Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

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China Weekly Outlook

Cool the rally?

Chinese authorities have stepped up efforts to cool equity market sentiment and foster more sustainable development. Exchange-traded funds held by Central Huijin Investment, the sovereign wealth fund often viewed as a member of the "national team," reportedly saw sizable withdrawals, signalling active official intervention to temper market gains.

Although actual trading records will only be disclosed in ETFs' quarterly reports, according to Bloomberg, a basket of eight ETFs traditionally traded by the national team recorded USD 9.7 billion in outflows on Friday alone. These flows have unfolded just as regulators moved to tighten margin financing rules. Earlier this month, authorities raised the minimum margin ratio for leveraged stock purchases to 100% from 80%, effective 19 January. This contributed to the SHCOMP slipping to a two-week low mid-week, though the index still ended the week 0.84% higher.

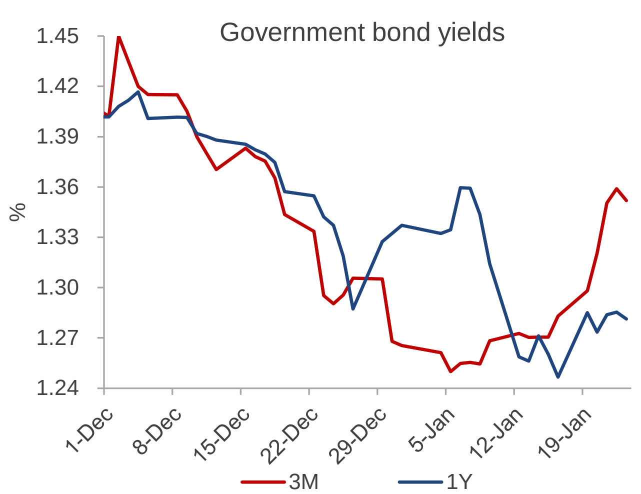
Fine-tuning, for now

Despite the PBoC's recent dovish tone, which hints at potential rate cuts and RRR reductions later this year, we think such moves are unlikely before the "Two Sessions" convene in early March. This view is partially shared by the onshore bond market: the 1-year CGB yield traded roughly within the range of 1.28–1.29% last week, up from the recent trough of 1.23%. On the liquidity front, the PBoC continues to provide ample support ahead of the Lunar New Year holiday that starts on 15 February this year. Net injections via medium-term lending facilities and reverse repos have reached RMB 1 trillion month-to-date, slightly exceeding levels seen in January last year.

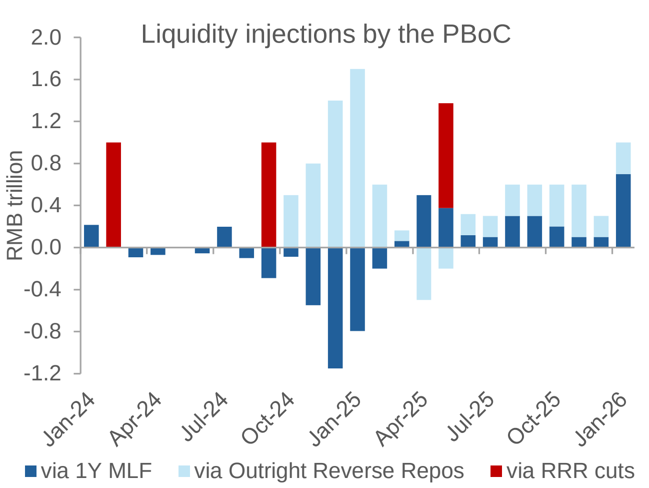
Front-loaded manufacturing activity

China's official January Manufacturing PMI is also likely to benefit from this year's unusually late Lunar New Year. With the holiday landing in late February, many migrant workers may not return to their jobs until mid-March, prompting factories to front-load their manufacturing activity to the beginning of the year. High-frequency indicators, including thermal coal supply (Fig. 1) and crude steel production (Fig. 3), point to sequential improvement across those upstream industrial sectors. Against this backdrop, we expect the official manufacturing PMI to hold steady at 50.1 for January, unchanged from December.

<3-month CGB yields notably higher 1-year>



<The PBoC has injected more liquidity MTD this year>



Source: CEIC, Wind, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.9697	6.9786	6.9483	6.9494	-184
USD/CNY	6.9643	6.9775	6.9576	6.9632	-71
CNY PBoC Fixing	7.0051	7.0051	6.9929	6.9929	-149
Shanghai Composite Index	4090.72	4143.75	4080.29	4136.16	34.25

#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)	-1312	-39	CNH HIBOR (3mth)	1.810	-0.081
CNH Currency Swap (3yr)	1.600	-0.055	CNH Implied yield (1Y)	1.595	-0.063

Recap

The offshore renminbi (CNH) traded in a tight band between 6.95 and 6.98 last week, finishing just below the 6.95 handle. This contained move, however, does not yet reflect the sharp post-Friday decline in the US dollar index, largely driven by a much stronger Japanese yen. On the following Monday, CNH was holding below 6.95 for most of the session, **as the PBoC set the daily CNY reference rate only 0.22% weaker** than the CFETS model-implied level. This is significantly less than last week's average of around 0.5% weaker, **signaling a more neutral stance**. **Across Asia, the renminbi underperformed most regional peers.** The JPY (+1.55%), SGD (+1.27%), and MYR (+1.27%) led gains last week, underpinned by their central banks or ministry of finance.

Geopolitical cross-currents continue to rattle the FX market. On one hand, tensions between the US and Europe cooled somewhat, with President Trump publicly stating he had no plans to acquire Greenland using military means. On the other hand, Trump threatened to impose 100% tariffs on Canada over the weekend should Ottawa move forward with any trade agreement with China.

Such headline risk has increasingly pushed the renminbi to trade with safe-haven characteristics. Additionally, PBoC Governor Zou Lan announced at the Asian Financial Forum that China plans to expand the supply of offshore CGBs to deepen CNH liquidity and enhance the yuan's international pricing power. Consequently, the HKMA revealed it will double the size of the RMB liquidity facility to RMB 200 billion, equipping banks with more stable and cost-effective funding to support corporate RMB financing needs.

Outlook

In the coming weeks, **CNH is likely to see increased volatility, trading between a wider range of 6.90 and 6.98, amid heightened geopolitical uncertainty externally.** Key developments to watch include: President Trump's selection of the next U.S. Federal Reserve Chair, further twists in US relations with Iran and its long-standing trading partners, as well as any unexpected shifts in tariff or trade-related rhetoric. Domestically, the PBoC is expected to stick to its well-established playbook: discouraging one-way bets on the renminbi and smoothing excessive currency strength when needed.

< FX Charts on Page 8>

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Activity monitor (1/2)

Fig 1 Thermal coal: Improved demand and supply last week

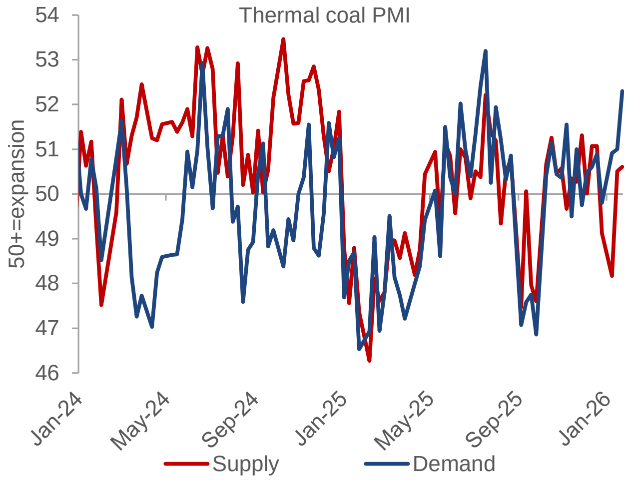
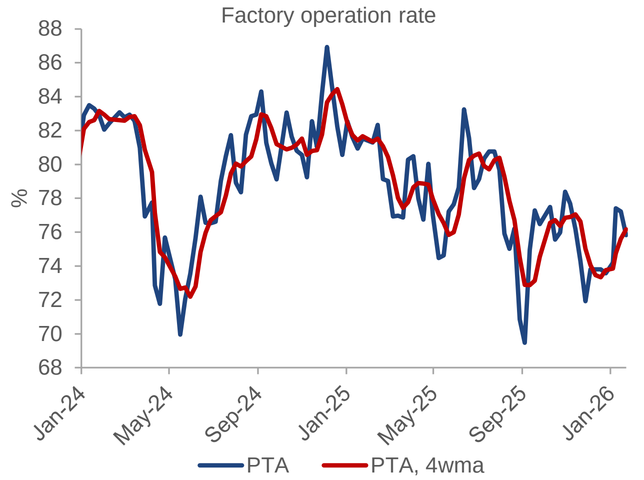


Fig 2 PTA production restored in early January



Source: Wind, Mizuho

Fig 3 Steel production picked up, albeit continued to decline YoY

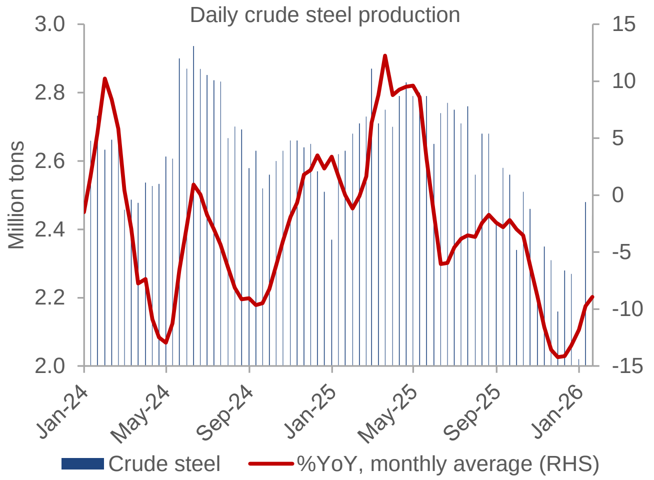


Fig 4 Steel tire production continued to recover

Source: Wind, Mizuho

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

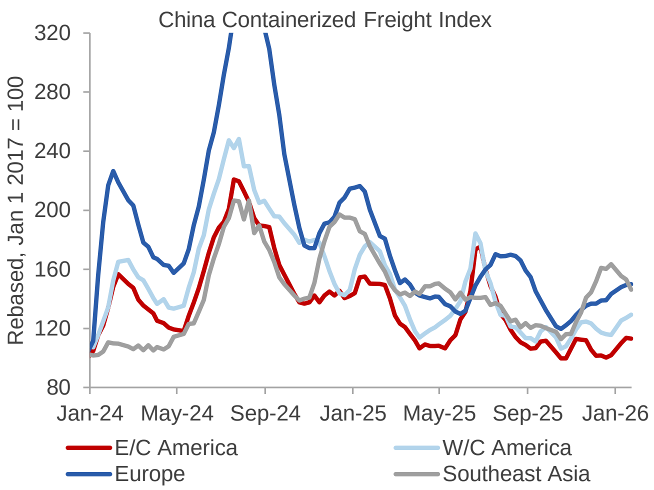
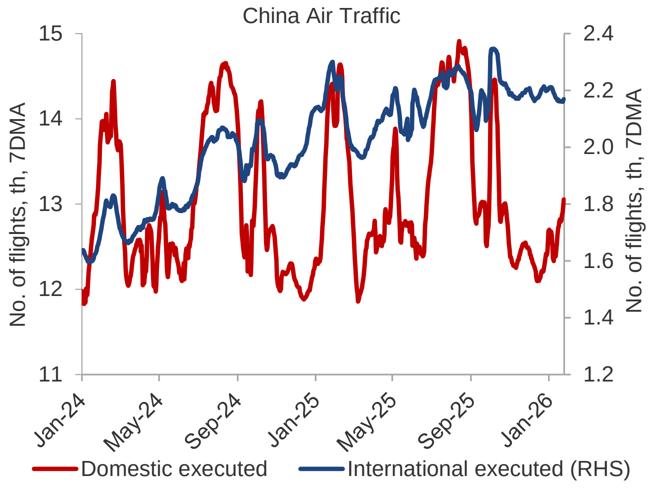


Fig 6 Air traffic: travelling demand barely improved



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity slowed in early January

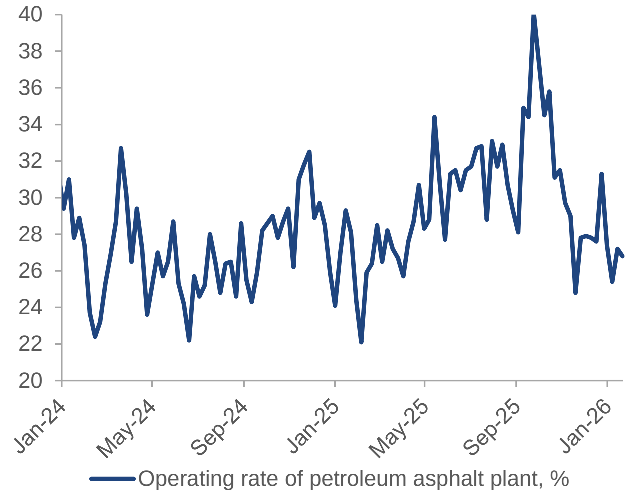
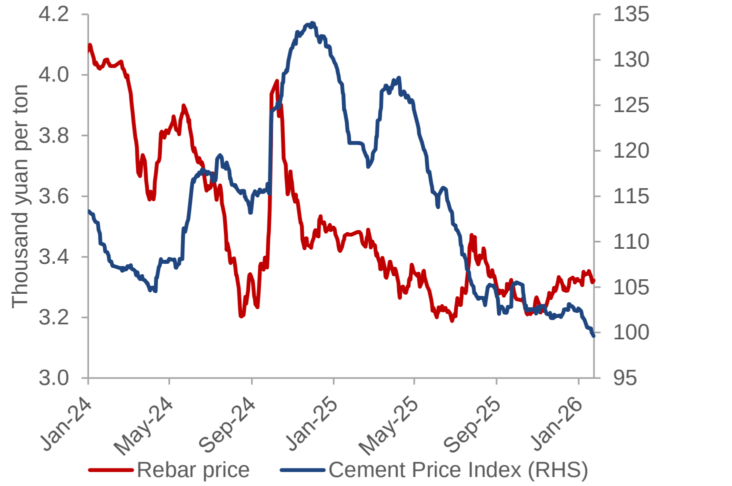


Fig 8 Construction material prices: cement prices dropped further



Source: Wind, Mizuho

Fig 9 Land sales continued to decline

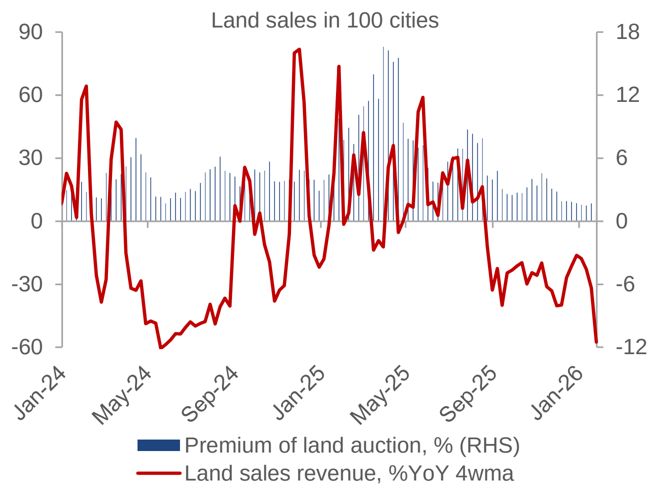
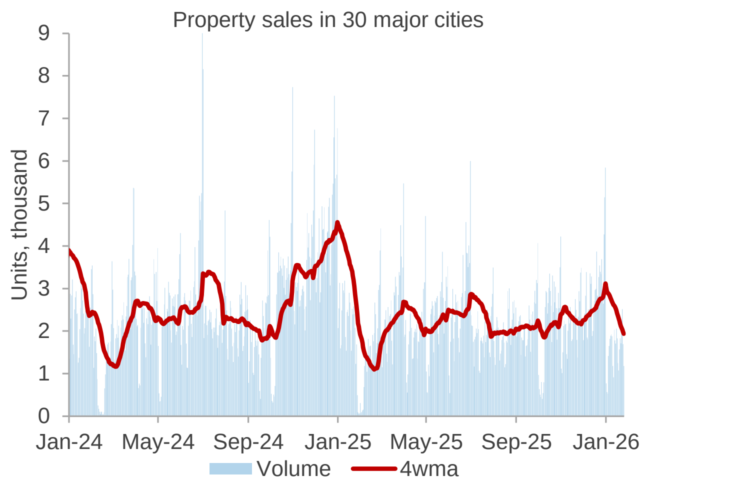


Fig 10 New home sales significantly declined in January



Source: Wind, Mizuho

Fig 11 Movie box office revenue weakened in January

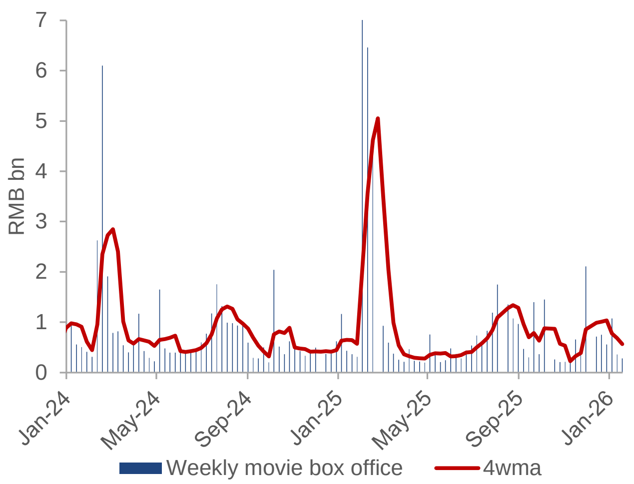
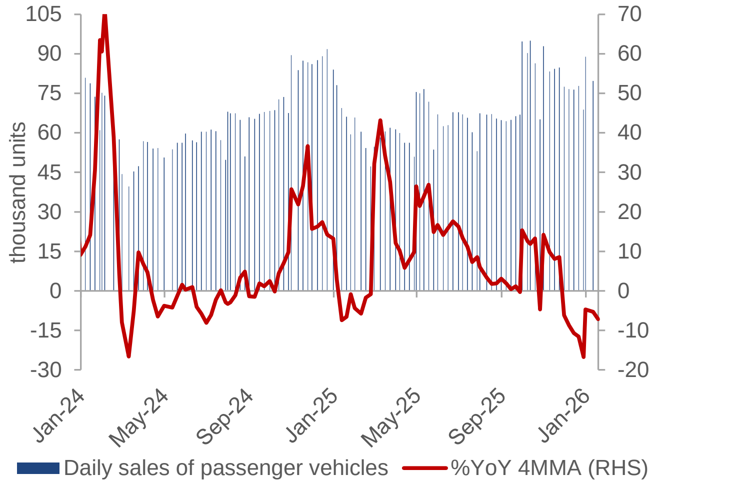


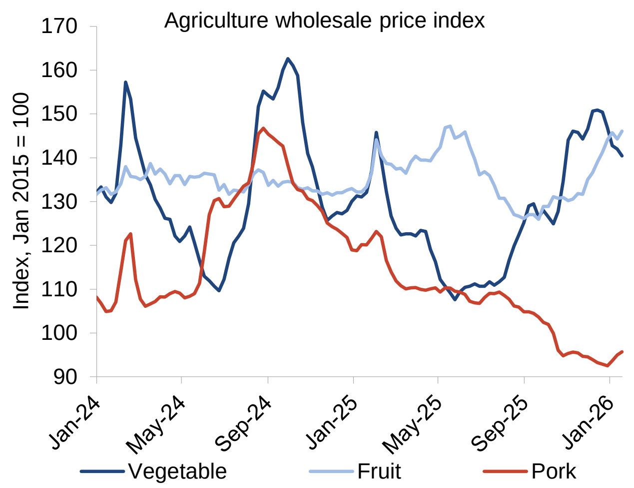
Fig 12 PV sales declined on depleted government subsidies

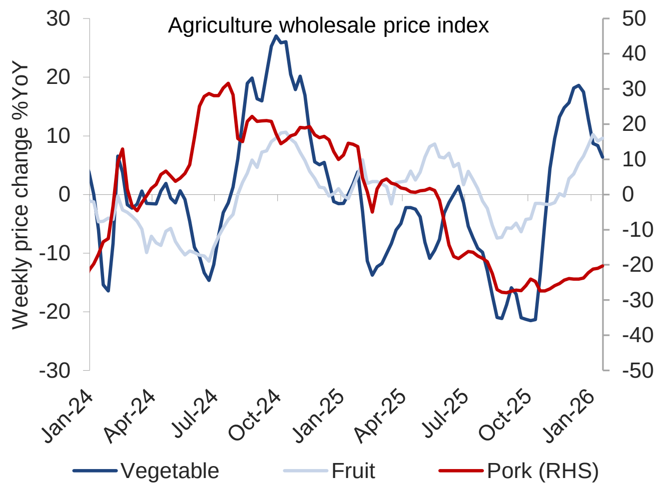


Source: Wind, Mizuho

Price monitor

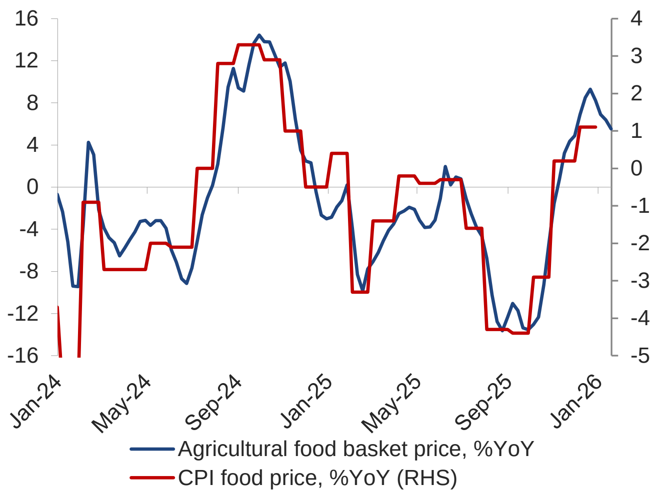
Fig 13 Major food items: pork prices remain subdued while vegetable prices have peaked

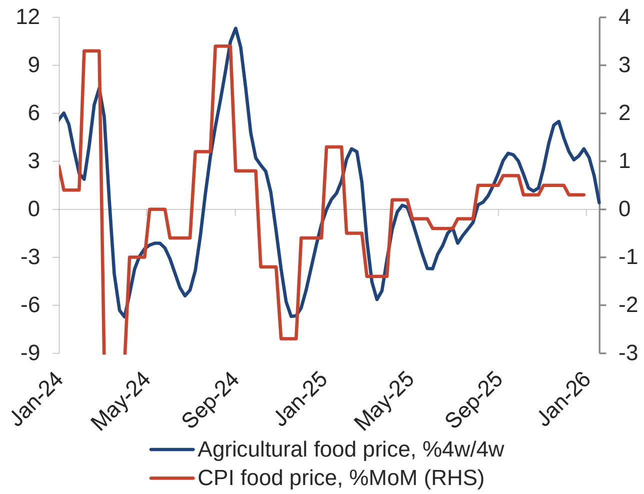




Source: Wind, Mizuho

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





Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices adjusted lower last week

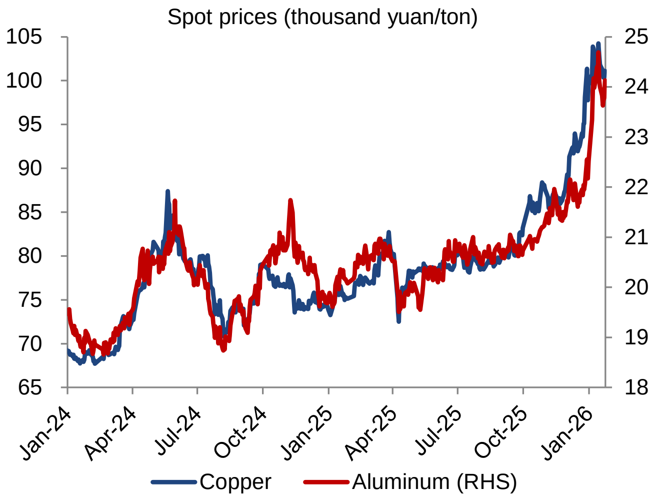
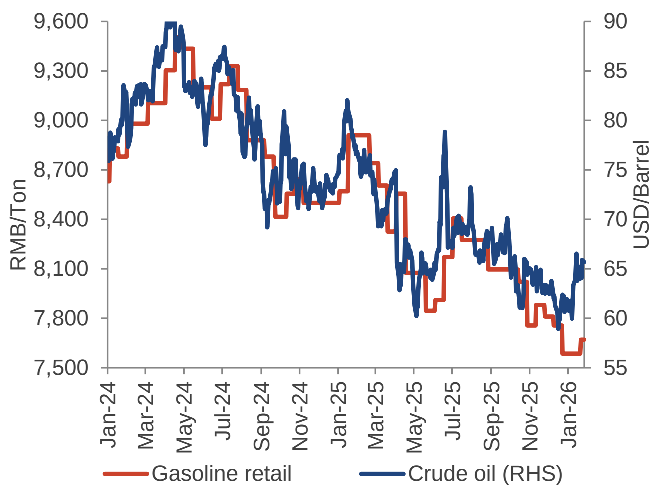


Fig 16 Oil prices picked up on escalated geopolitical tensions



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net injection of RMB230b during 19 - 23 Jan

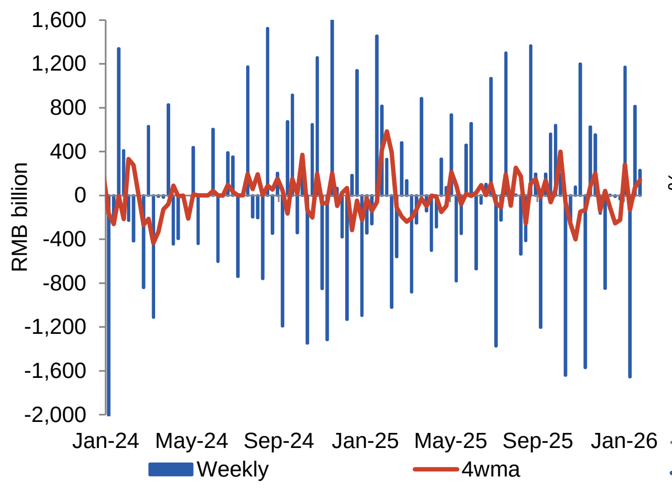
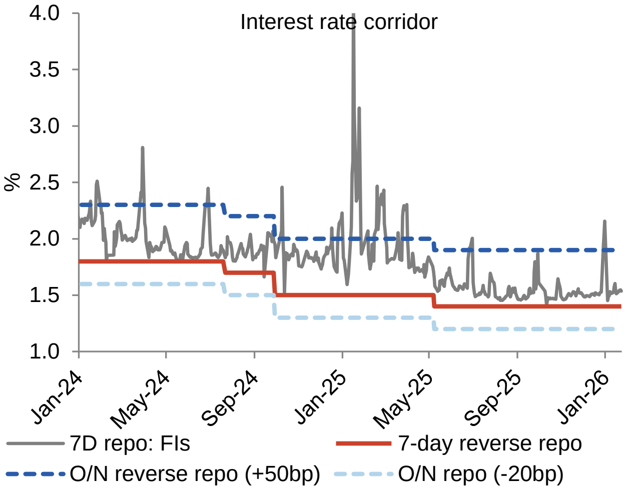


Fig 18 7D repo for FIs returned to near their benchmark levels



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields: 1Y yield slightly climbed last week

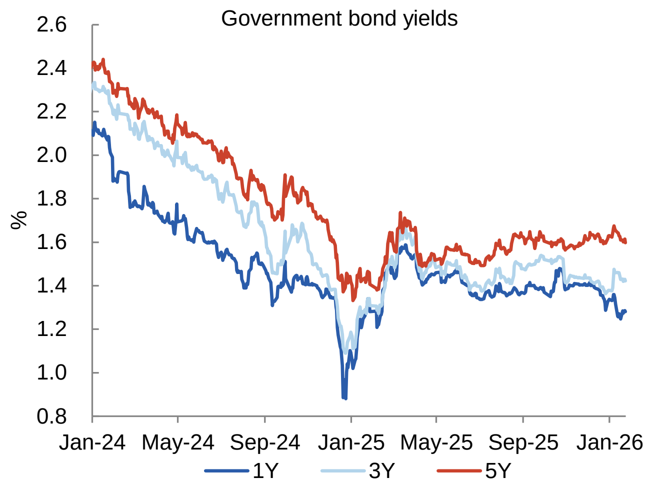
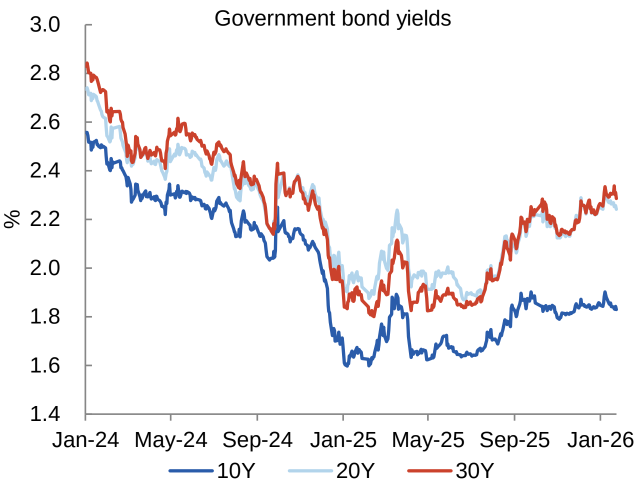
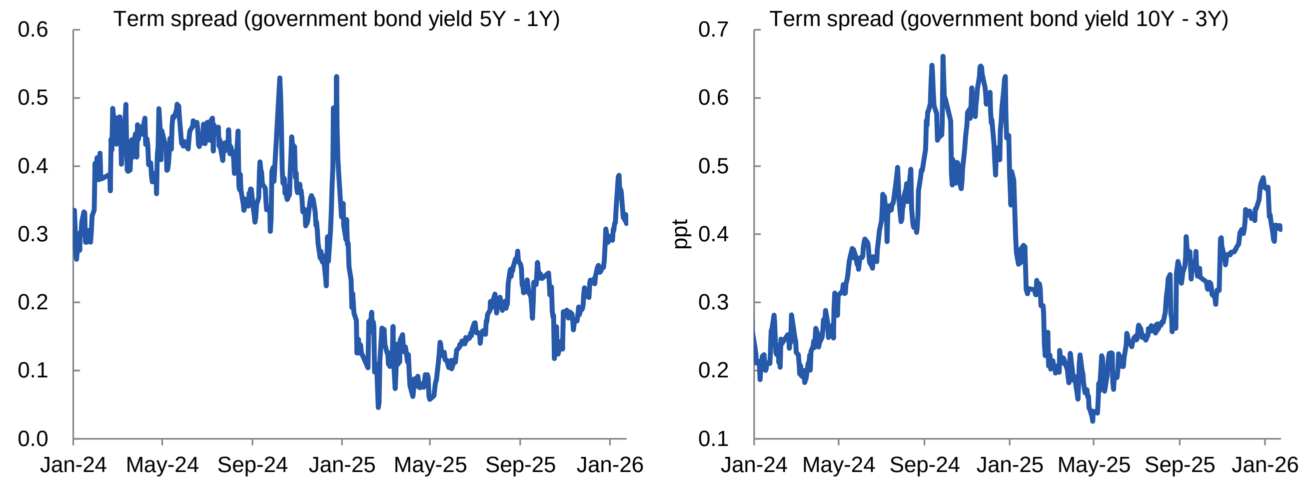


Fig 20 Long-end CGB yields were capped at the ultra-long end



Source: Wind, CEIC, Mizuho

Fig 21 CGB term spreads: saw significant flattening last week



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields edged lower at the longer end

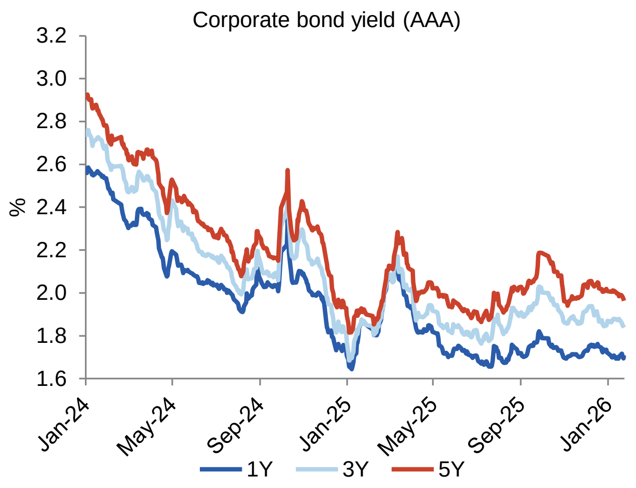
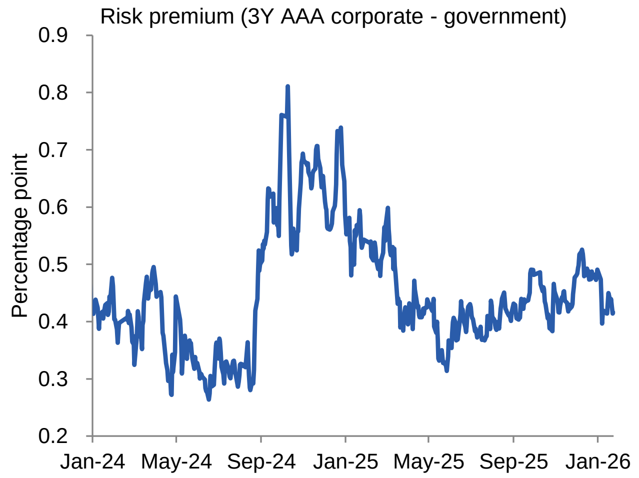


Fig 23 IG corporate risk premium narrowed in January



Source: Wind, Mizuho

Fig 24 Onshore HY credit yields stayed much flat

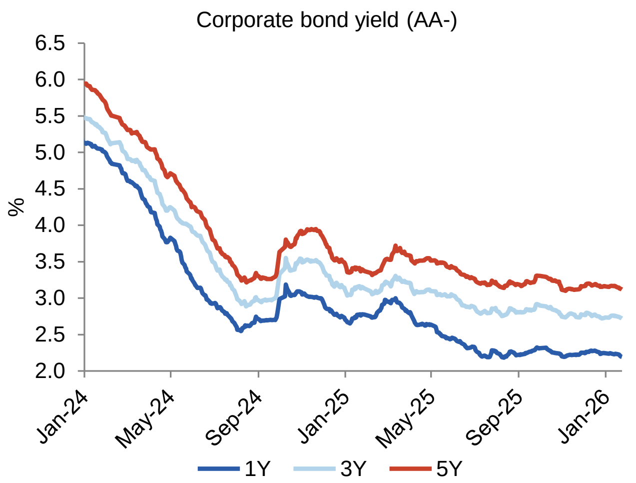
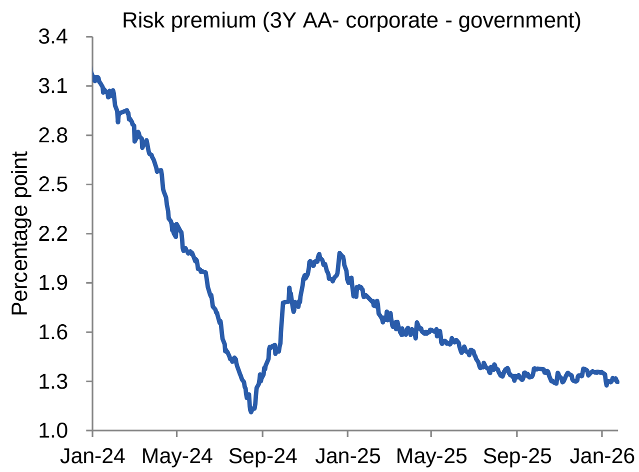


Fig 25 HY corporate risk premium ground tight



Source: Wind, Mizuho

Fig 26 China USD credit spreads continued to tighten last week amid another volatile week for geopolitics

Source: IHS Markit, Mizuho

FX monitor

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

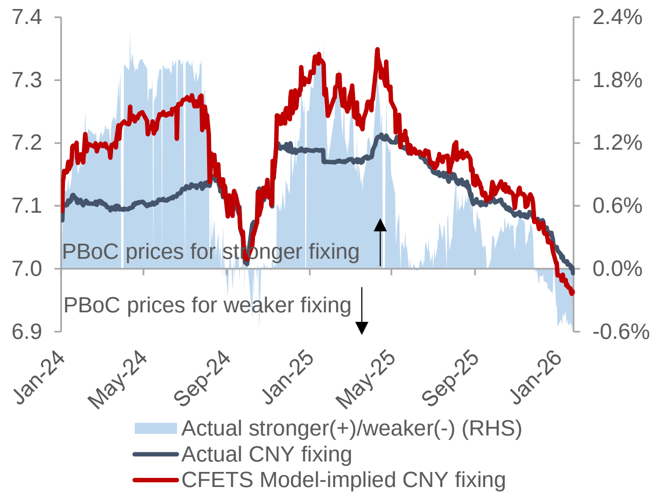
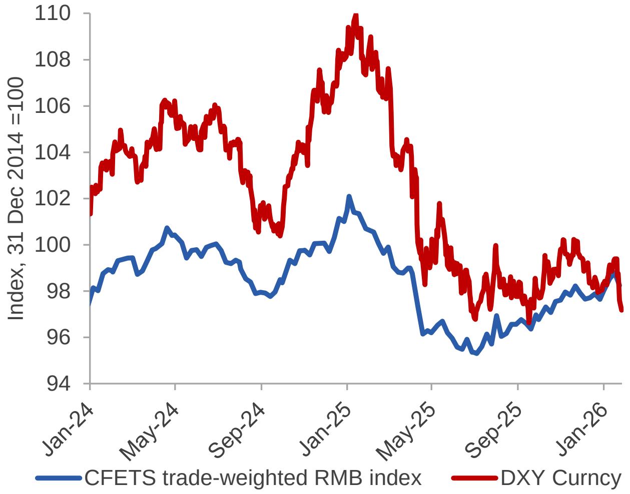
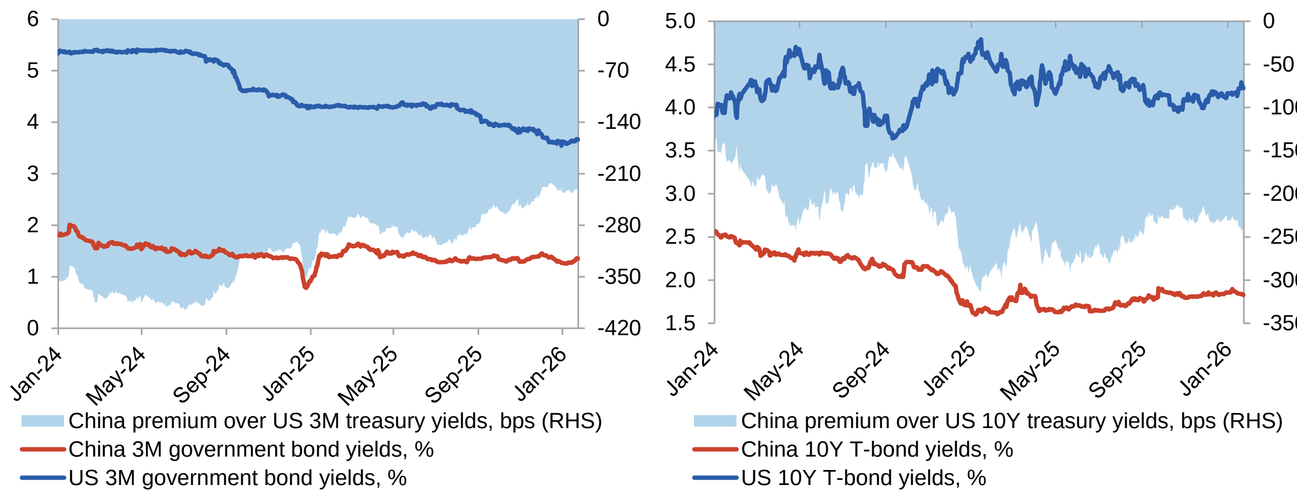


Fig 28 RMB trade-weighted index fell alongside weaker USD



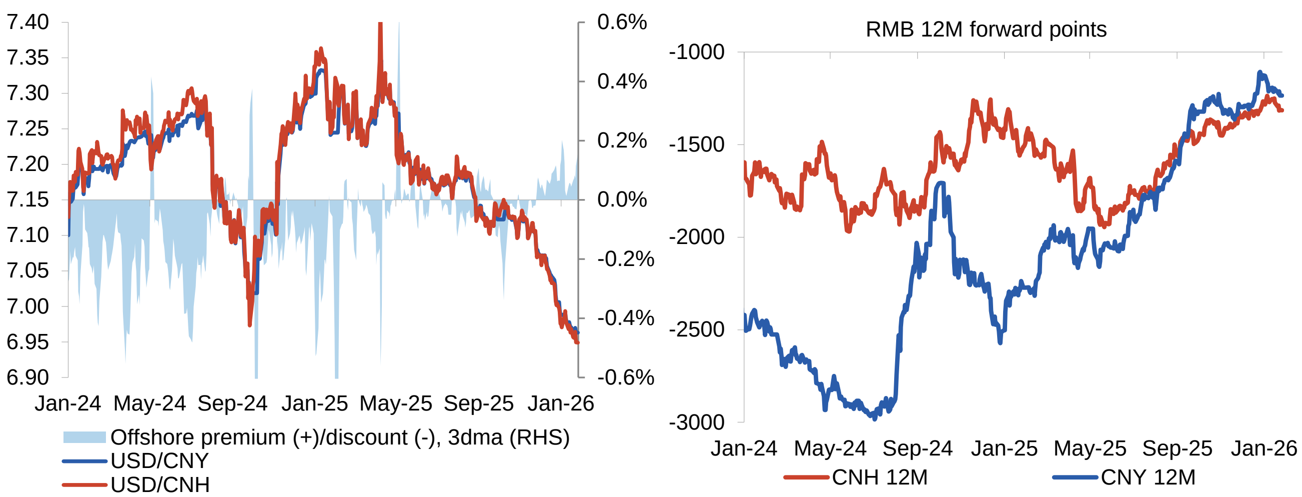
Source: CEIC, Bloomberg, Mizuho

Fig 29 China-US interest rate spreads remained much unchanged in recent weeks



Source: CEIC, Bloomberg, Mizuho

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



Source: Bloomberg, Mizuho

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