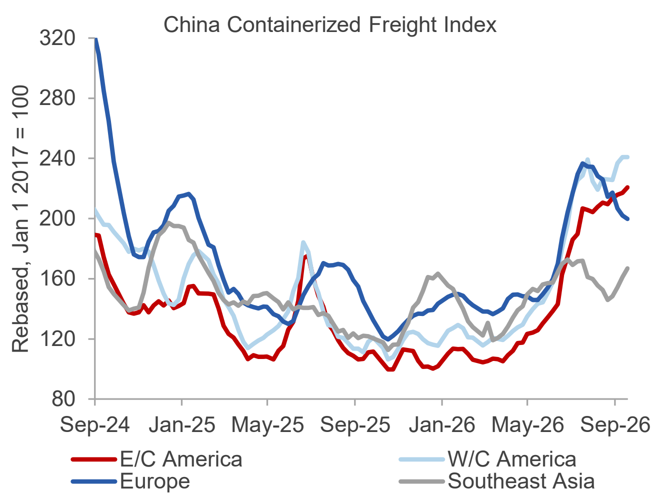
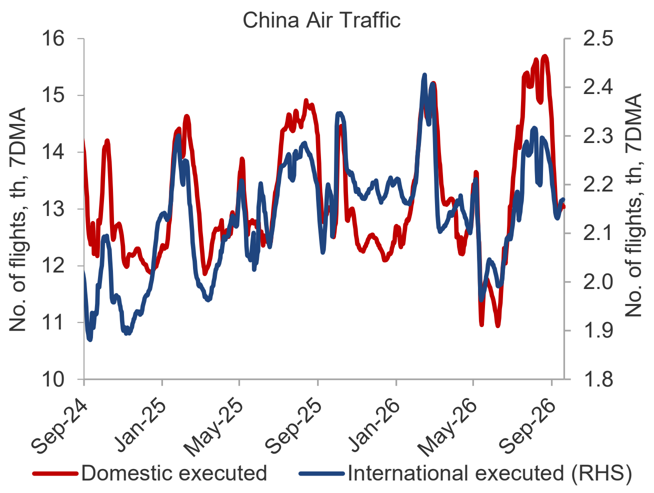


Fig 6 Air traffic: both international and domestic travel declined



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity improved in general

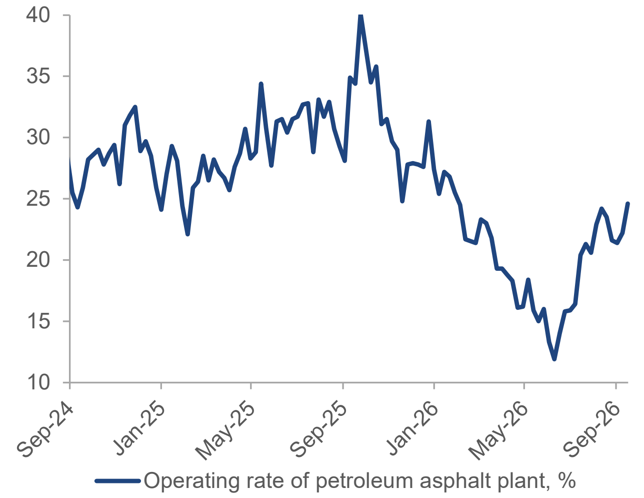
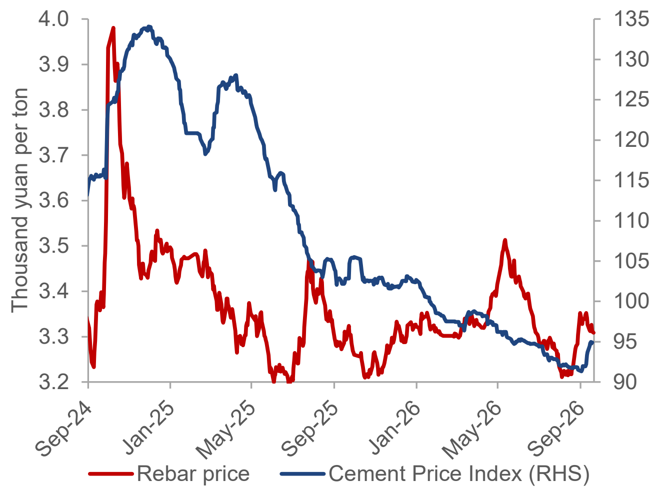


Fig 8 Construction material prices: both bottomed out



Source: Wind, Mizuho

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

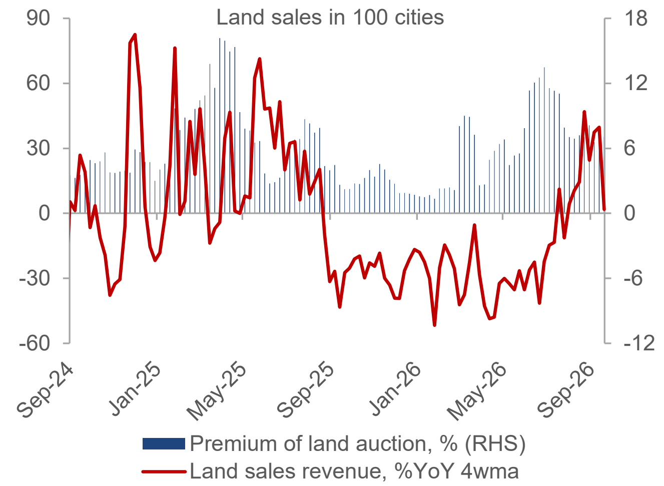
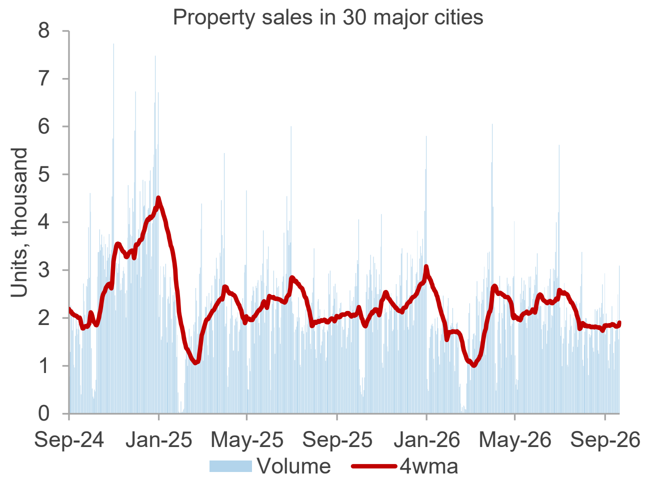


Fig 10 New home sales: a lack of improvement at the national level



Source: Wind, Mizuho

Fig 11 Movie box office revenue declined again in September

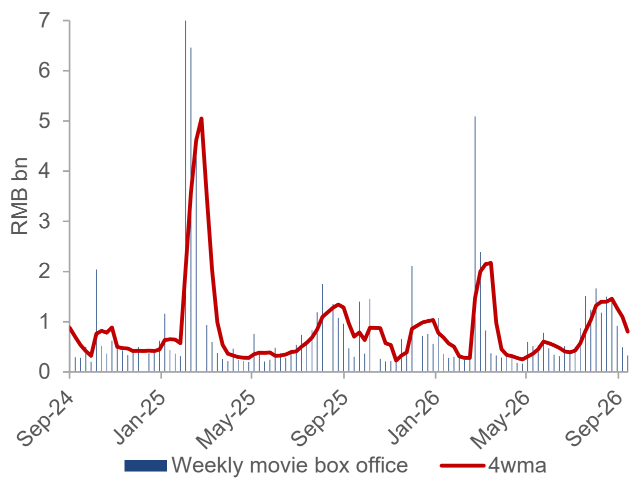
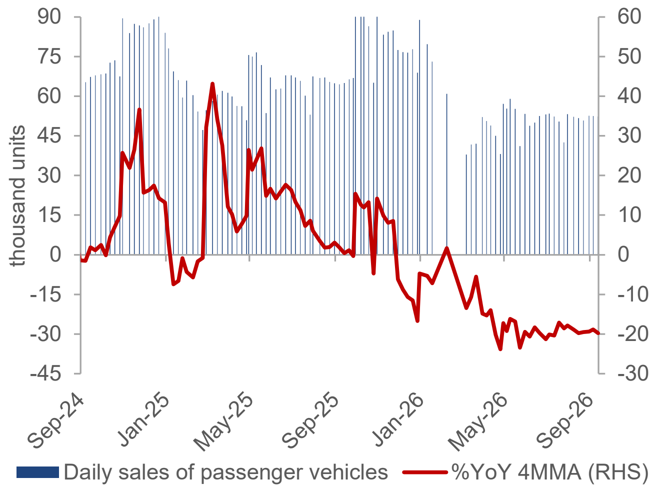


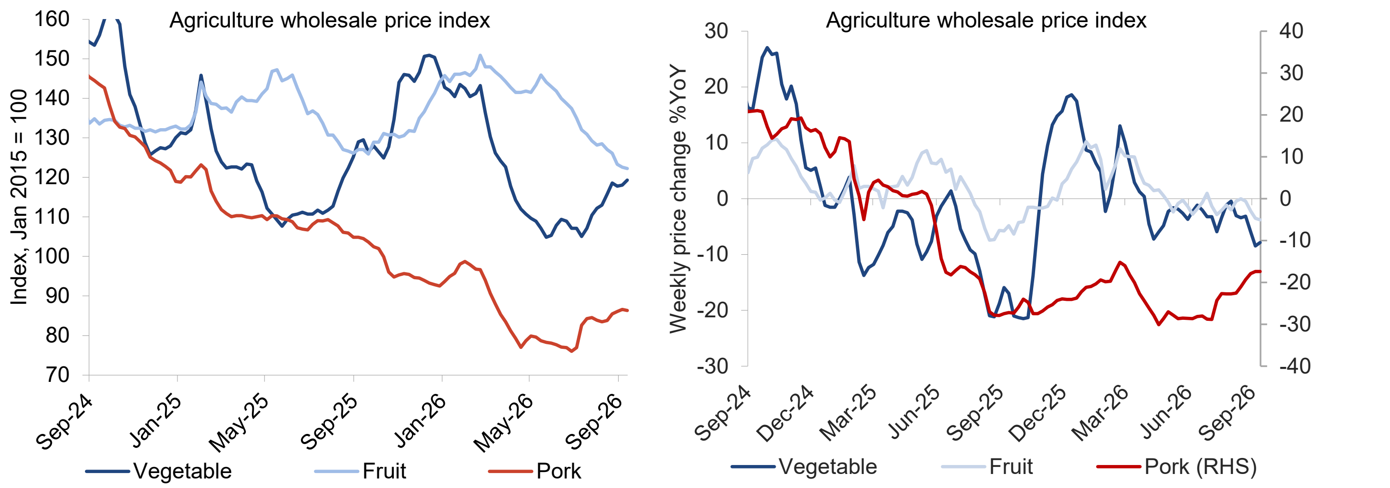
Fig 12 PV sales saw persistent and stable YoY declines



Source: Wind, Mizuho

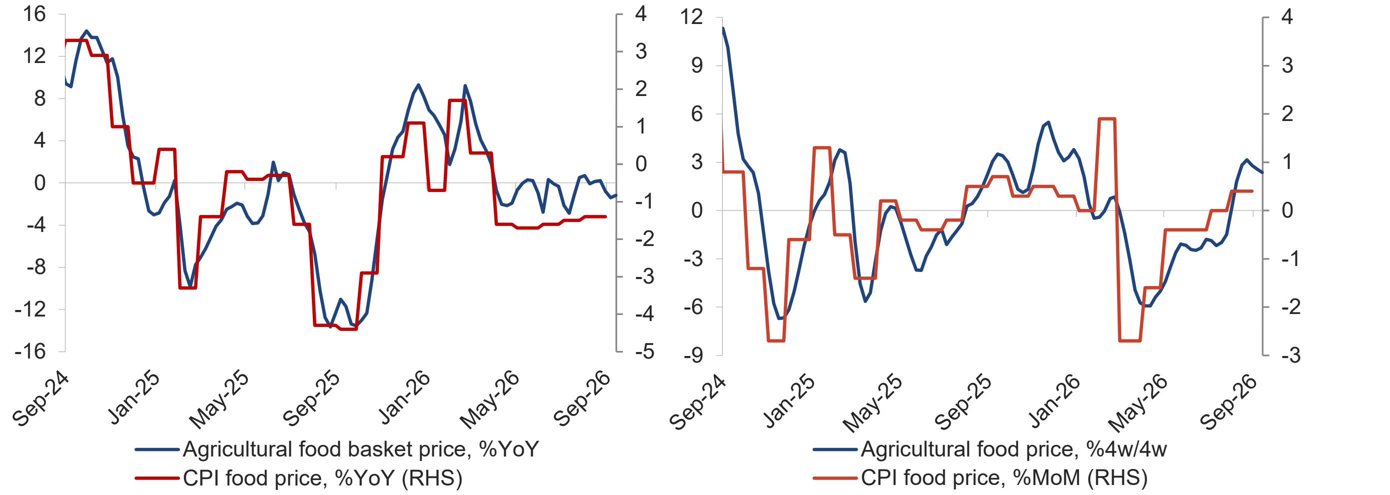
Price monitor

Fig 13 Major food items: Pork and fresh vegetable prices continued to pick up in September



Source: Wind, Mizuho

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



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices continued to climb

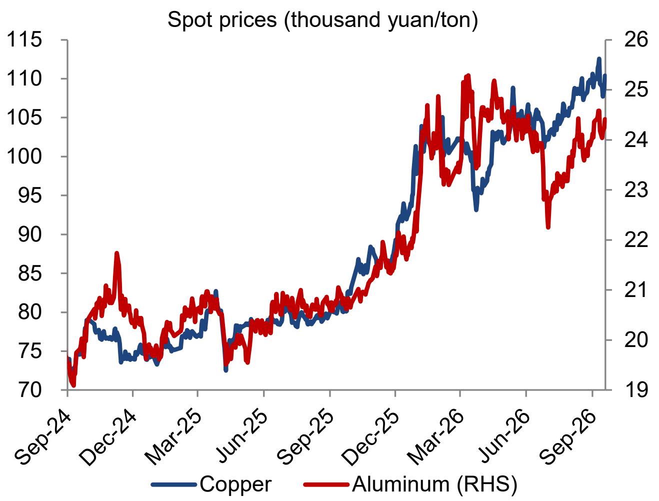
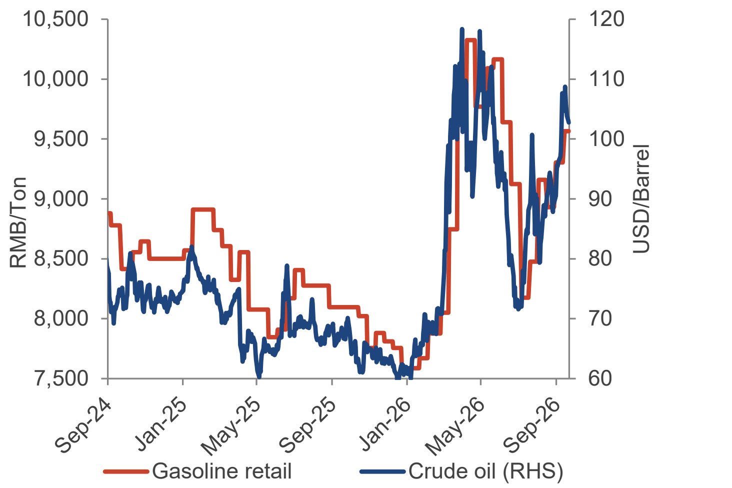


Fig 16 Oil prices: domestic fuel prices rose significantly again



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB827bn during 14 - 18 Sep

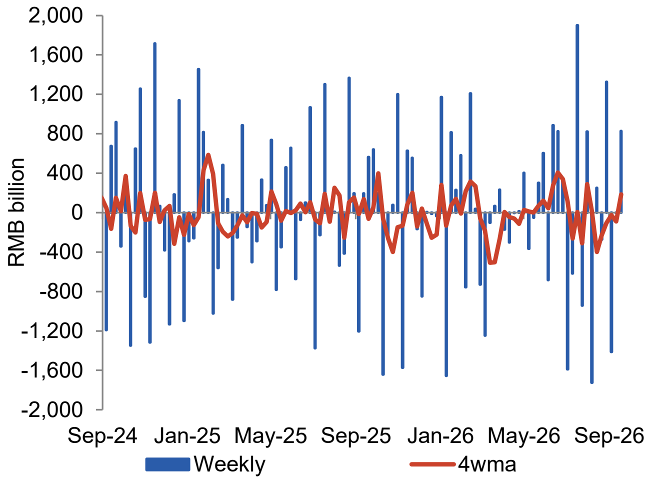
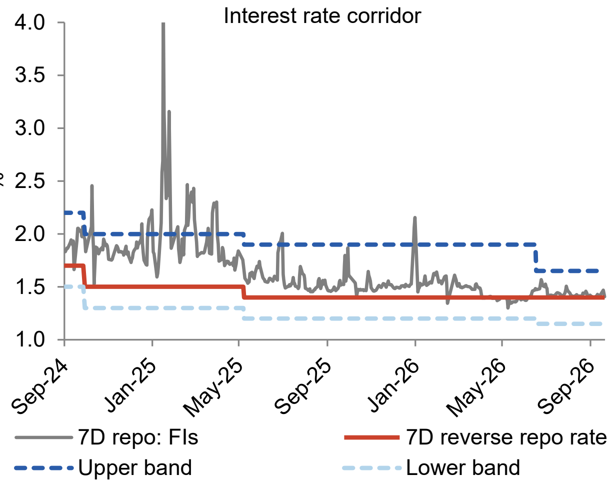


Fig 18 7D repo for FIs staying close to its target level



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

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

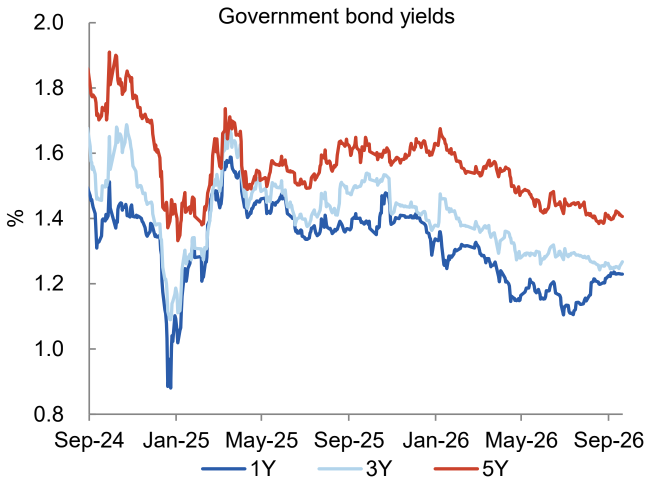
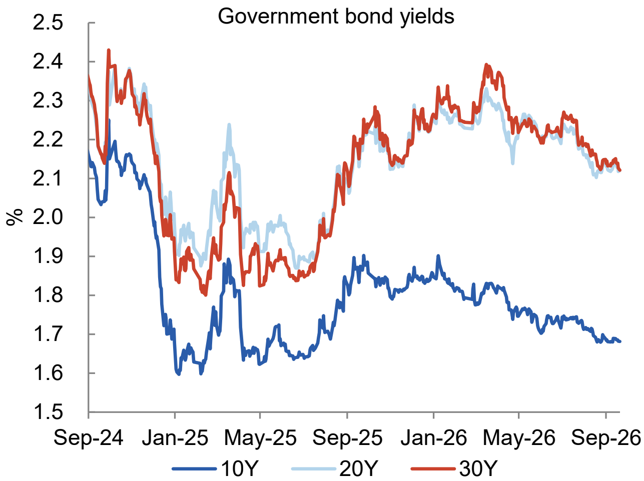
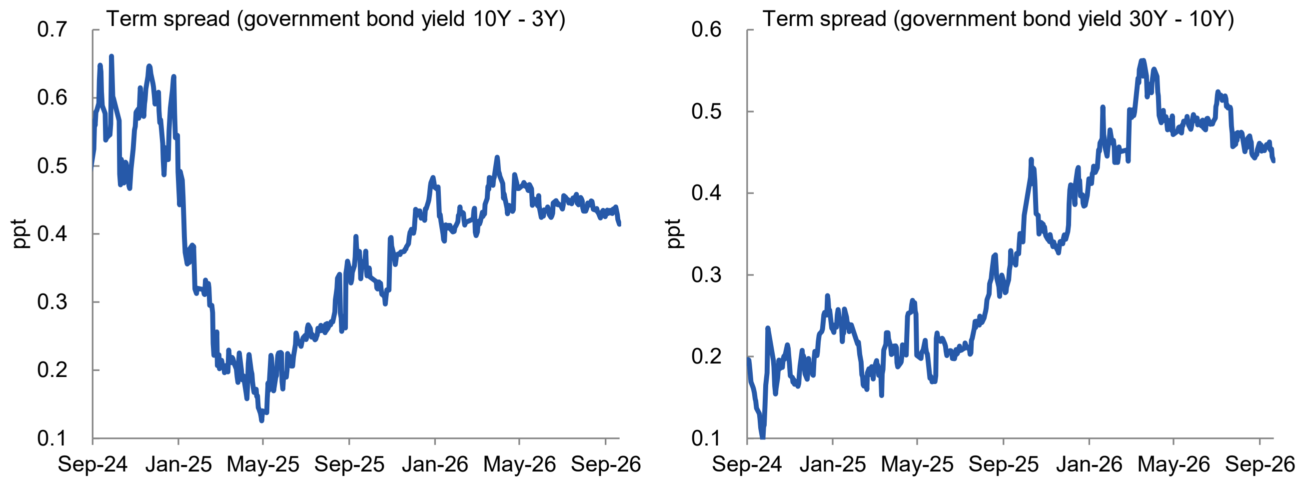


Fig 20 Long-end CGB yields: ultra-long yields fell notably



Source: CEIC, Mizuho

Fig 21 CGB term spreads tightened across the curve last week



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields saw muted movements

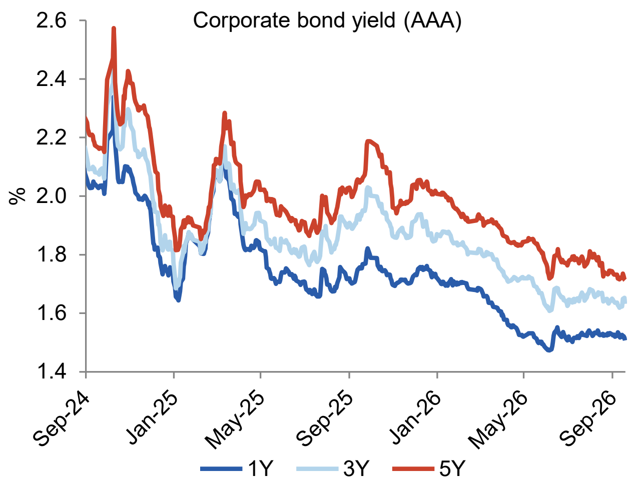
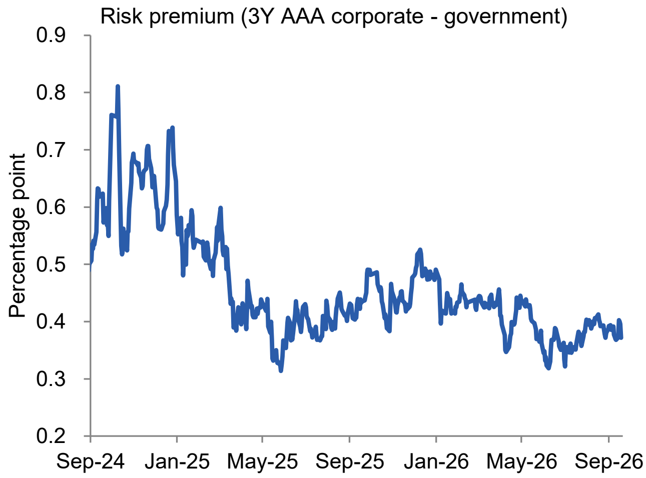


Fig 23 IG corporate risk premium much unchanged



Source: Wind, Mizuho

Fig 24 Onshore HY credit yields edged lower in general

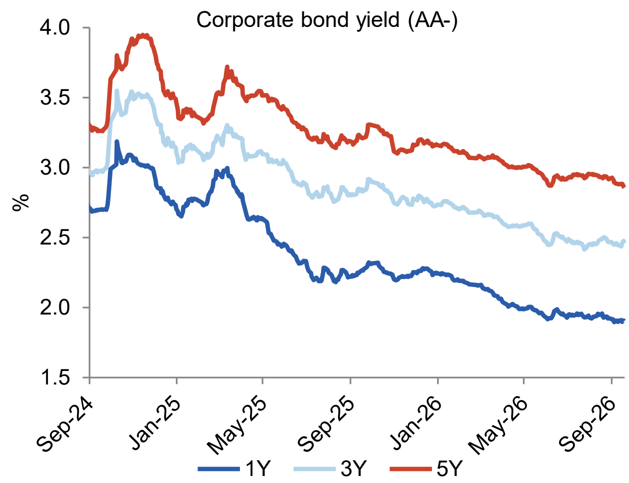
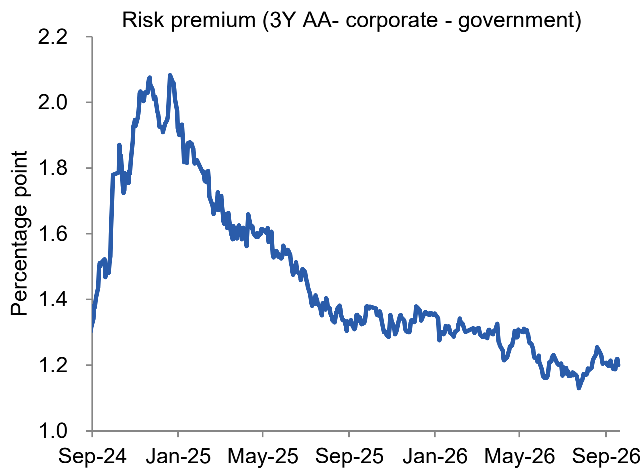


Fig 25 HY corporate risk premium much unchanged



Source: Wind, Mizuho

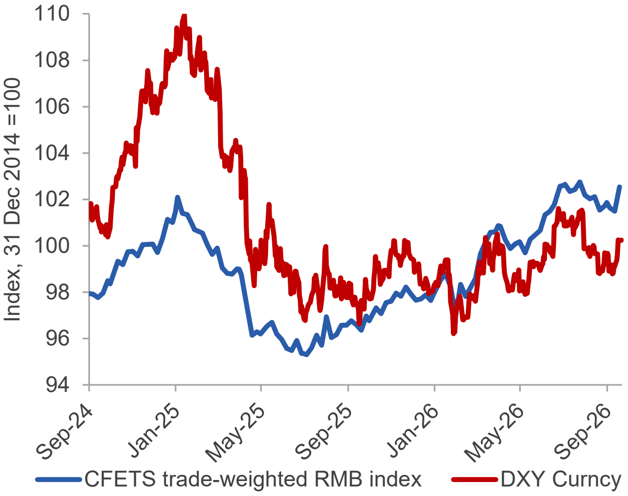
Fig 26 China USD credit spreads were mixed last week amid higher treasury yields and another week of no supply

Source: IHS Markit, Mizuho

FX monitor

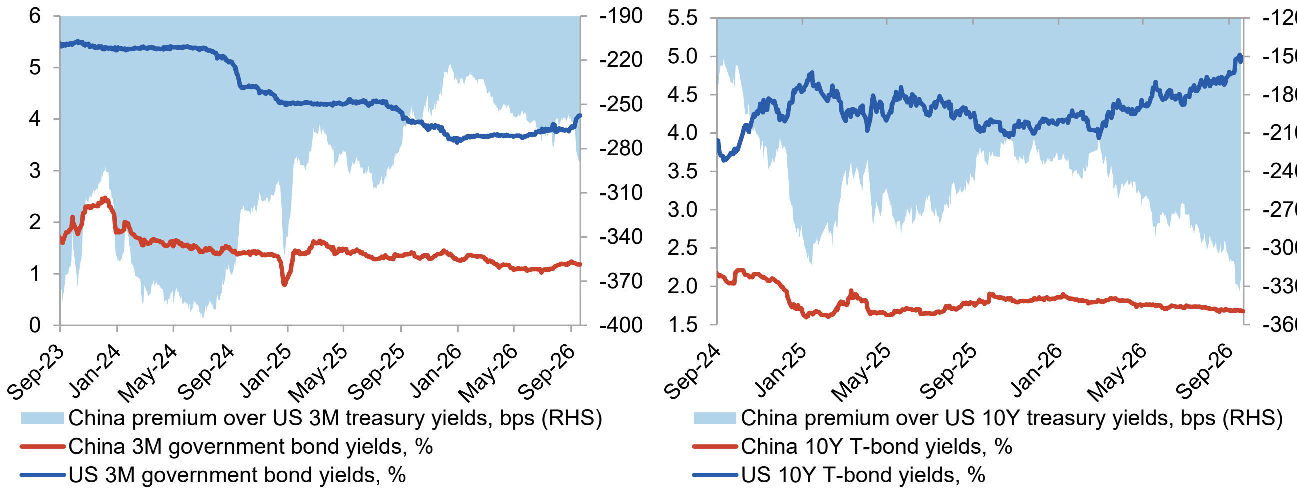
Fig 27 RMB fixing rate: moved notably toward the strong side

Fig 28 RMB trade-weighted index strengthened alongside the dollar



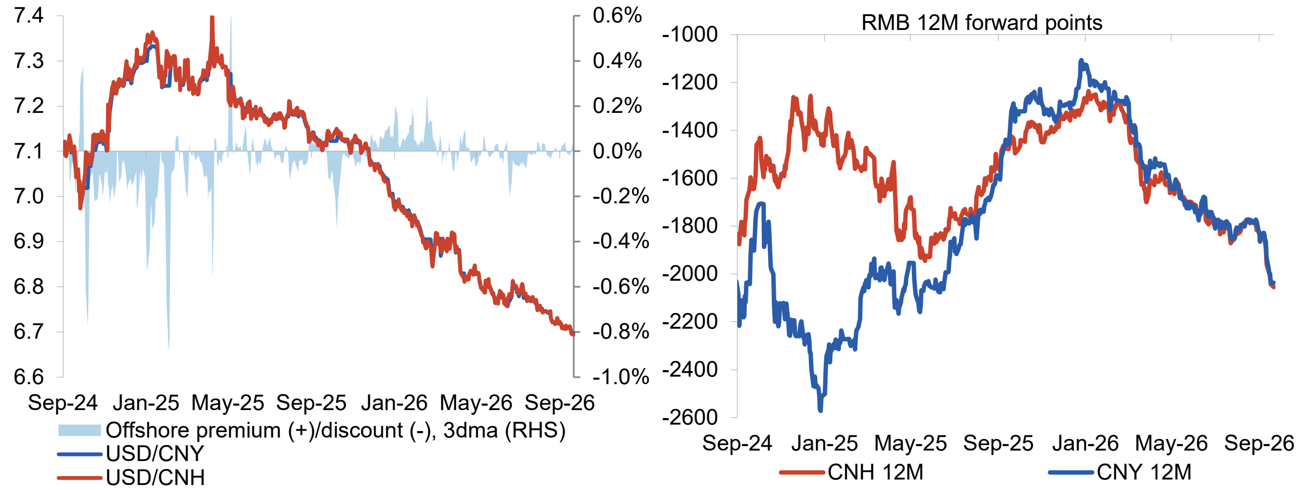
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads moved notably wider last week on higher US treasury yields



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH): the forward premium also widened notably last week



Source: Bloomberg, Mizuho

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