

China Weekly Outlook

Disappointing manufacturing orders

China's manufacturing PMI fell notably short of expectations in January, slipping to 49.3 and highlighting persistent sectoral fragility as demand continues to falter. The new-orders subindex dropped significantly to 49.2 from December's 50.8, but on par with its November level. Export orders also eased to 47.8 in January, though they remained above levels seen through most of 2025. Production also softened but stayed in expansionary territory at 50.6. By industry, the slowdown was most evident in consumer goods manufacturing and basic raw materials processing, where PMIs declined to 48.3 and 47.9, respectively.

Construction PMI at post-pandemic low

In the non-manufacturing sector, conditions also weakened unexpectedly. The PMI retreated to 49.4 in January from 50.2 in December. Construction activity was particularly subdued, with its PMI falling to a post-pandemic low of 48.8, reflecting persistent softness in investment demand and disruptions from the recent cold wave. The services PMI also edged lower in January, to 49.5 from December's 49.7, weighed by ongoing pessimism in the property market. According to high-frequency indicators, new home sales in major Chinese cities fell 17% YoY or 46% MoM in term of units (Fig 10).

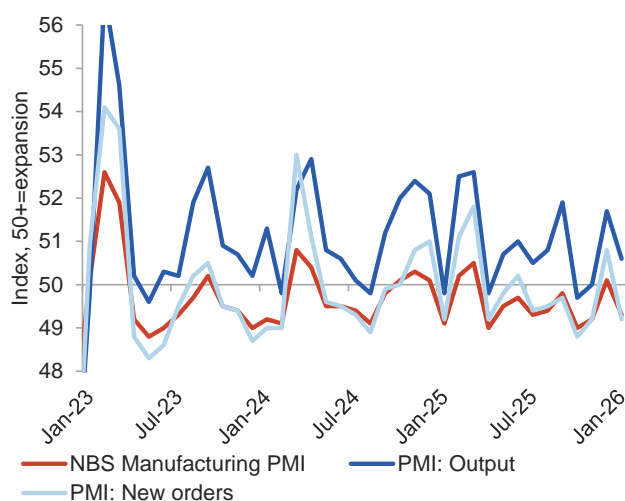
Broad-based weakness in demand

Although both manufacturing and non-manufacturing PMIs pulled back sharply from December, the latest readings align with levels seen last November, pointing to broad-based and persistent weakness in demand. Softness in sectors such as crude oil and coal processing, auto vehicle manufacturing, and real estate services, along with a lack of investment demand, continues to dampen overall growth momentum.

Easing window in March

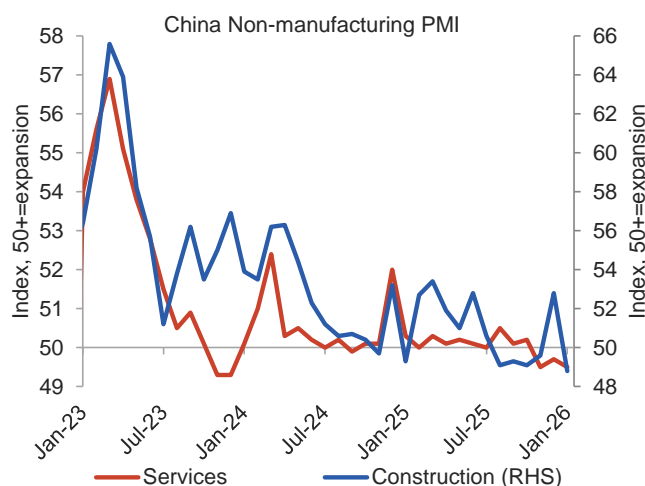
That said, data distortions related to the Lunar New Year and cold weather may have complicated the picture. With few major data releases scheduled in the coming weeks, the window for the PBoC's next interest rate and RRR cuts are most likely around the annual "Two Sessions" meetings in early March.

<Decline in official Manufacturing PMI led by new orders>



Source: CEIC, Mizuho

<Construction PMI falling to a post-pandemic low>



CNH Outlook

| Weekly Price Change# | Week Open | Week High | Week Low | Week Close | Weekly Change* |
|--------------------------|-----------|-----------|----------|------------|----------------|
| USD/CNH | 6.9512 | 6.9612 | 6.9313 | 6.9584 | 90 |
| USD/CNY | 6.9575 | 6.9591 | 6.9450 | 6.9569 | -63 |
| CNY PBoC Fixing | 6.9843 | 6.9858 | 6.9678 | 6.9678 | -251 |
| Shanghai Composite Index | 4144.78 | 4170.21 | 4064.78 | 4117.95 | -18.22 |

#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) | -1288 | 23 | CNH HIBOR (3mth) | 1.828 | 0.018 |
| CNH Currency Swap (3yr) | 1.585 | -0.015 | CNH Implied yield (1Y) | 1.581 | -0.014 |

Recap

The offshore renminbi (CNH) traded in a relatively tight 6.93 - 6.97 band last week, oscillating around the 6.95 level. Although the DXY weakened by 0.6%, the CNH edged 0.1% softer against the dollar, **suggesting that the PBoC continued to lean against appreciation pressures**. On average, the central bank set the daily CNY fixing 0.3% weaker than the CFETS model-implied rate last week.

Across Asia, the renminbi lagged its regional counterparts. The Korean won outperformed with a 1.59% gain, supported by strong inflows into Korean bonds and equities on the back of resilient December economic data. The Malaysian ringgit also strengthened, rising 1.56%, buoyed by outperforming fiscal discipline and political stability. In contrast, the Thai baht slipped 0.89% against the dollar as falling gold prices weighed on sentiment.

Outlook

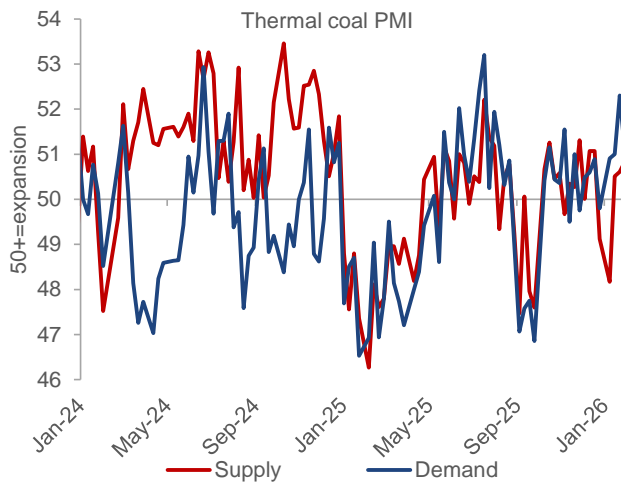
Over the weekend, Qiushi—the Chinese Communist Party’s flagship theoretical journal—revisited an earlier speech by President Xi Jinping delivered two years ago. In it, he called for building China into a “strong financial nation” supported by a currency with significant global influence. This currency should be widely used in trade, investment, and FX markets, and ultimately achieve reserve-currency status. The renewed publication **underscores Beijing’s growing ambition to advance renminbi internationalization**.

This follows recent remarks by PBoC Governor Zou Lan at the Asian Financial Forum, where he signaled plans to expand the supply of offshore Chinese government bonds (CGBs) to deepen CNH liquidity and enhance the yuan’s international pricing power. The move also suggests **the PBoC will continue managing currency swings with clearer and more predictable policy tools, building confidence in the RMB as a stable reserve asset**.

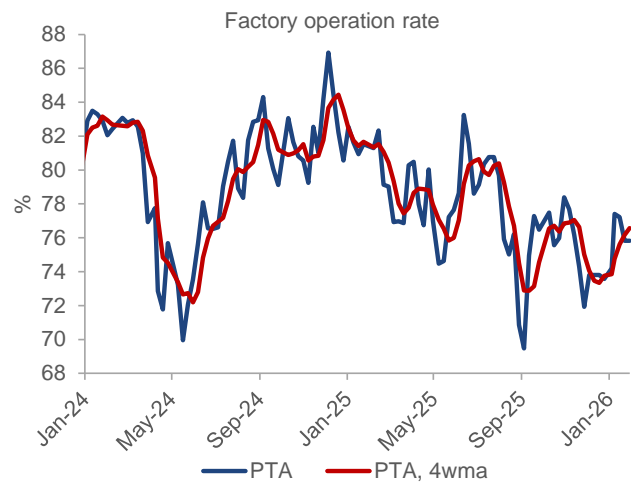
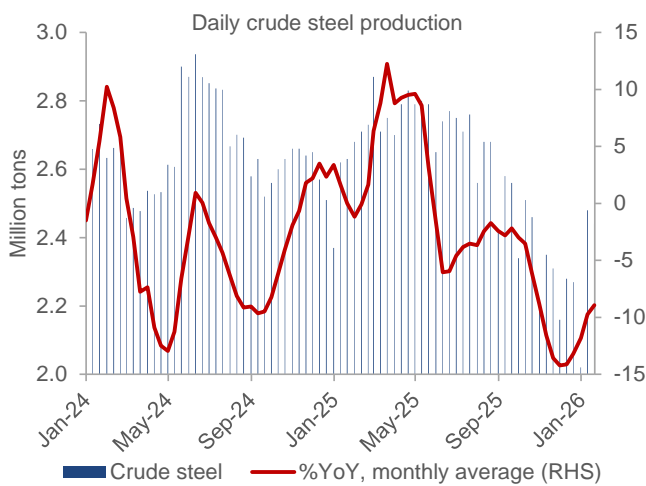
That said, **in the coming weeks, we expect CNH volatility to increase, with the currency likely trading within a broader 6.90–6.98 range** amid elevated external uncertainty. Key developments on our watch list include: any policy addresses by the next Federal Reserve Chair, Kevin Warsh, evolving US dynamics with its long-standing trading partners and Iran, and any surprising shifts in U.S. tariff or trade rhetoric.

< FX Charts on Page 8 >

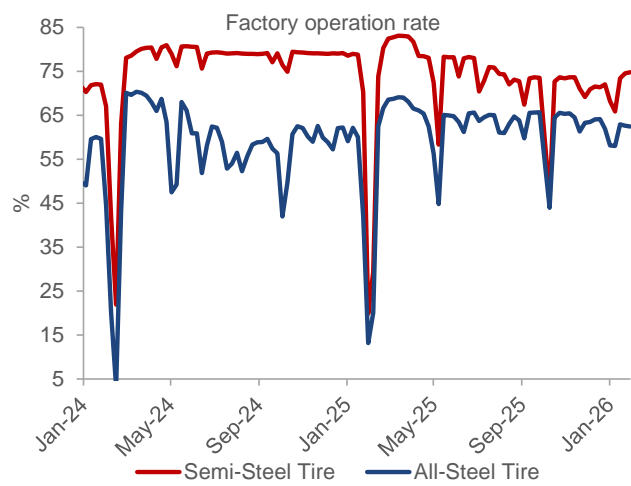
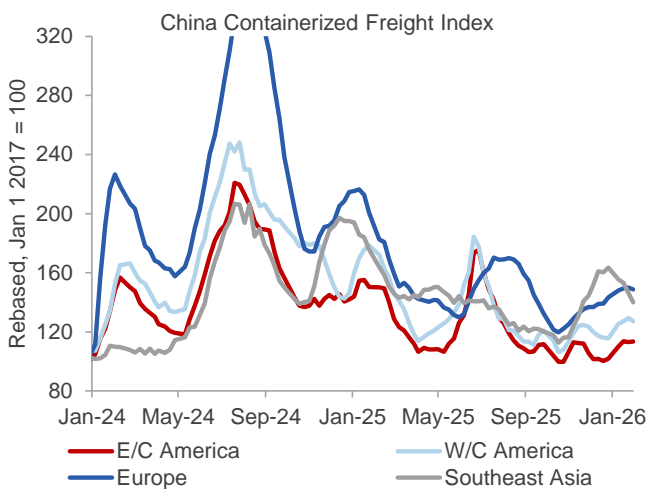
Activity monitor (1/2)

Fig 1 Thermal coal: Demand and supply in expansionary territory

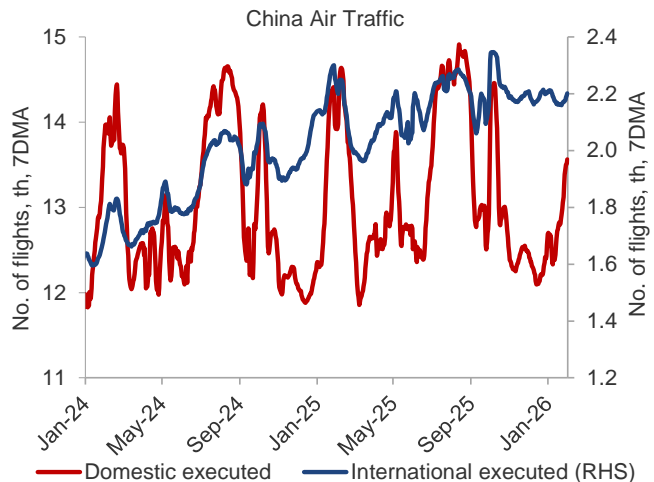
Source: Wind, Mizuho

Fig 2 PTA production was subdued compared to January 2025**Fig 3 Steel production continued its YoY decline**

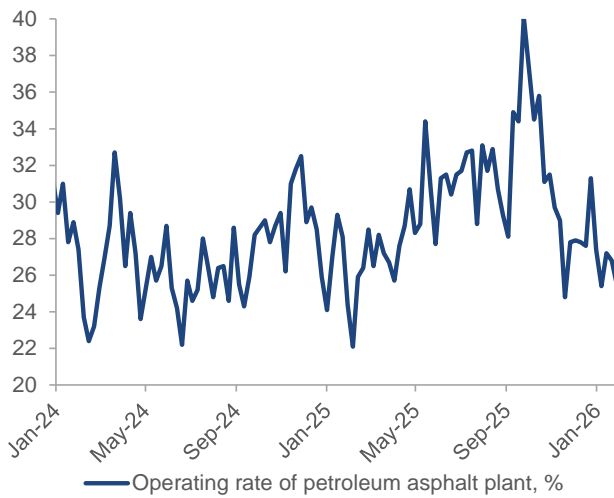
Source: Wind, Mizuho

Fig 4 Steel tire production slightly recovered**Fig 5 CCFI: prices for shipments to the ASEAN declined**

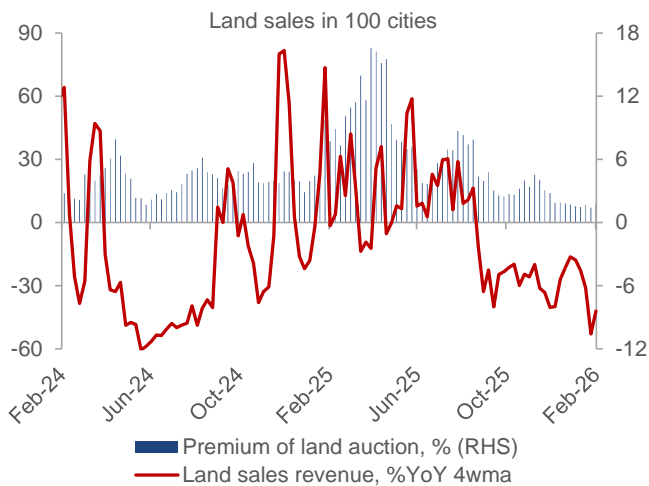
Source: Wind, Mizuho

Fig 6 Air traffic: domestic travelling demand picked up in late Jan

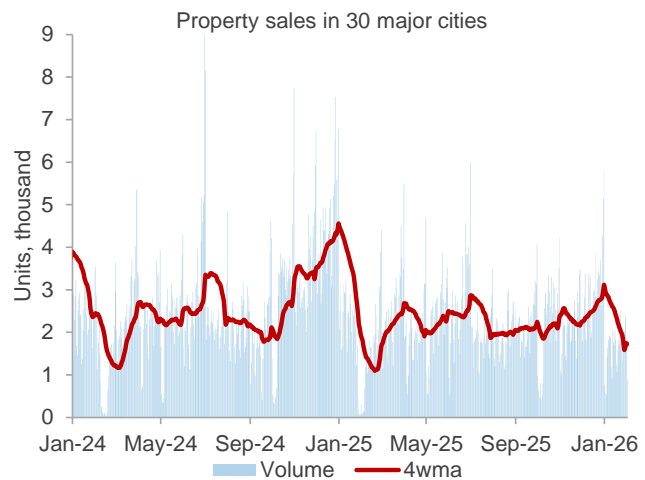
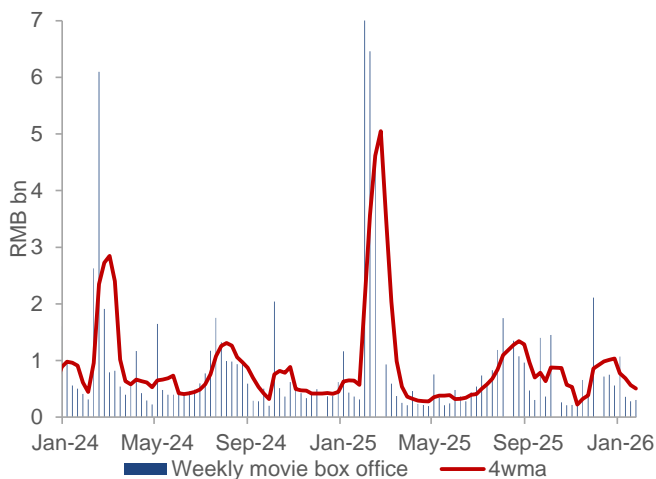
Activity monitor (2/2)

Fig 7 Road construction activity slowed notably in January

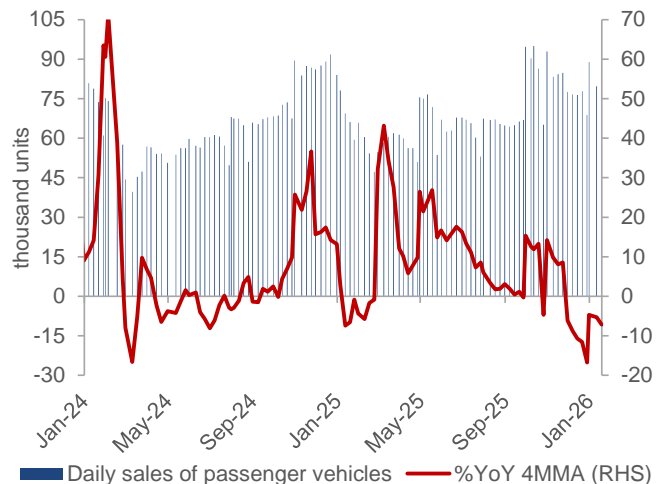
Source: Wind, Mizuho

Fig 8 Construction material prices: cement prices dropped further**Fig 9 Land sales** continued to see YoY decline

Source: Wind, Mizuho

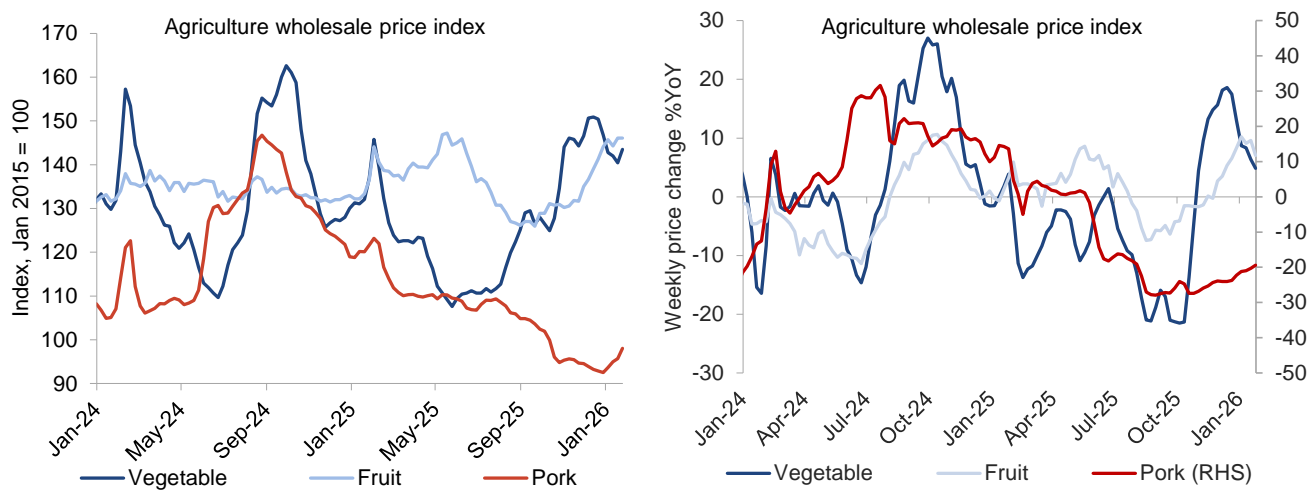
Fig 10 New home sales significantly declined in January**Fig 11 Movie box office revenue** weakened in January

Source: Wind, Mizuho

Fig 12 PV sales declined on depleted government subsidies

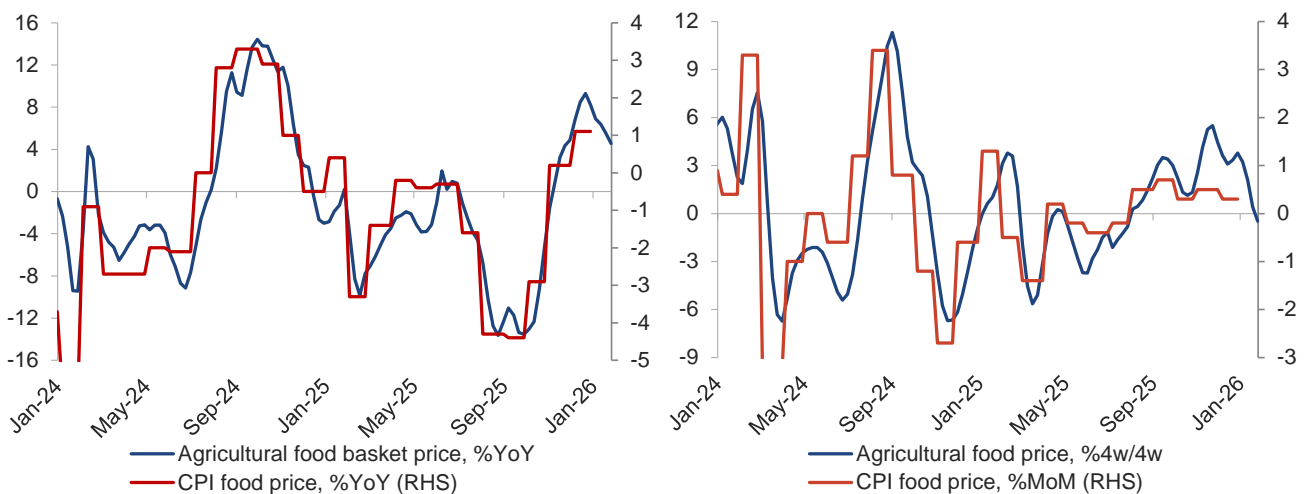
Price monitor

Fig 13 Major food items: prices of pork and vegetables are picking up ahead of the Lunar New Year



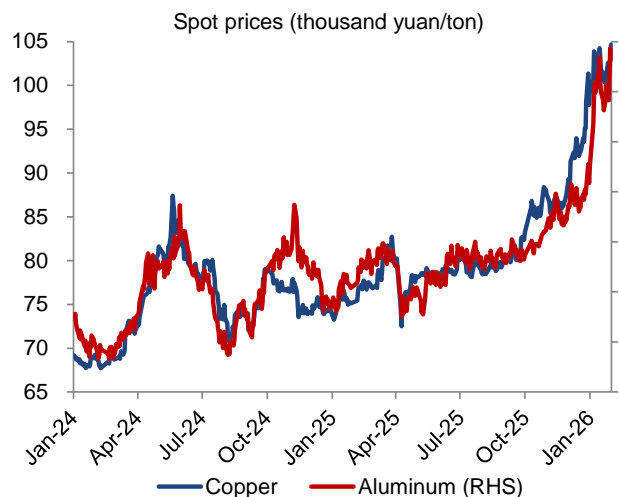
Source: Wind, Mizuho

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



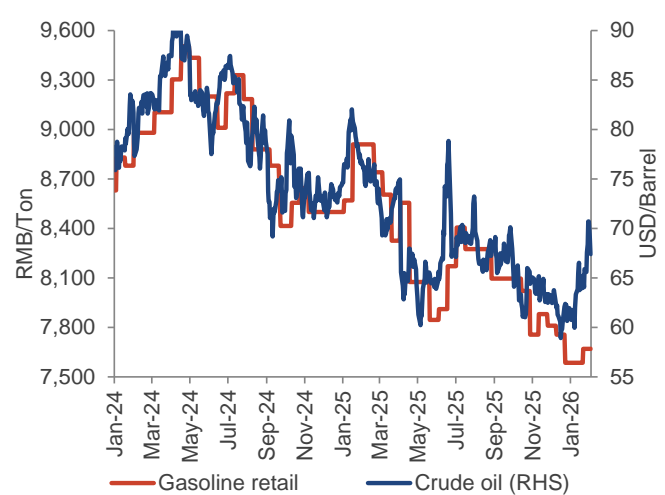
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices picked up again



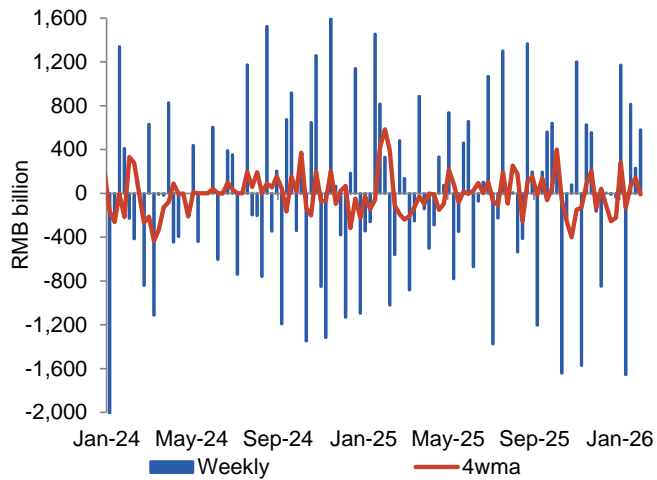
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices picked up on escalated geopolitical tensions



Liquidity monitor

Fig 17 OMOs: net injection of RMB581b during 26 - 30 Jan



Source: CEIC, Wind, Mizuho

Fig 18 7D repo for FIs picked up mildly at January-end

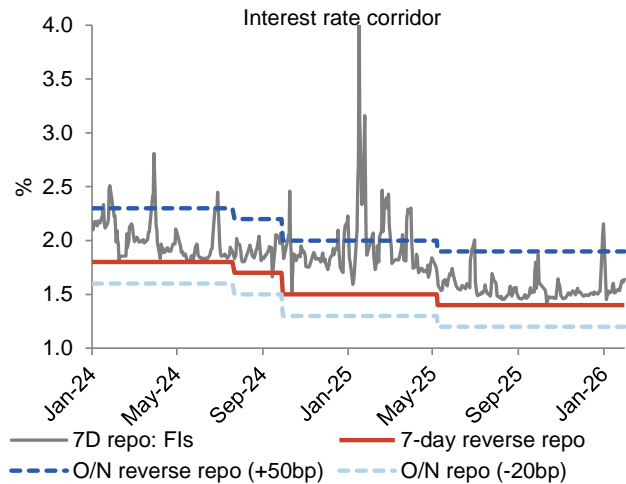
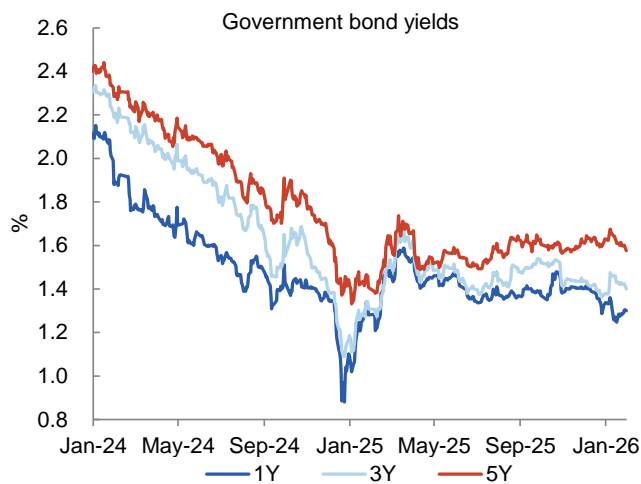


Fig 19 Short-end CGB yields: 1Y yield slightly climbed



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields stay relatively capped

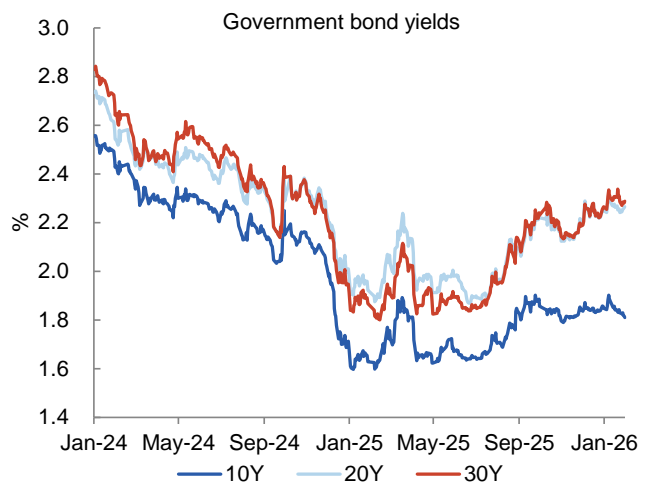
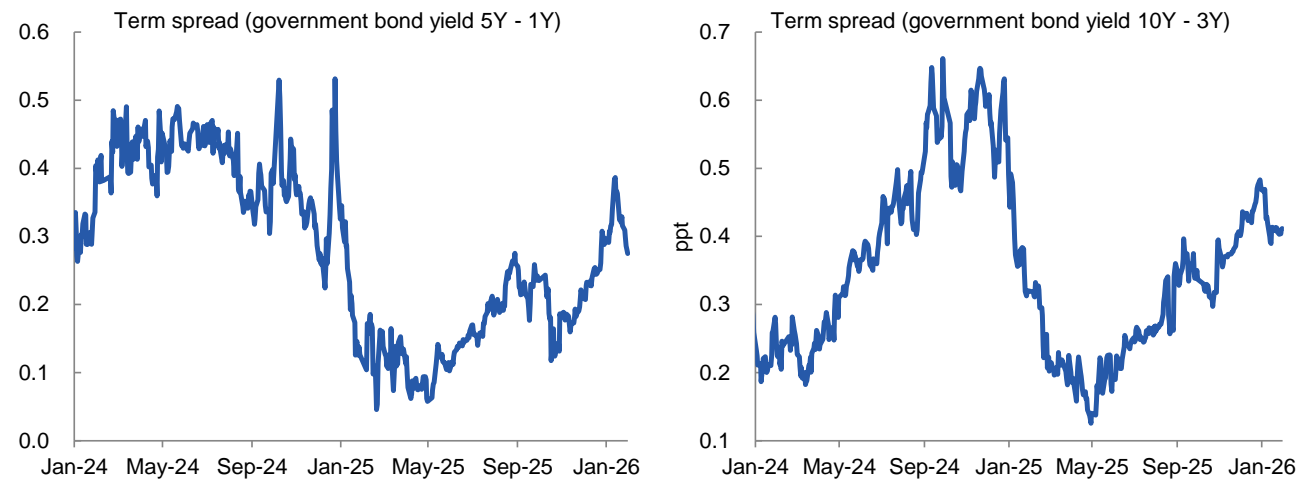
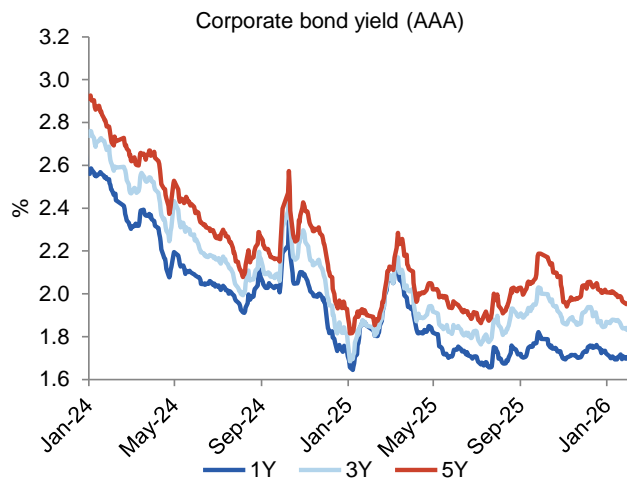


Fig 21 CGB term spreads: saw significant flattening last week

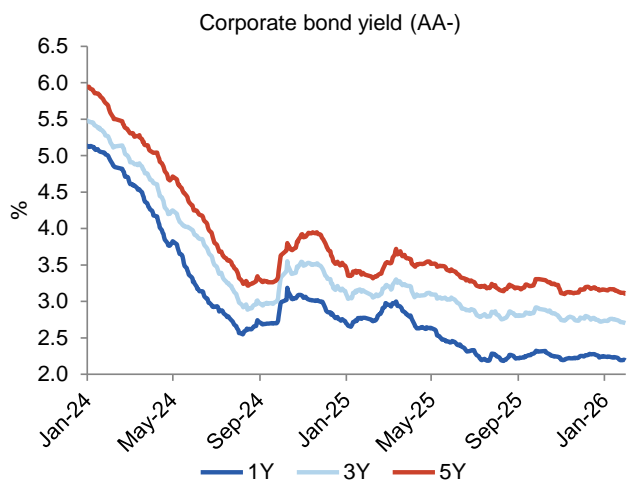


Source: CEIC, Mizuho

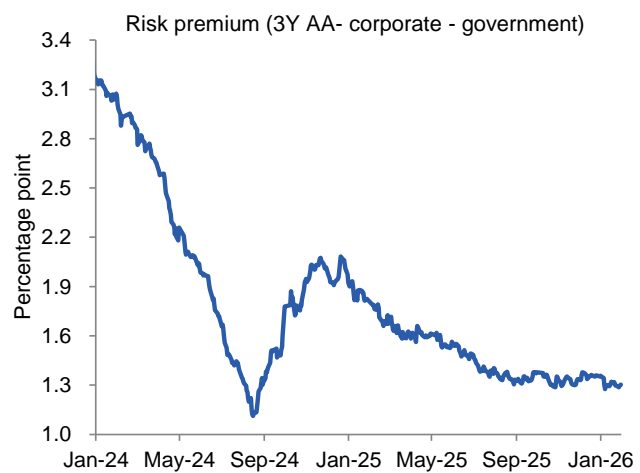
Credit monitor

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

Source: Wind, Mizuho

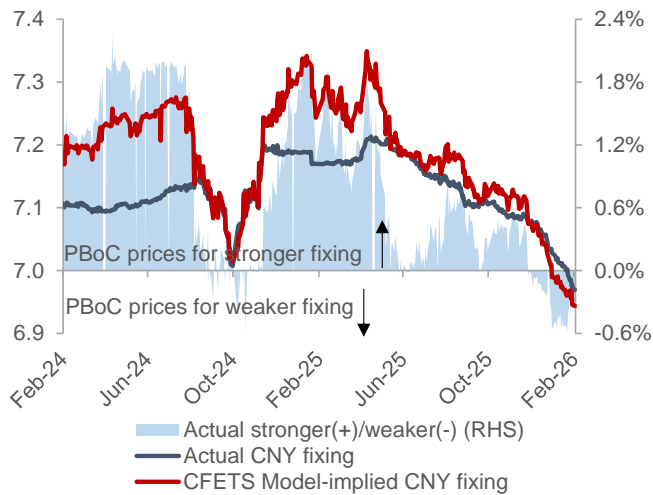
Fig 23 IG corporate risk premium narrowed in January**Fig 24 Onshore HY credit yields** stayed much flat

Source: Wind, Mizuho

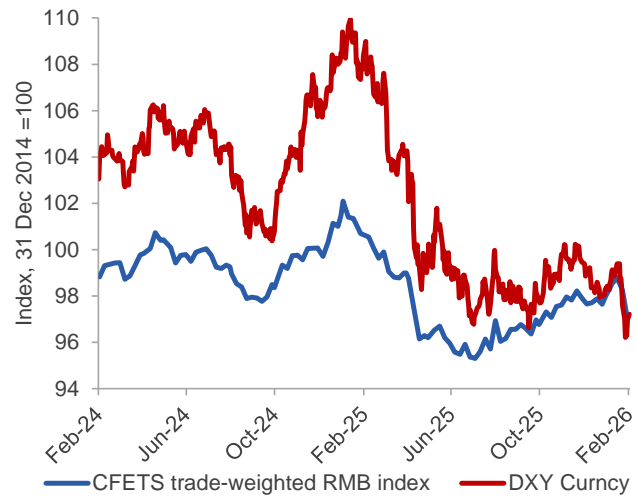
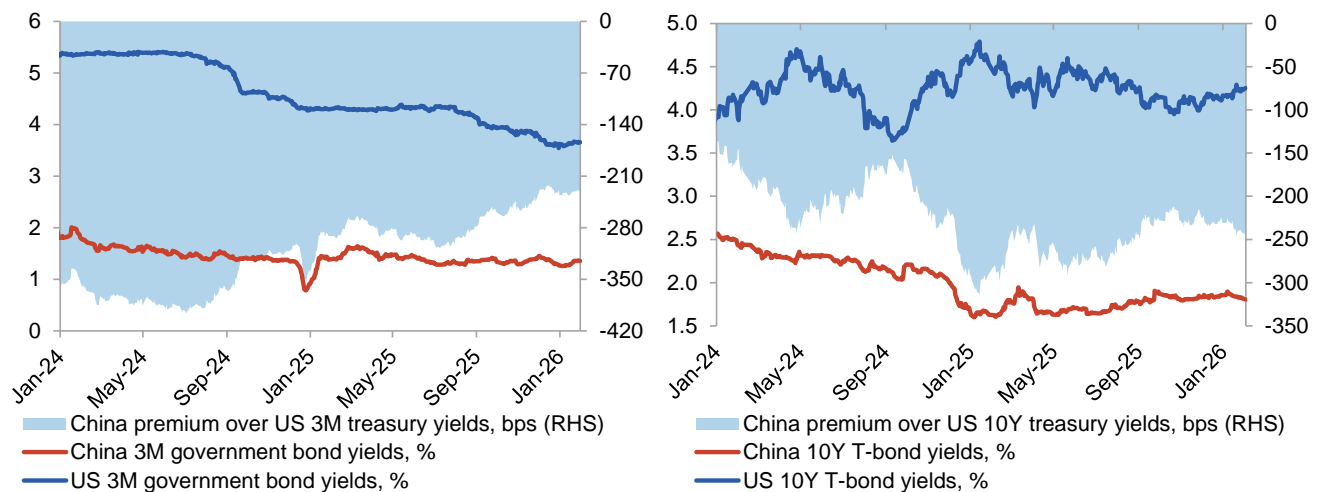
Fig 25 HY corporate risk premium moved slightly tighter**Fig 26 China USD credit spreads** were resilient last week despite extreme volatility in currencies and previous metals

Source: IHS Markit, Mizuho

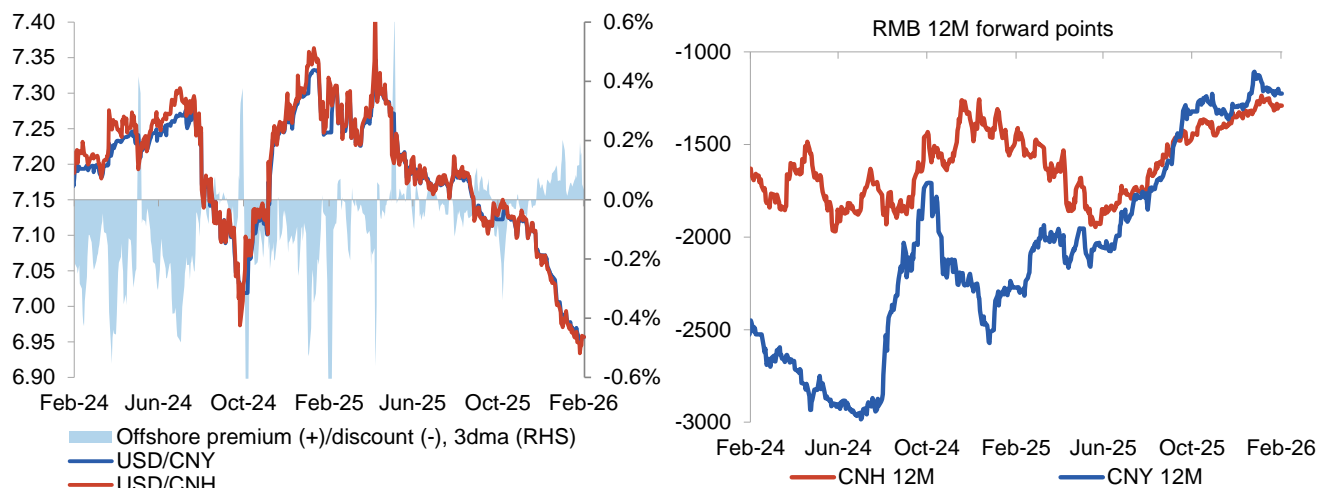
FX monitor

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

Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index fell alongside weaker USD**Fig 29 China-US interest rate spreads** remained much unchanged at the front end, but edged wider at the back end

Source: CEIC, Bloomberg, Mizuho

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

Source: Bloomberg, Mizuho

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