

## China Weekly Outlook

### Exaggerated December optimism

China's official Manufacturing PMI for December surprised on the upside and rose above the expansion threshold for the first time in nine months to 50.1. The improvement was broad-based, supported by both demand and supply, with sub-indices for new orders and production rising to 50.8 and 51.7 respectively. However, part of this optimism may be exaggerated, due to ramped up new orders and production ahead of the Chinese New Year holiday. Notably, sectors such as agricultural and food processing, beverages, and refined tea, which are typically boosted by holiday demand, reported exceptionally strong business expectation in December.

In the non-manufacturing sector, the PMI also strengthened, reaching 50.2 in December from 49.5 in November. This rebound was driven primarily by a sharp recovery in construction activity, where the PMI surged to a six-month high of 52.8, aided by favorable weather and accelerated project timelines ahead of the holiday season. Rebar prices, in particular, have risen nearly 4% from their October lows. Meanwhile, the services PMI remained subdued at 49.7, as retail and catering activity continued to contract. In fact, China recorded 142 million domestic trips during the three-day New Year holiday, yet per capita spending was 2.4% below pre-pandemic levels in 2019, underscoring persistently soft consumer sentiment.

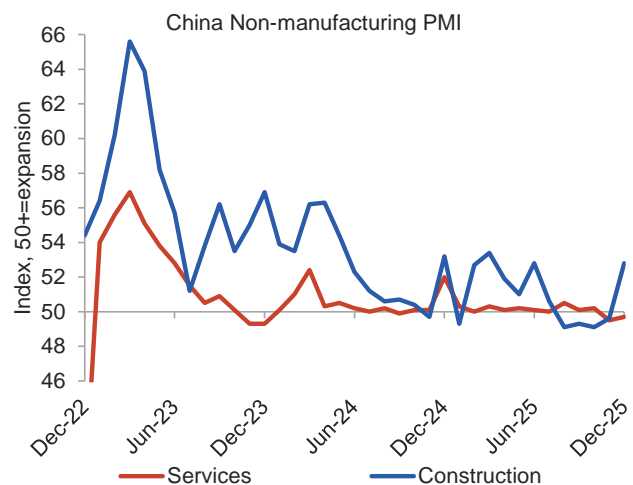
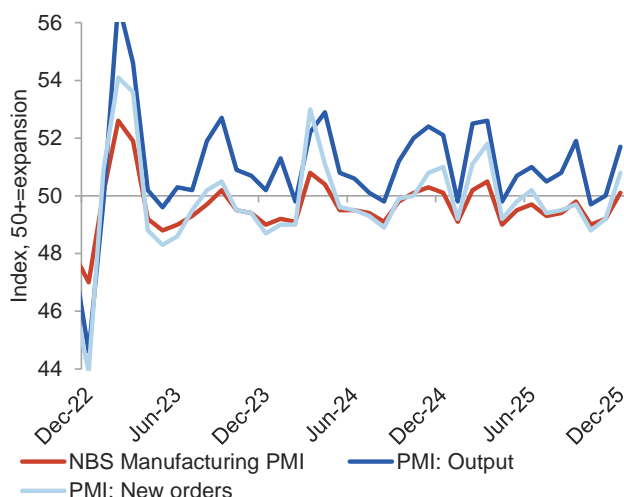
### A setback in Venezuela?

Separately, the change of regime in Venezuela is likely to impact China's access to low-cost oil resources. While global oil prices dipped slightly following the U.S.'s temporary 'takeover' over the weekend, China—one of Venezuela's largest oil buyers in recent years—may face disruptions in imports. Currently, China sources roughly 4–5% of its oil from Venezuela, with some transactions settled in renminbi and some in the form of debt repayments at discounted prices. China's outstanding loans to Venezuela are roughly estimated at USD 10-20 billion. As a result, the CNH opened slightly weaker today after appreciating throughout December.

Additionally, Chinese enterprises with investments in Venezuela now face heightened uncertainty, especially those operating in oil extraction, telecommunications, and infrastructure. Such uncertainty includes potential market share erosion amid the introduction of new competitors or forced exits under the new regime. Going forward, this will remain a key development to monitor.

<A broad-based improvement in December manufacturing PMI>

<A sharp recovery in construction activity in December>



Source: CEIC, Mizuho

## CNH Outlook

### Forex – CNH posts its best annual performance in four years

### Rates – Offshore yuan liquidity improves at the front end

### Equities – SHCOMP rises above 4000 at the start of the year

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	7.0052	7.0152	6.9664	6.9703	-342
USD/CNY	7.0082	7.0174	6.9869	6.9880	-174
CNY PBoC Fixing	7.0331	7.0348	7.0288	7.0288	-70
Shanghai Composite Index	3964.65	3983.98	3947.42	3968.84	5.16

#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)	-1284	33	CNH HIBOR (3mth)	1.753
CNH Currency Swap (3yr)	1.550	-0.010	CNH Implied yield (1Y)	1.547

### Recap

The renminbi delivered a solid performance in 2025, with CNY and CNH appreciating by 4.5% and 5.2%, respectively, breaking below the 7.0 threshold. This marks the first annual gain in yuan since 2021. However, the rally looks modest compared to its regional peers amid broad USD weakness. In fact, the CNY lost ground against most of China's trading partners, with the trade-weighted index slipping 3.4% in 2025.

Against the backdrop of a 9.4% annual loss in the USD index, the renminbi's limited advance underscores persistent headwinds from elevated US rates (Fig. 29) and the PBoC's efforts to curb sharp appreciation. Notably, the PBoC has been leaning against yuan strength since December, setting the daily CNY fixing ~0.4% weaker than the CFETS model suggested last week (Fig. 27). This intervention helped maintain a premium for CNH over its onshore counterpart CNY for another week (Fig. 30). That said, CNH softened slightly today as onshore markets reopened after the New Year holiday.

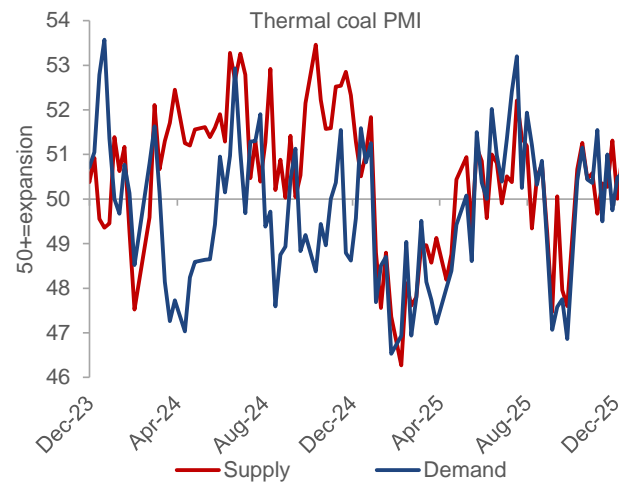
### Outlook

Building on December's gains, **we forecast an additional 2% appreciation in RMB versus the dollar in 2026**, with CNH spot expected to reach 6.85 by year-end. **Still, near-term risks loom large:** China's growth momentum is faltering amid a deepening property slump, subdued local government investment, and high base effects. Moreover, the political transition in Venezuela could temporarily dampen the yuan's growing role in global trade—particularly commodities—and pose a short-term setback to RMB internationalization.

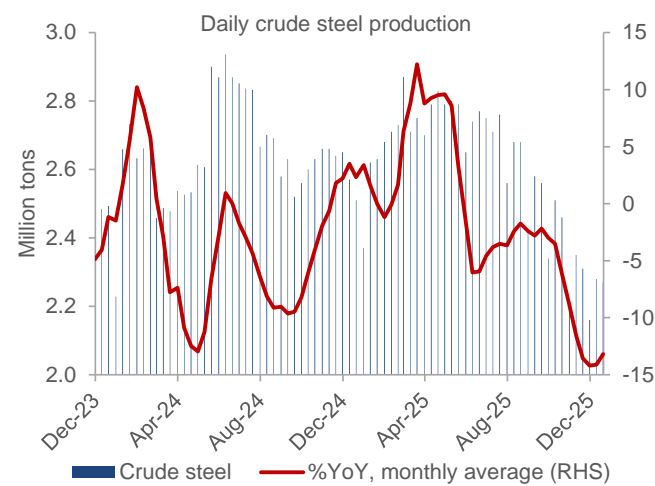
Against this backdrop, **CNH may remain directionless and range-bound between 6.95 and 7.00 in the coming weeks.** Key catalysts to watch include upcoming US December employment and inflation data, as well as developments around Venezuela's regime change. Meanwhile, we expect the PBoC to stick to its familiar playbook: discouraging one-way bets in the renminbi and smoothing excessive currency strength when needed.

< FX Charts on Page 8 >

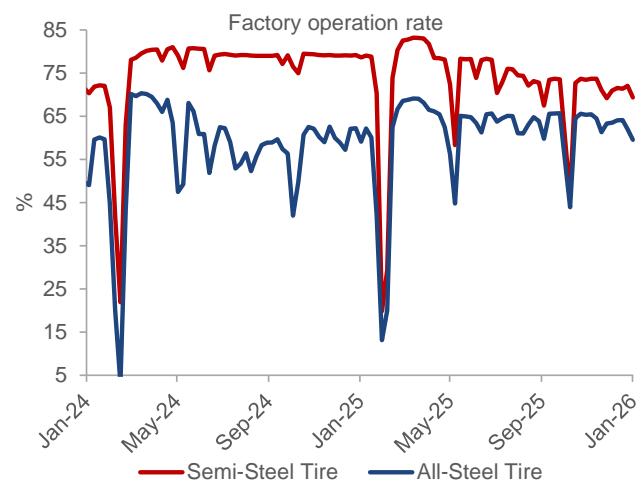
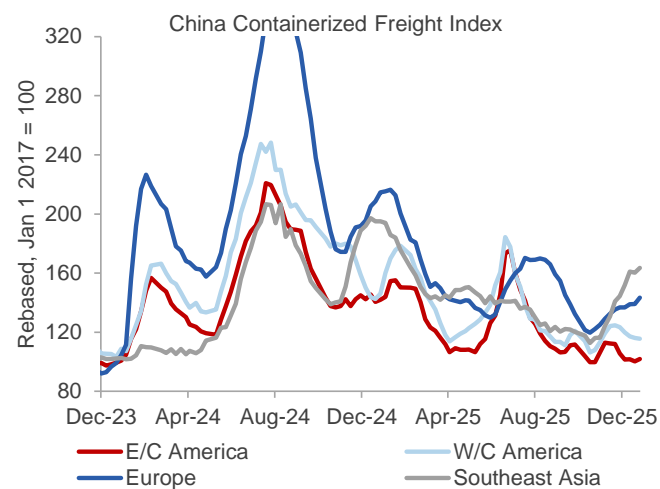
## Activity monitor (1/2)

**Fig 1 Thermal coal:** Dipping demand and supply ahead of holiday

**Fig 2 PTA production** trended lower

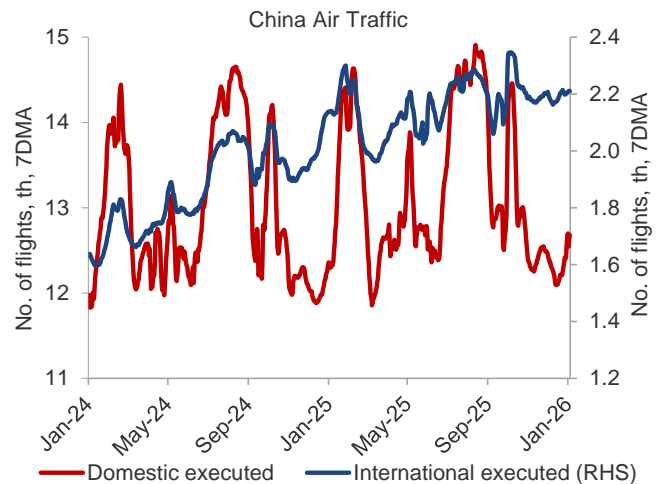

Source: Wind, Mizuho

**Fig 3 Steel production** hit a new low in December


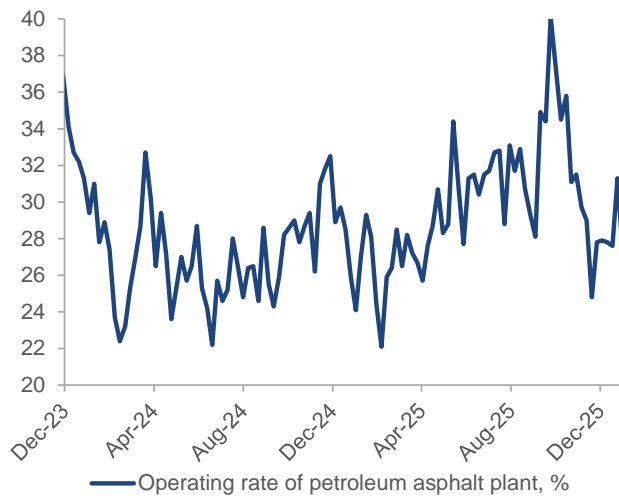
Source: Wind, Mizuho

**Fig 4 Steel tire production** affected by the New Year holiday

**Fig 5 CCFI:** shipping prices rose for routes to Europe and S.Asia


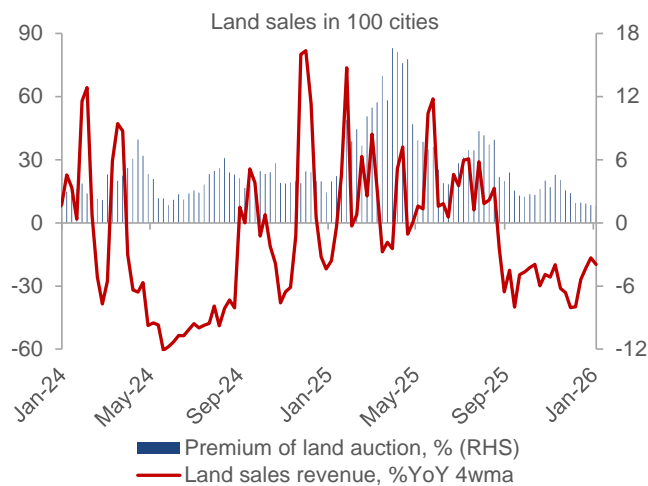
Source: Wind, Mizuho

**Fig 6 Air traffic:** travelling demand slightly rose during the holiday


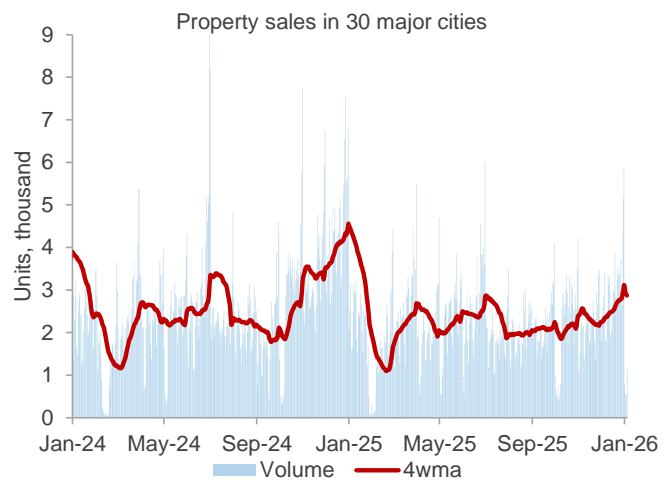
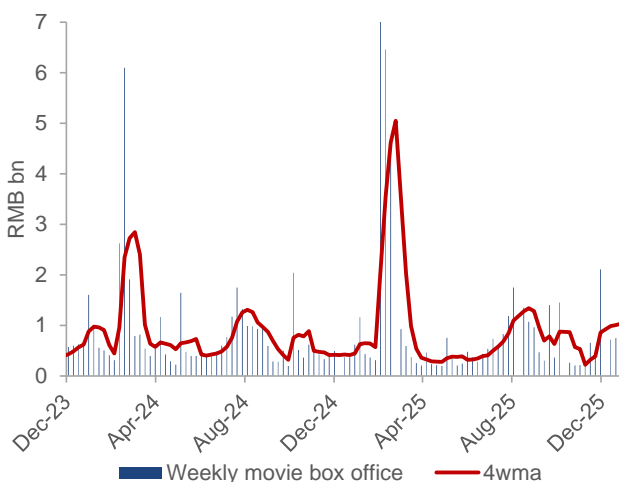
## Activity monitor (2/2)

**Fig 7 Road construction activity saw a short-lived pickup**

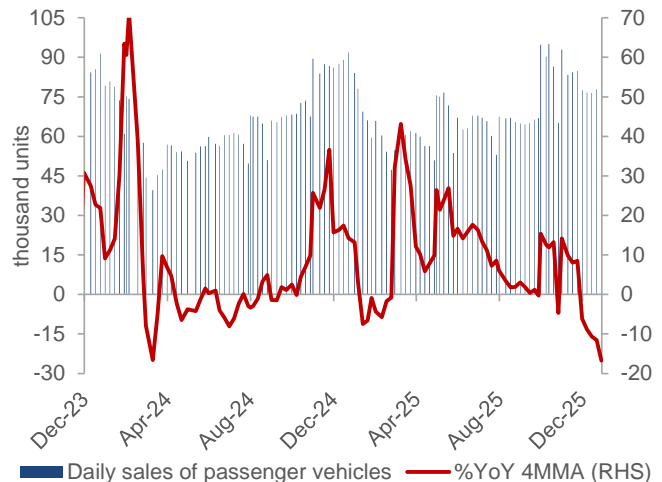
Source: Wind, Mizuho

**Fig 8 Construction material prices: rebar prices slightly picked up****Fig 9 Land sales continued to decline throughout December**

Source: Wind, Mizuho

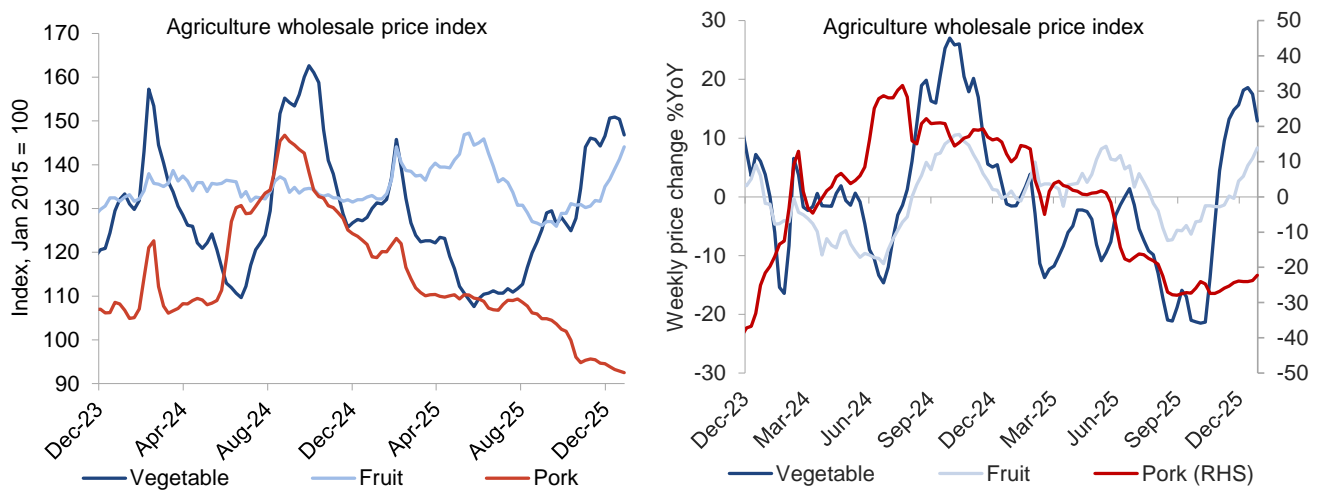
**Fig 10 New home sales saw limited improvement****Fig 11 Movie box office revenue picked up notably at end-Nov**

Source: Wind, Mizuho

**Fig 12 PV sales weakened further in December**

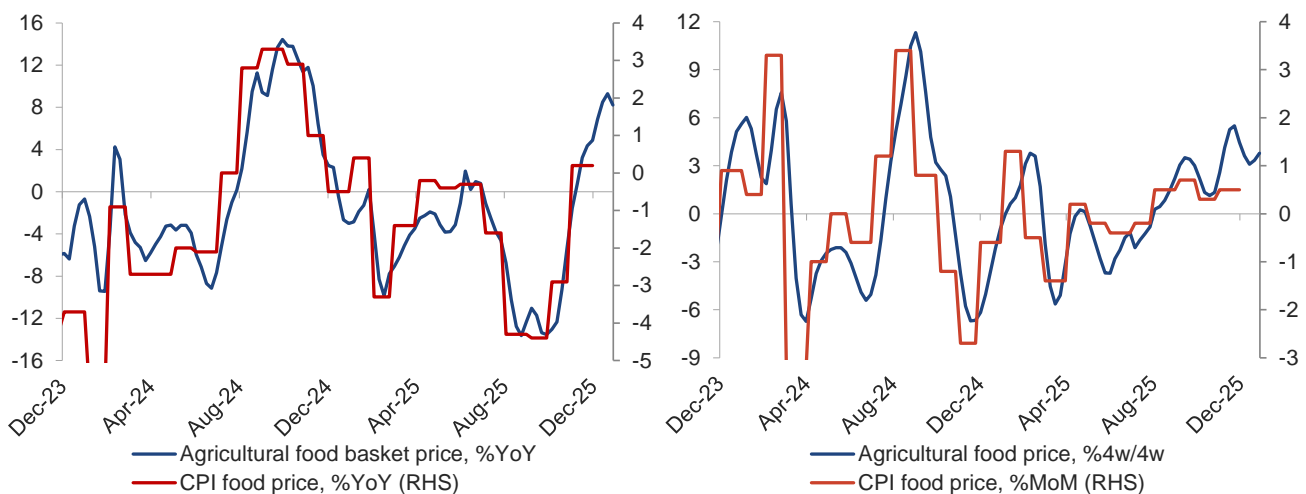
## Price monitor

**Fig 13 Major food items:** pork prices continued to decline while vegetable prices peaked



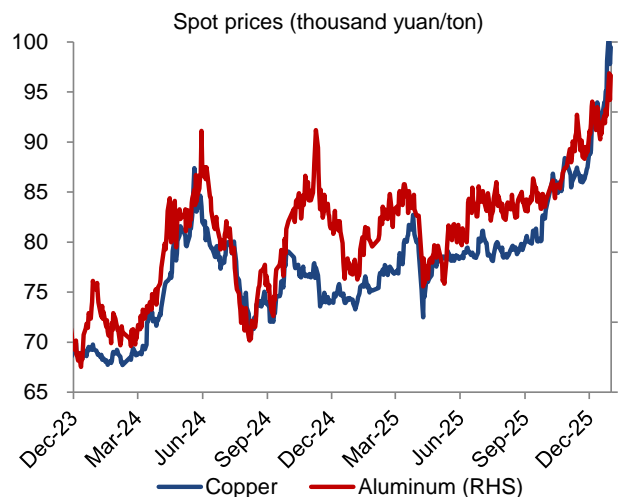
Source: Wind, Mizuho

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



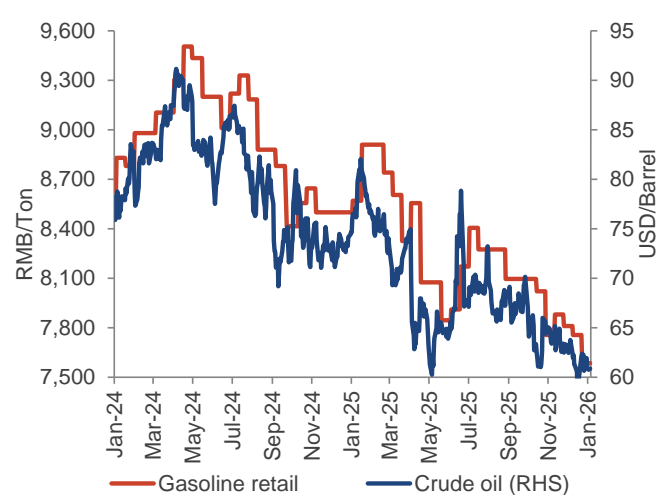
Source: CEIC, Mizuho

**Fig 15 Non-ferrous metal prices** continued to trend up

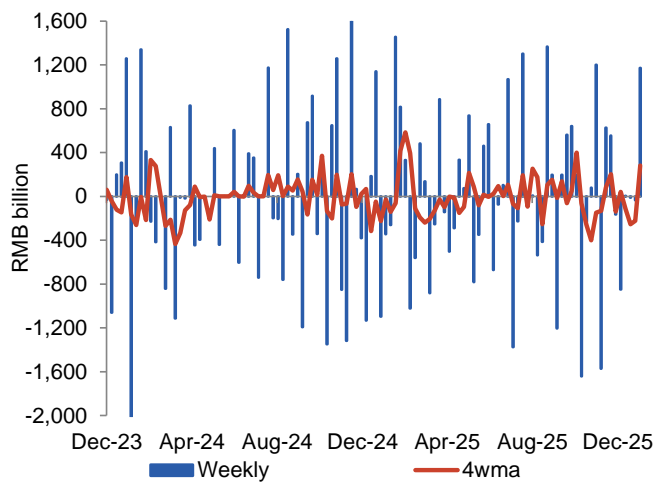


Source: CEIC, Wind, Mizuho

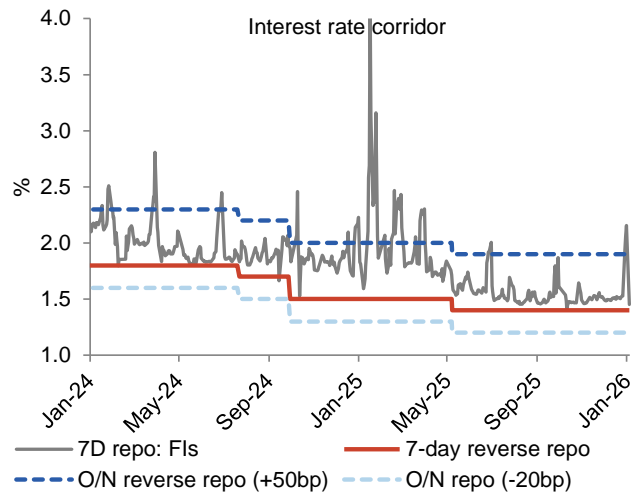
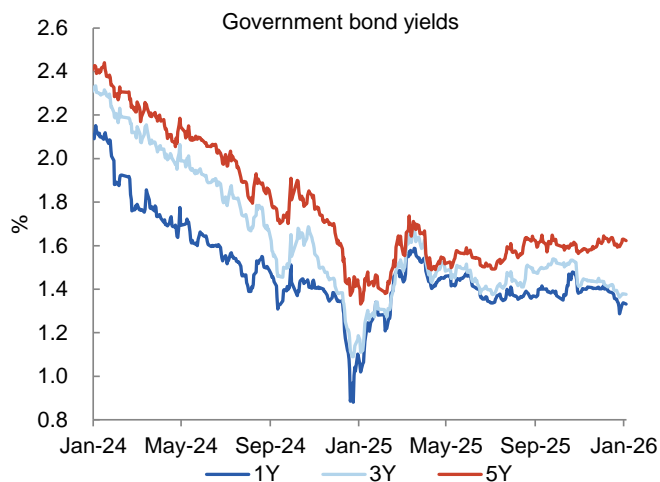
**Fig 16 Oil prices** remained subdued in December



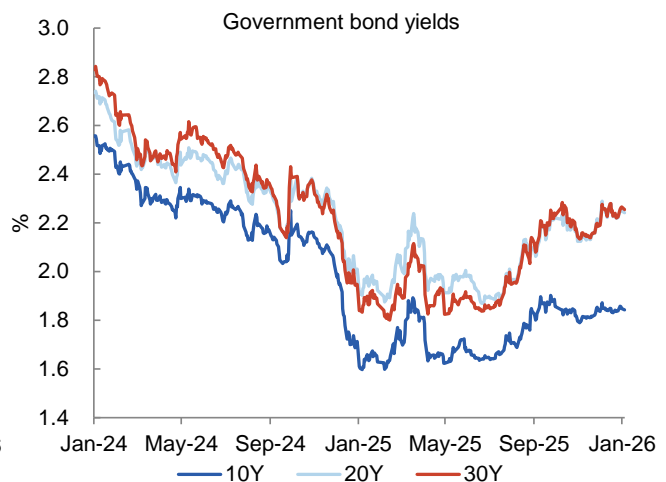
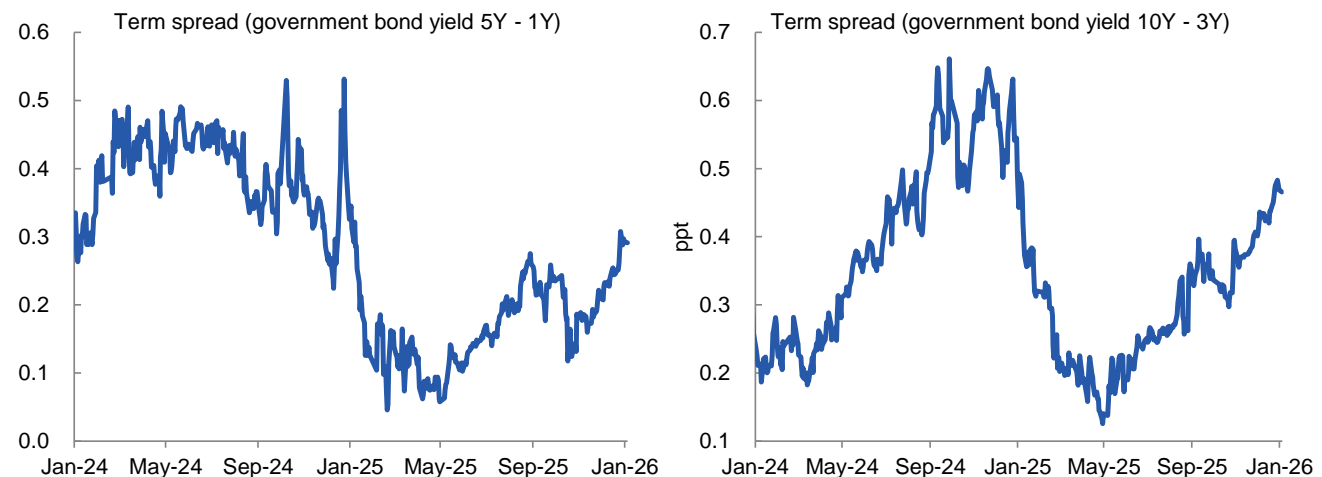
## Liquidity monitor

**Fig 17 OMOs: net injection of RMB1171b during 29 Dec – 2 Jan**


Source: CEIC, Wind, Mizuho

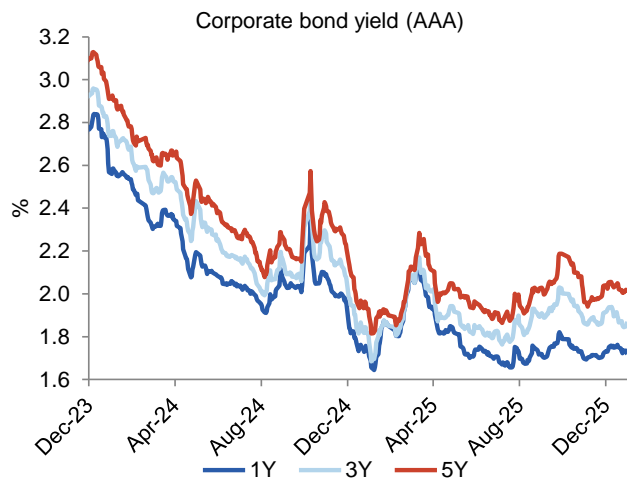
**Fig 18 7D repo for FIs returned to their benchmark levels**

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


Source: Wind, CEIC, Mizuho

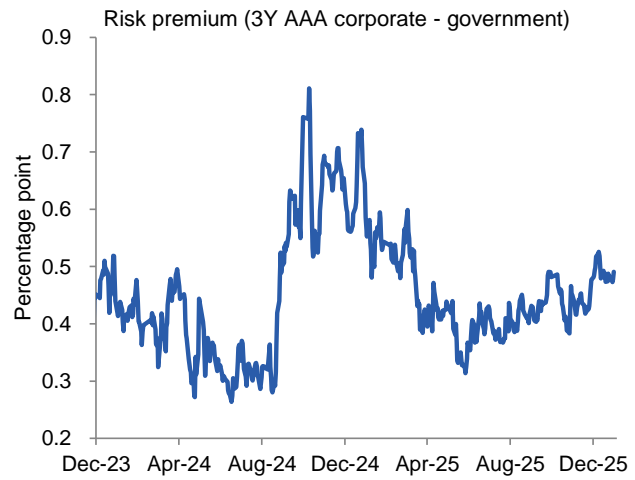
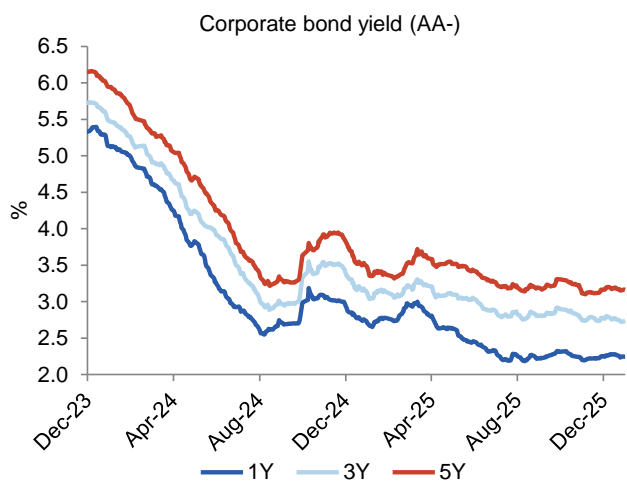
**Fig 20 Long-end CGB yields: rose at the ultra-long end**

**Fig 21 CGB term spreads: the yield curve steepened**


Source: CEIC, Mizuho

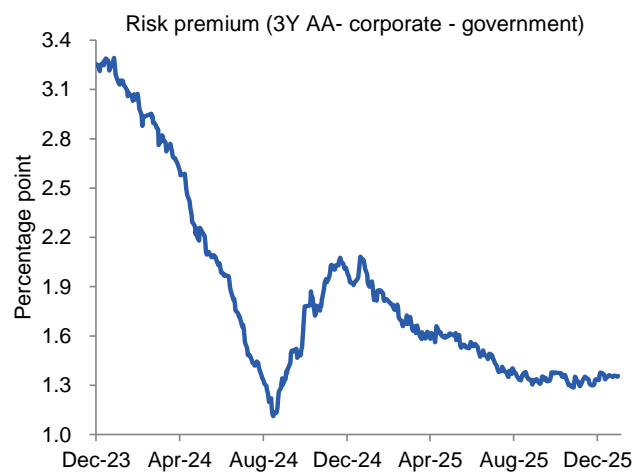
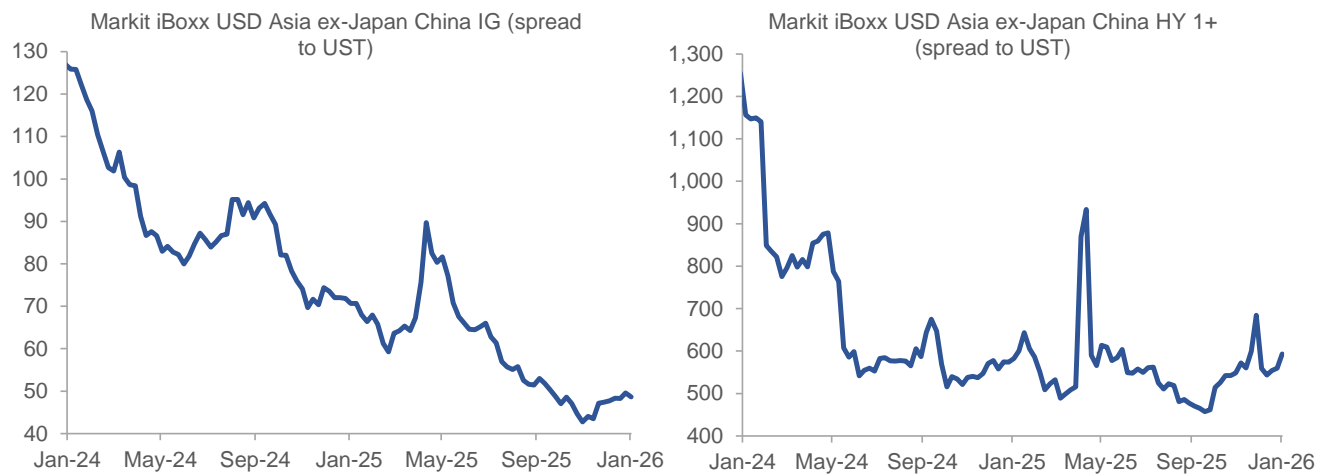
## Credit monitor

**Fig 22 Onshore IG credit yields fell at the front end**

Source: Wind, Mizuho

**Fig 23 IG corporate risk premium saw muted movement****Fig 24 Onshore HY credit yields stayed much flat**

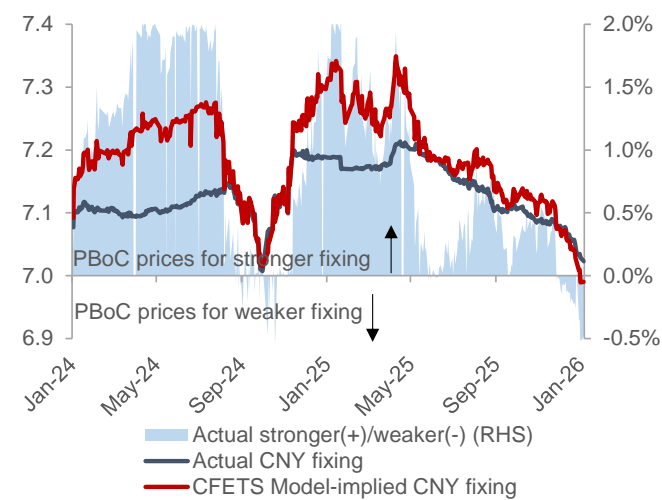
Source: Wind, Mizuho

**Fig 25 HY corporate risk premium remained relatively tight****Fig 26 China USD credit spreads were mixed last week amid regional holidays**

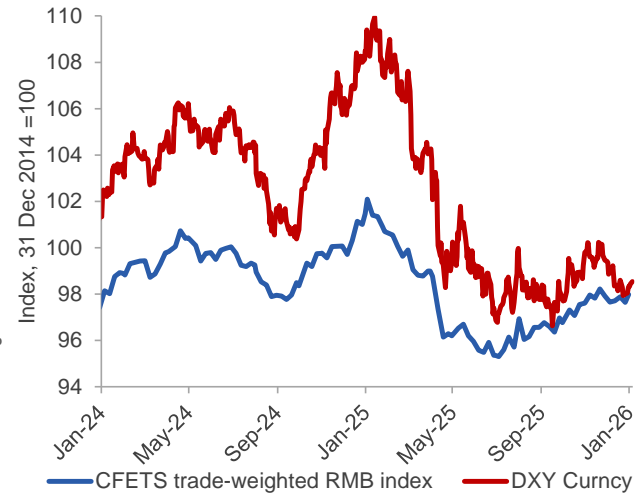
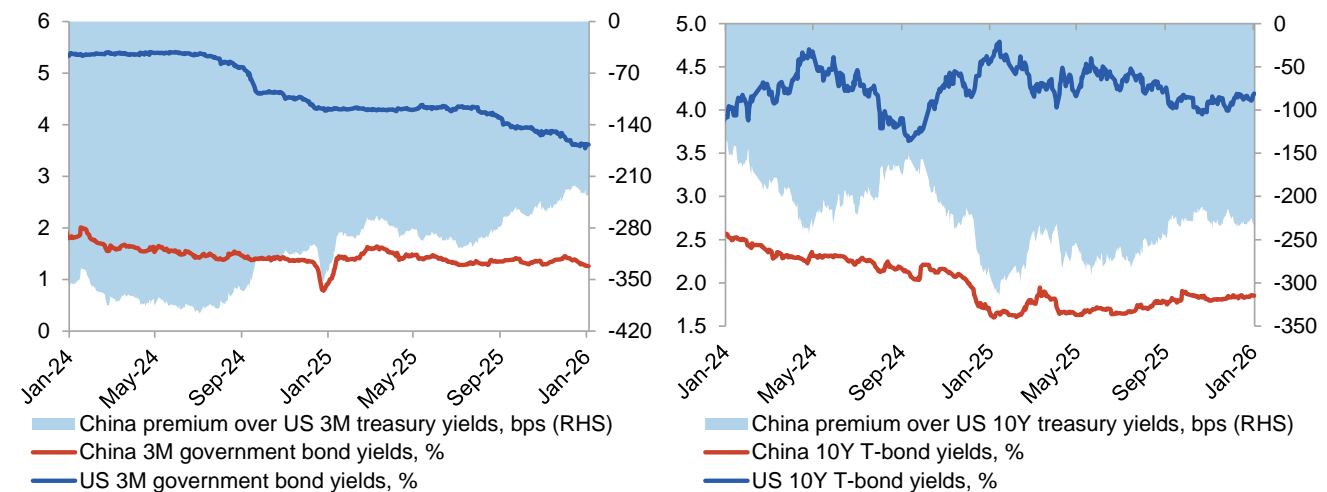
Source: IHS Markit, Mizuho



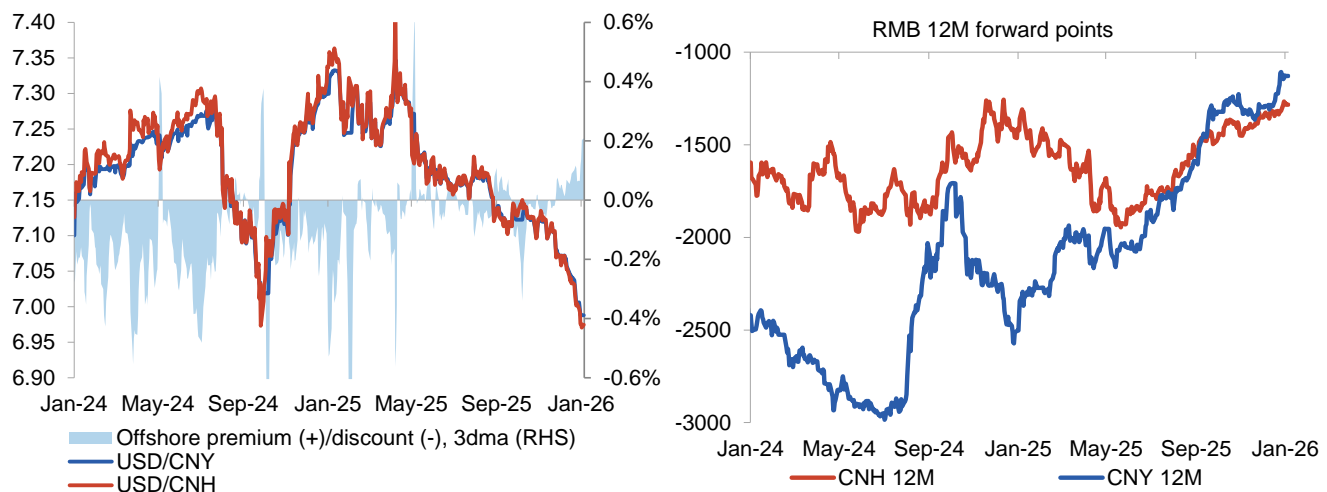
## FX monitor

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

Source: CEIC, Bloomberg, Mizuho

**Fig 28 RMB trade-weighted index continued to weaken****Fig 29 China-US interest rate spreads slightly widened at the front end but much unchanged at the back end**

Source: CEIC, Bloomberg, Mizuho

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

Source: Bloomberg, Mizuho



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