

China Weekly Outlook

Widespread weakness in July activity

China's domestic activity data for July showed widespread softness.

Fixed asset investment delivered the biggest downside surprise, rising merely 1.6% YoY in the first seven months of the year. This implies a sharp decline of 5.3% YoY in July, dragged by poor weather and deepening weakness in the property sector. FAI by the private sector posted a YTD drop of 1.5% YoY, marking the steepest decline since 2020.

Additionally, both property investment and sales deteriorated further after already showing signs of renewed weakness in June, falling 17.0% and 14.1% YoY in July, respectively (see figure below).

Meanwhile, industrial value-added rose 5.7% YoY in July, marking an eight-month low. This contrasts with the solid trade growth during the same month, pointing to solid export performance driven by destocking rather than new production.

Retail sales also lost momentum, with the growth rate slowing to a YTD low of 3.7% YoY. Automobile sales fell 1.5% YoY, likely impacted by the government's campaign against excessive price competition among carmakers. Excluding automobiles, retail sales rose 4.3% YoY in July, as items supported by government trade-in subsidies, such as home appliances and mobile phones, continued to see double-digit sales growth.

A shift toward target financial support

Looking ahead, we see a slightly increased probability of a reduction in the 5Y Loan Prime Rate this Wednesday, driven by official efforts to lower financing costs and stabilize housing demand.

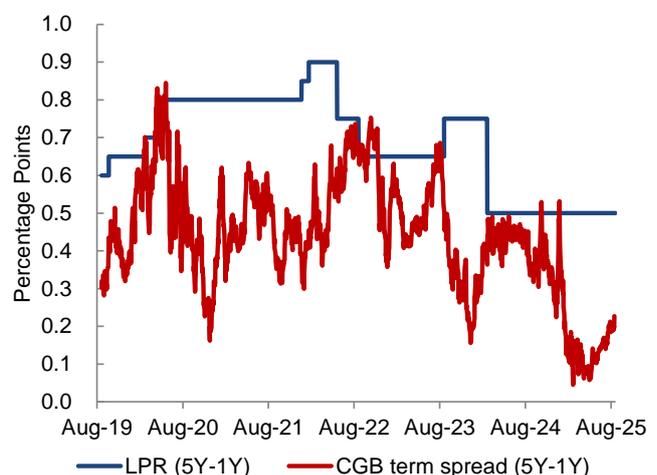
In its Q2 monetary policy report, the central bank stressed better utilization of structural policy tools to channel credit towards five key sectors including technology innovation and consumption. At the same time, it signaled reduced urgency for broad-based easing, citing resilient H1 growth. To us, this suggests a shift toward more targeted support for now.

<Property investment and sales deteriorated further in July>



Source: CEIC, Mizuho

<Potential room for the 5Y LPR to go lower>



CNH Outlook

Forex – The CNH closed barely changed last week, underperforming its Asian peers

Rates – Onshore rates rose amid increased easing expectations

Equities – Shanghai Composite Index climbed to a decade high

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1895	7.1983	7.1681	7.1837	-128
USD/CNY	7.1838	7.1915	7.1799	7.1807	-81
CNY PBoC Fixing	7.1405	7.1418	7.1322	7.1322	-83
Shanghai Composite Index	3637.05	3745.94	3629.63	3728.03	80.48

#From this Monday to last Monday
*pips in USD/CNY, USD/CNH row

Weekly Price Change#	HK Close	Weekly Change	HK Close	Weekly Change	
CNH Forward (1yr)	-1590	63	CNH HIBOR (3mth)	1.739	0.005%
CNH Currency Swap (3yr)	1.5200	0.055%	CNH Implied yield (1Y)	1.562	0.068%

Recap

Despite a slightly softer USD index (-0.33%) and a modest uptick in US Treasury yields, the CNH remained range-bound between 7.17 and 7.20 last week, closing with minimal change. Interestingly, the narrowing of US-China rate differentials—typically a supportive factor for the yuan—did little to shift the needle.

According to SAFE, FX settlement by bank clients rose to 63.3% in July, up from 60.9% in June and 61.1% a year ago. This uptick suggests a subtle but notable improvement in market confidence toward holding RMB.

Compared to other Asian currencies, gains in the CNH again lagged its peers including IDR (+0.7%), JPY (+0.5%), and SGD (+0.4%). This divergence once again underscores the PBoC's preference for a relatively stable currency to facilitate cross-border trade, manage financial risks, and advance yuan internationalization.

Outlook

With July's economic data now behind us and a fresh 90-day extension of the China-US trade truce in place, attention this week turns to Wednesday's Loan Prime Rate (LPR) announcement. While recent weak data has fueled expectations for further easing, any cut to the LPR would still come as a welcomed surprise to markets.

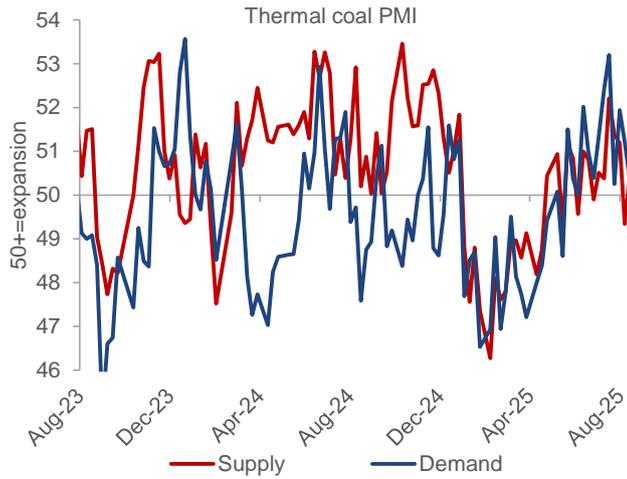
Beyond China, global eyes are on tonight's Trump-Zelensky meeting and Friday's keynote by Fed Chair Powell at the Jackson Hole Symposium—both potential market movers.

Looking ahead, we expect CNH to remain resilient, likely trading within a 7.15–7.25 range over the coming weeks. The PBoC's shift toward a “moderately loose” monetary stance since late June provides a supportive backdrop. While CNH will continue to track broader USD trends, we anticipate relatively subdued volatility with the PBoC's strong grip over the currency.

< FX Charts on Page 8 >

Activity monitor (1/2)

Fig 1 Thermal coal: supply weakened in early August



Source: Wind, Mizuho

Fig 2 PTA production dropped notably

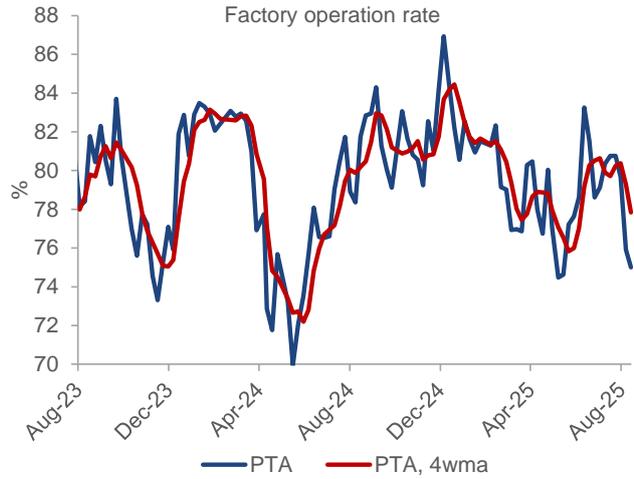
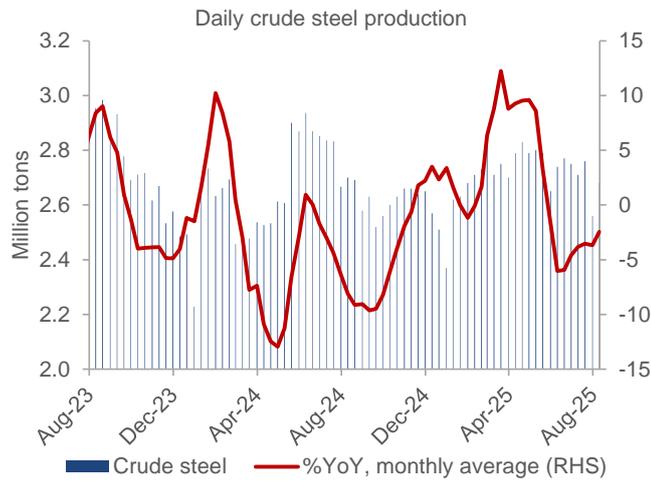


Fig 3 Steel production growth picked up in early August



Source: Wind, Mizuho

Fig 4 Steel tire production trended slightly lower

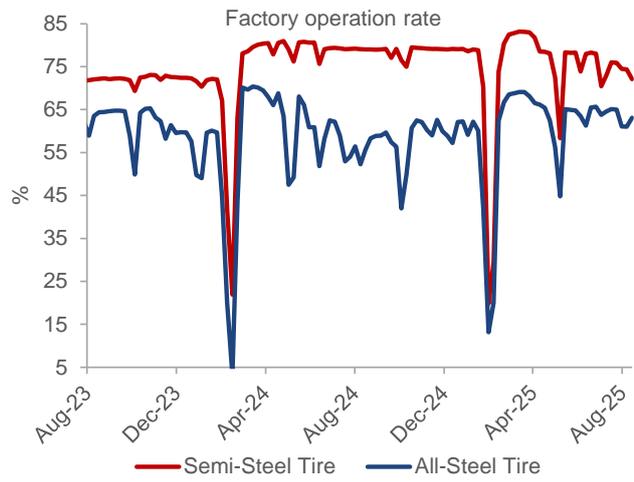
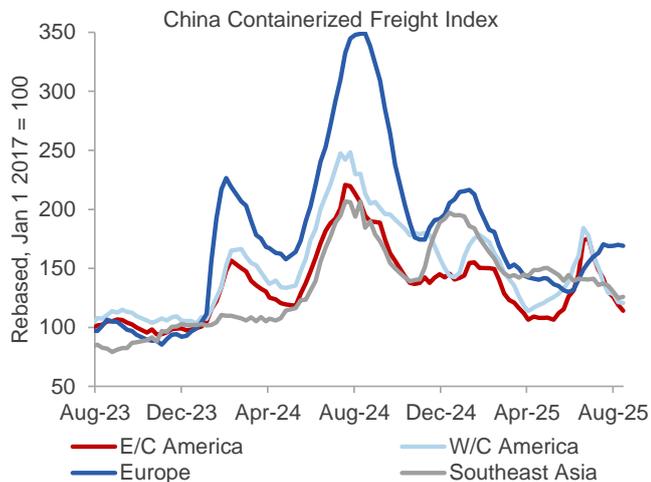
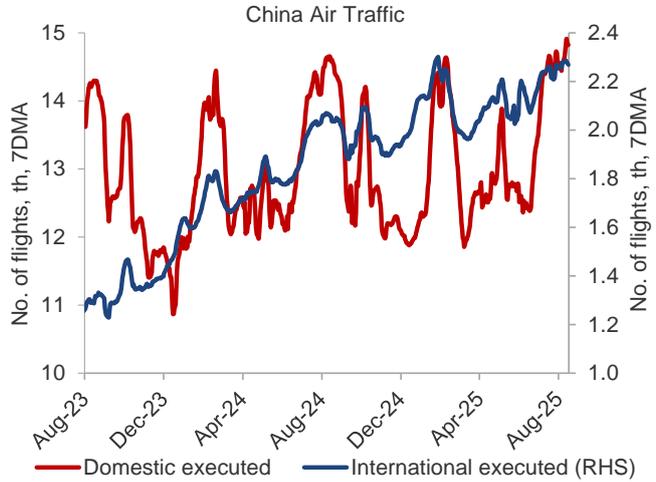


Fig 5 CCFI: shipping prices to the US significantly normalized



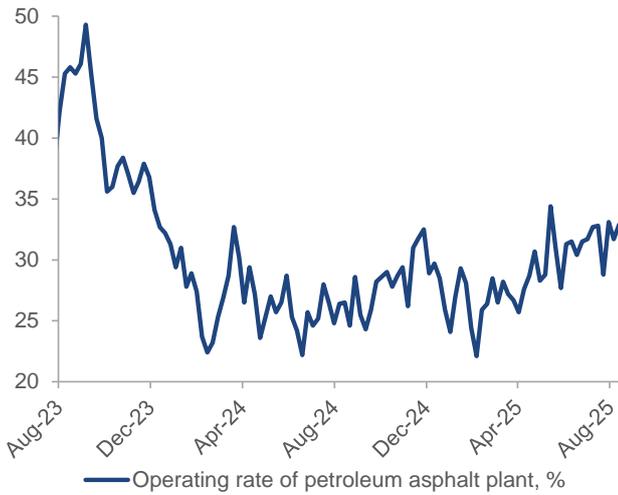
Source: Wind, Mizuho

Fig 6 Air traffic has increased significantly during summer holiday



Activity monitor (2/2)

Fig 7 Road construction continued to improve

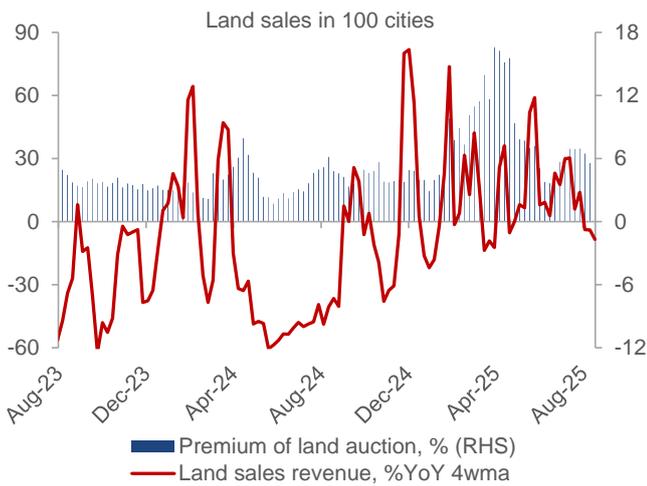


Source: Wind, Mizuho

Fig 8 Construction material prices trended lower in the past week



Fig 9 Land sales weakened notably in recent weeks



Source: Wind, Mizuho

Fig 10 New home sales also softened

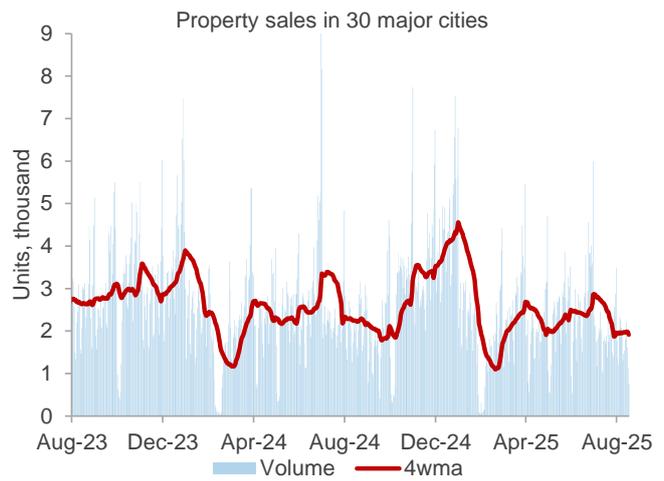
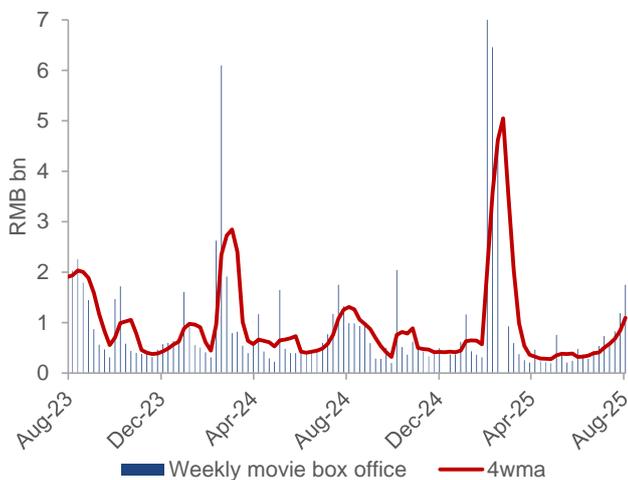
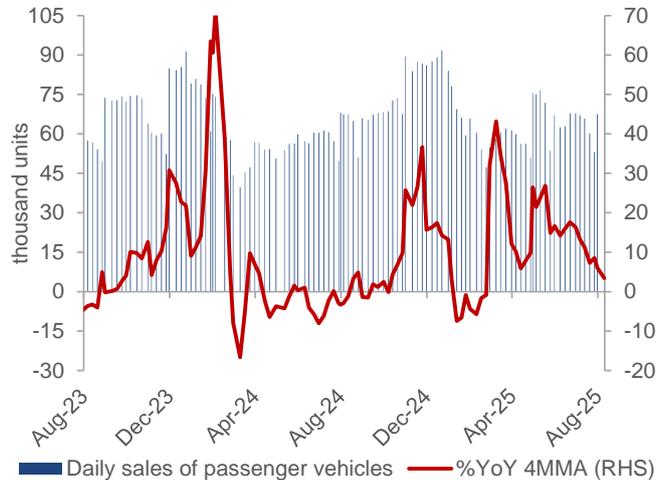


Fig 11 Movie box office revenue improved in summer holiday



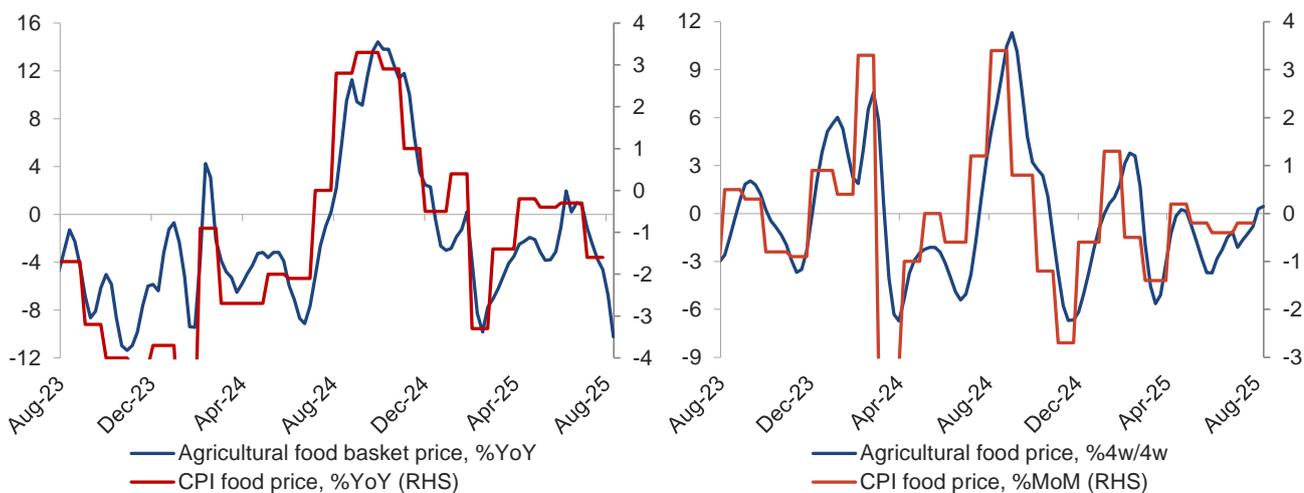
Source: Wind, Mizuho

Fig 12 PV sales growth continued to moderate in recent weeks



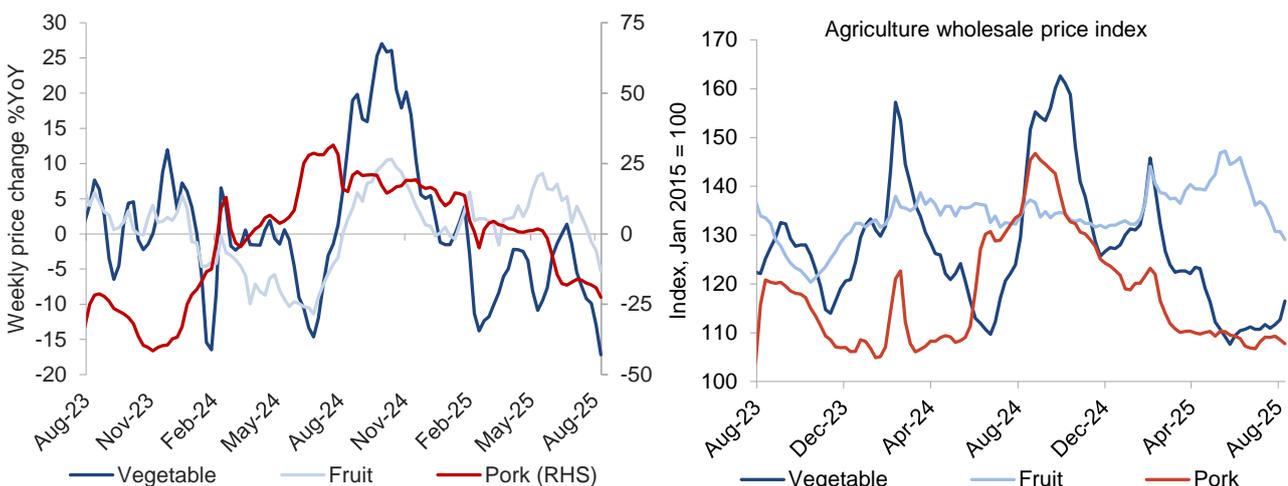
Price monitor

Fig 13 Wholesale food prices fell at a faster YoY pace on the high base from same period last year



Source: CEIC, Mizuho

Fig 14 Major food items: price declines were seen across the board



Source: Wind, Mizuho

Fig 15 Non-ferrous metal prices stayed much unchanged

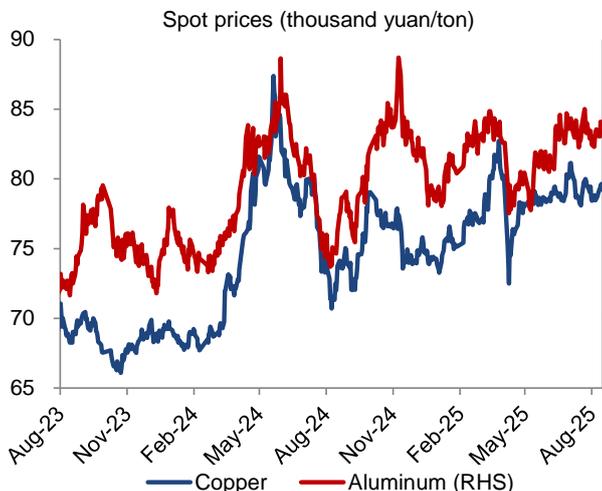
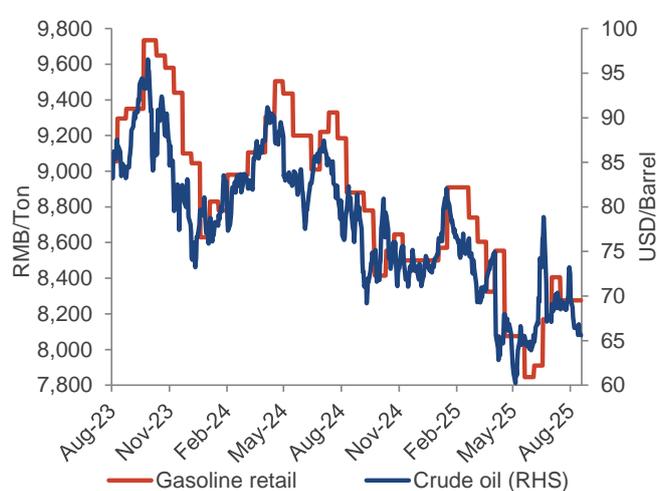


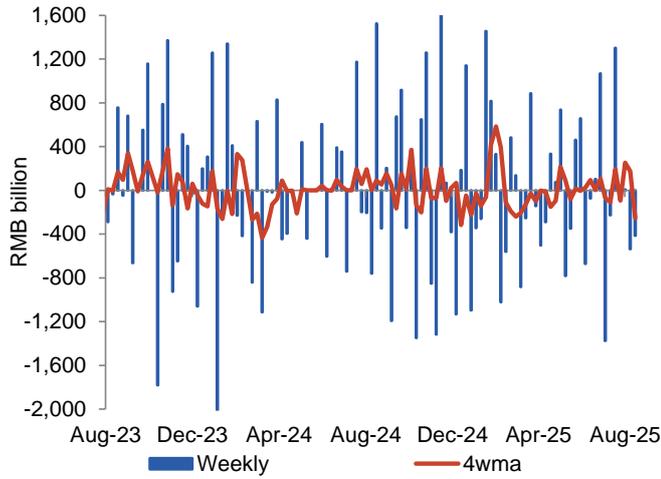
Fig 16 Oil prices dropped ahead of Trump-Putin talks



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net withdraw of RMB415b during 11 - 15 Aug



Source: CEIC, Wind, Mizuho

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

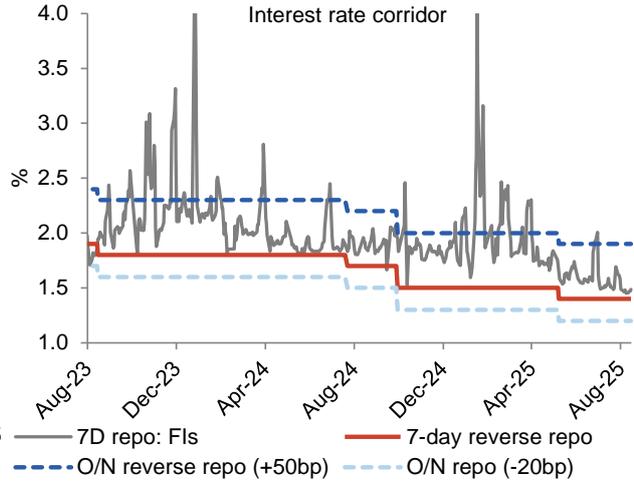
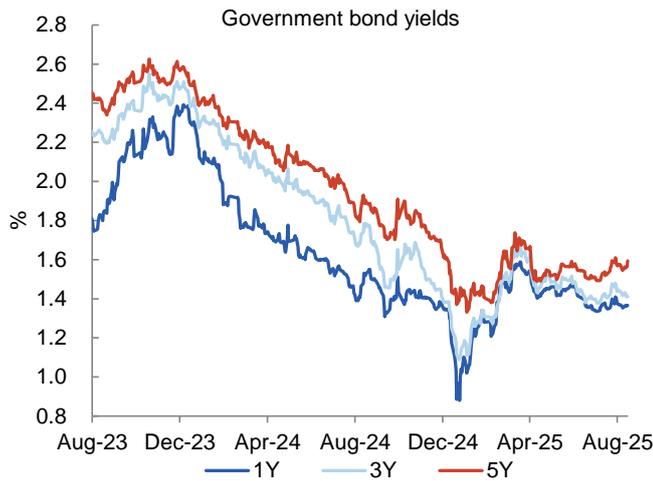


Fig 19 Short-end CGB yields saw muted changes last week



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields posted a significant increase

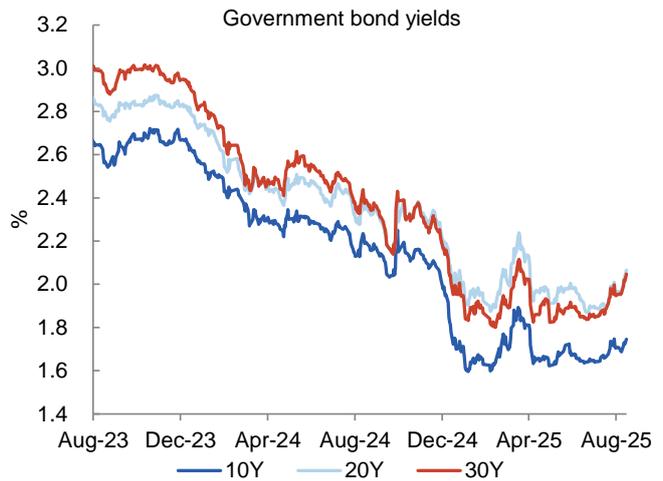
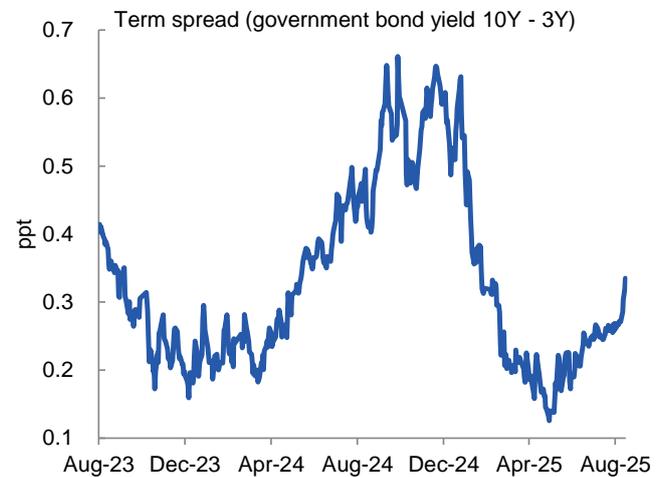
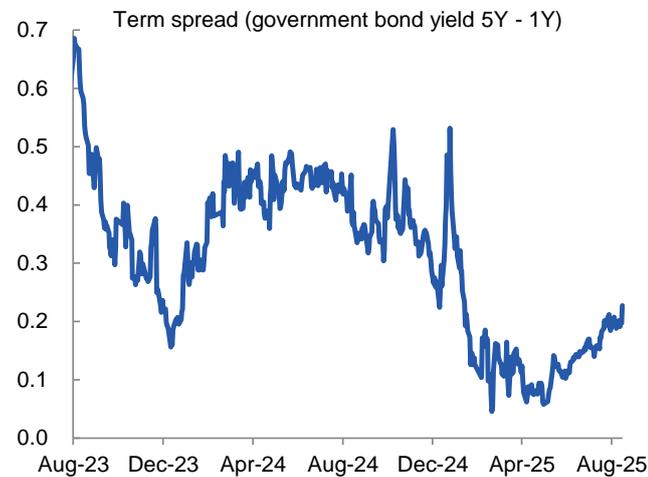


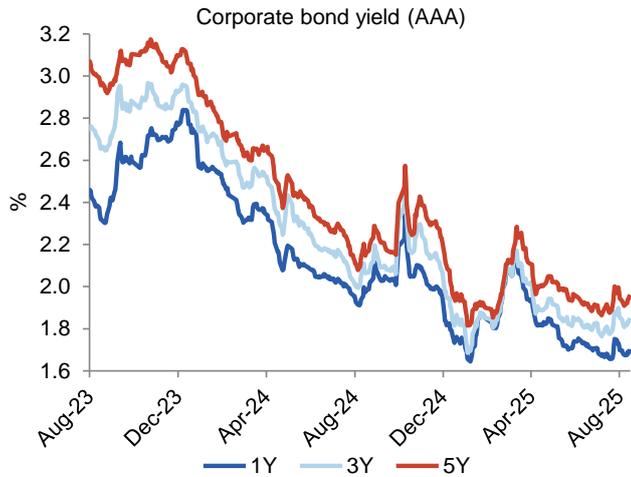
Fig 21 CGB term spreads gapped wider last week



Source: CEIC, Mizuho

Credit monitor

Fig 22 IG Corporate bond yields edge up



Source: Wind, Mizuho

Fig 23 IG corporate risk premium range bounded last week

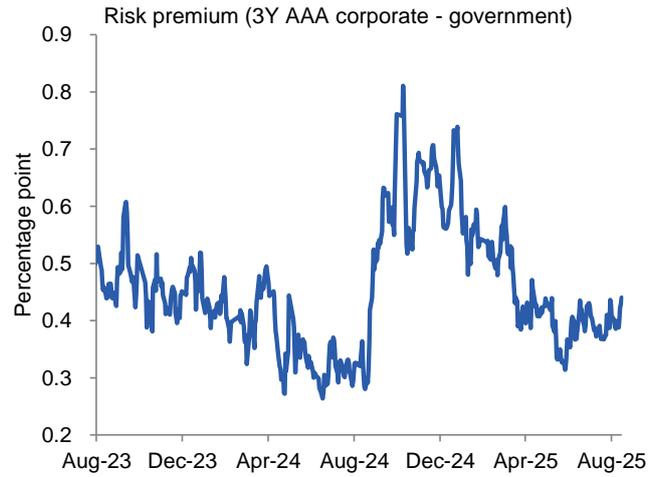
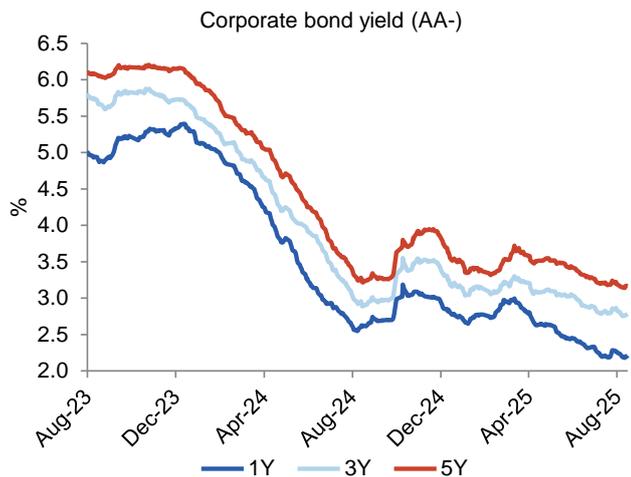


Fig 24 HY Corporate bond yields continued to edge lower



Source: Wind, Mizuho

Fig 25 HY corporate risk premium stayed much unchanged

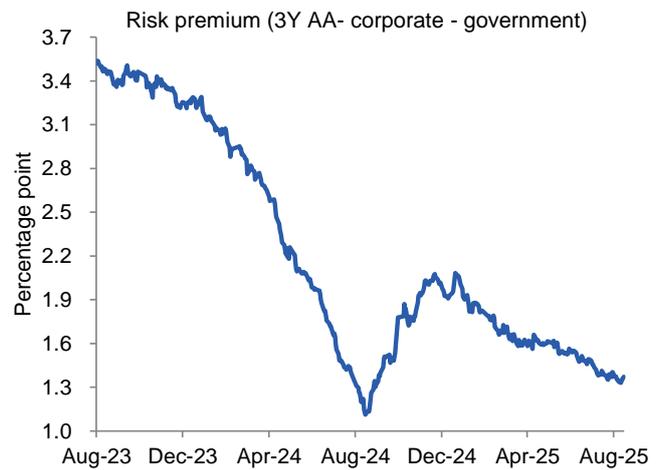


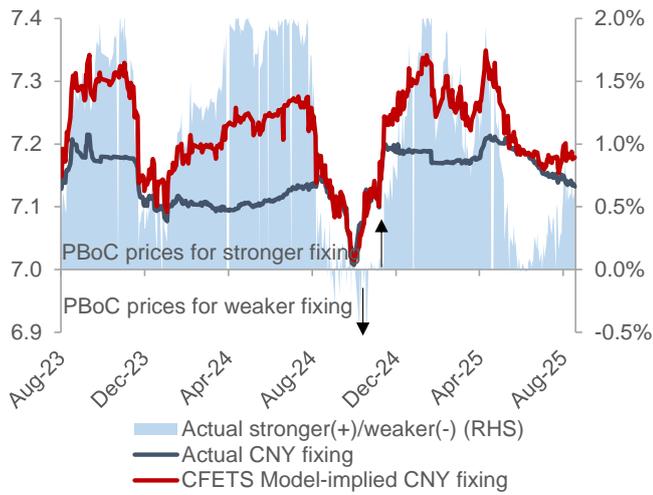
Fig 26 China USD credit spreads crunched tighter last week amid mixed US inflation and the extension of China-US trade truce



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC intervention returned in Jul



Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index edged up last week

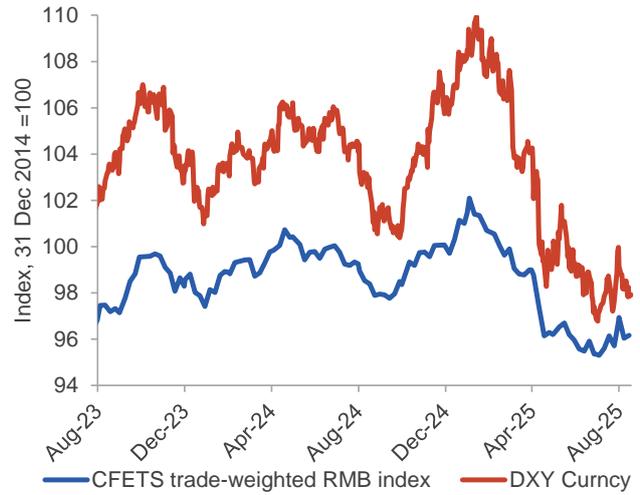
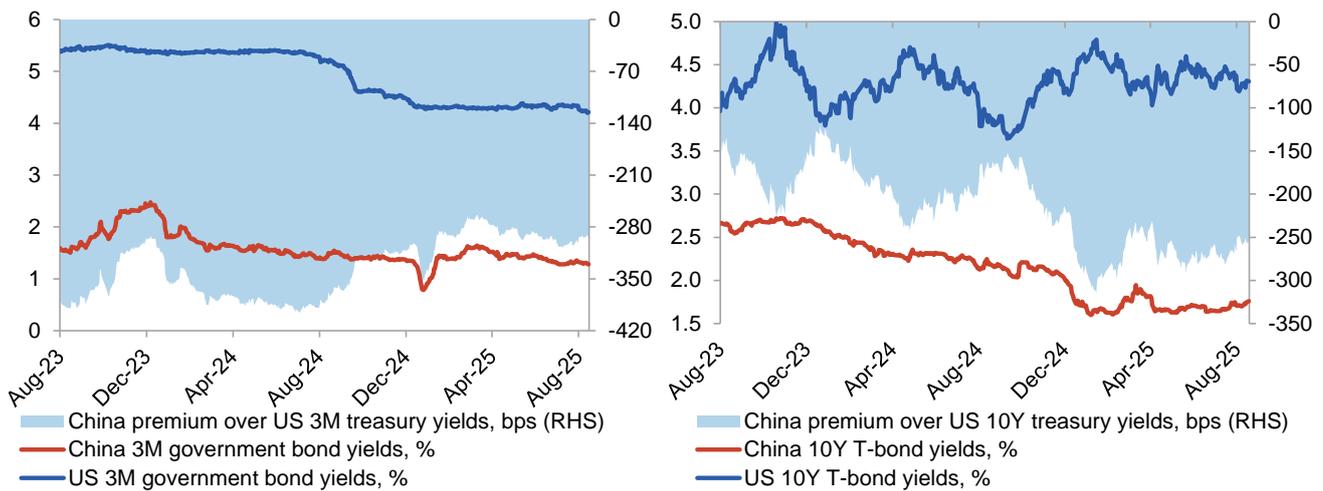
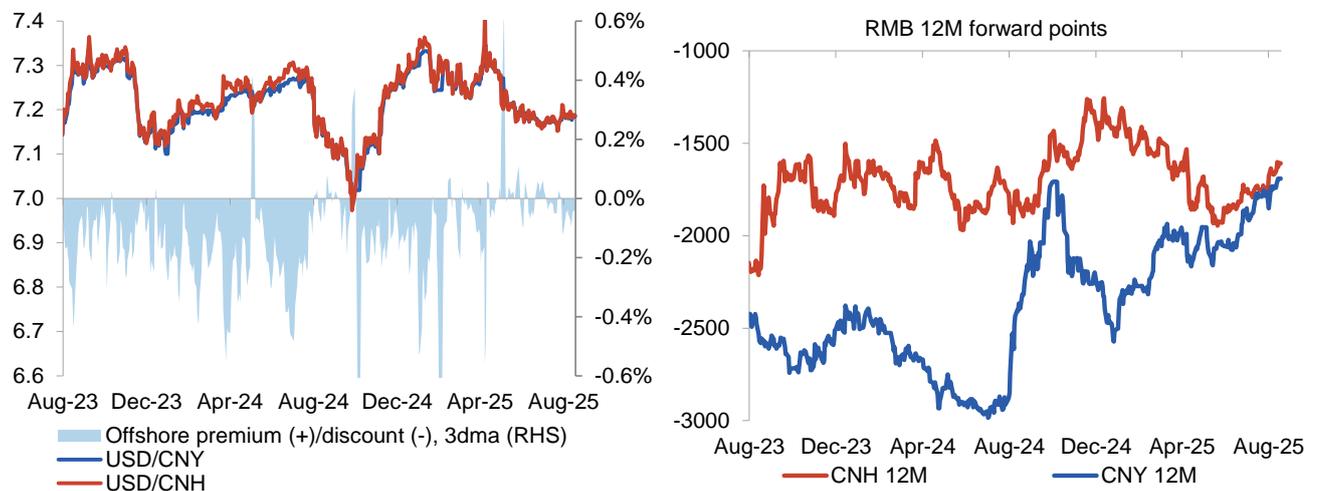


Fig 29 China-US interest rate spreads tightened further last week amid higher China rates



Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading almost on par with the CNY, with an almost disappearing gap in forward points



Source: Bloomberg, Mizuho

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