

China Weekly Outlook

November data undershot forecasts

Despite expectations for softer growth, China's November activity indicators still undershot forecasts by a notable margin. Retail sales, in particular, grew at the slowest pace since 2022, rising just 1.3% YoY as the boost from government subsidies started to fade. Commodity categories that benefited from trade-in subsidies since late last year all recorded YoY declines in November. For instance, home appliances and furniture fell 19.4% and 3.8% YoY, respectively. Automobile sales also contracted at a faster pace, down 8.3% YoY, subtracting 0.7ppt from the headline increase.

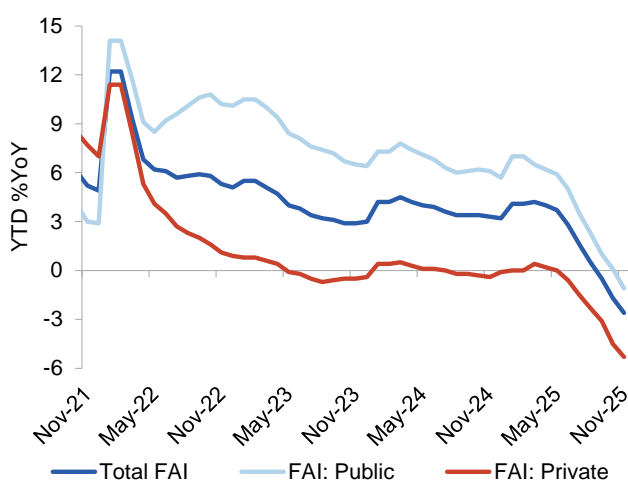
Meanwhile, the slump in fixed asset investment (FAI) persisted, driven by ongoing property sector weakness and local government deleveraging. FAI declined 2.6% YoY in the first 11 months, implying a 12% drop in November alone. Year-to-date, real estate investment fell 15.9% YoY, while infrastructure investment slipped 1.1%, both on track for recording their steepest annual declines in 2025. Despite robust bond issuance toward year-end, local governments are prioritizing resources to address their implicit debt, as Beijing mandates a cleanup of all local government financing vehicles by June 2027. New home sales also remained subdued, down 11.2% YoY YTD, following a 17.6% decline in 2024.

In addition to weak activity indicators, November credit data highlighted soft domestic demand. Bank loans increased by only RMB 390 billion, down 33% from a year earlier, with lending to households posting another net decline. While total social financing exceeded expectations at RMB 2.49 trillion, the increase was largely driven by government and corporate bond issuance. This surge in bond financing toward year-end is unusual and has likely contributed to the recent rise in long-end CGB yields (Fig. 20) and higher corporate yields across maturities (Fig. 22). Overall, the latest data aligns with our forecast for GDP growth to moderate to 4.0% YoY in 4Q25.

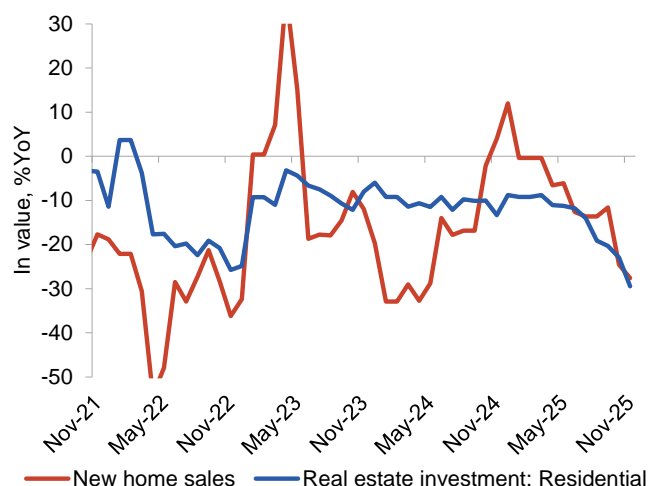
Interest rate cuts unlikely immediate

While last week's annual Central Economic Work Conference (CEWC) emphasized the need for flexibility and efficiency in deploying interest rate and reserve requirement ratio (RRR) cuts, we expect the next adjustment to occur in early 1Q26 rather than immediately.

<FAI decline led by both public and private sectors>



<Real estate investment showed no signs of moderation>



Source: CEIC, Mizuho

CNH Outlook

Forex – CNH premium persisted as PBoC leaned against the rally

Rates – Offshore yuan liquidity slightly improved last week

Equities – SHCOMP remained 4% below its mid-November peak

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.0694	7.0729	7.048	7.0532	-160
USD/CNY	7.0693	7.0723	7.0546	7.0550	-161
CNY PBoC Fixing	7.0764	7.0773	7.0638	7.0638	-111
Shanghai Composite Index	3909.23	3936.31	3850.60	3889.35	-13.46

#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)	-1313	13	CNH HIBOR (3mth)	1.793
CNH Currency Swap (3yr)	1.605	0.035	CNH Implied yield (1Y)	1.586

Recap

Following a US rate cut that proved less hawkish than markets anticipated, the offshore renminbi (CNH) flirted with the 7.05 level several times last week amid a softer USD backdrop, ultimately closing 0.23% stronger than the previous week close. The PBoC continued to temper yuan appreciation by setting the daily CNY fixing roughly 0.1% weaker than the CFETS model suggested (Fig. 27). This stance helped sustain a premium for CNH over its onshore counterpart (CNY) for another week (Fig. 30).

Despite these interventions, both CNH and CNY outperformed a large share of their Asian peers. The JPY and KRW slipped against the USD by 0.31% and 0.39%, respectively, while the SGD posted a modest gain of 0.33%. The standout performer was the THB, surging 1.42%, likely buoyed by gold-related flows.

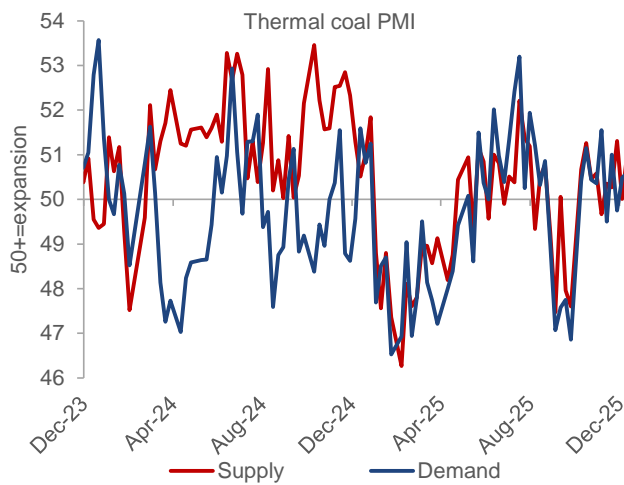
Outlook

With China's CEWC and November activity data now behind us, attention this week turns to potential bond payment extensions by China Vanke and the US non-farm payroll prints for both November and October.

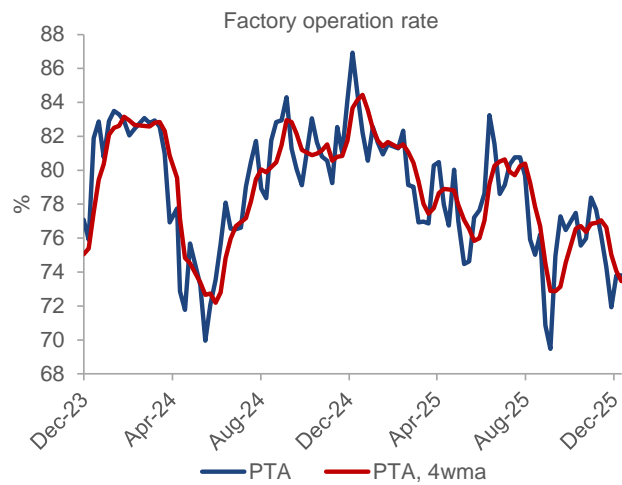
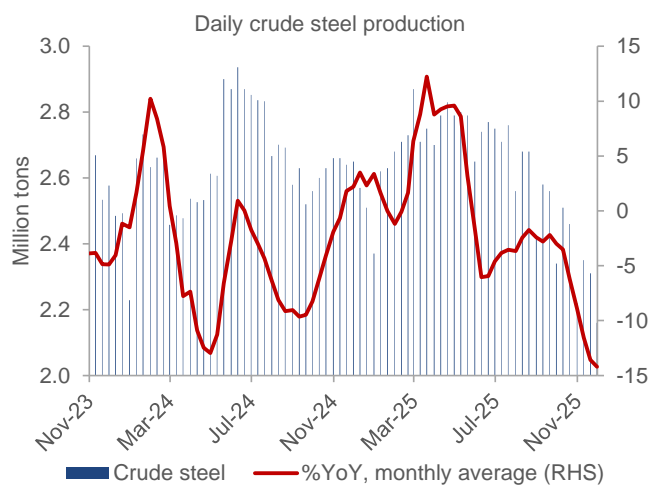
For CNH, we expect the PBoC to stick with its playbook: discouraging one-way bets and smoothing excessive strength when necessary. Recent CNH gains appear amplified by expectations of a more dovish Fed Chair next year under President Trump, even as sentiment toward Chinese assets has become more subdued. Notably, the Shanghai Composite still trades about 4% below its mid-November peak.

< FX Charts on Page 8 >

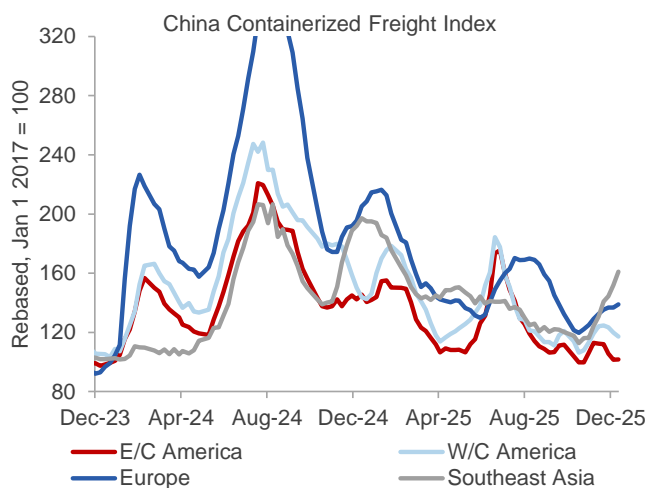
Activity monitor (1/2)

Fig 1 Thermal coal: a pickup in both demand and supply

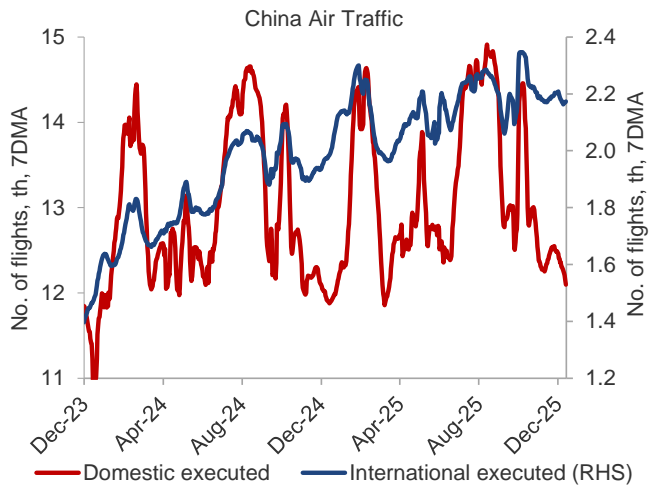
Source: Wind, Mizuho

Fig 2 PTA production continued to trend down**Fig 3 Steel production: the decline accelerated in Nov**

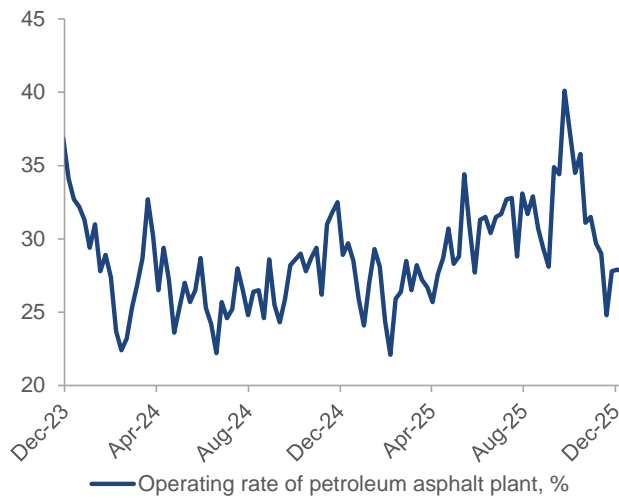
Source: Wind, Mizuho

Fig 4 Steel tire production hints at moderating PV production**Fig 5 CCFI: shipping prices picked up on improved demand**

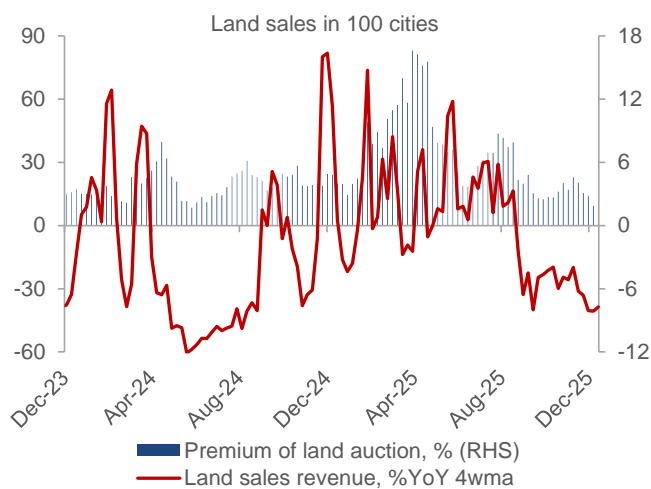
Source: Wind, Mizuho

Fig 6 Air traffic: travelling demand remained soft

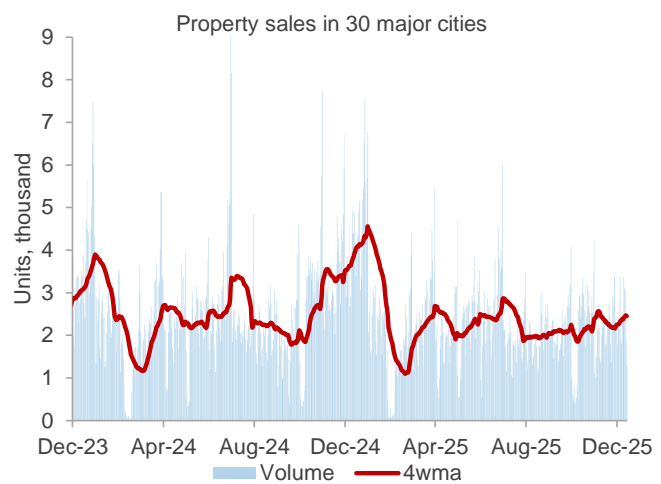
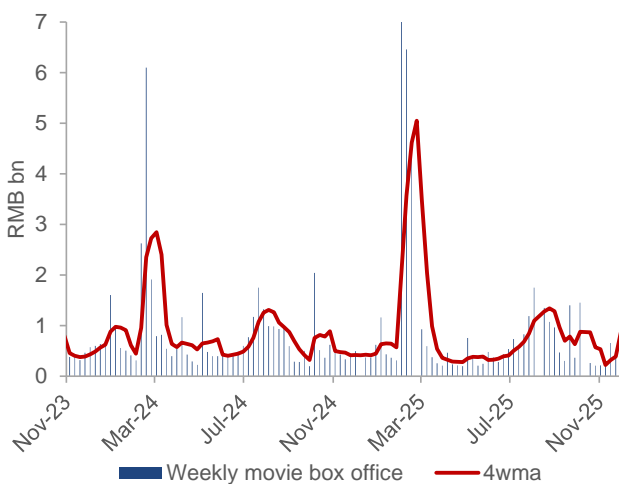
Activity monitor (2/2)

Fig 7 Road construction activity remained subdued

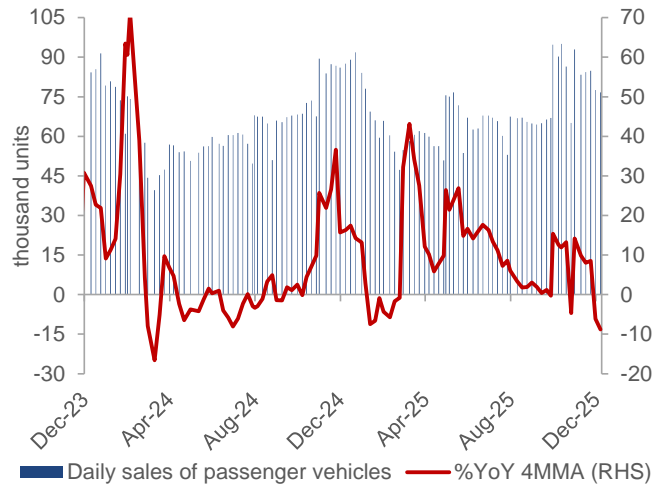
Source: Wind, Mizuho

Fig 8 Construction material prices: rebar prices slightly picked up**Fig 9 Land sales** fell at a faster pace in December

Source: Wind, Mizuho

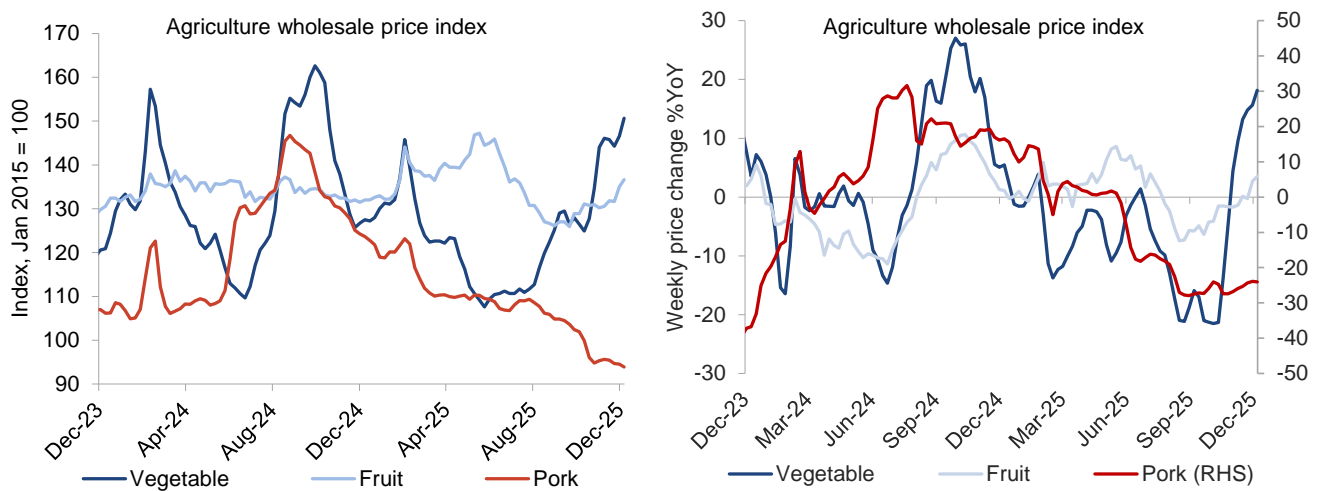
Fig 10 New home sales saw limited improvement**Fig 11 Movie box office revenue** picked up notably at end-Nov

Source: Wind, Mizuho

Fig 12 PV sales weakened in December

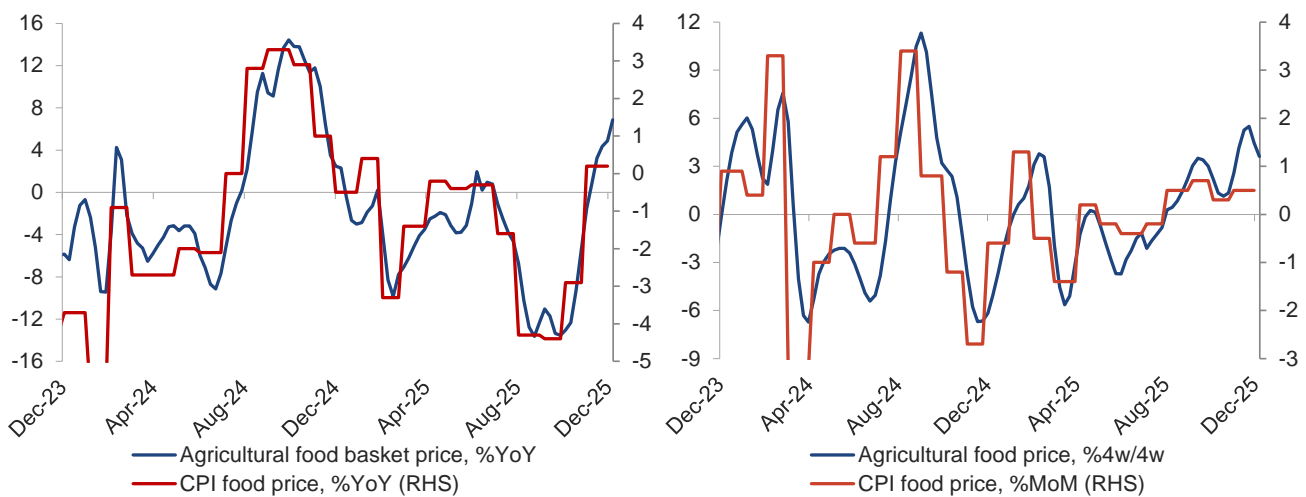
Price monitor

Fig 13 Major food items: pork prices remain subdued while vegetable prices continued to rise



Source: Wind, Mizuho

Fig 14 Wholesale food prices: YOY growth turned positive and continued to accelerate



Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices continued to trend up

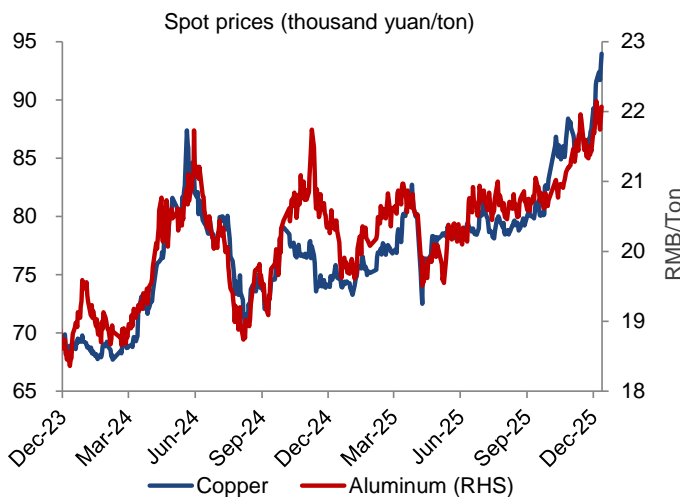
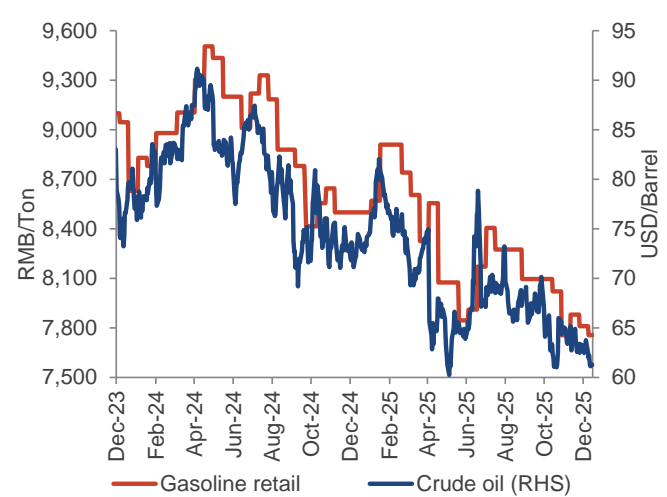


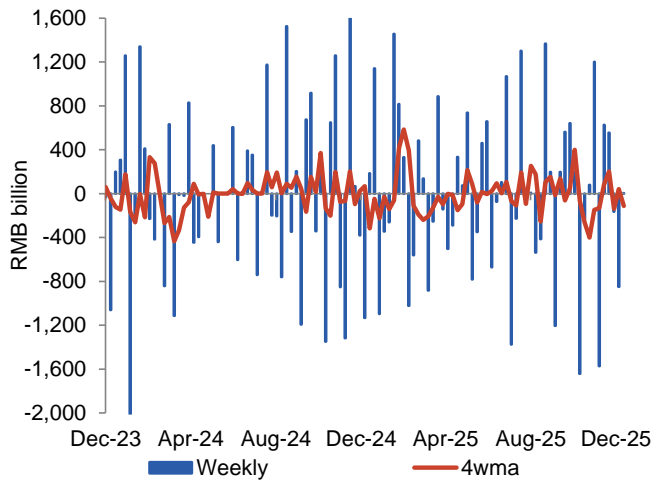
Fig 16 Oil prices remained subdued in early December



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB5b during 8 - 12 Dec



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs slightly above their benchmark levels

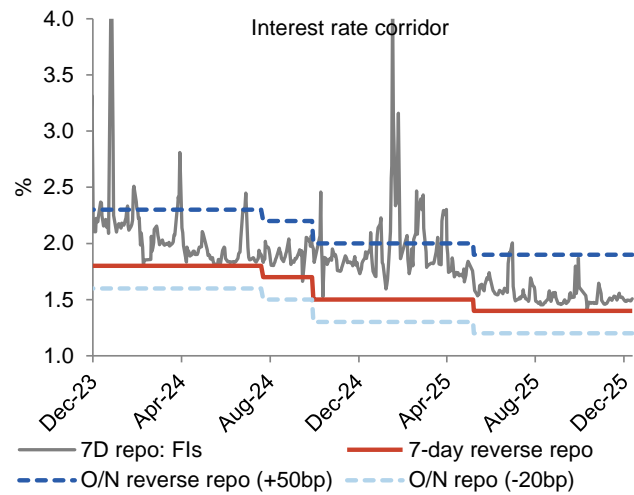
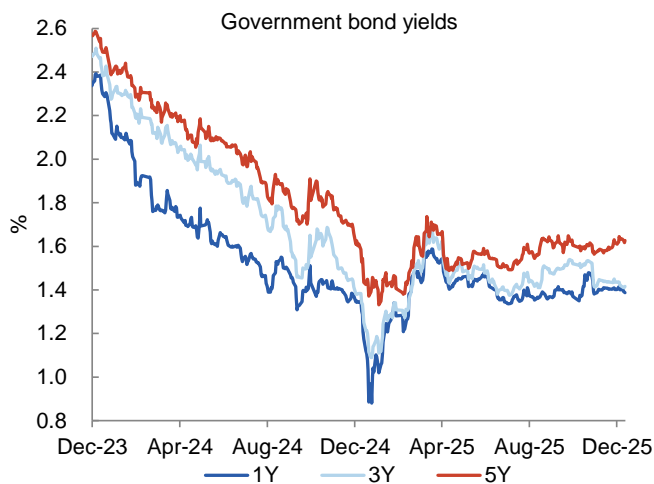


Fig 19 Short-end CGB yields: 1Y & 3Y yields remain contained



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields: notably rose at the ultra-long end

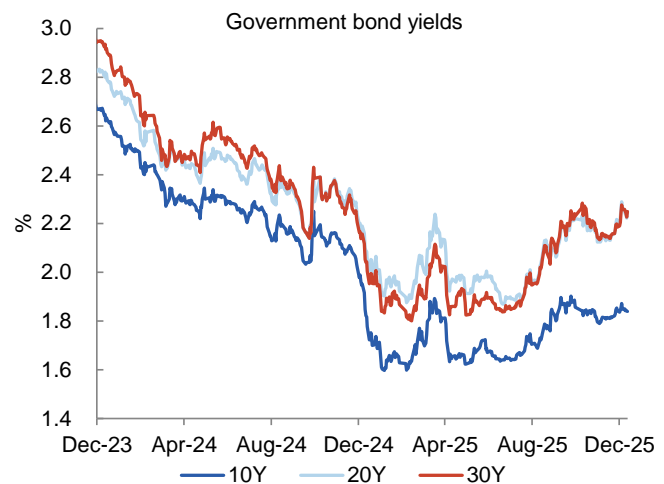
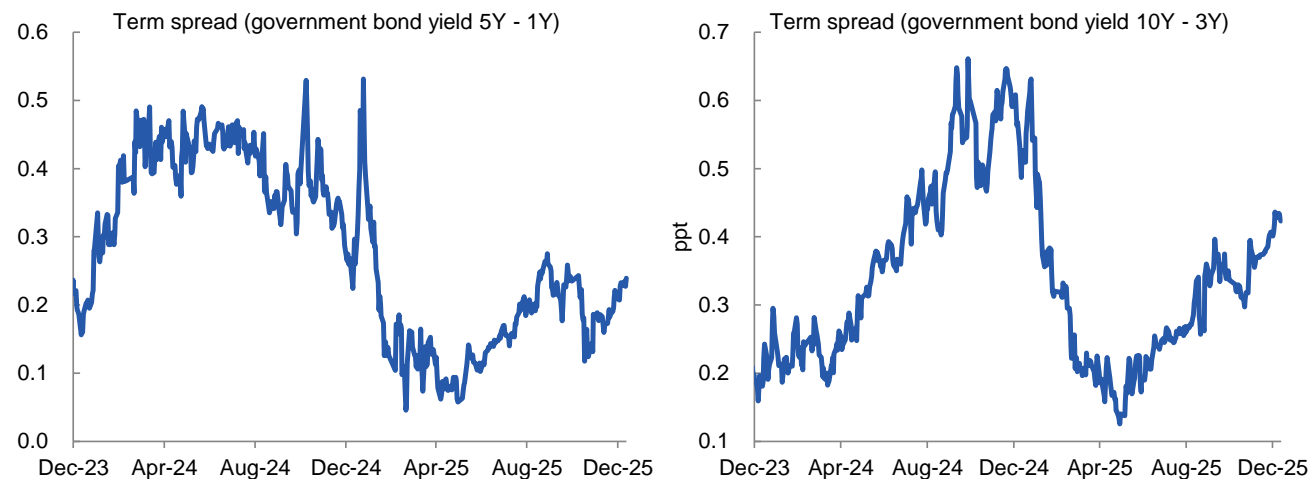
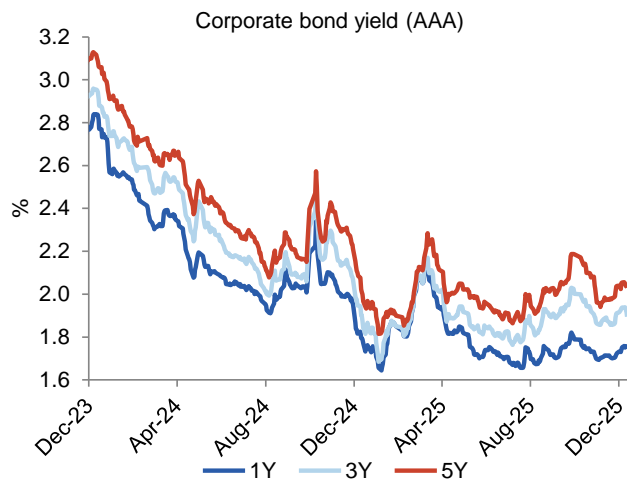


Fig 21 CGB term spreads: the yield curve steepened, especially at the right part of the curve

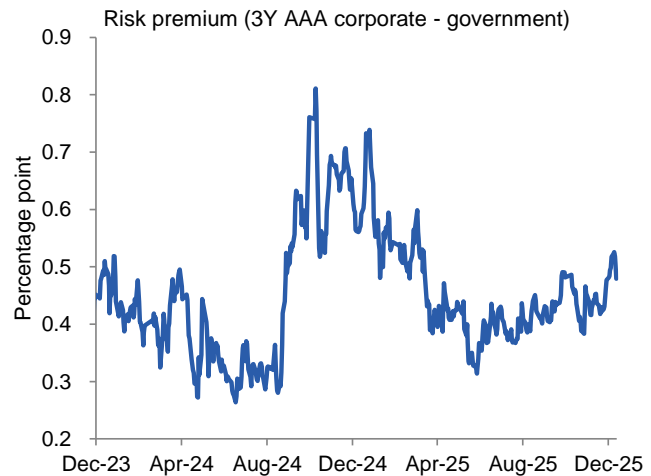
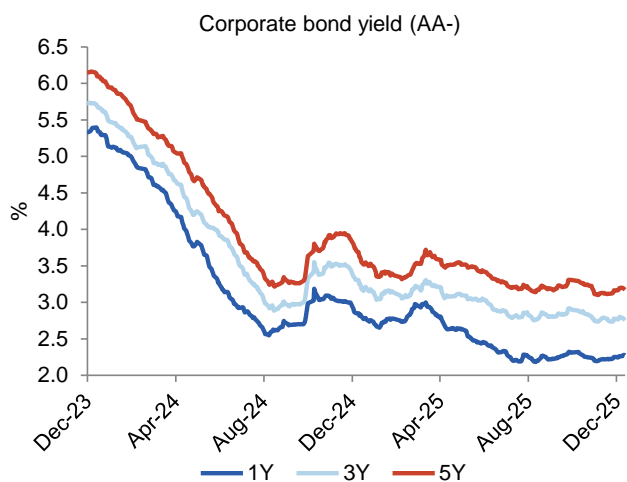


Source: CEIC, Mizuho

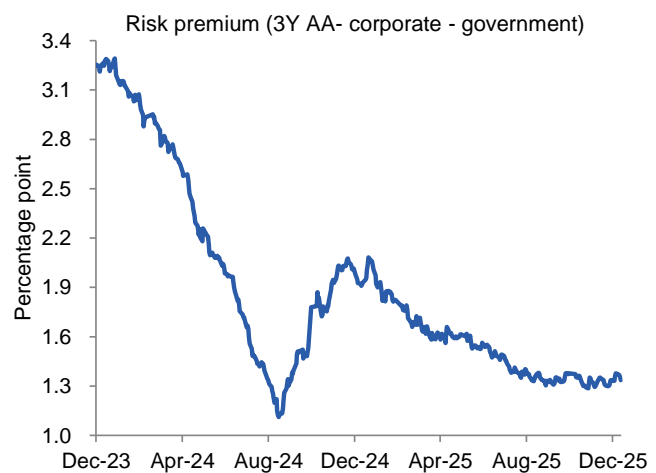
Credit monitor

Fig 22 Onshore IG credit yields rose across maturities

Source: Wind, Mizuho

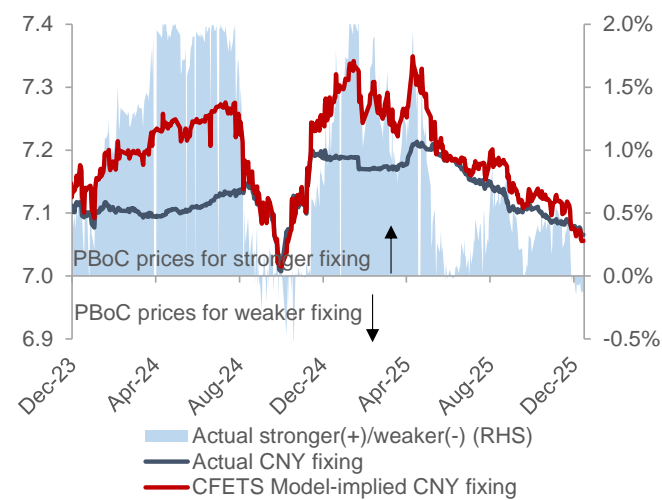
Fig 23 IG corporate risk premium picked up**Fig 24 Onshore HY credit yields stayed much flat**

Source: Wind, Mizuho

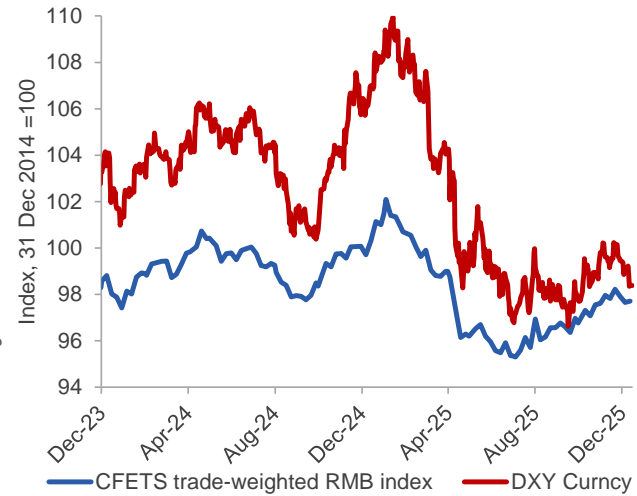
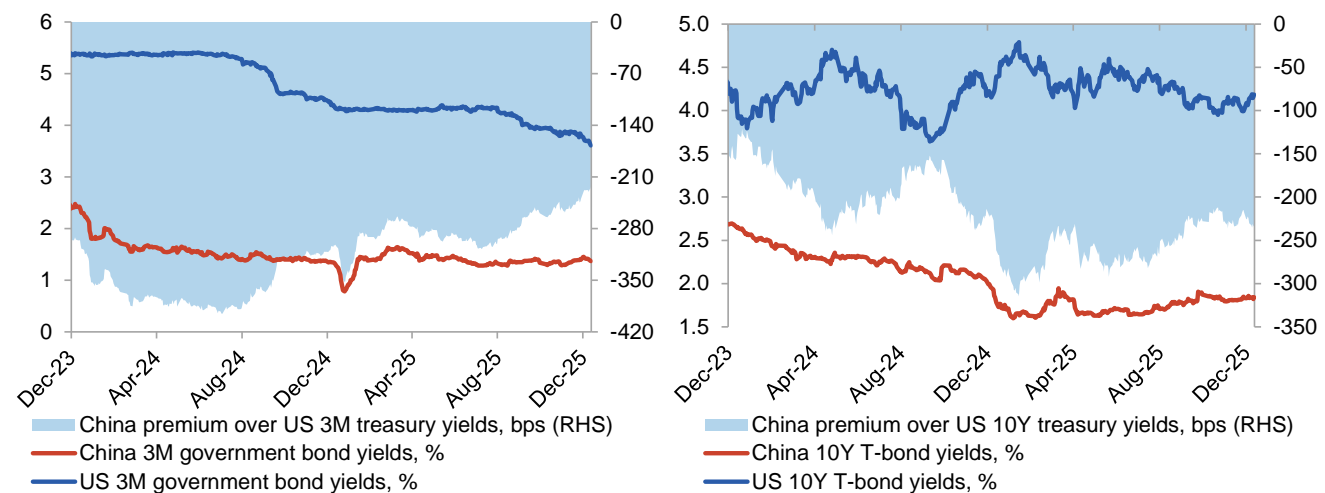
Fig 25 HY corporate risk premium remained relatively tight**Fig 26 China USD credit spreads were mixed last week as a property crisis surrounding China Vanke was unfolding**

Source: IHS Markit, Mizuho

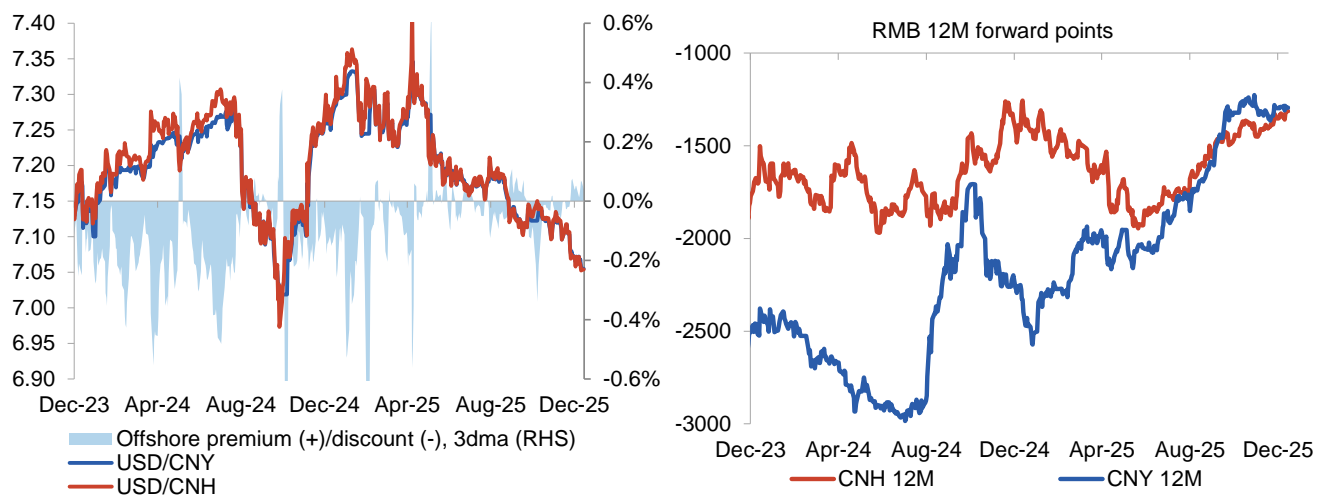
FX monitor

Fig 27 RMB fixing rate: a weak bias imposed by PBoC recently

Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index weakened**Fig 29 China-US interest rate spreads continued to squeeze tighter at the front end**

Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) trading at a small premium to onshore rates

Source: Bloomberg, Mizuho

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