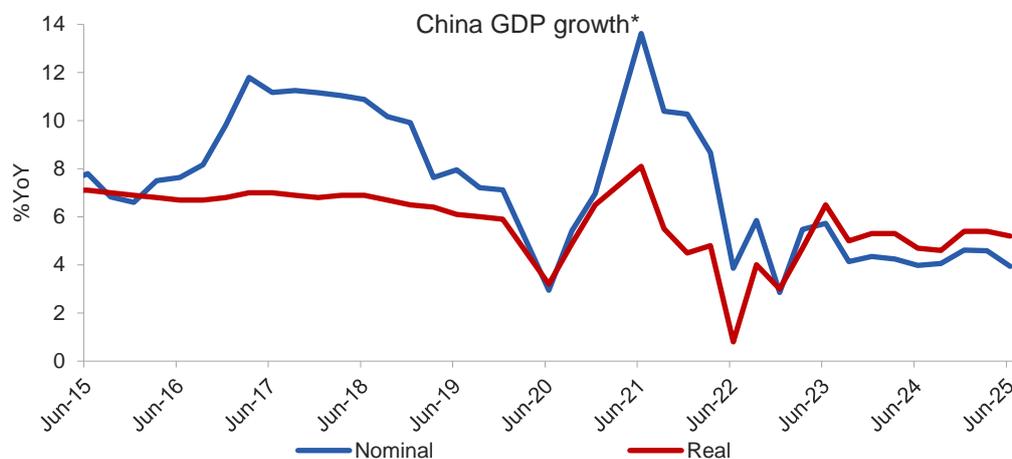


China Weekly Outlook

- China's Loan Prime Rates remain unchanged in July, as expected, with the 1Y at 3.0% and the 5Y at 3.5%. July typically sees a seasonal lull in government bond issuance, making a major easing move by the PBoC, such as a RRR or interest rate cut, unlikely in the coming weeks. Notably, PBoC officials have emphasized they are still assessing the full impact of May's easing measures. While July tax payments may temporarily tighten liquidity, the PBoC is well-equipped to manage short-term pressures through targeted tools like outright reverse repos. **Overall, we see near-term risks to CGB yields as broadly balanced.**
- Q2 GDP growth exceeded expectations at 5.2% YoY, but nominal GDP rose merely 3.9% YoY, implying a 1.3% drop in the GDP deflator. This marks the steepest decline since 2009 and the ninth consecutive quarter of negative growth (Fig 0), highlighting persistent deflation pressure. The slowdown was driven entirely by the industrial sector, which grew 1.7% YoY, down from 3.3% in Q1, amid increased trade uncertainty. By expenditure, net exports contributed 1.2ppt to real GDP growth (down from 2.1ppt in Q1), while gross capital formation added 1.3ppt (up from 0.5ppt), likely due to inventory buildup rather than investment increase.
- **We maintain our 2025 GDP forecast at 4.8% YoY, with growth expected to slow to 4.4% YoY in H2 due to fading front-loaded exports in Q3 and a high base in Q4.** Fiscal support is likely to increase amid ongoing trade uncertainty and a sluggish property recovery. The planned RMB2.3trn in special local government bonds for H2, alongside RMB2.1trn issued in H1, should support fixed asset investment amid current headwinds (see *Mizuho China Macro: Decoding China's Fiscal Push (2): From refinancing to investment, 16 July 2025*). We expect two more benchmark rate cuts this year, with 10bp in Q3 and 20bp in Q4.

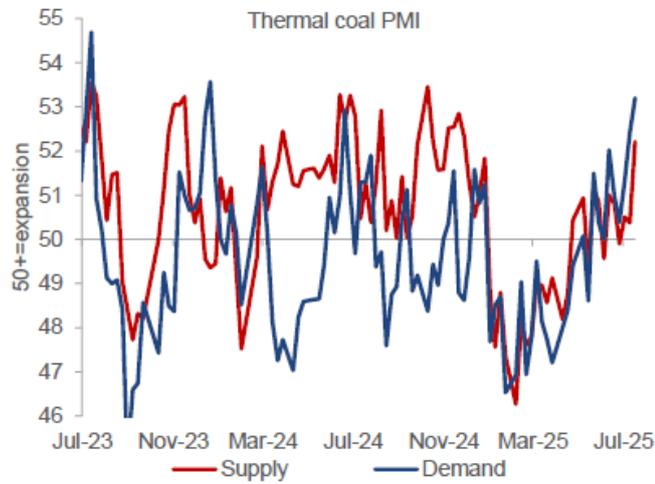
Fig 0 China's GDP deflator experienced a YoY decline for the ninth quarter in a row



*Note: Growth rates for 1Q20 and 1Q21 are excluded from the chart. Source: CEIC, Mizuho

Activity monitor (1/2)

Fig 1 Thermal coal: both supply and demand surged

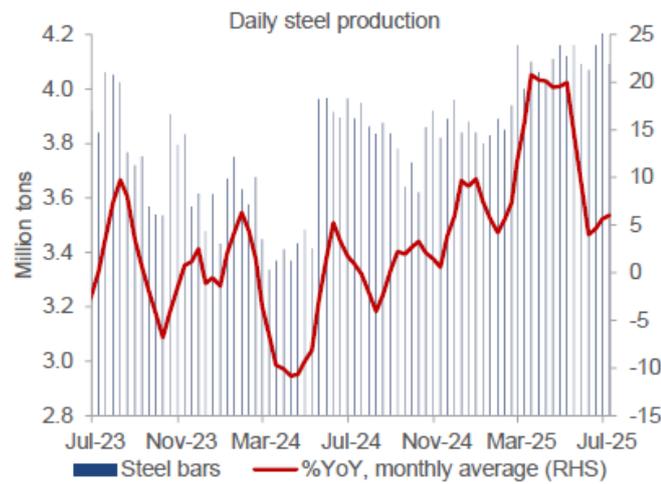


Source: Wind, Mizuho

Fig 2 PTA production slightly weakened from the previous peak



Fig 3 Steel production: growth slightly picked up in recent weeks



Source: Wind, Mizuho

Fig 4 Steel tire production weakened in early July

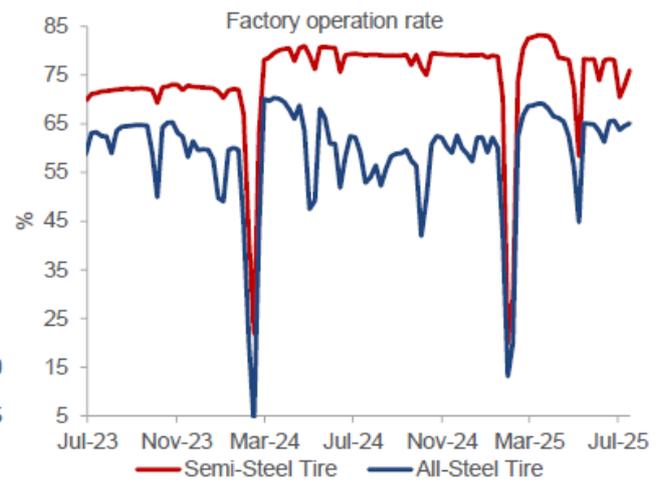
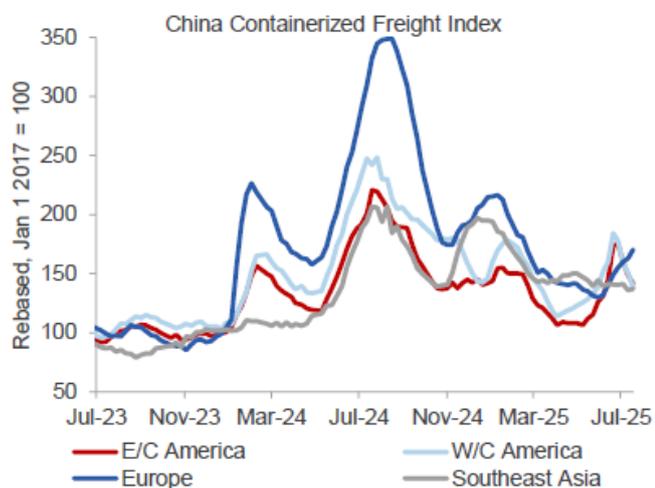
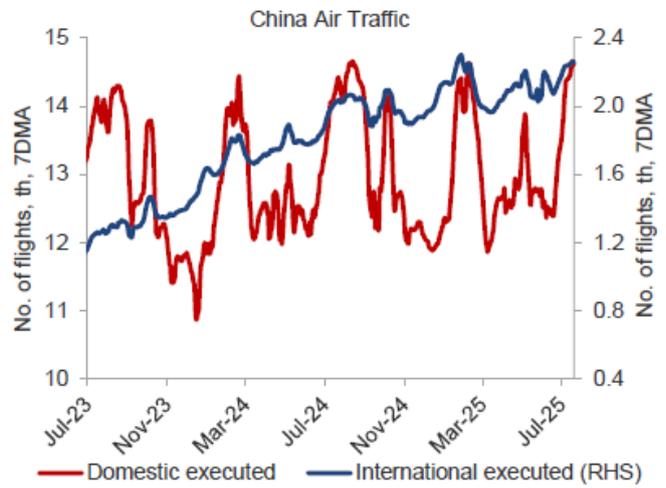


Fig 5 CCFI: shipping prices to the US have moderated



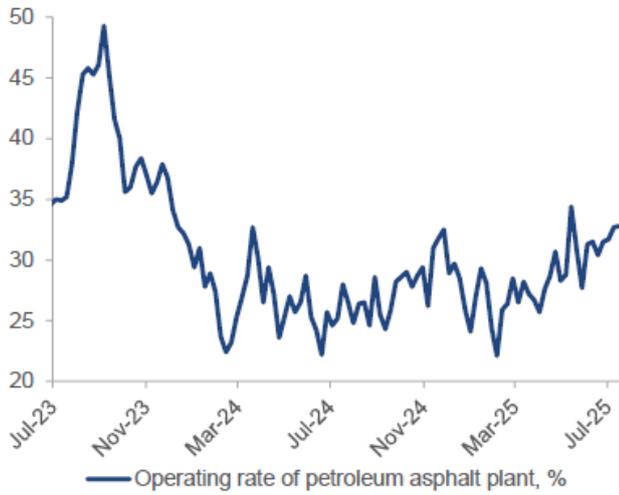
Source: Wind, Mizuho

Fig 6 Air traffic has increased significantly since end of June



Activity monitor (2/2)

Fig 7 Road construction continued to improve



Source: Wind, Mizuho

Fig 8 Construction material prices were mixed

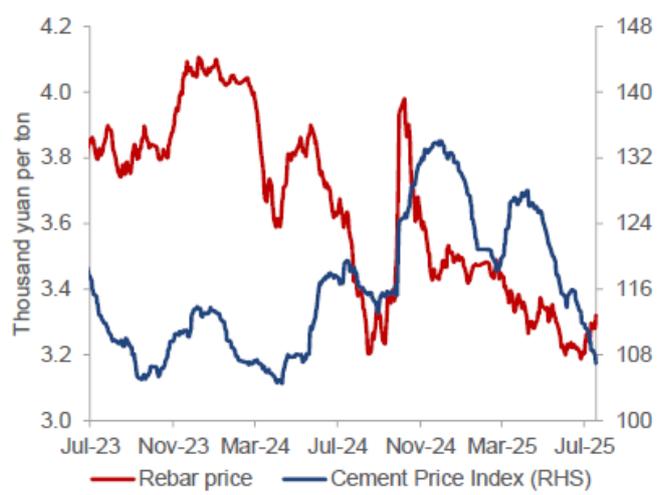
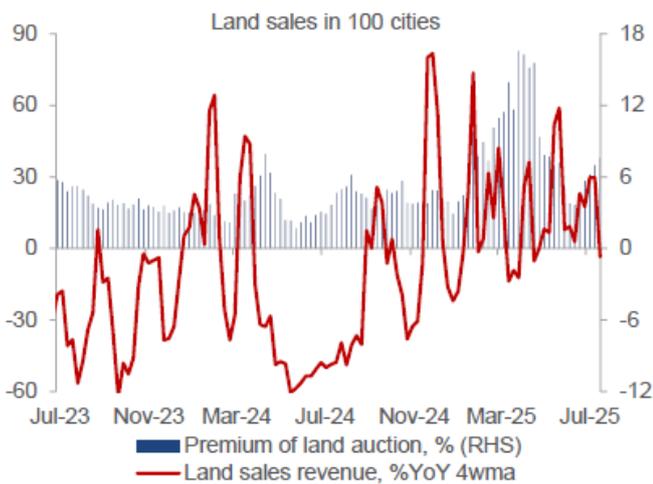


Fig 9 Land sales have shown signs of moderation

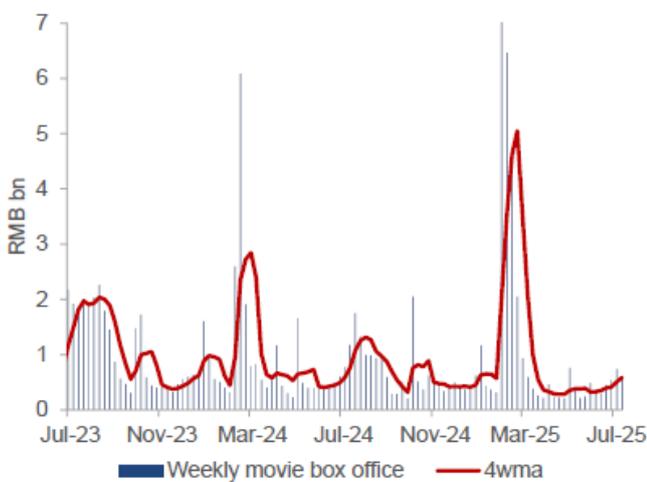


Source: Wind, Mizuho

Fig 10 New home sales weakened again

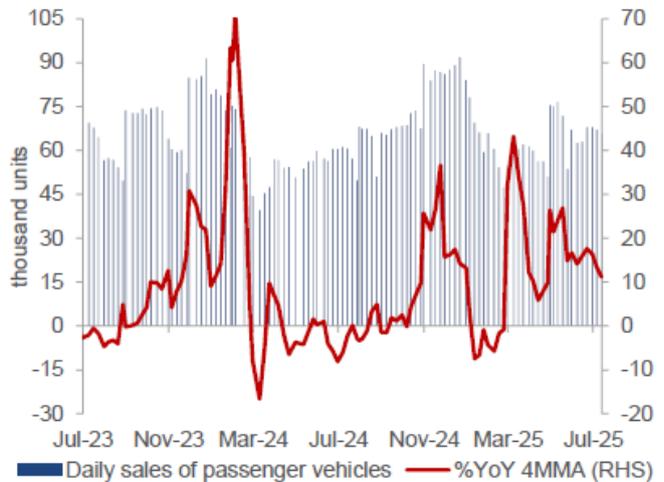


Fig 11 Movie box office revenue slightly improved



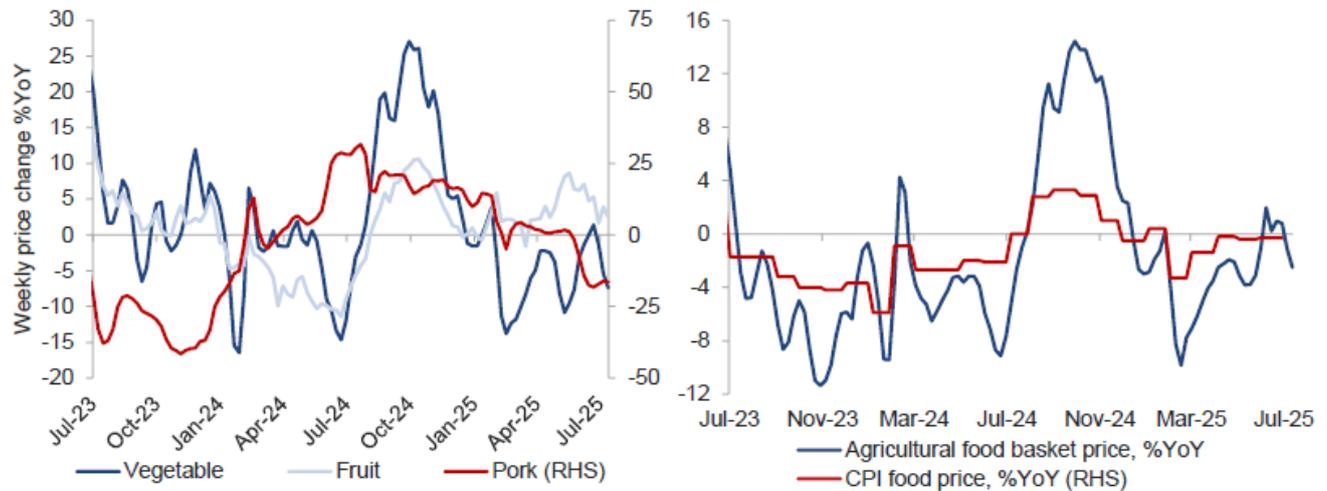
Source: Wind, Mizuho

Fig 12 PV sales: YoY growth remained supported



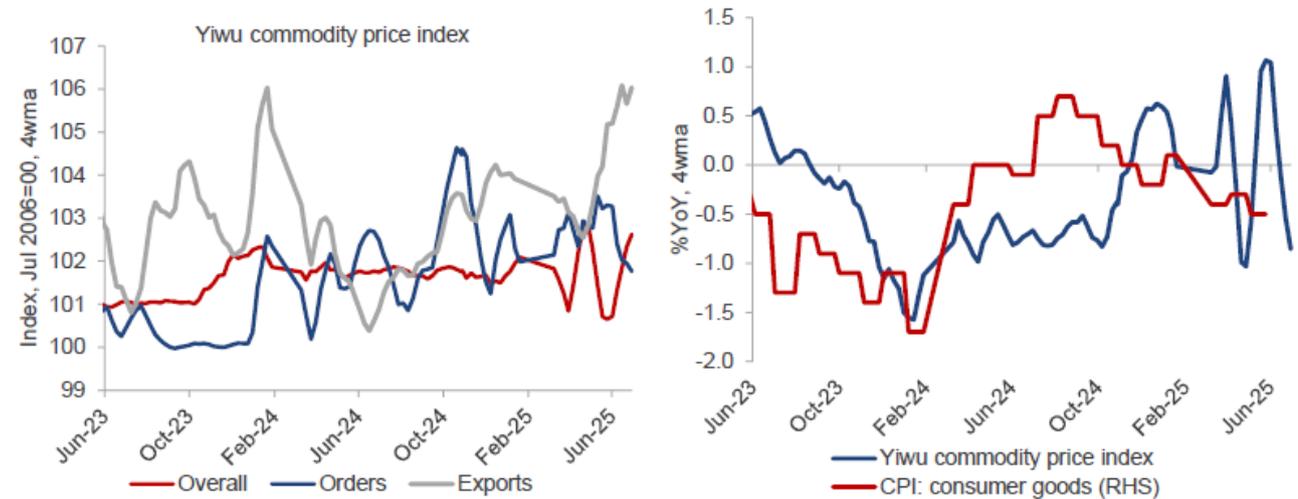
Price monitor

Fig 13 Agricultural prices fell YoY last week on declining fruit and fresh vegetable prices



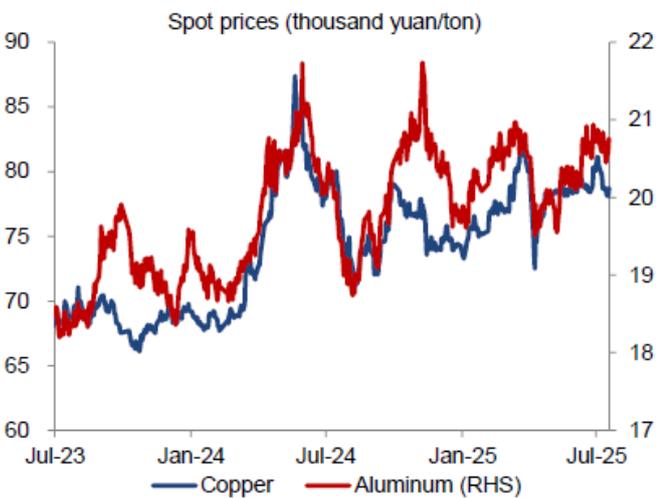
Source: CEIC, Mizuho

Fig 14 Yiwu Commodity Prices: no updates since July



Source: Wind, Mizuho

Fig 15 Non-ferrous metal prices slightly softened



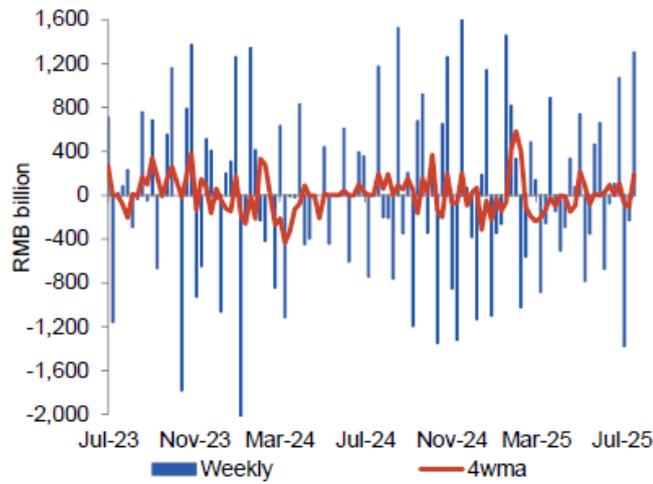
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices fell on eased geopolitical tension



Liquidity monitor

Fig 17 OMOs: net injection of RMB1301b during 14 - 18 Jul



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs moved closer to the target level

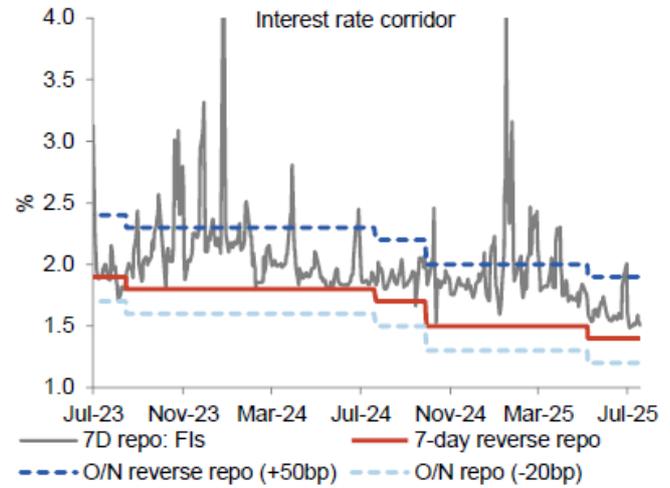
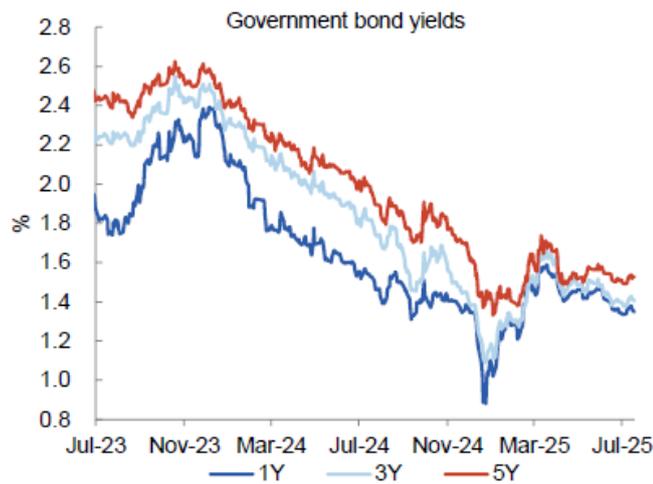


Fig 19 Short-end CGB yields saw mixed movements last week



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields edged up

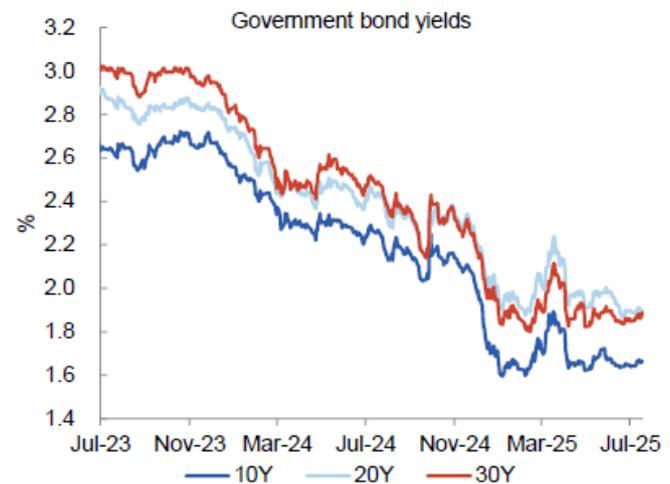
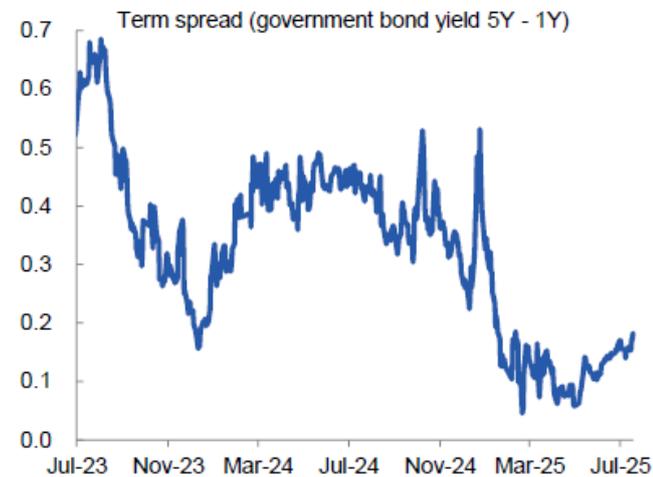
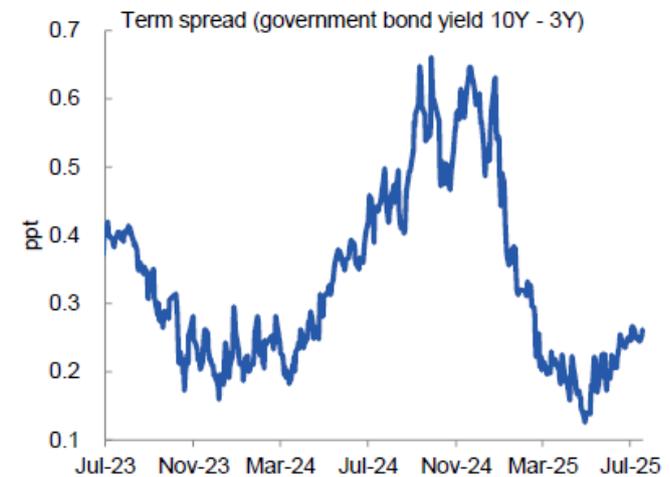


Fig 21 CGB term spreads widened from their recent lows

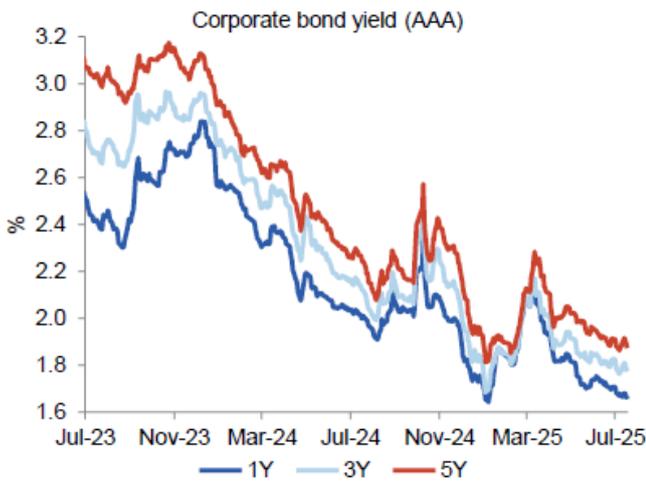


Source: CEIC, Mizuho



Credit monitor

Fig 22 IG Corporate bond yields trended lower



Source: Wind, Mizuho

Fig 23 IG corporate risk premium grinded tighter last week

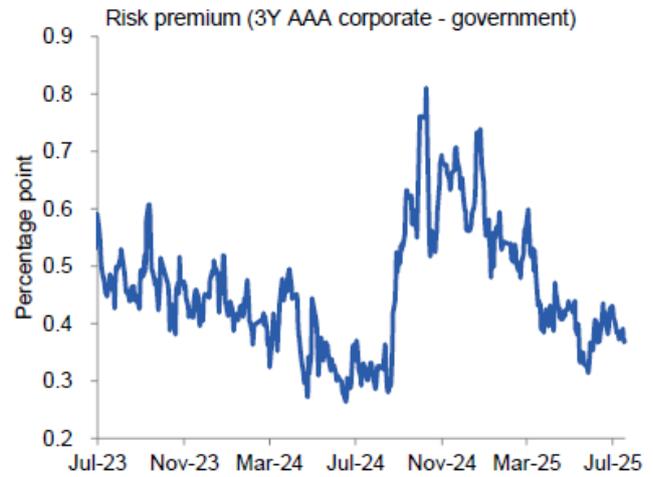
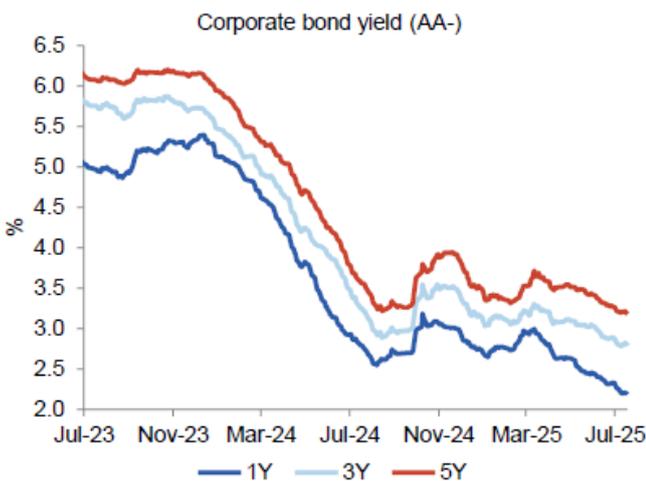


Fig 24 HY Corporate bond yields continued to move lower



Source: Wind, Mizuho

Fig 25 HY corporate risk premium continued to squeeze tighter

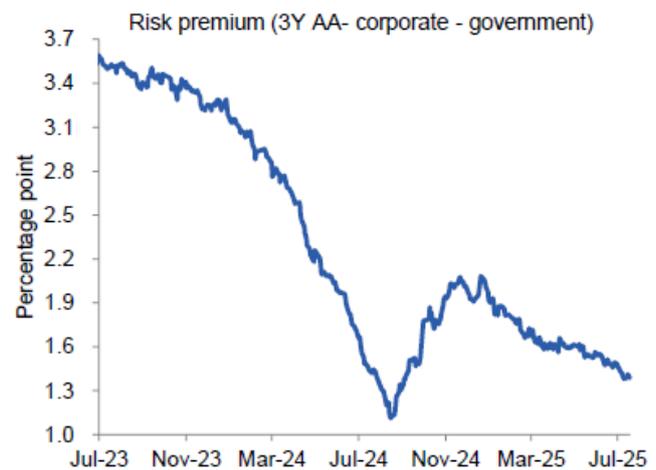
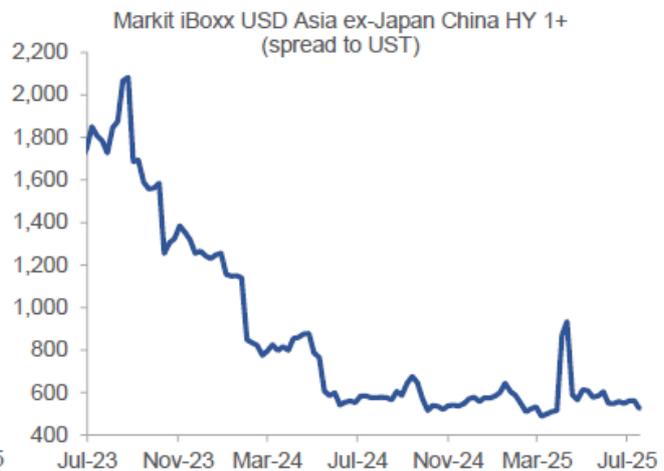
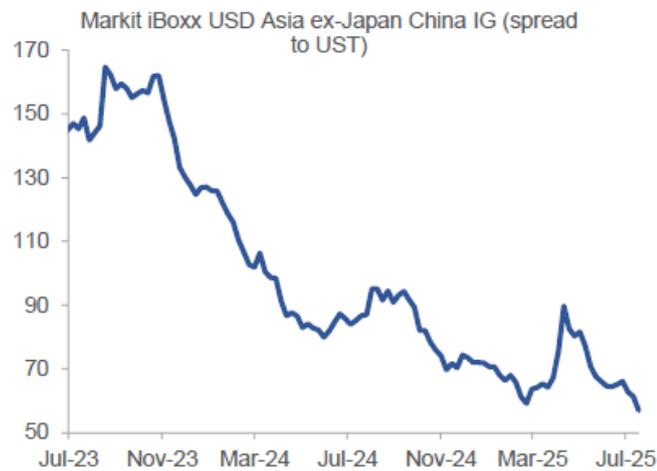


Fig 26 China USD credit spreads squeezed sharply tighter last week amid supportive US economic data and decent corporate earnings



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: increased PBoC intervention since Jul



Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index picked up notably

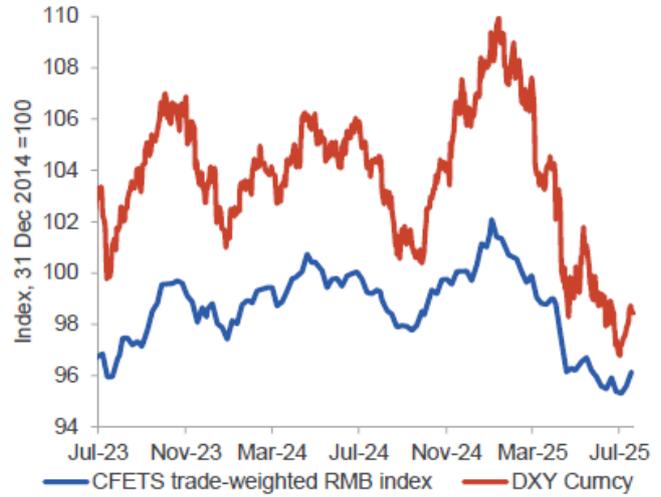
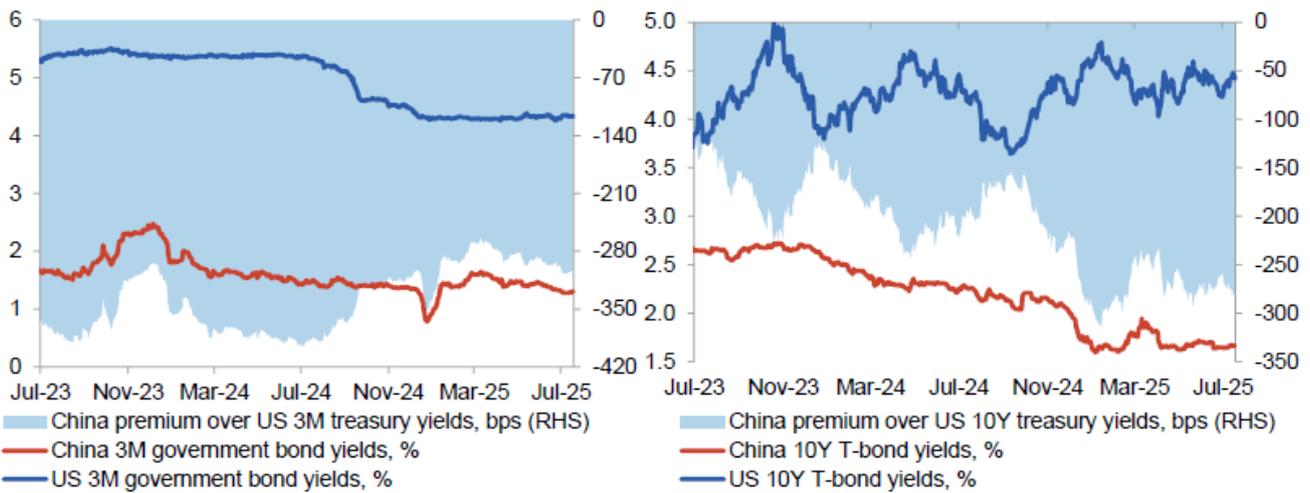
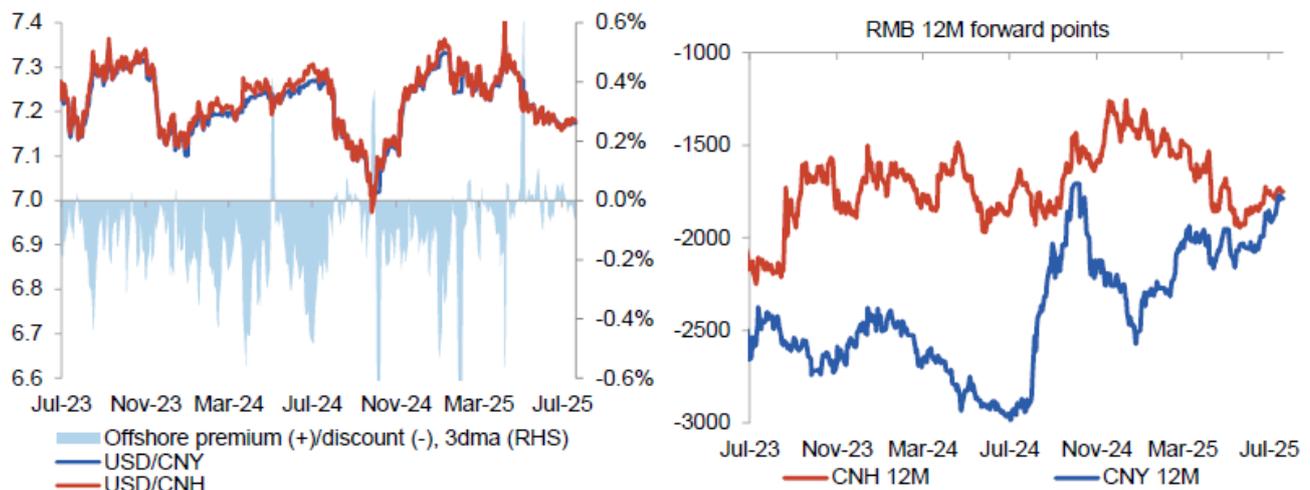


Fig 29 China-US interest rate spreads were wider at the long-end as UST yields rose



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading on par with the CNY, with a greatly tightened gap in forward points



Source: Bloomberg, Mizuho

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