Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Upbeat Trade Performance

China's exports in September surpassed market expectations, supported by demand from more diversified markets. Exports rose 8.3% YoY—the fastest pace since March—with non-US shipments contributing 12.5ppt. Exports to Africa and the EU surged 56.4% and 14.2% respectively, reaching multi-year highs. In contrast, exports to the US and ASEAN markets remained subdued. Shipments to the US continued to fall sharply (-27% YoY), while ASEAN saw a milder gain of 15.6%. On a sectoral basis, the export momentum was led by high-tech goods, including general machinery (+25%), electronic integrated circuits (+33%), and LCD panels (+17%).

Imports also surprised on the upside, rising 7.4% YoY—the strongest in over a year. The improvement was broad-based, led by mechanical & electrical goods (+10%) and high-tech products (+14%). Iron ore and copper ore imports posted double-digit gains, likely due to seasonal demand. Soybean imports rose just 1.7% in value, but volume growth accelerated to 13%, with Argentina and Brazil as key suppliers.

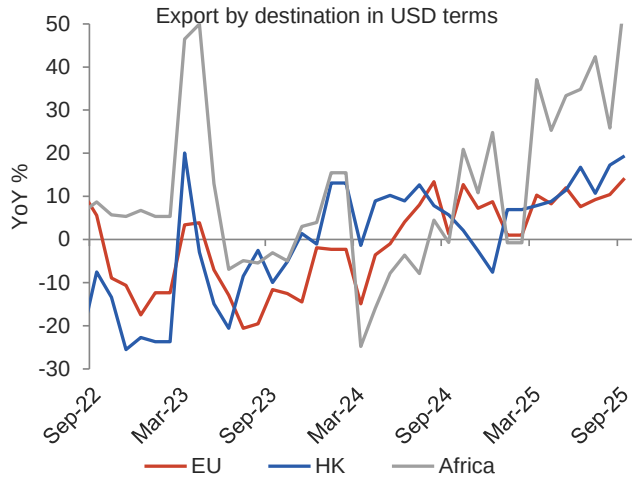
The strong import momentum narrowed China's trade surplus to USD 90.5 billion, the lowest this year.

Shift towards More Assertive Trade Stance

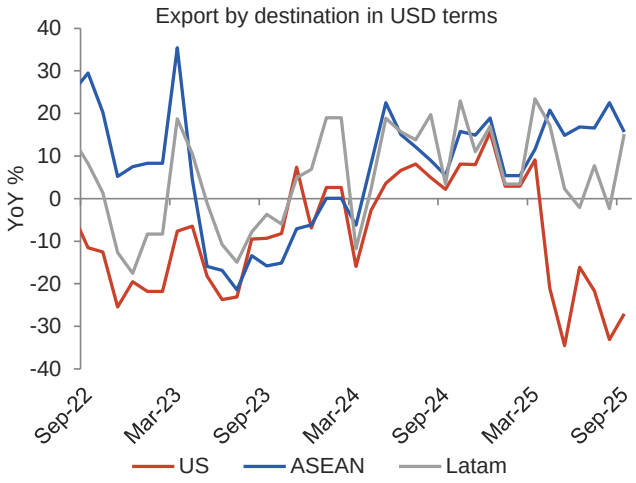
China's recently announced export controls on rare earth materials have added complexity to the trade landscape. This move signals a shift toward a more assertive stance in dealing with Washington, moving from a reactive to a proactive approach. The export controls, set to be phased in starting early November, may serve as China's leverage ahead of the anticipated Trump-Xi meeting.

In fact, this new stance may bring more benefits than harm. On one hand, China's increased pressure on the US could potentially yield more favorable terms in a game of chicken, especially given their complementary economic structures and significant areas of potential cooperation. On the other hand, investor sentiment has become almost immune to such trade tensions, with major stock indices like the HSCEI and SHCOMP already recovering most of their losses since last Friday.

<Non-US demand for China exports stayed solid in September>



<The slump in exports to the US continued>



Source: CEIC, Mizuho

CNH Outlook

Forex – CNH held up despite USD strength and negative trade headlines

Rates – Onshore rates fell notably after the National Day holiday

Equities – Shanghai Composite closed much unchanged last week

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.1337	7.1535	7.124	7.1453	89
USD/CNY	7.1200	7.1370	7.1184	7.1353	129
CNY PBoC Fixing	7.1055	7.1102	7.1048	7.1048	-7
Shanghai Composite Index	3869.71	3936.58	3866.28	3897.03	14.25

#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)	-1401	44	CNH HIBOR (3mth)	1.750	0.023
CNH Currency Swap (3yr)	1.545	0.005	CNH Implied yield (1Y)	1.518	-0.010

Recap

The CNH came under pressure in the final trading hours last week, following President Trump's threat to impose a 100% tariff on Chinese goods. This was in retaliation to China's earlier announcement of export controls on rare earth materials. Despite the headline-driven volatility, the CNH's decline was relatively contained, with spot closing just below the 7.15 level—still above the week's lows.

This movement unfolded against a backdrop of broad USD strength. The DXY index rose 1.3% over the week, buoyed by a sharp 2.5% depreciation in the Japanese Yen. The JPY's slide was driven by market expectations of a pro-stimulus agenda under the new LDP leader, Ms. Takaishi.

In relative terms, the CNH held up better than most of its regional peers last week, slipping only 0.1% against the dollar. The KRW fell 1.3%, while the THB extended its losing streak for a third consecutive week, despite the Bank of Thailand's surprise decision to keep its benchmark rate unchanged. The INR stood out as the only gainer, posting a modest uptick, likely backed by the Reserve Bank of India.

Outlook

Looking ahead, we expect the PBoC to maintain an accommodative stance, with further monetary easing likely needed to shore up domestic demand. With growth momentum set to slow more sharply in Q4, we forecast GDP to decelerate to 4.0% YoY, down from 4.8% in Q3. This slowdown could weigh on sentiment toward Chinese assets and exert mild downward pressure on the CNH, which may test the 7.2 level in the coming months.

In the near term, CNH movements will likely be driven by trade headlines. We anticipate the CNH could the 7.15 level as markets react to increased uncertainty regarding the US-China trade truce.

Later this month (20-23 Oct), China is expected to hold the fourth plenary session of the 20th CPC Central Committee, where it will review development plans for the next five years. As such, we expect the focus to be on medium-term sectoral policies rather than immediate responses to current economic headwinds.

< FX Charts on Page 8>

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Activity monitor (1/2)

Fig 1 Thermal coal: both demand and supply improved last week

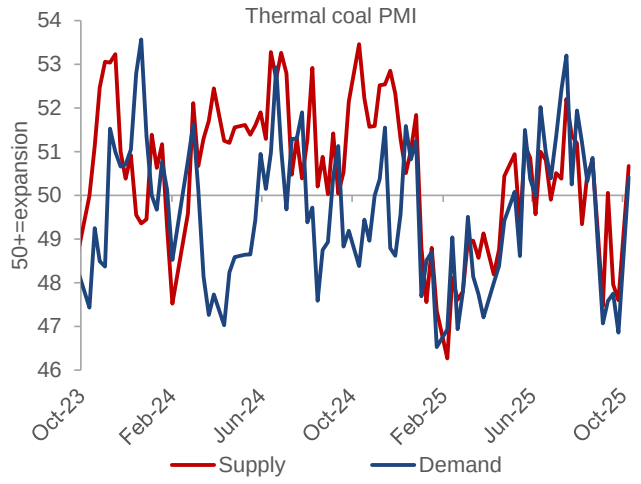
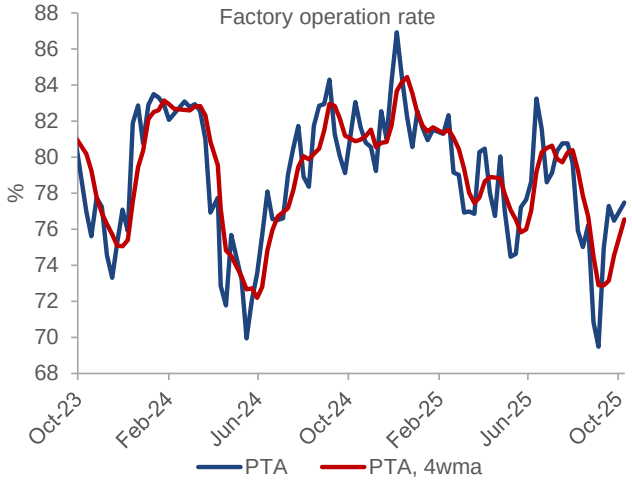


Fig 2 PTA production recovered from a recent trough



Source: Wind, Mizuho

Fig 3 Steel production continued to see a moderate decline

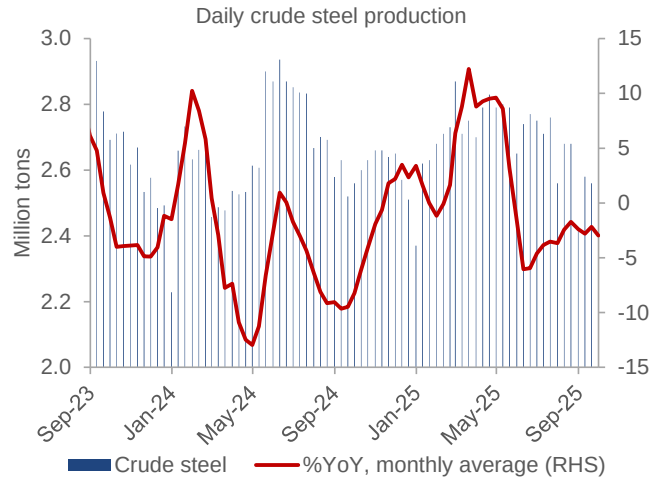


Fig 4 Steel tire production weakened during the national holiday

Source: Wind, Mizuho

Fig 5 CCFI: shipping prices fell further last week

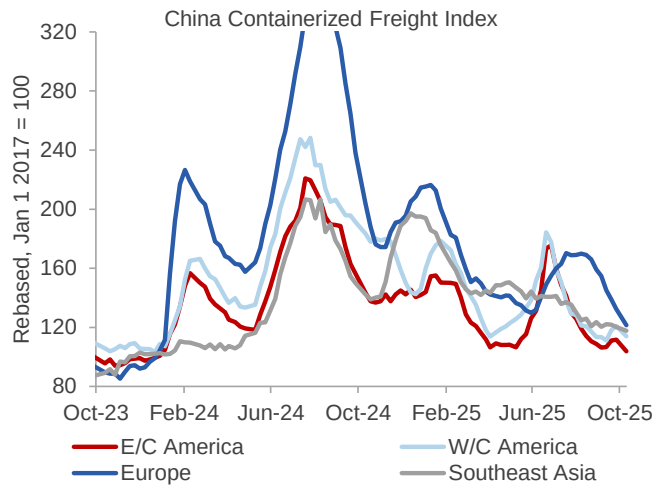
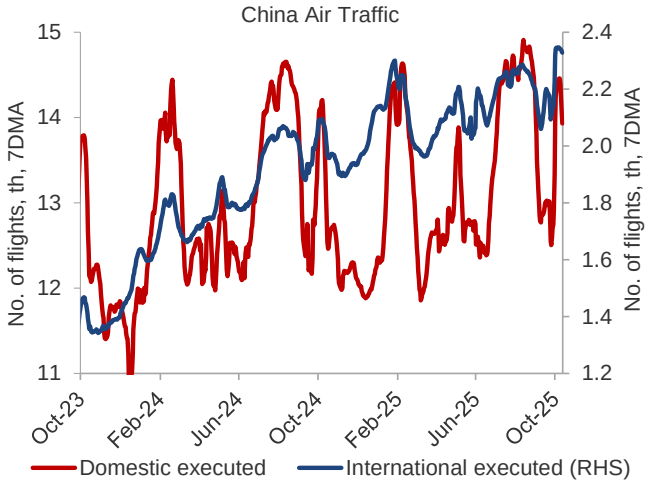


Fig 6 Air traffic: demand for foreign tours picked up notably



Source: Wind, Mizuho

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Activity monitor (2/2)

Fig 7 Road construction activity rose at the end of September

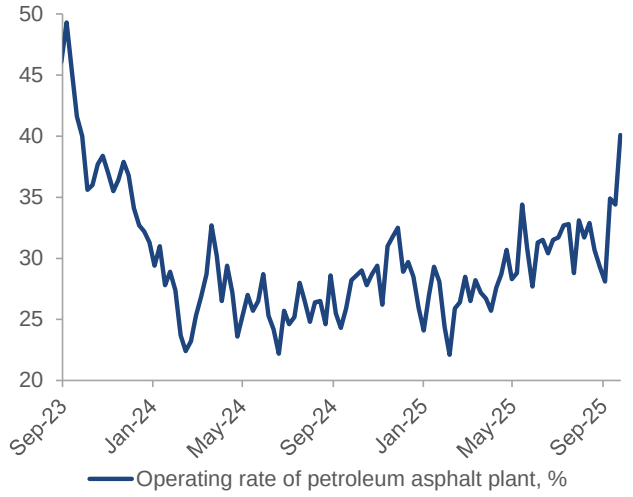


Fig 8 Construction material prices continued to trend lower

Source: Wind, Mizuho

Fig 9 Land sales weakened in recent weeks

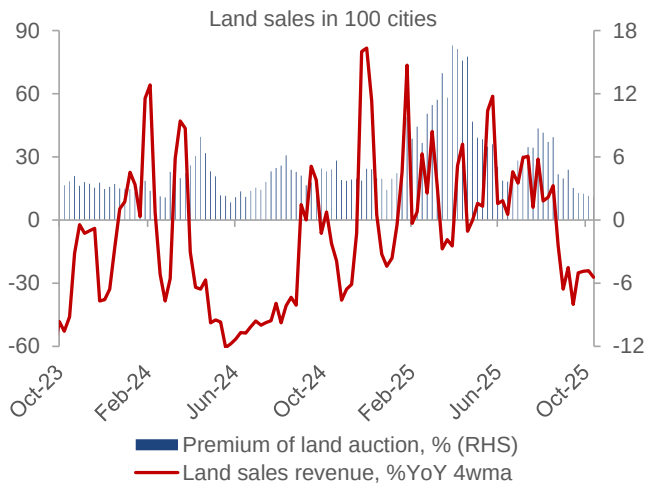
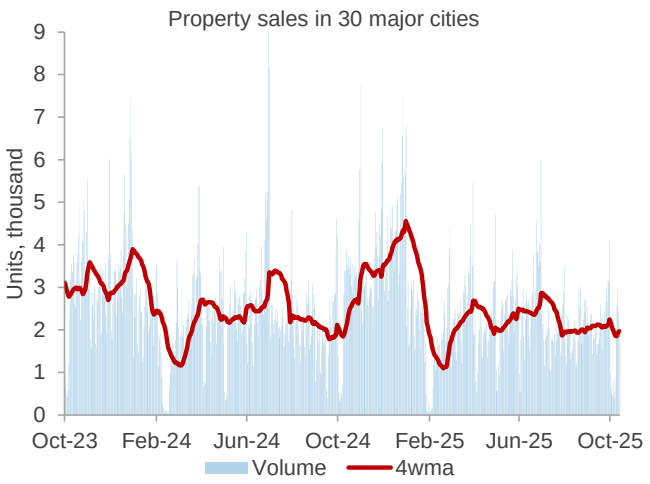


Fig 10 New home sales stayed tepid



Source: Wind, Mizuho

Fig 11 Movie box office revenue ticked up during the holiday

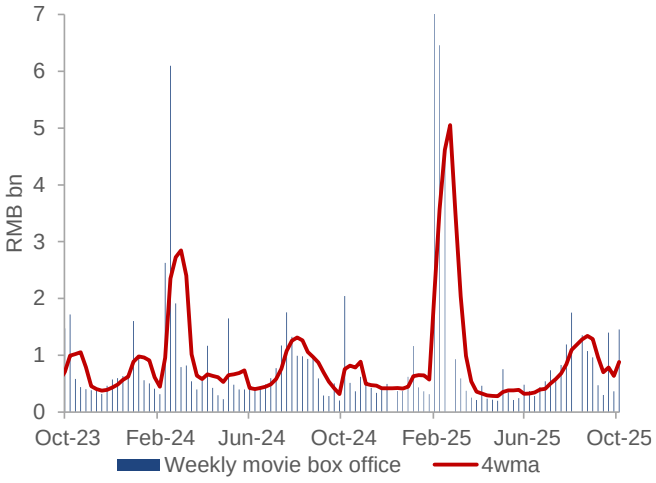
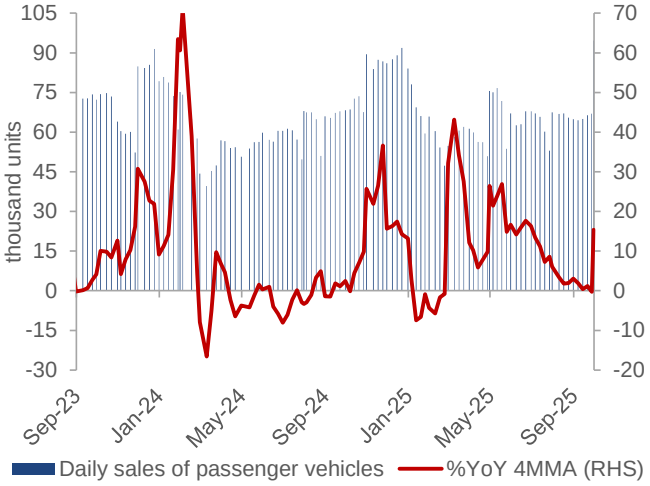


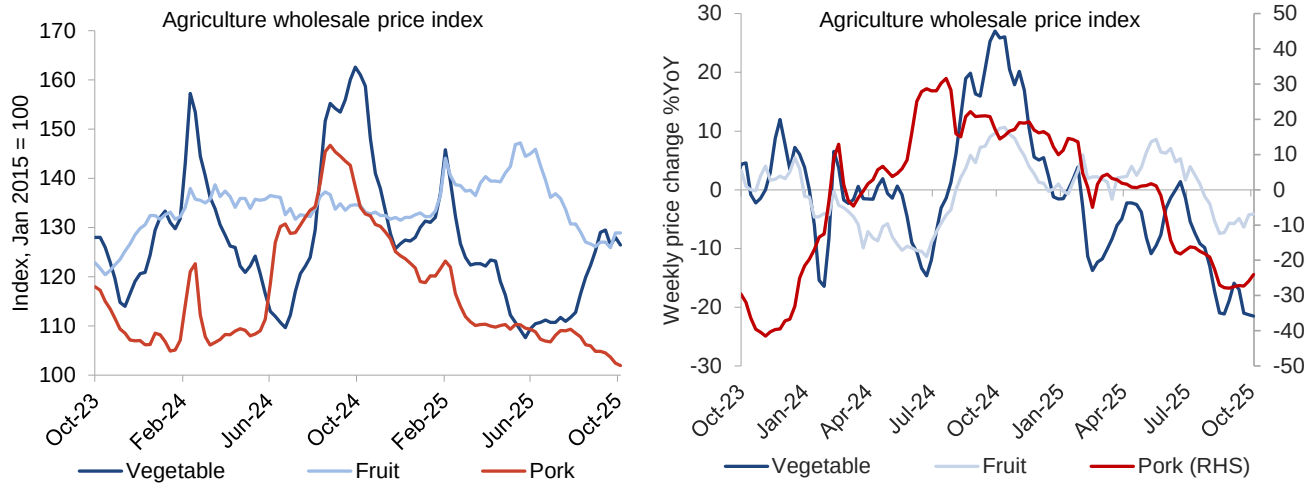
Fig 12 PV sales saw muted growth during most of the time in Sept



Source: Wind, Mizuho

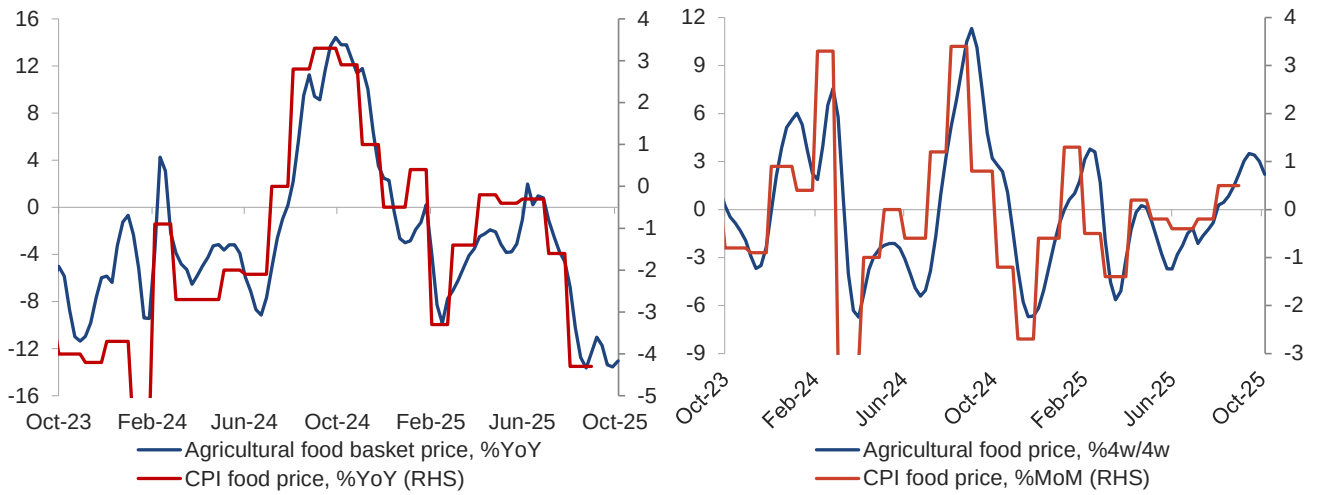
Price monitor

Fig 13 Major food items saw slower YoY declines during the National Day holiday



Source: Wind, Mizuho

Fig 14 Wholesale food prices continued their YoY declines in early October



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices saw a notable pickup

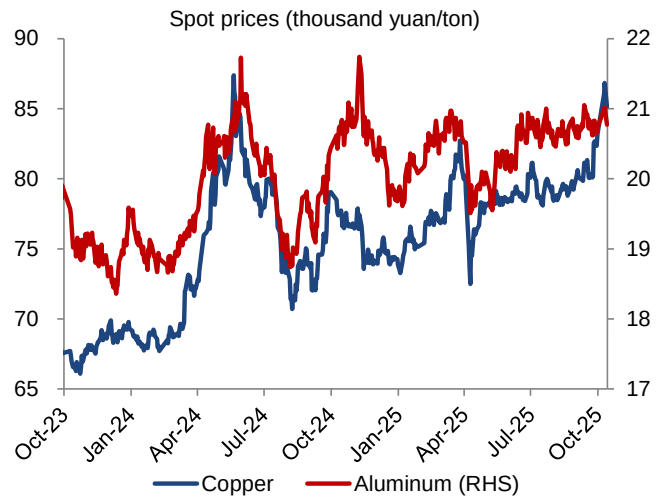
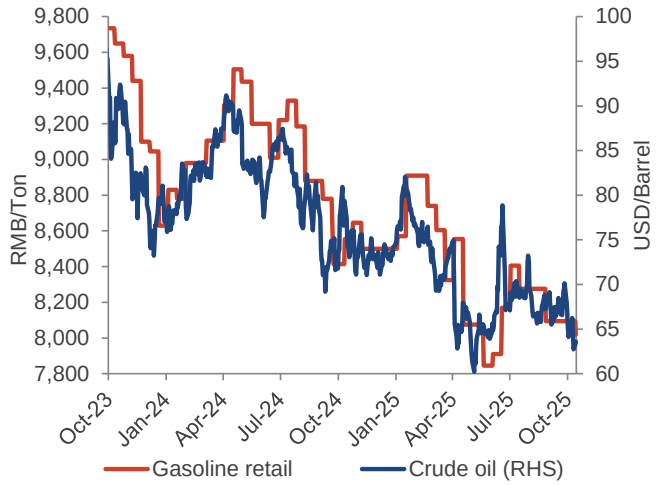


Fig 16 Oil prices edged lower in recent weeks



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB1642b during 6 - 11 Oct

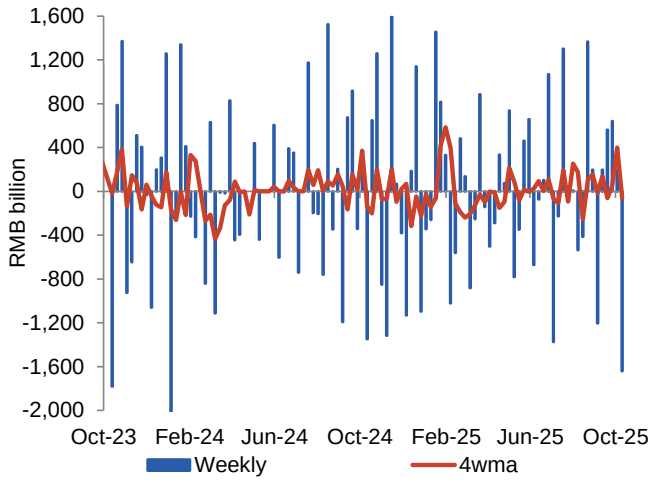
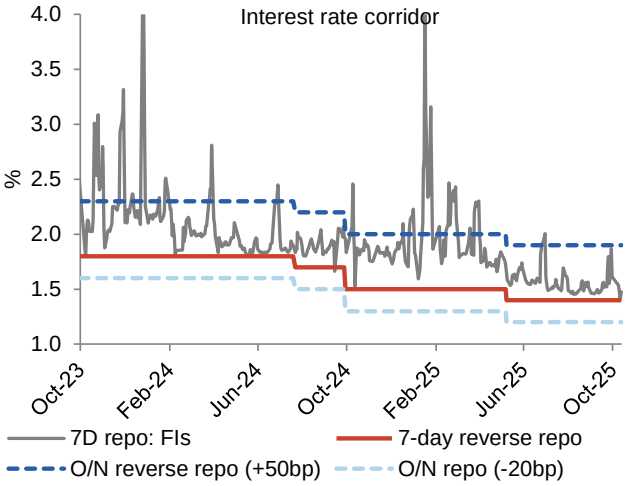


Fig 18 7D repo for FIs back to their benchmark levels in early Oct



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields edged lower in general

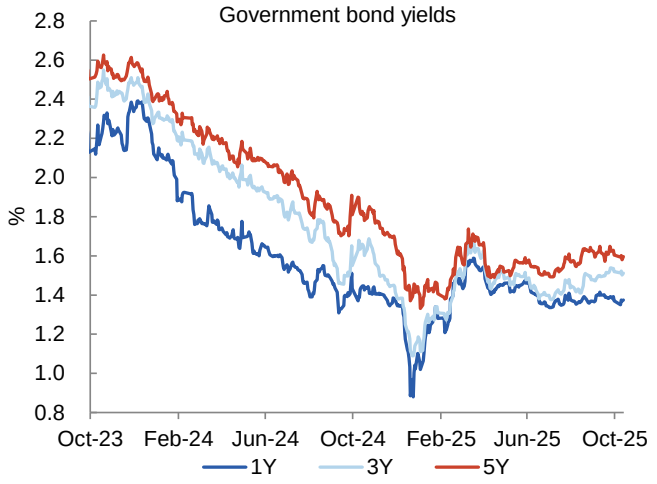
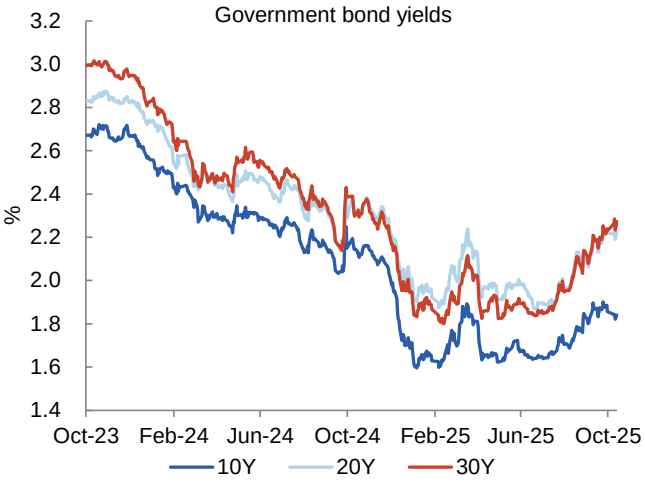
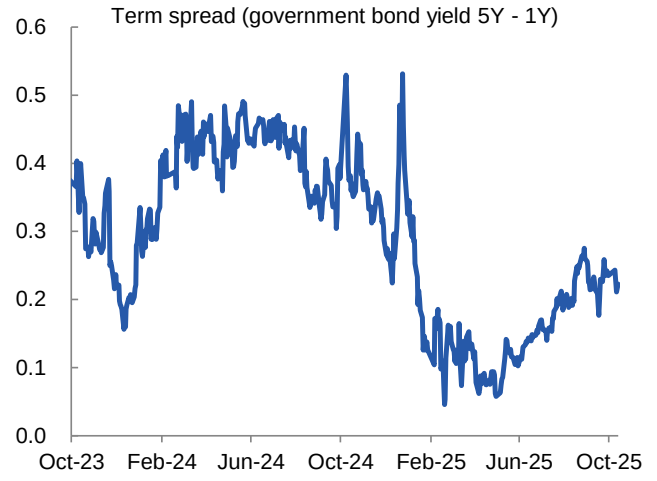


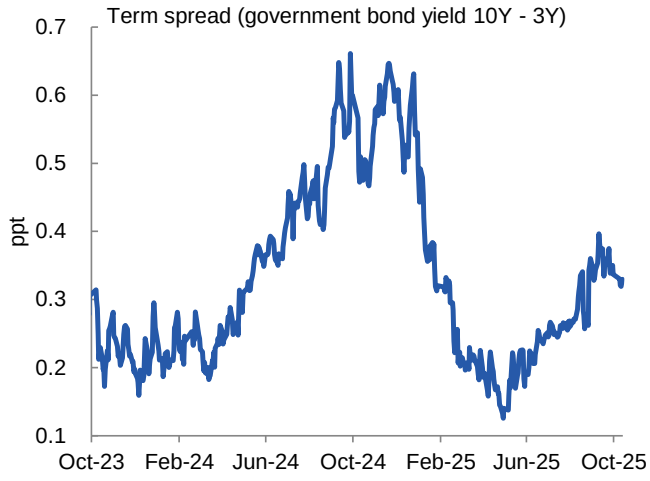
Fig 20 Long-end CGB yields were mixed last week



Source: Wind, CEIC, Mizuho

Fig 21 CGB term spreads squeezed tighter across the curve last week





Source: CEIC, Mizuho

Credit monitor

Fig 22 IG Corporate bond yields fell last week

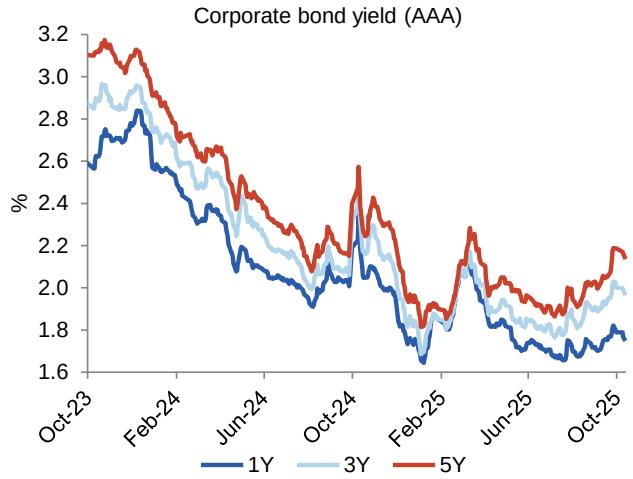
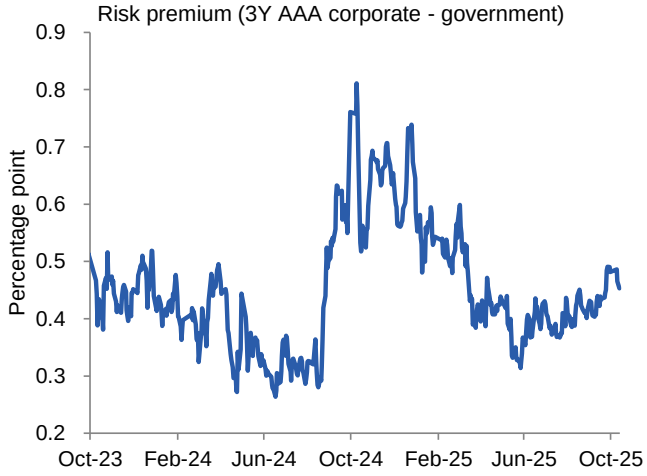


Fig 23 IG corporate risk premium narrowed significantly



Source: Wind, Mizuho

Fig 24 HY Corporate bond yields saw muted changes

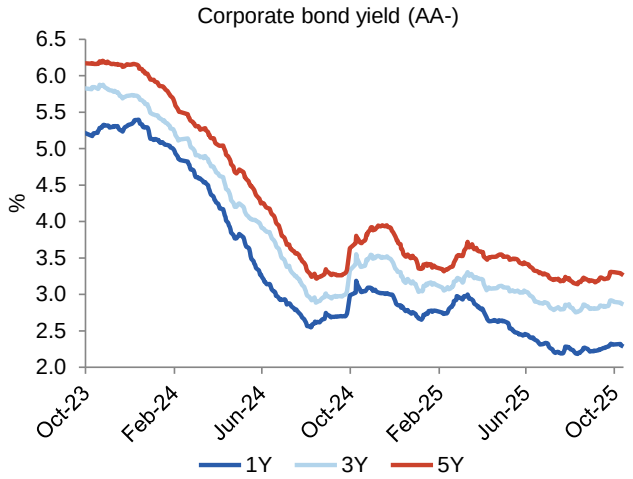
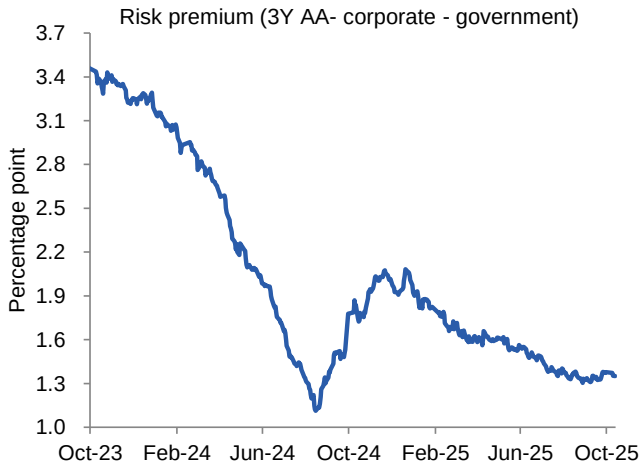


Fig 25 HY corporate risk premium remained relatively tight



Source: Wind, Mizuho

Fig 26 China USD credit spreads drifted slightly wider last week amid renewed US-China trade tension

Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: PBoC increased its intervention lately

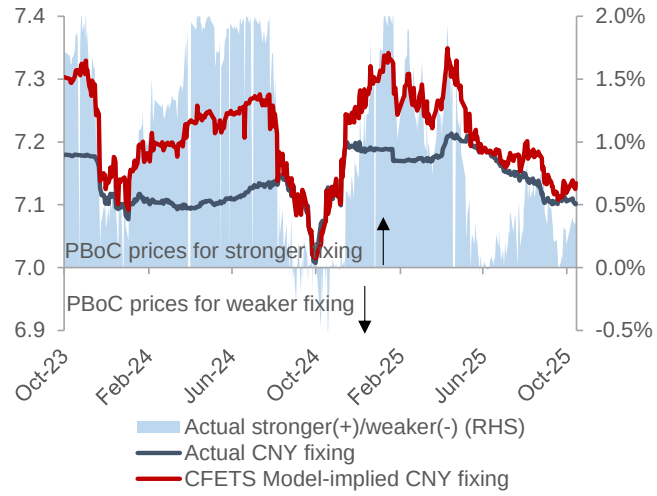
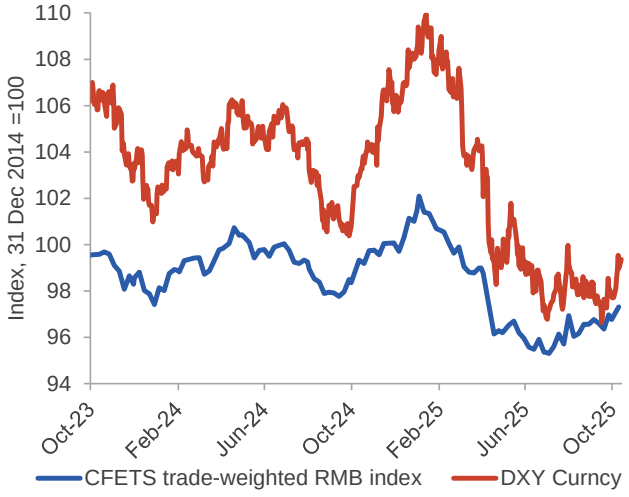
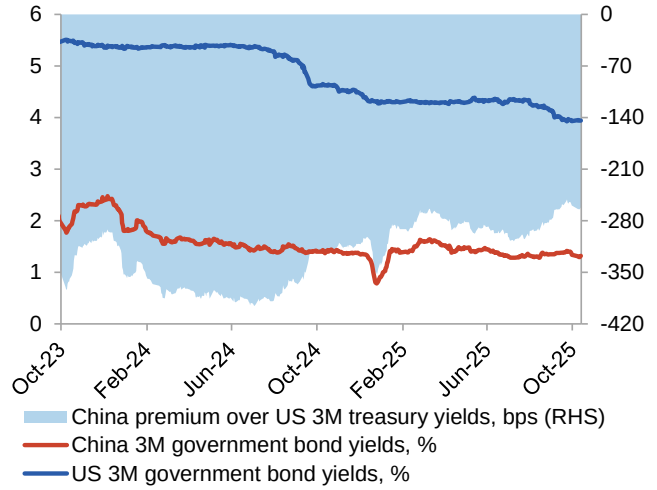


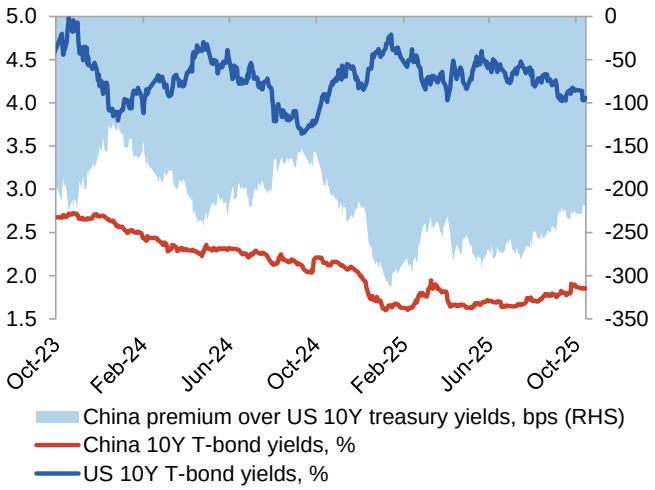
Fig 28 RMB trade-weighted index picked up alongside stronger dollar



Source: CEIC, Bloomberg, Mizuho

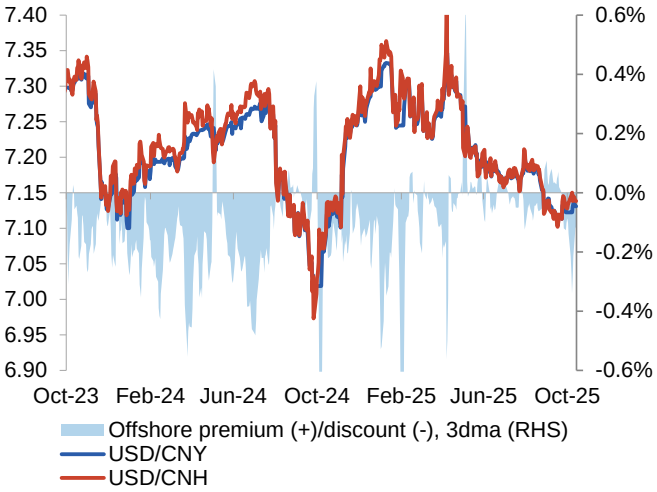
Fig 29 China-US interest rate spreads tightened at the back end but widened at the front end

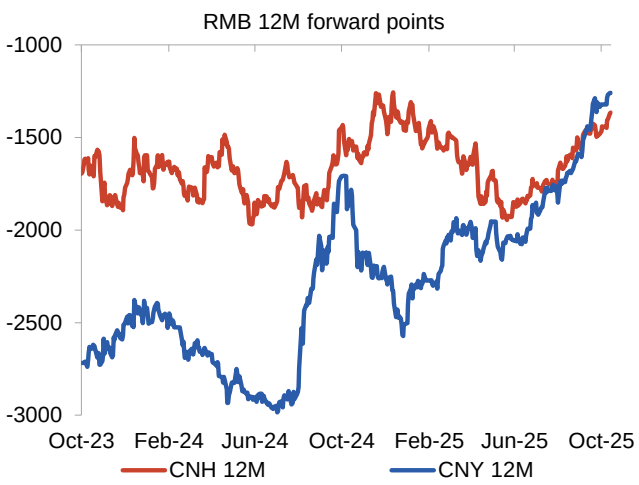




Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading at a renewed discount to the CNY





Source: Bloomberg, Mizuho

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