

China Weekly Outlook

Few signs of sustainable reflation

China's CPI edged higher in December, but the increase offers little evidence of reflation or meaningfully improved domestic demand. Headline CPI rose 0.8% YoY, up from November's 0.7% gain. The uptick was driven entirely by food prices, which climbed 1.1% YoY versus 0.2% in November. Fresh vegetables and fruits saw notable increases of 18.2% and 4.4% YoY, respectively, contributing 0.16 ppt to headline inflation.

Non-food inflation held steady at 0.8% YoY, unchanged from the prior month. Service prices grew at a slower pace, weighed down by lower rents and stagnant family service costs. In contrast, government-subsidized consumer goods, such as home appliances and mobile phones, continued to post solid price gains. Gold jewelry prices surged 68.5% YoY, reflecting strength in global gold markets.

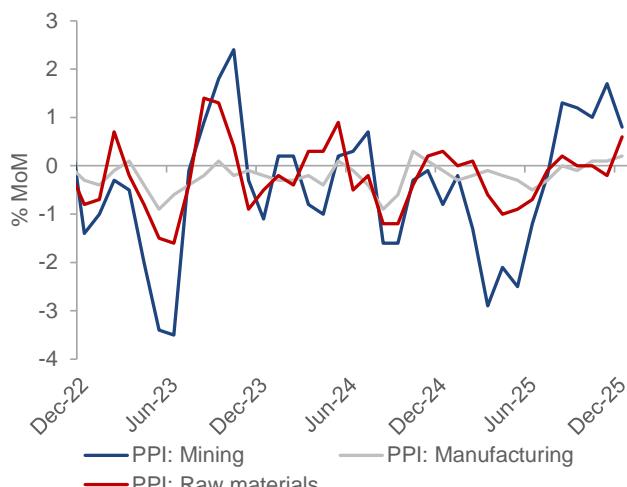
PPI growth driven by the supply side

On the producer side, the PPI rose 0.2% MoM in December, marking its third consecutive increase helped by rising prices in the upstream sectors. This trend was supported by government measures to curb excess capacity and rising global commodity prices. Notably, non-ferrous metal prices advanced 3.7% MoM, while coal prices recorded their fifth straight monthly increase.

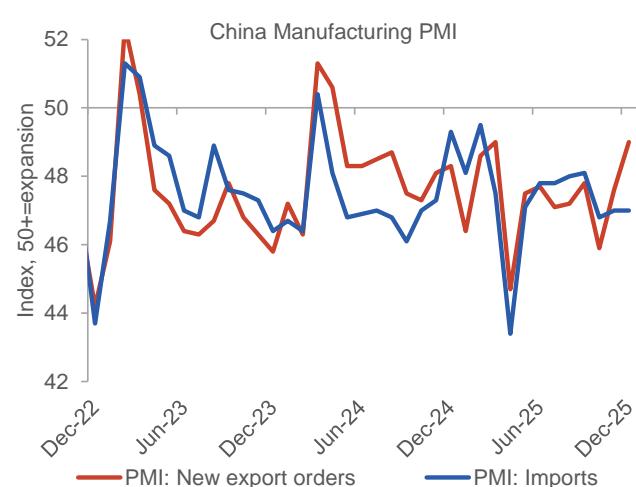
Easing trade headwinds

China's trade data, due later this week, is expected to be affected by both easing headwinds and base effects. PMI survey indicators point to a modest recovery, with the new export orders index climbing to a nine-month high of 49.0 in December. High-frequency shipping data also suggests sustained demand for outbound shipments (Fig 5). However, a high base from December 2024—driven by preemptive orders ahead of anticipated tariffs under President Trump—will likely result in slower export growth this December.

<PPI growth primarily driven by increases in the upstream sector>



<The PMI survey points to a modest recovery in the trade sector>



Source: CEIC, Mizuho

CNH Outlook

Forex – CNH held its ground despite the dollar strength

Rates – Offshore yuan rates edged higher

Equities – SHCOMP climbed steadily throughout the week

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.9716	6.9959	6.9696	6.9760	57
USD/CNY	6.9836	6.9964	6.9769	6.9783	-97
CNY PBoC Fixing	7.0230	7.023	7.0128	7.0128	-160
Shanghai Composite Index	3986.97	4121.72	3983.58	4120.43	151.59

Weekly Price Change#	HK Close	Weekly Change	HK Close	Weekly Change
CNH Forward (1yr)	-1264	19	CNH HIBOR (3mth)	1.766
CNH Currency Swap (3yr)	1.600	0.050	CNH Implied yield (1Y)	1.639

#Last week, from Monday to Friday
*pips in USD/CNY,USD/CNH row

Recap

Despite the turbulence in Venezuela, **the renminbi held its ground**, staying comfortably within the 7.0 handle. The CNH traded in a tight band between 6.97 and 6.996 during the first week of 2026, even as the USD index climbed 0.7% during the same period. Unlike previous episodes, **this resilience was largely market-driven**. The PBoC played a subtle counterweight role, setting the daily CNY reference rate about 0.5% weaker than the CFETS model implied in order to lean against any sharp rally.

During last week, the onshore renminbi (CNY) edged up 0.14%, outperforming most Asian peers. Offshore CNH slipped a modest 0.08%, still faring better than currencies like KRW, PHP, and JPY, which lost 0.7% or more against the dollar. The Thai baht emerged as the regional star (+0.25%), buoyed by rising gold prices.

Outlook

While we maintain [a constructive view on CNH for 2026](#), **near-term risks skew to the downside**. China's growth momentum is losing steam amid an ongoing property slump, muted local government investment, and high base effects. Adding to the mix, Venezuela's political transition could temporarily disrupt the yuan's rising rank in global commodity trade, dampening investors' appetite for the currency.

In the weeks ahead, **CNH is likely to remain directionless and range-bounding between 6.95 and 7.00**. Potential game changers to monitor include US inflation data and developments around China's investments and claims in Venezuela. 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 supply post the New Year holiday

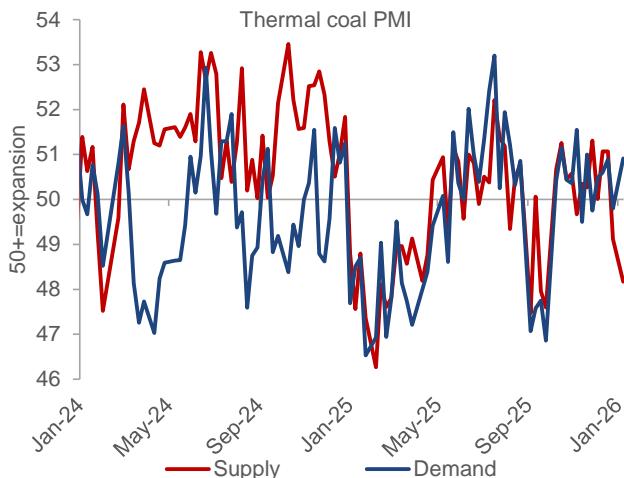


Fig 2 PTA production restored quickly in early January

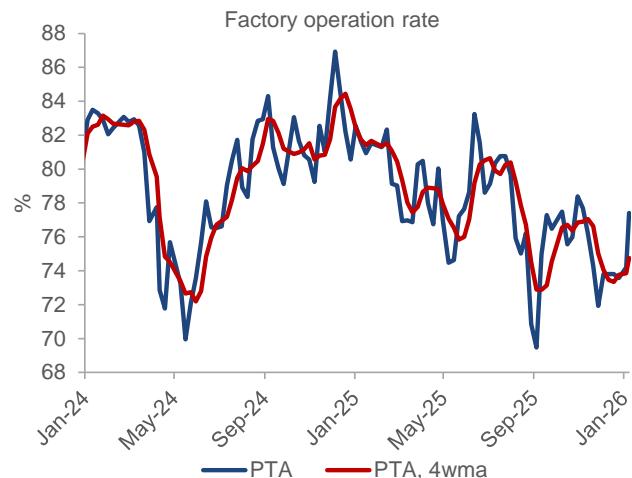


Fig 3 Steel production hit a new low in December

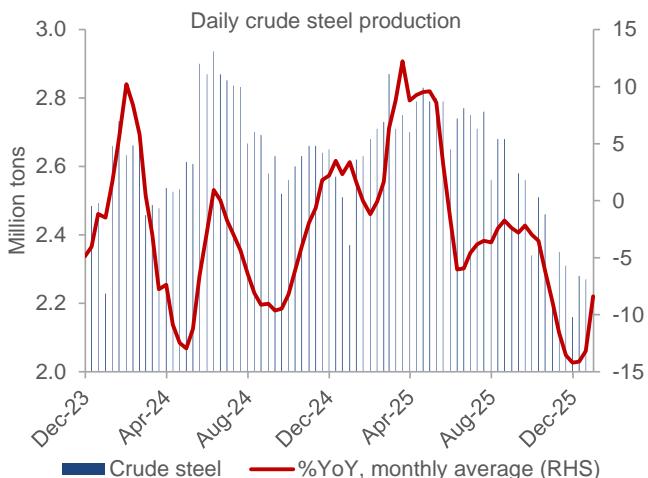


Fig 4 Steel tire production still affected by the New Year holiday

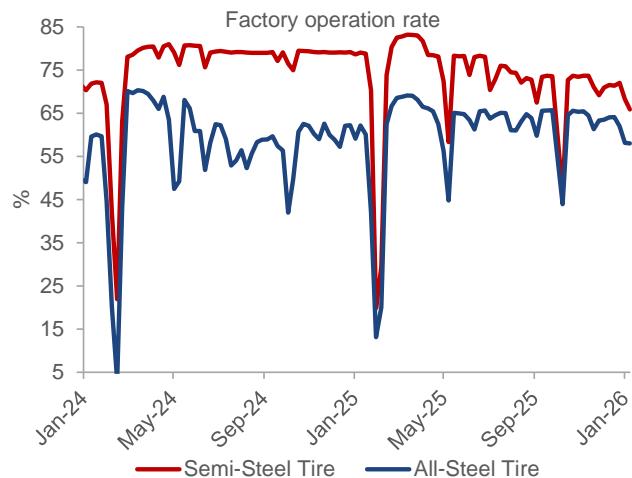


Fig 5 CCFI: shipping prices rose for routes to Europe and Asia

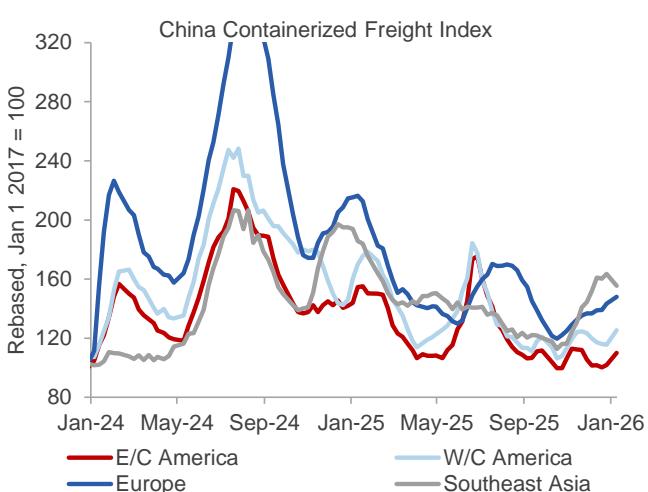
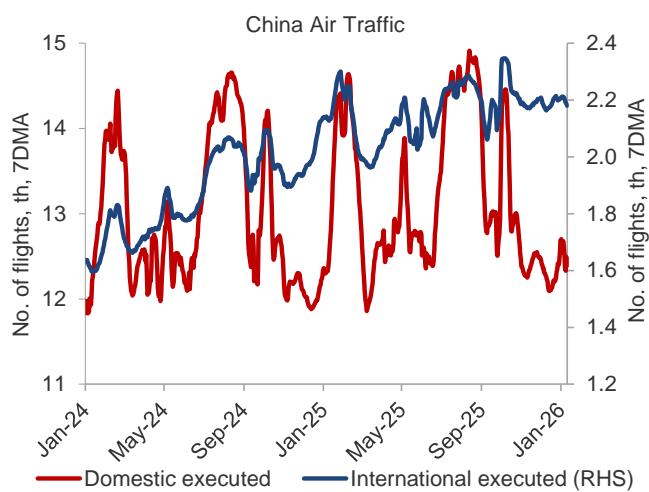
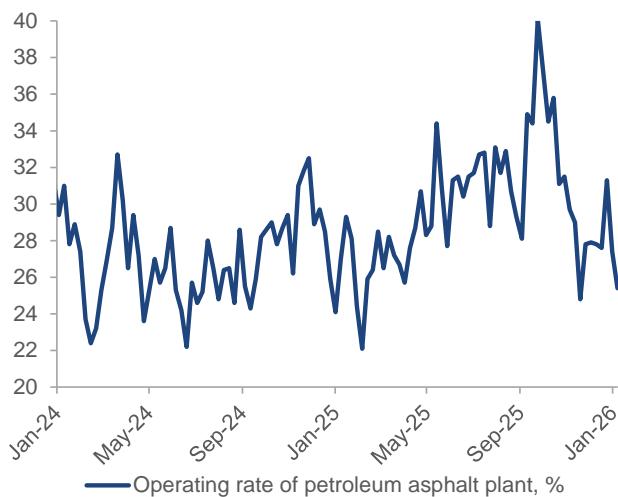


Fig 6 Air traffic: travelling demand barely improved during the holiday



Activity monitor (2/2)

Fig 7 Road construction activity saw a short-lived pickup



Source: Wind, Mizuho

Fig 8 Construction material prices: rebar prices edged up

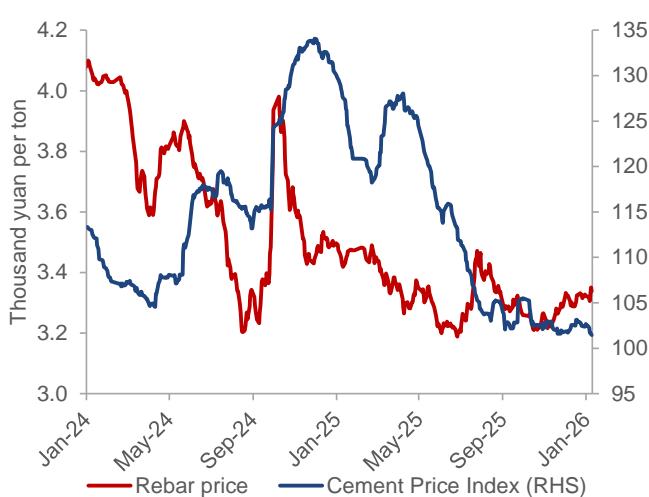
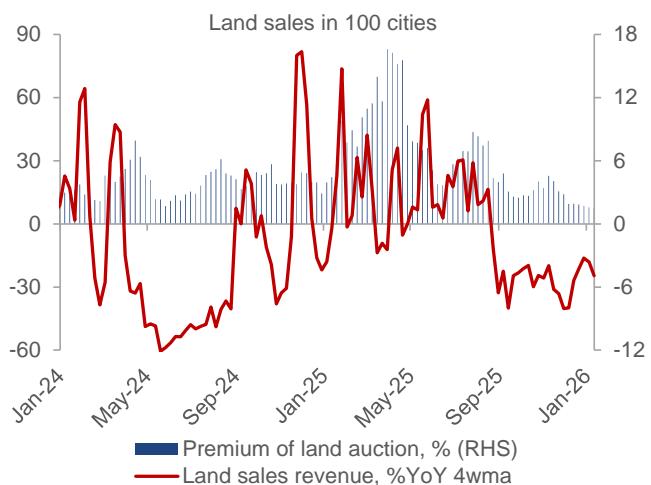


Fig 9 Land sales continued to decline



Source: Wind, Mizuho

Fig 10 New home sales saw limited improvement

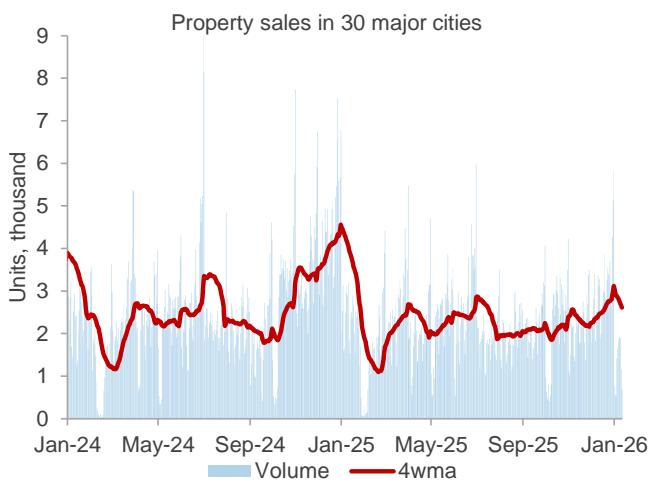
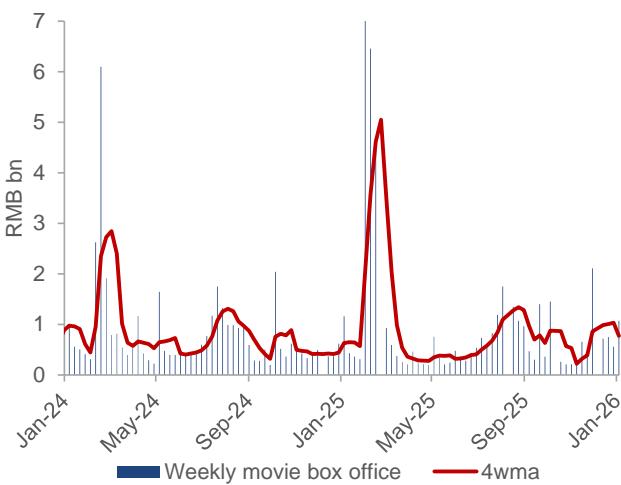
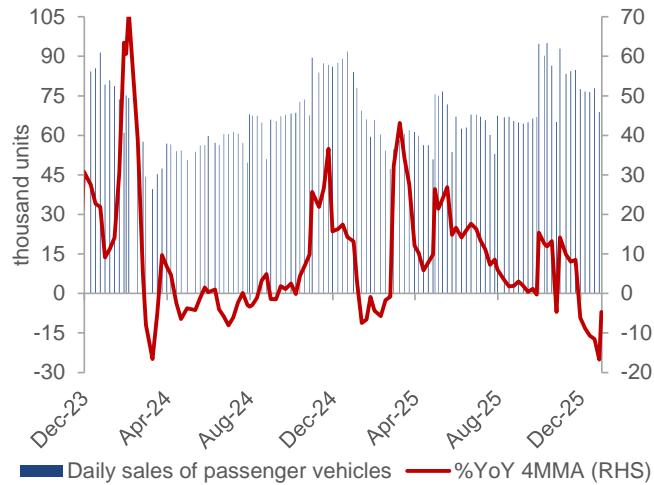


Fig 11 Movie box office revenue picked up towards the year-end



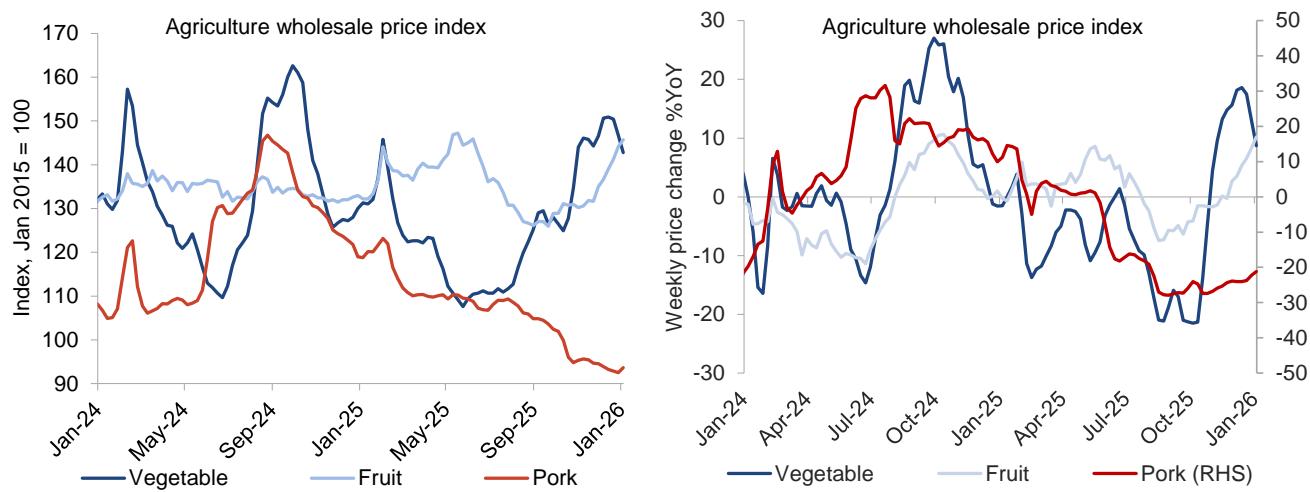
Source: Wind, Mizuho

Fig 12 PV sales weakened further in December



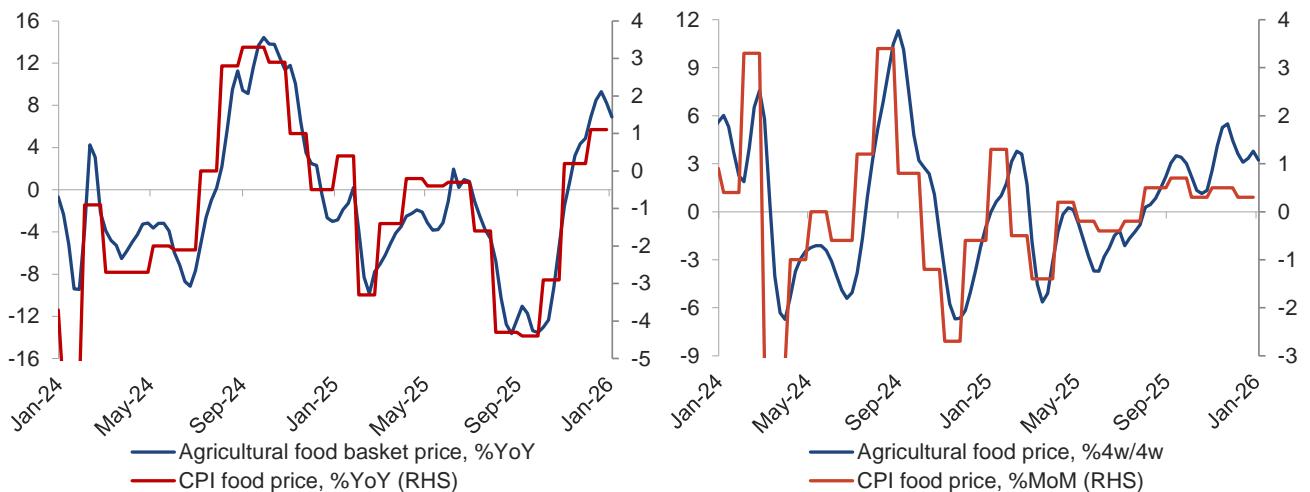
Price monitor

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



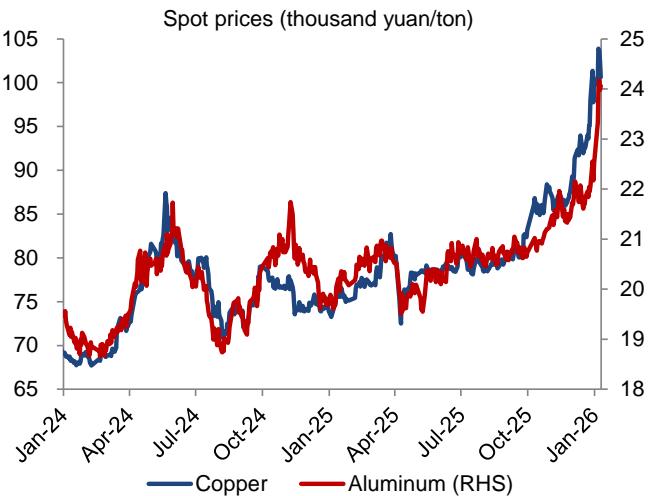
Source: Wind, Mizuho

Fig 14 Wholesale food prices: YoY growth stayed positive but slightly moderated in early January



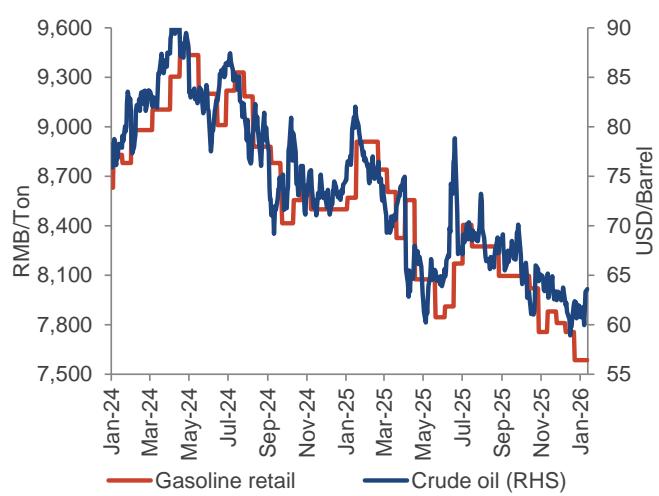
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices continued to trend up



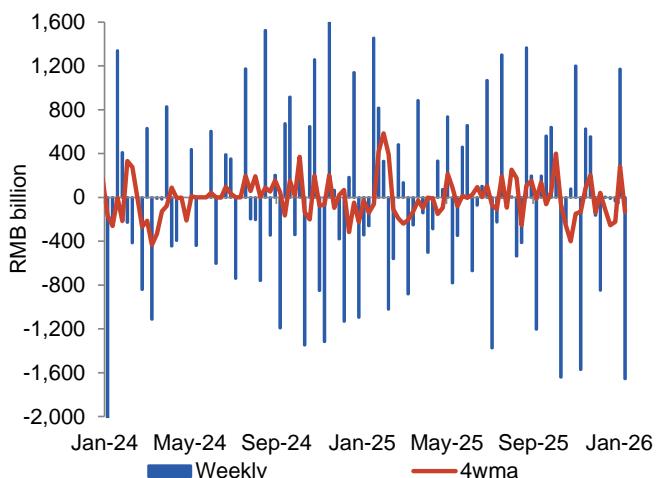
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices remained subdued in December



Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB1655b during 5 - 9 Jan



Source: CEIC, Wind, Mizuho

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

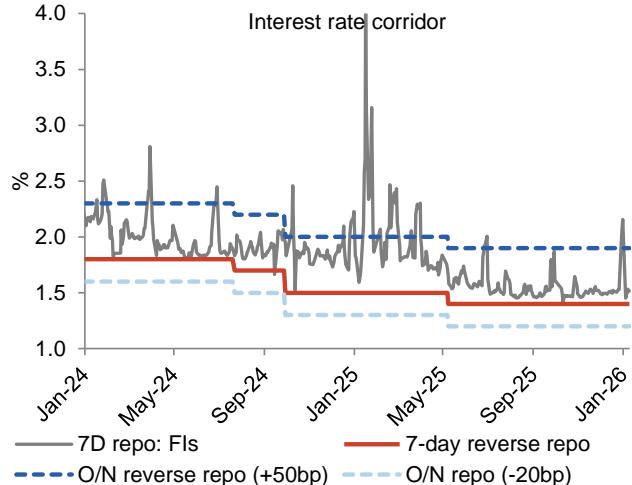
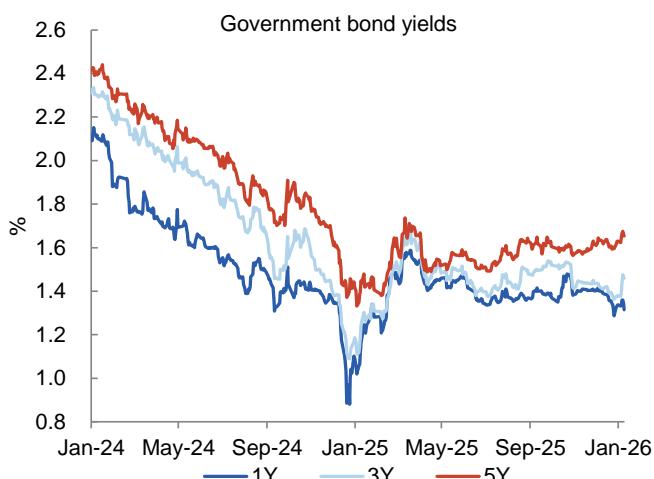


Fig 19 Short-end CGB yields: 3Y & 5Y yields picked up



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields: rose across maturities

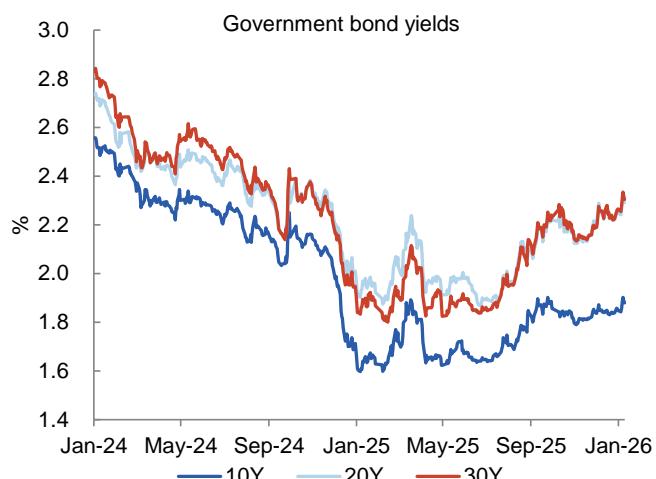
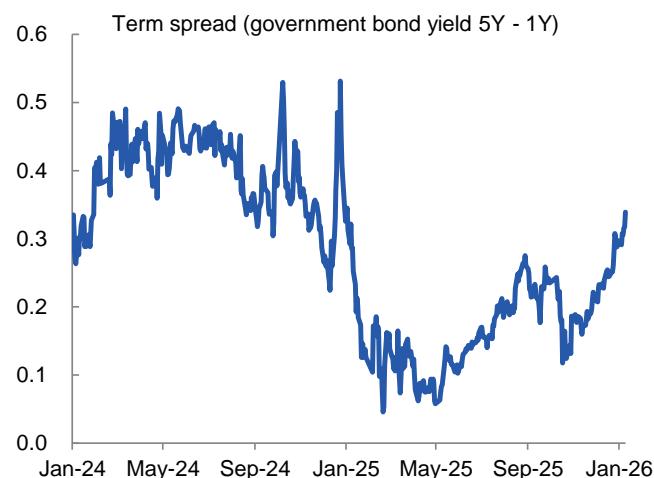
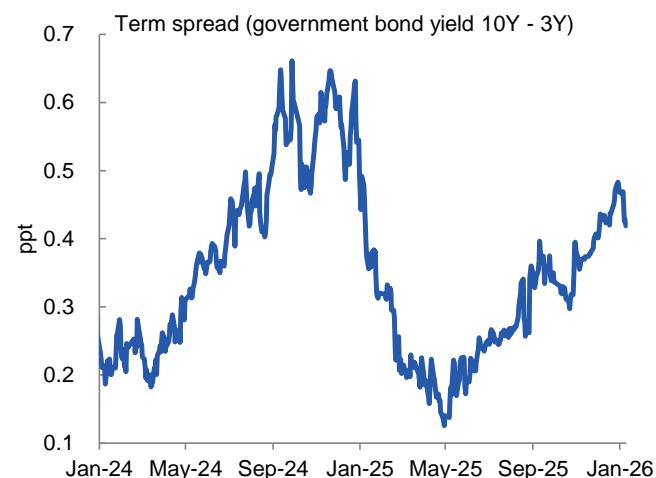


Fig 21 CGB term spreads: saw mixed movements last week

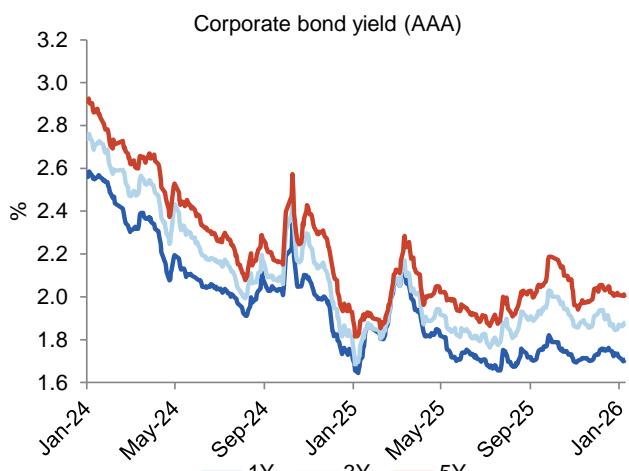


Source: CEIC, Mizuho



Credit monitor

Fig 22 Onshore IG credit yields fell at the front end



Source: Wind, Mizuho

Fig 23 IG corporate risk premium narrowed notably in early Jan

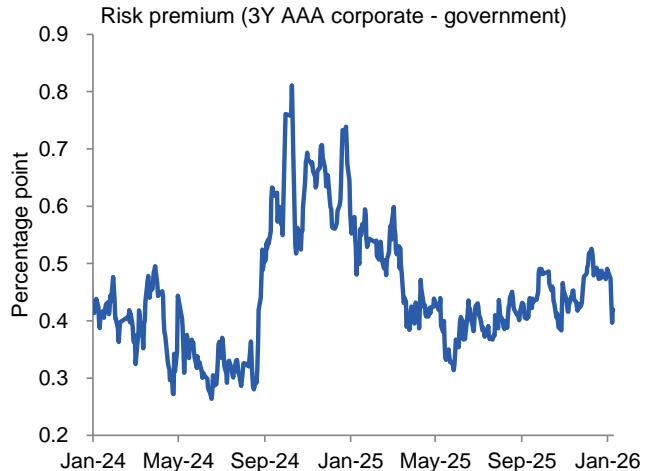
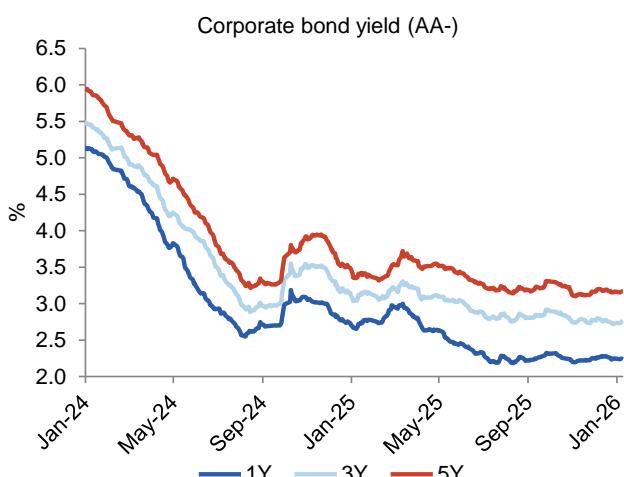


Fig 24 Onshore HY credit yields stayed much flat



Source: Wind, Mizuho

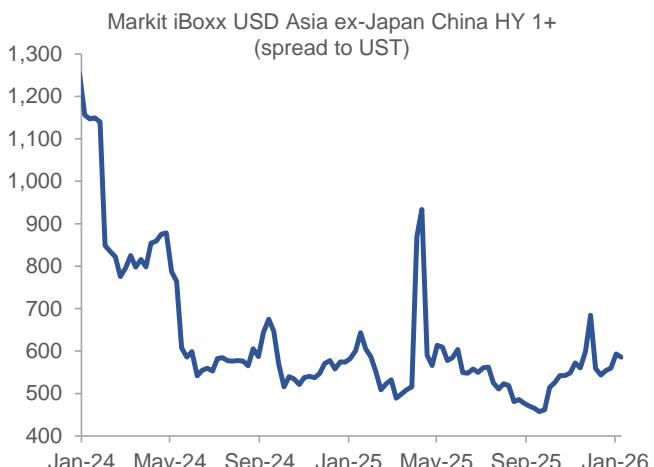
Fig 25 HY corporate risk premium ground tight



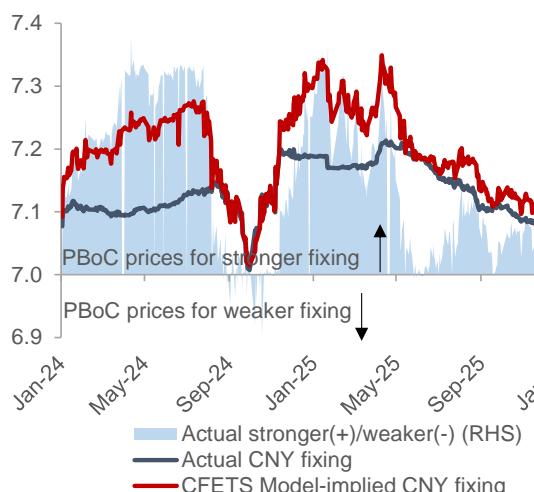
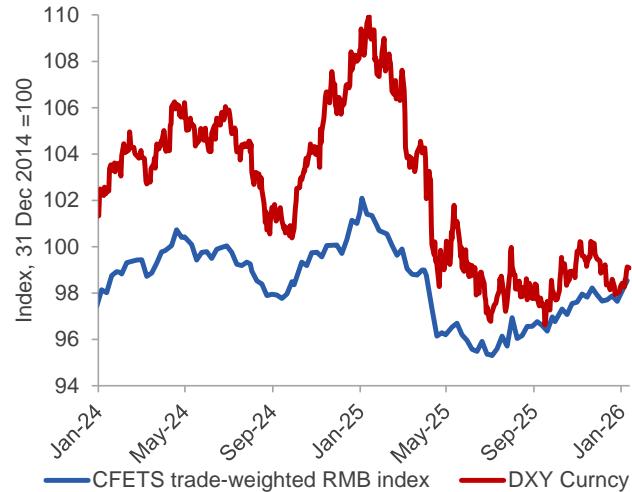
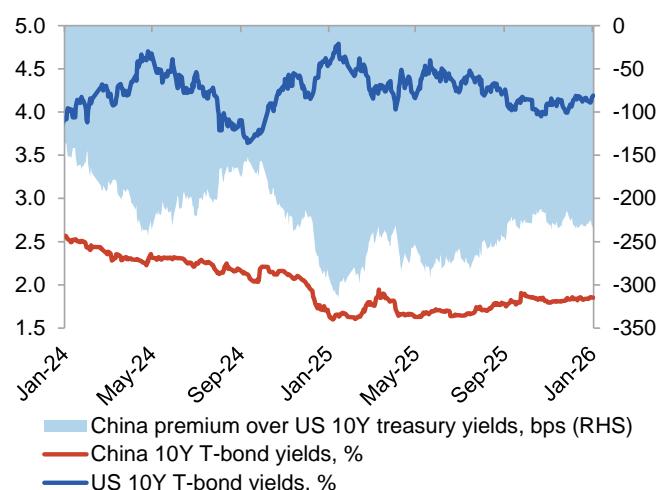
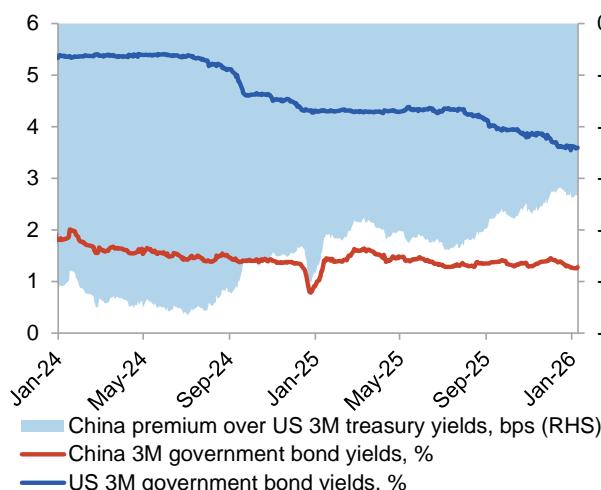
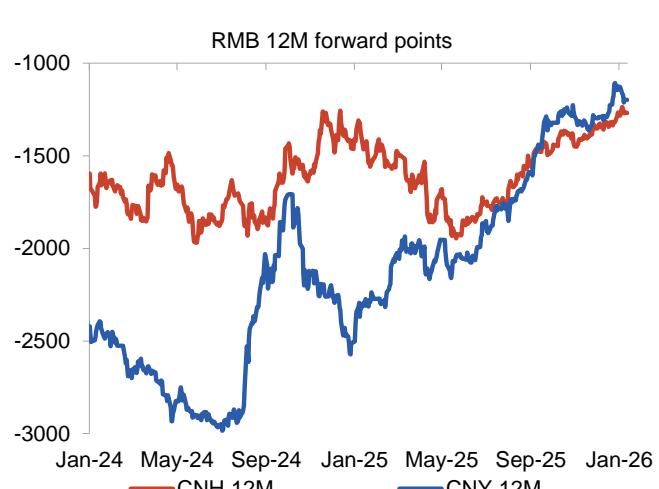
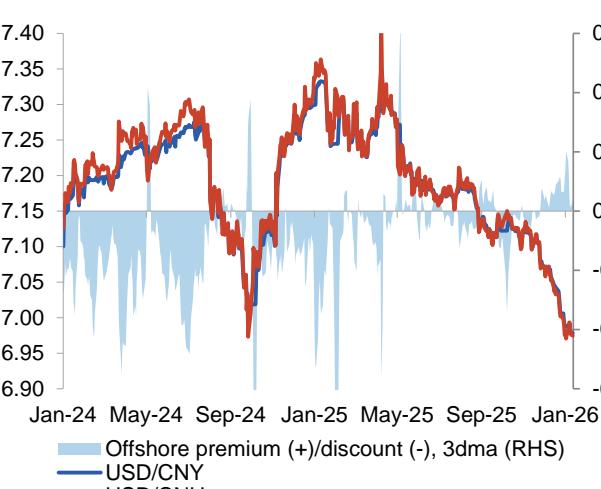
Fig 26 China USD credit spreads were resilient last week despite rising geopolitical uncertainty



Source: IHS Markit, Mizuho



FX monitor

Fig 27 RMB fixing rate: a notable weak bias imposed by PBoC**Fig 28 RMB trade-weighted index rose alongside stronger USD****Fig 29 China-US interest rate spreads remained much unchanged in recent weeks****Fig 30 Offshore RMB (CNH) trading at a notable premium to onshore rates**

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