

China Weekly Outlook

Ramped up injections

The PBoC has noticeably ramped up liquidity injections in the run up to the Lunar New Year (LNY, 15 February). In January alone, it injected a net RMB 1,238.4bn through various policy tools, a 54% jump from December. Notably, most of these injections were aimed beyond short-term liquidity smoothing. The bulk came via medium-term Lending facilities (MLF, +RMB 700bn) and pledged supplementary lending (PSL, +RMB 174.4bn).

For February, the PBoC rolled over maturing 3-month outright reverse repos and delivered a net injection of RMB 100bn last week. With another RMB 500bn of 6-month outright reverse repos coming due this week, we are likely to see further liquidity injections.

Groundwork for lower rates

While this wave of liquidity injections makes a RRR cut around the LNY holiday much less likely, this does not rule out a cut to policy rate or RRR in March, especially if January and February economic data (due in mid-March) underscore a significant weakening.

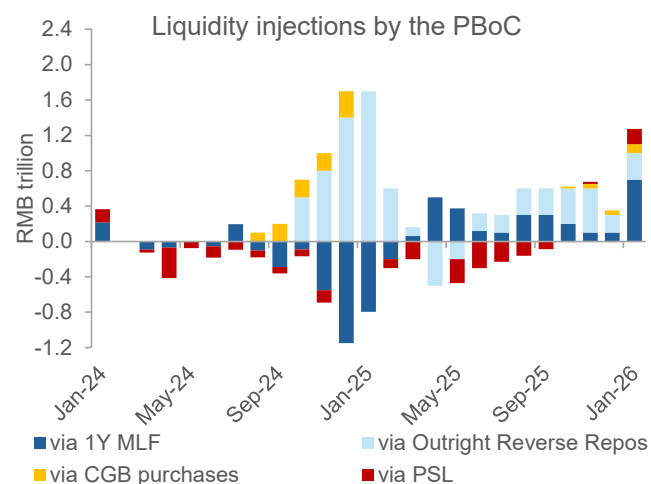
In fact, the PBoC has reportedly lowered the cheapest rate on its 1-year MLF loans to banks to 1.5% in January, down from 1.55% in December. Although it remains unclear how much MLF loans were entitled to such a rate, this is a substantial decline from last February's 2.0%, the last MLF benchmark rate applicable to all banks. Helped by these measures, China's 1Y CGB yields have remained largely capped at or below 1.4% over the past two months, and averaged under 1.3% in January, even as long end yields drifted higher (Fig 19 & 20).

Such anchored front-end rates are laying the groundwork for banks to reduce their deposit rates, helping preserve their net interest margins (NIMs) should lending rate cuts materialize later this year. For context, Chinese banks' NIMs averaged at 1.42% last September, well below the warning threshold of 1.8%.

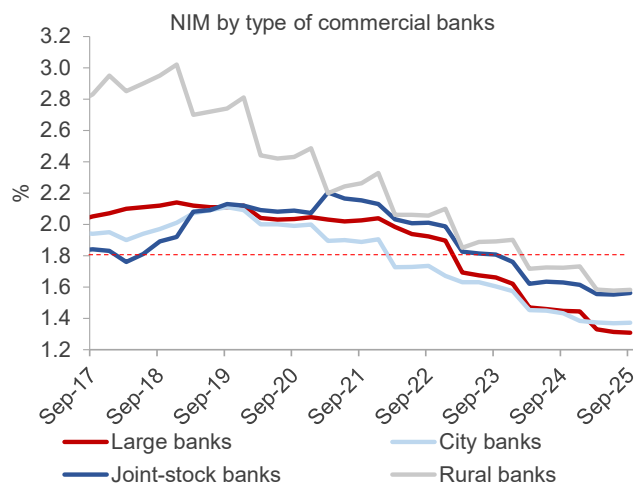
With few major data releases scheduled in the coming weeks, the window for the PBoC's next interest rate and RRR cuts are most likely after the annual "Two Sessions" meetings scheduled in early March.

<The PBoC ramped up liquidity injections in January>

<Chinese banks' NIMs below the warning threshold>



Source: CEIC, Mizuho



CNH Outlook

| Weekly Price Change# | Week Open | Week High | Week Low | Week Close | Weekly Change* |
|--------------------------|-----------|-----------|----------|------------|----------------|
| USD/CNH | 6.9583 | 6.963 | 6.929 | 6.9301 | -283 |
| USD/CNY | 6.9536 | 6.9543 | 6.9341 | 6.9358 | -211 |
| CNY PBoC Fixing | 6.9695 | 6.9695 | 6.9533 | 6.9590 | -88 |
| Shanghai Composite Index | 4079.71 | 4104.62 | 4002.78 | 4065.58 | -52.37 |

#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) | -1323 | -35 | CNH HIBOR (3mth) | 1.724 |
| CNH Currency Swap (3yr) | 1.530 | -0.055 | CNH Implied yield (1Y) | 1.514 |

Recap

The offshore renminbi (CNH) traded in a relatively narrow band last week, holding largely between 6.93 and 6.96. This stability mirrored the steady performance of the DXY, which oscillated within the 97–98 range. However, momentum shifted this Monday (9 Feb), when both CNY and CNH broke below the 6.93 level. The move came after regulators reportedly advised Chinese banks to scale back their holdings of US Treasuries. According to Bloomberg, officials urged financial institutions to curb purchases of US government bonds and reduce elevated exposures amid concerns about concentrated risks and heightened market volatility.

The CNH appreciated 0.41% over the week, outpacing most Asian peers, especially the Japanese yen and Korean won. The latter two both weakened by over 1.5% against the dollar, pressured by investor expectations of Prime Minister Takaichi's more expansionary fiscal stance and risk-off sentiment surrounding the KOSPI, respectively. Meanwhile, the Indian rupee was a standout performer, gaining 1.46% on optimism over a potential US-India trade agreement.

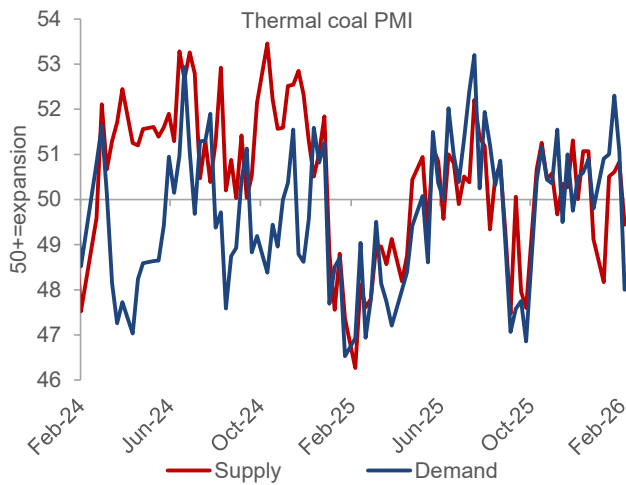
Outlook

Over the next two weeks, we expect the CNH to drift modestly stronger, supported by typically tighter liquidity conditions ahead of and during the Lunar New Year holiday. While the PBoC will likely continue to temper expectations of a significantly stronger renminbi via policy tools such as the counter-cyclical factor in the daily fixing, the CNH may experience heightened volatility when onshore markets close for the holiday (15–23 Feb).

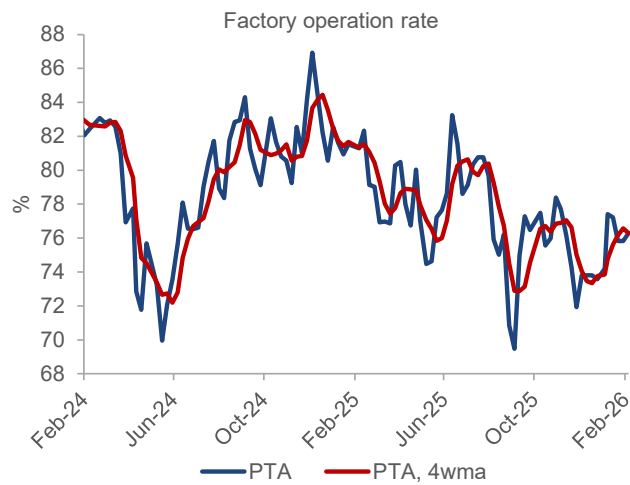
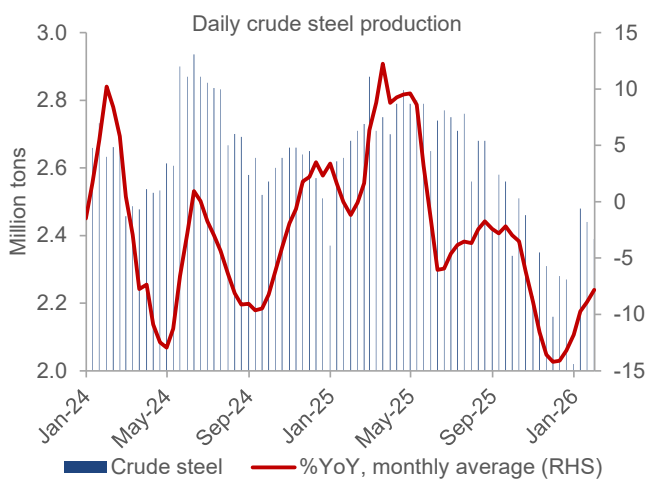
During this period, **reduced onshore liquidity combined with elevated external uncertainty, if any, could briefly send the CNH spot below the 6.90 threshold**. Any such gains, however, may prove temporary and could unwind once onshore flows return after the holiday.

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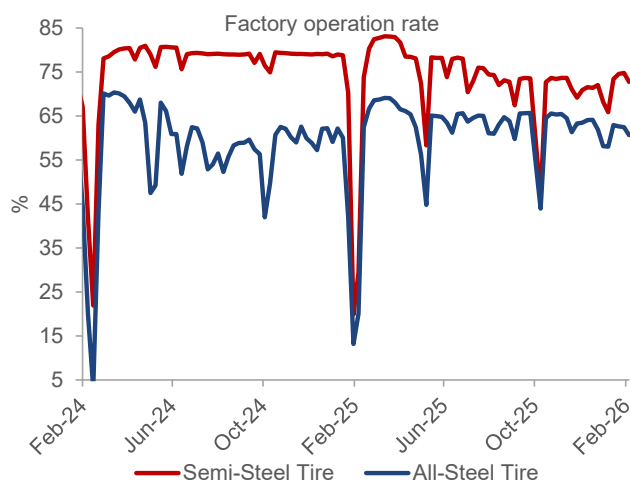
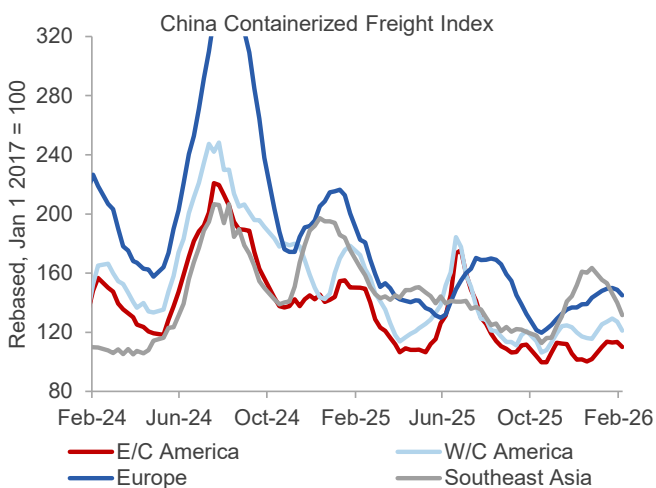
Activity monitor (1/2)

Fig 1 Thermal coal: Demand and supply fell ahead of holiday


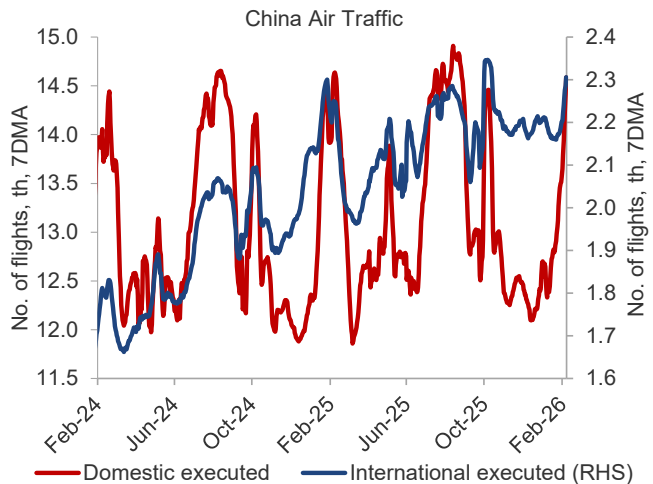
Source: Wind, Mizuho

Fig 2 PTA production stayed relatively subdued

Fig 3 Steel production continued its YoY decline


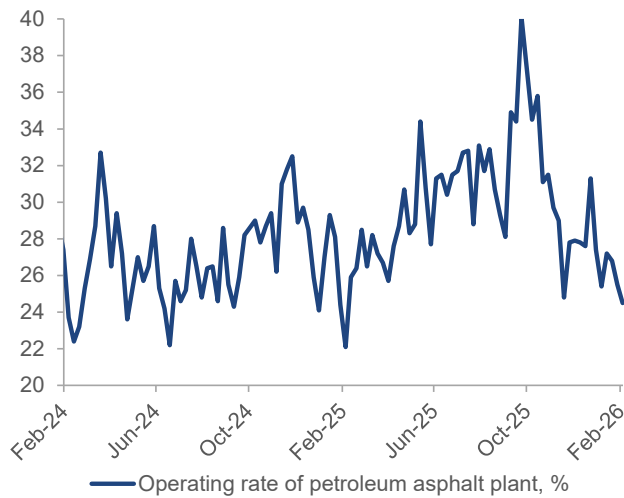
Source: Wind, Mizuho

Fig 4 Steel tire production remained relatively stable

Fig 5 CCFI: prices for shipments to the ASEAN declined


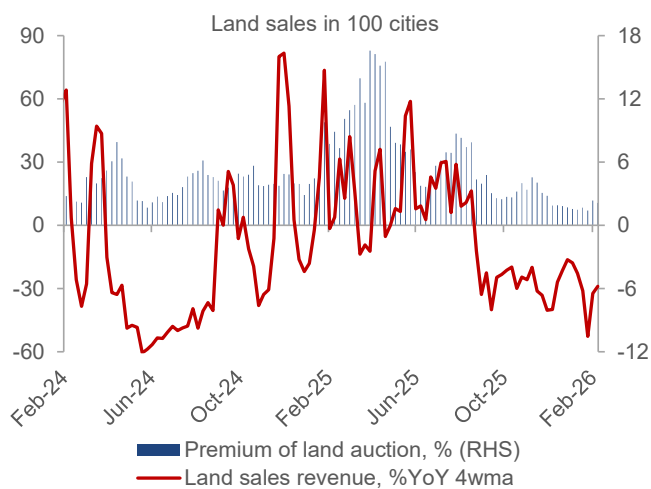
Source: Wind, Mizuho

Fig 6 Air traffic: domestic travelling demand picked up notably


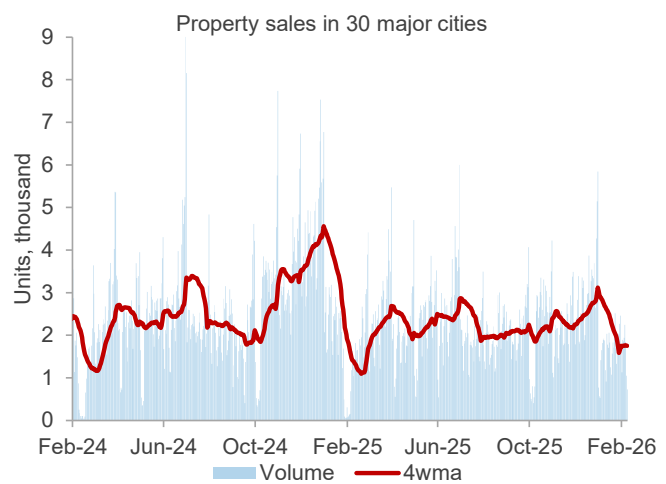
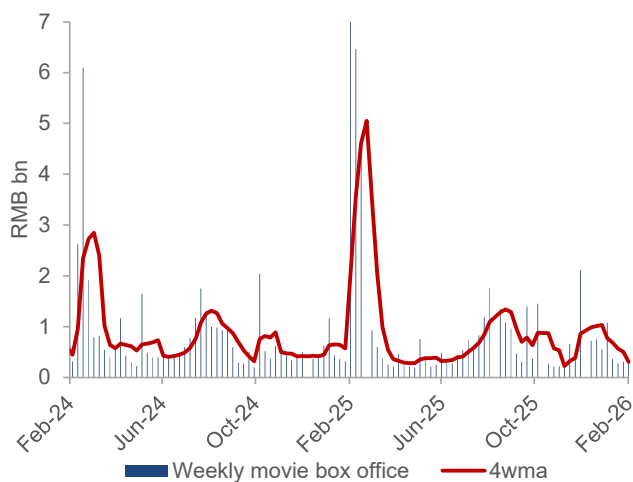
Activity monitor (2/2)

Fig 7 Road construction activity slowed notably in January

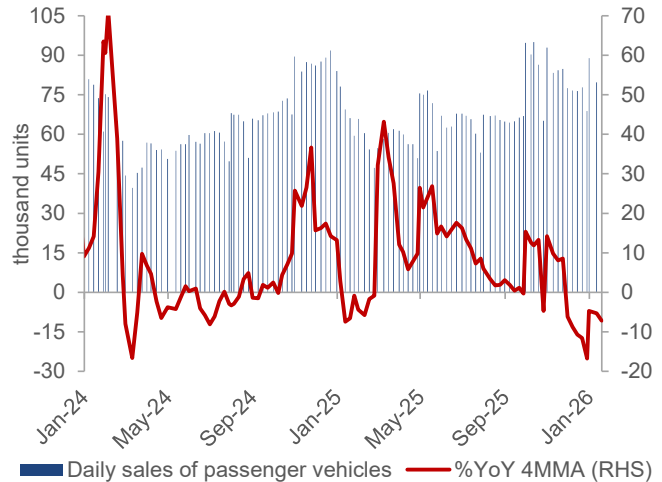
Source: Wind, Mizuho

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

Source: Wind, Mizuho

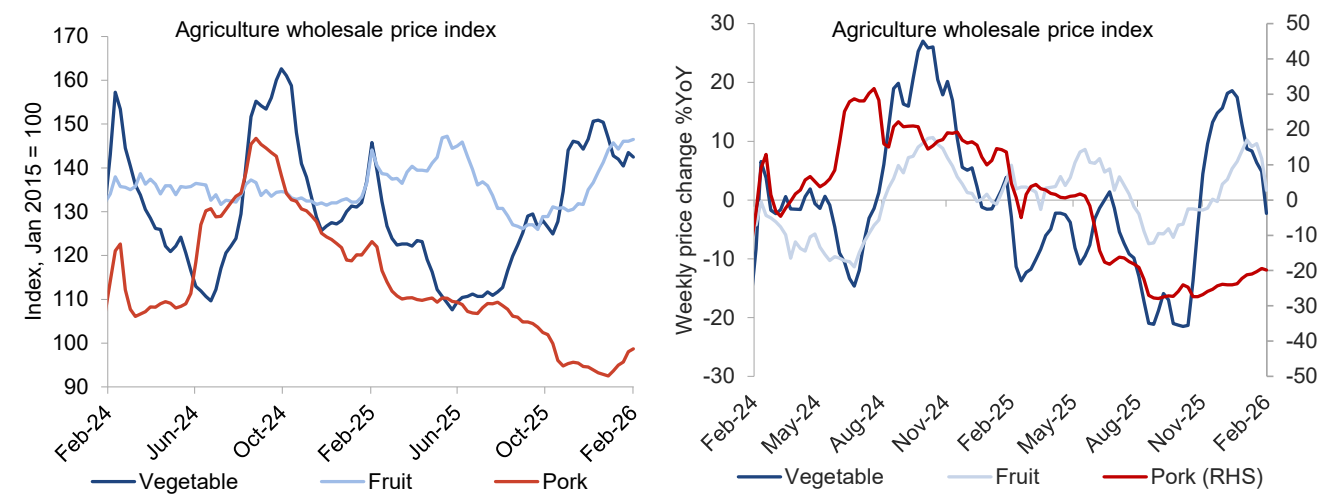
Fig 10 New home sales significantly declined in January**Fig 11 Movie box office revenue** weakened in January

Source: Wind, Mizuho

Fig 12 PV sales: no updates

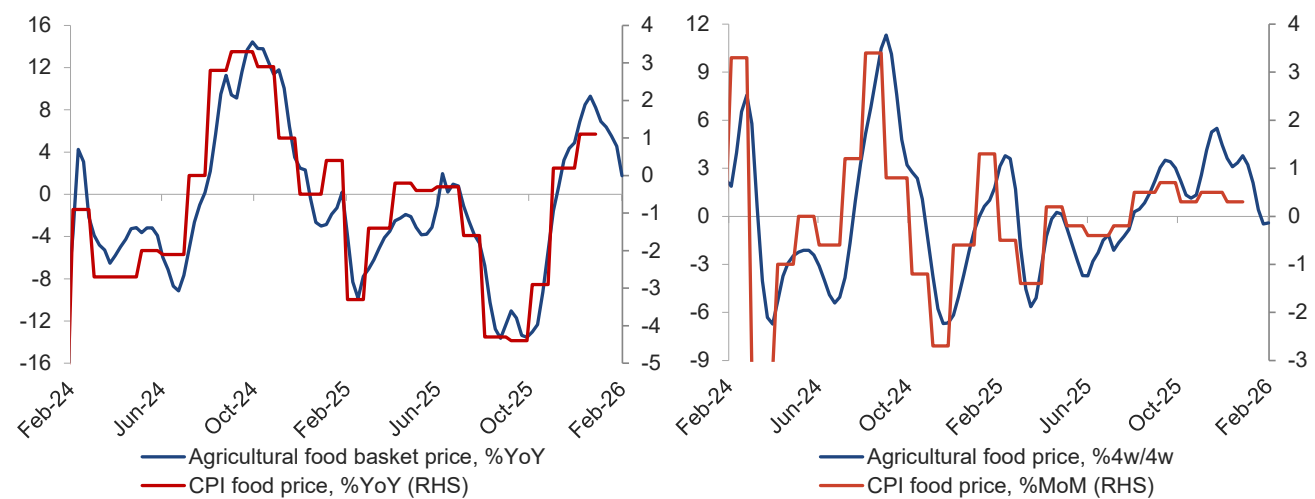
Price monitor

Fig 13 Major food items: last year's high base is starting to weigh on YoY growth rates, especially for fruits and vegetables



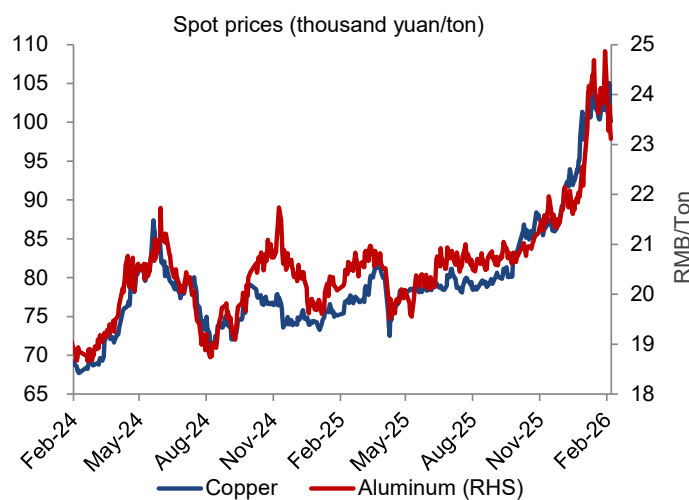
Source: Wind, Mizuho

Fig 14 Wholesale food prices: YoY growth has stayed positive but continued to moderate on last year's high base



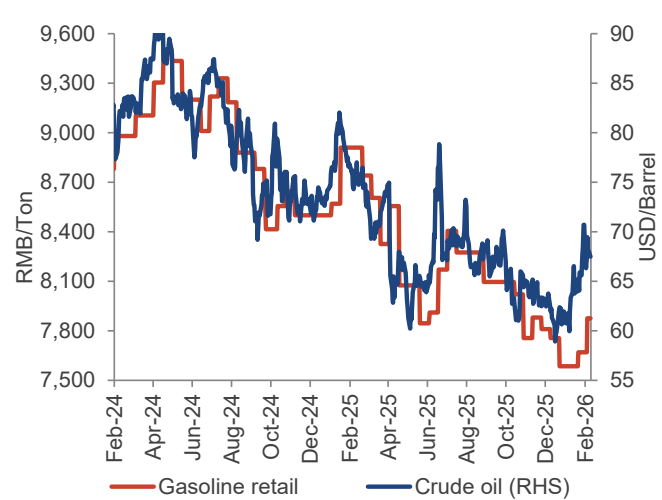
Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices stayed volatile



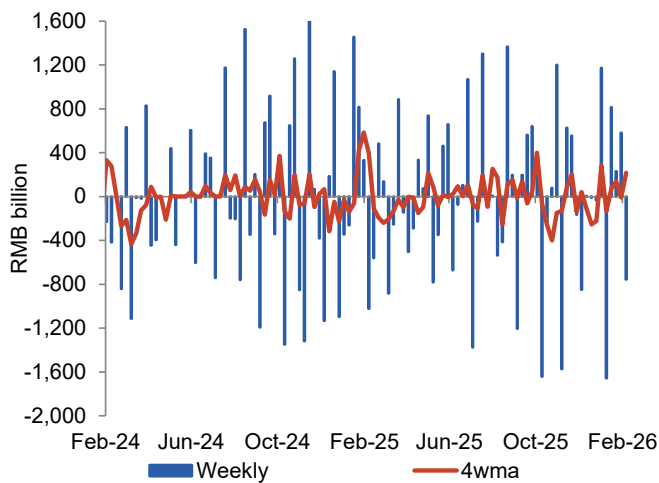
Source: CEIC, Wind, Mizuho

Fig 16 Oil prices picked up on escalated geopolitical tensions



Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB756b during 2 - 6 Feb



Source: CEIC, Wind, Mizuho

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

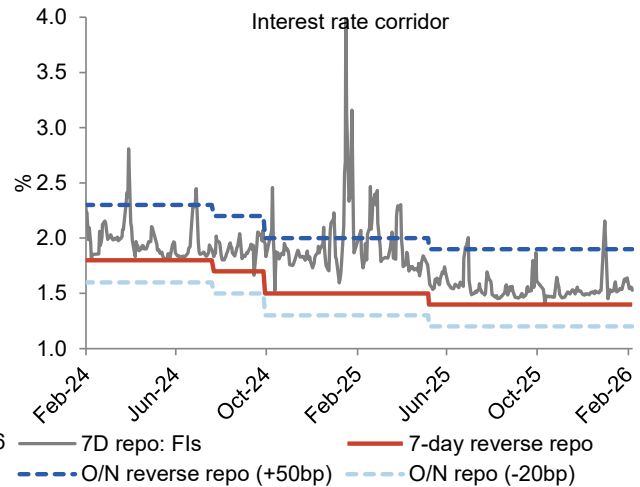
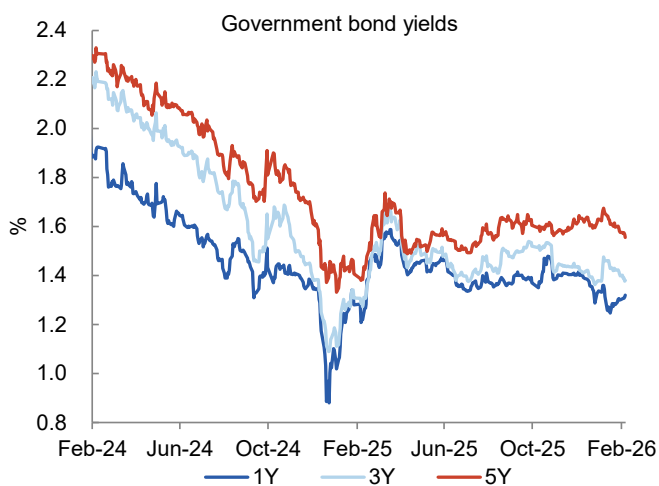


Fig 19 Short-end CGB yields: 1Y yields remained subdued



Source: Wind, CEIC, Mizuho

Fig 20 Long-end CGB yields retreated from previous highs

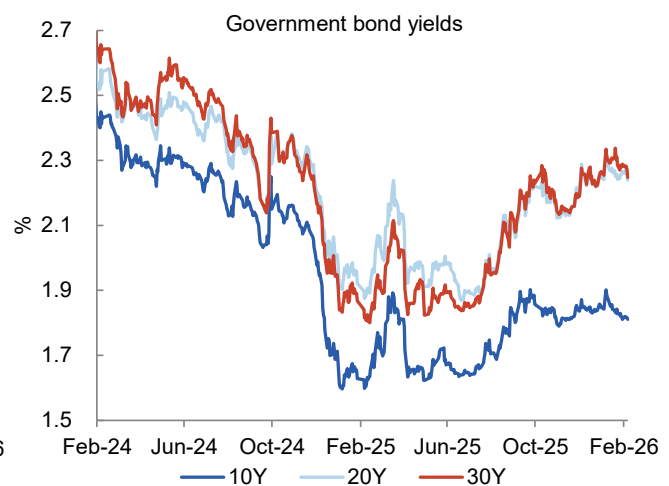
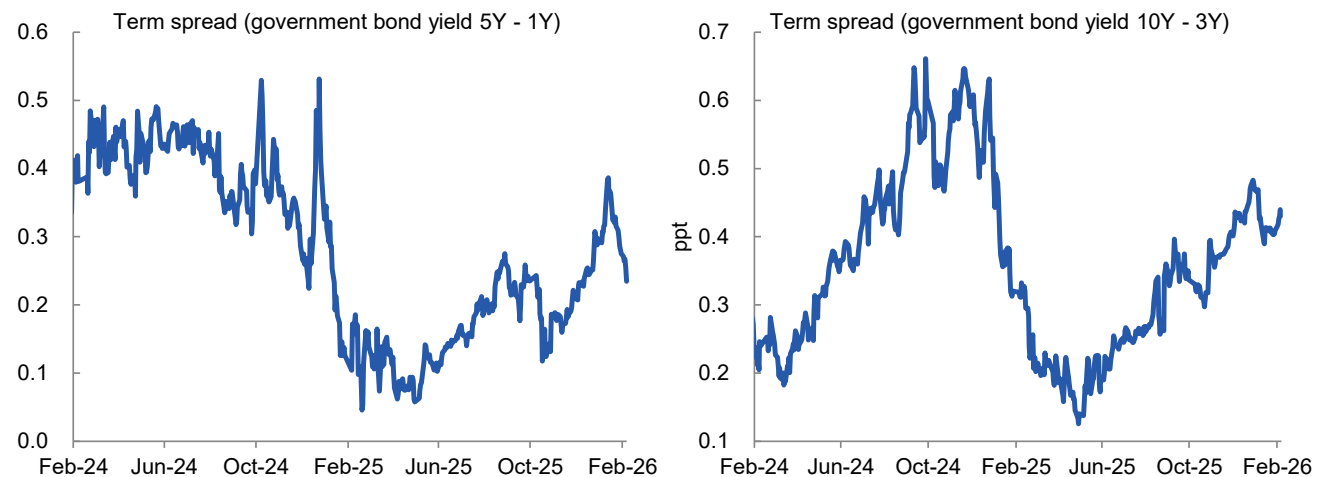
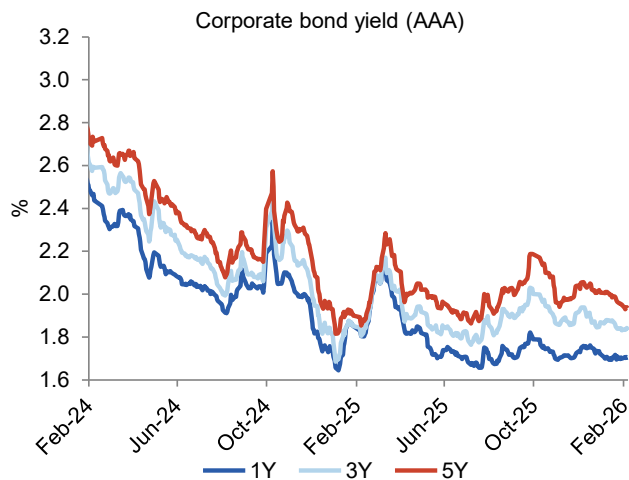


Fig 21 CGB term spreads continued to flatten at the front part for the curve

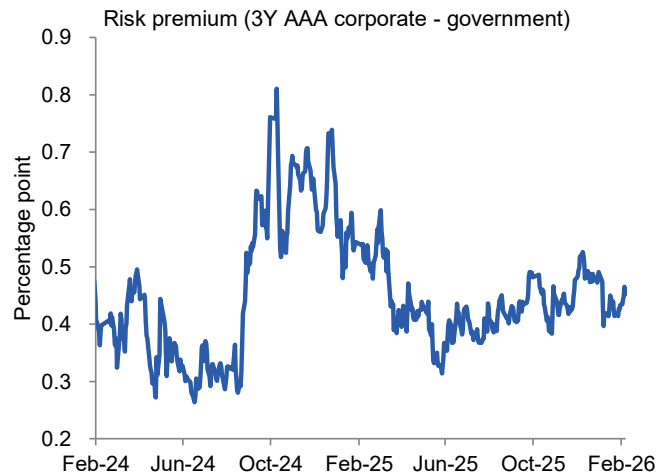
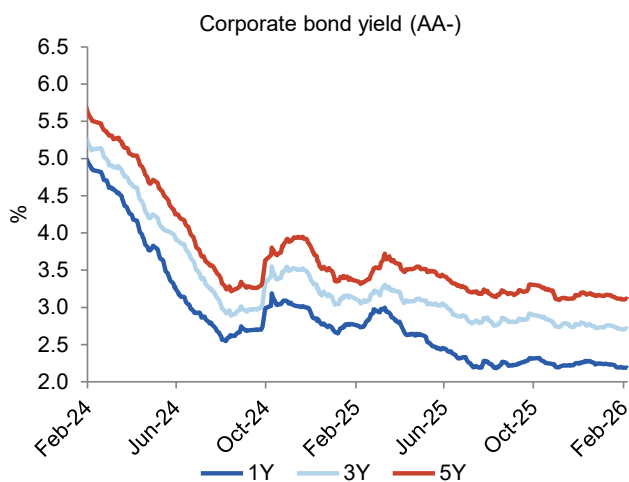


Source: CEIC, Mizuho

Credit monitor

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

Source: Wind, Mizuho

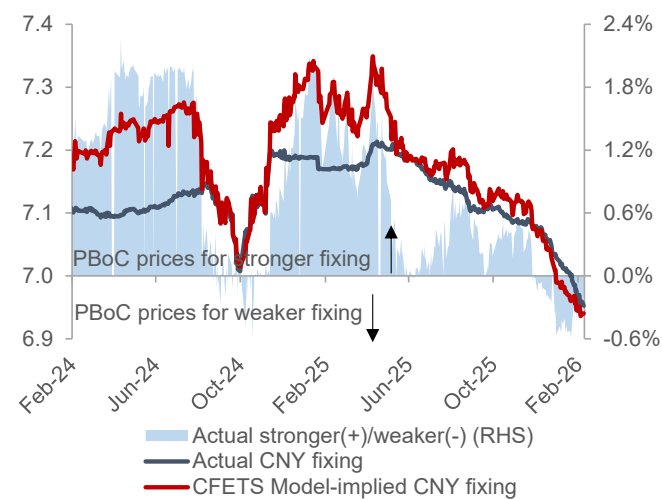
Fig 23 IG corporate risk premium picked up from previous trough**Fig 24 Onshore HY credit yields** stayed much flat

Source: Wind, Mizuho

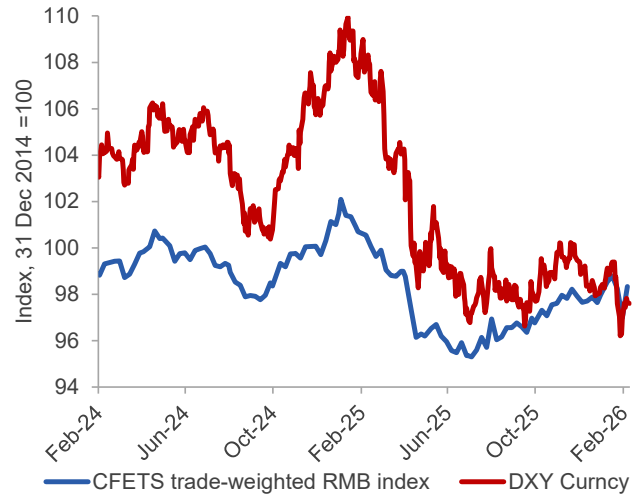
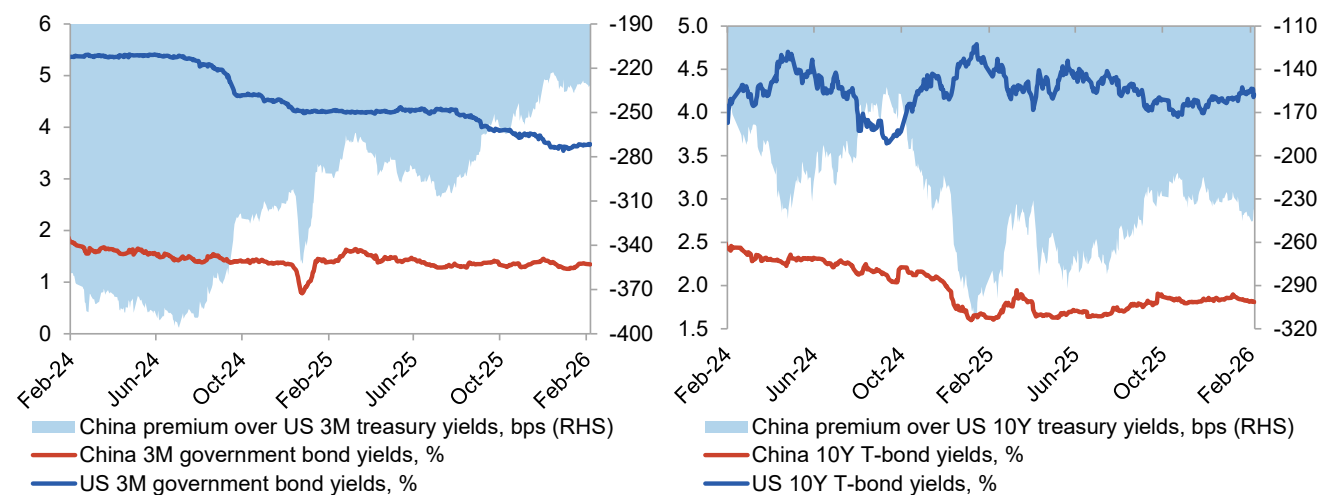
Fig 25 HY corporate risk premium moved slightly tighter**Fig 26 China USD credit spreads** widened last week amid volatility in global equities and precious metals, as well as mixed Chinese data

Source: IHS Markit, Mizuho

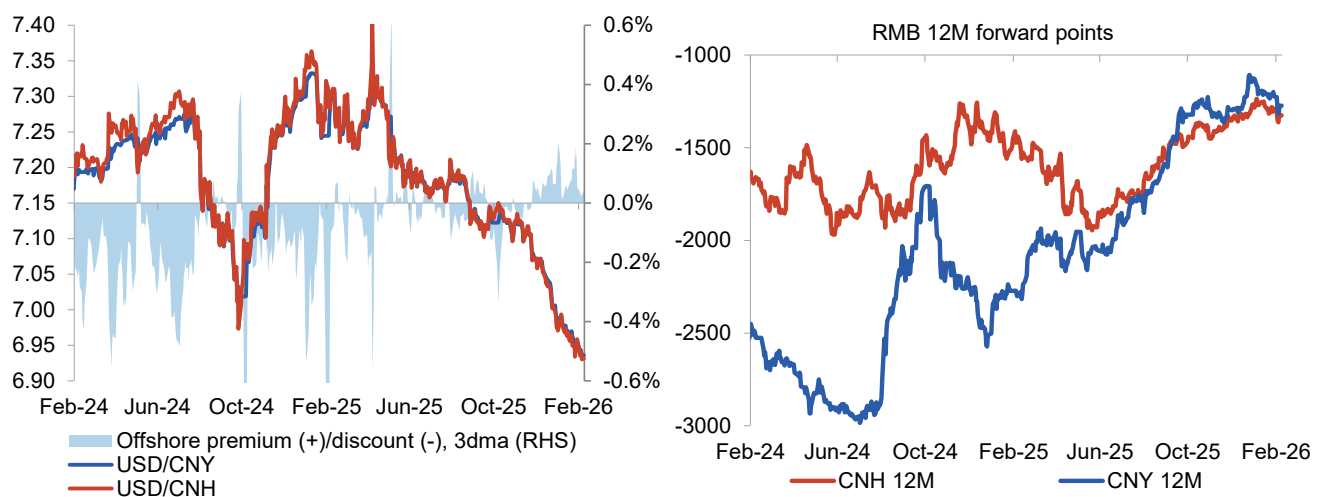
FX monitor

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

Source: CEIC, Bloomberg, Mizuho

Fig 28 RMB trade-weighted index rose faster than DXY last week**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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