Mizuho China Weekly

Economics & Strategy | Asia ex-Japan

9 March 2026

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China Weekly Outlook

Last Friday, senior officials provided **further clarity on China’s key economic policies for this year** at the NPC economic press conference.

Fiscal investment with a smaller share

On the fiscal front, China plans to deploy roughly RMB 7 trillion toward the “six networks” (water, power, computing, new communications, urban pipelines, logistics) and other key infrastructure. Nevertheless, the share of on-budget fiscal spending allocated to investment is set to fall to a five-year low, down from 14.8% in 2025, reflecting tighter fiscal space and lower priority for investment-driven growth. To improve venture-capital exit channels, the NDRC, Ministry of Finance, and PBoC will launch a national M&A fund, which is estimated to leverage various capital funds totalling over RMB 1 trillion.

Subsidies to the private sector

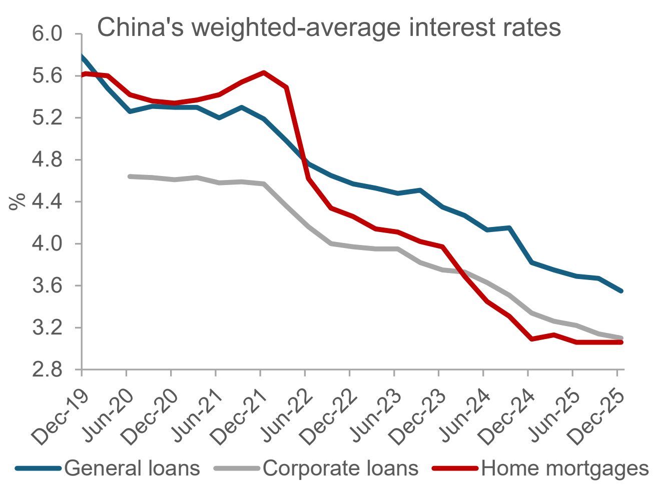
Meanwhile, consumption is expected to be the primary growth driver. While the budget for trade-in subsidies has been reduced to RMB 250 billion from RMB 300 billion last year, the central government has allocated RMB 100 billion specifically for interest-rate subsidies. These subsidies will support private investment (1.5ppt subsidy, capped at RMB 10 million per application) and household consumption (1ppt subsidy, capped at RMB 3,000 per application).

Monetary easing on the horizon

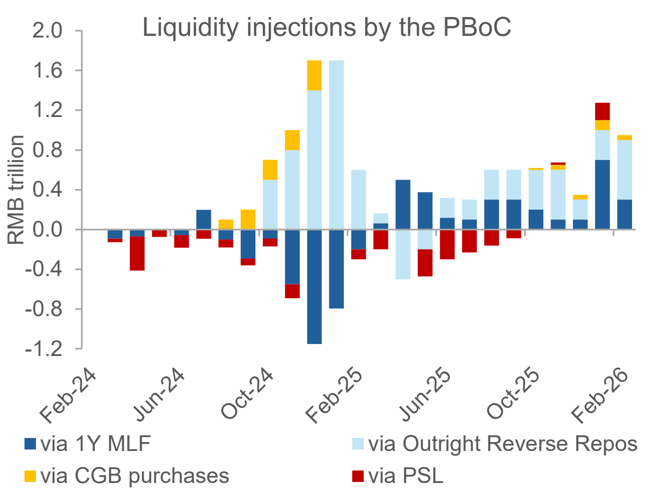
On the monetary side, PBoC Governor Pan Gongsheng reaffirmed the commitment to maintaining a moderately loose monetary stance and to effectively deploying tools such as interest rate and RRR cuts. We believe the recent surge in crude oil and other raw material prices amid the Middle East turmoil (Fig 15 & 16), which will probably squeeze Chinese manufacturers’ margins, has significantly increased the likelihood of a near-term benchmark rate cut.

Additionally, the PBoC is expected to step up secondary-market purchases of CGBs and may consider another RRR cut, helping absorb the supply of upcoming ultra-long special sovereign and local government bonds and anchoring long-end yields (Fig 20).

<Interest subsidies on private investment and consumption>



<Increased liquidity injections are likely in coming weeks>



Source: CEIC, Mizuho

CNH Outlook

Weekly Price Change#	Week Open	Week High	Week Low	Week Close	Weekly Change*
USD/CNH	6.8661	6.9437	6.8621	6.9030	405
USD/CNY	6.8699	6.9278	6.8650	6.9047	423
CNY PBoC Fixing	6.9236	6.9236	6.9007	6.9025	-203
Shanghai Composite Index	4151.80	4197.23	4055.41	4124.19	-38.69

#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)	-1434	-95	CNH HIBOR (3mth)	1.665	-0.005
CNH Currency Swap (3yr)	1.425	-0.015	CNH Implied yield (1Y)	1.393	-0.039

Recap

There has been a volatile session for renminbi trading. The offshore renminbi (CNH) pierced the 6.83 handle in late February, which proved short-lived as a resurgent USD regained dominance. The DXY index climbed as much as 2% amid the unexpected Middle East conflict and effective blockage of traffic through the Strait of Hormuz, a key chokepoint for global energy supply. As risk aversion surged, the CNH slid past 6.94 at one point and ended last week 0.59% weaker.

Although Iranian crude accounts for roughly 13% of China's seaborne oil imports, and is theoretically substitutable, a prolonged shutdown of the region's most critical shipping artery would materially tighten supply, push up China's energy costs, and dampen RMB sentiment. Reflecting rising FX market pressure, the PBoC has shifted back toward a more neutral stance in its daily fixing since last Thursday (Fig 27).

Across Asia, the renminbi held up relatively well, with CNH (-0.59%) and CNY (-0.61%) as the region's top performers aside from the pegged currency HKD (0.0%). In contrast, the KRW and THB were hit the hardest, depreciating 3.2% and 2.7% against the USD, respectively.

Outlook

With no clear visibility on a de-escalation between the US/Israel and Iran, near-term RMB volatility is likely to persist. We expect CNH to remain range-bound around the 6.90 level but biased slightly weaker if incoming macro data continue to disappoint.

That said, our medium-term view remains constructive. Chinese policymakers have increasingly prioritized domestic demand as the primary engine of growth, rather than relying on external demand or a short-sighted strategy of maintaining a deliberately undervalued currency. Moreover, Chinese officials have been encouraging to expand imports of agricultural goods, premium consumer products, advanced equipment, key components, etc. amid efforts to foster healthier trade tiers around the globe.

<FX Charts on Page 8>

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Activity monitor (1/2)

Fig 1 Thermal coal: PMI dropped after a short-lived recovery

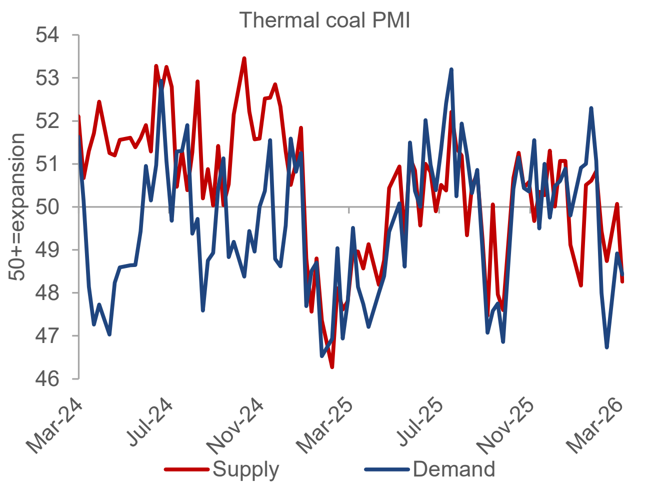
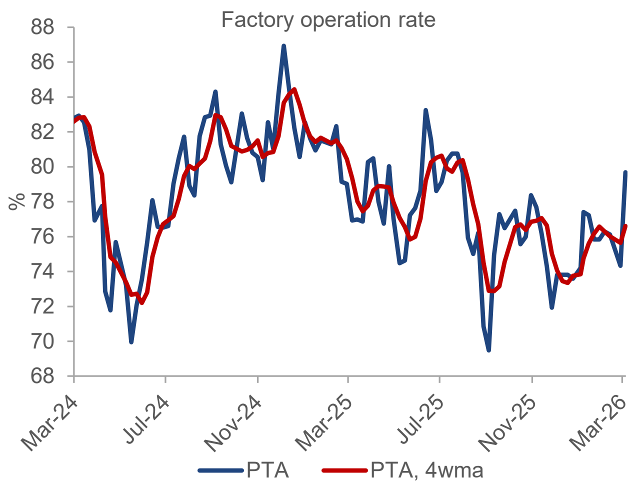


Fig 2 PTA production picked up notably last week



Source: Wind, Mizuho

Fig 3 Steel production continued its YoY decline

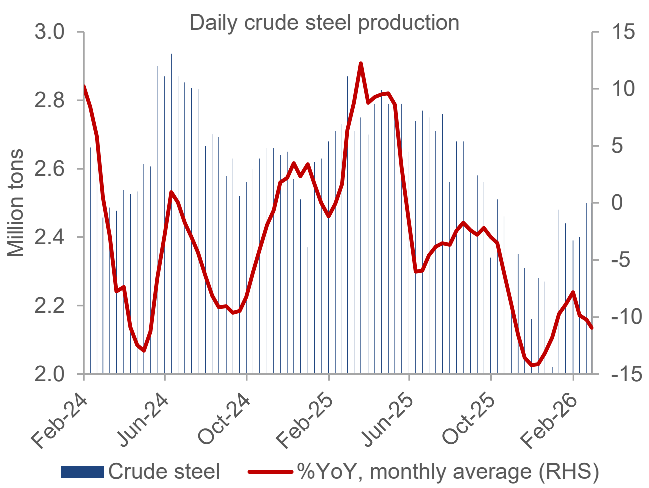


Fig 4 Steel tire production saw a notably rebound after the holiday

Source: Wind, Mizuho

Fig 5 CCFI: prices for shipments to the ASEAN rose last week

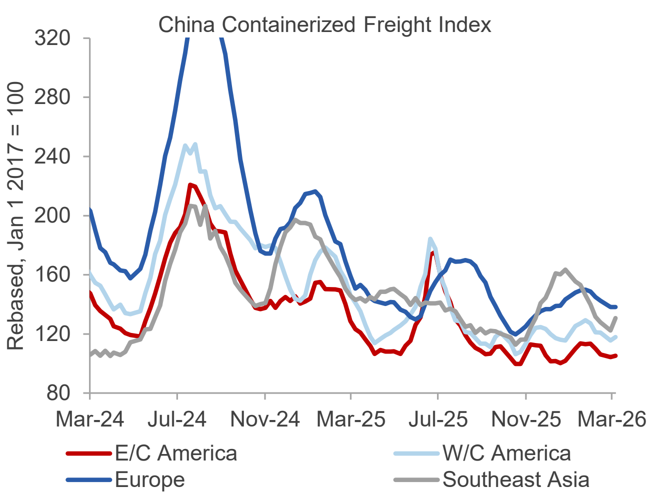
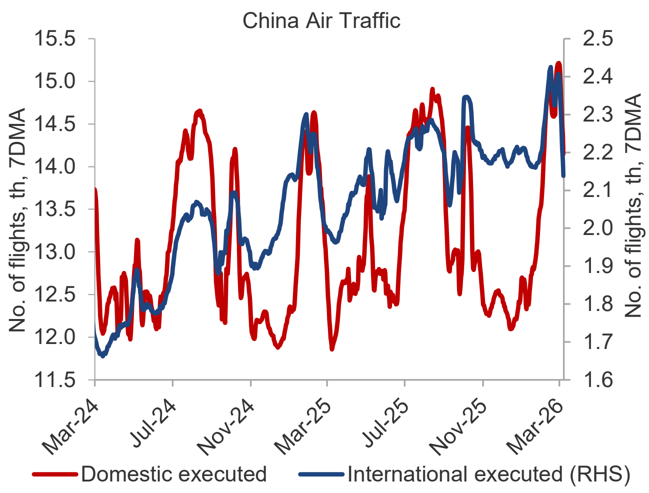


Fig 6 Air traffic: the drop post the holiday was much expected



Source: Wind, Mizuho

Activity monitor (2/2)

Fig 7 Road construction activity rose from the trough

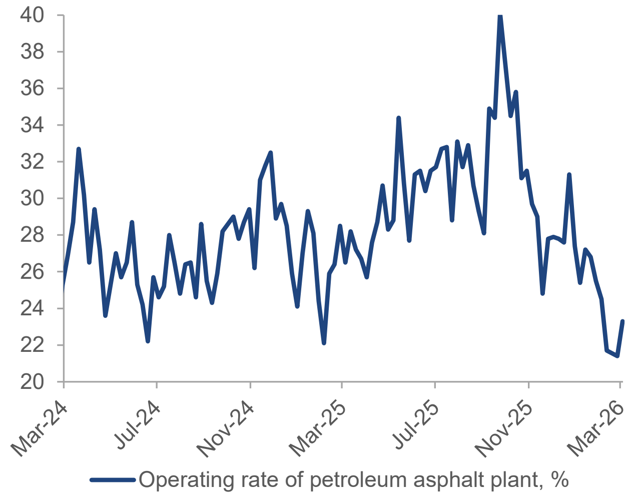


Fig 8 Construction material prices: cement prices dropped further

Source: Wind, Mizuho

Fig 9 Land sales continued to see YoY decline

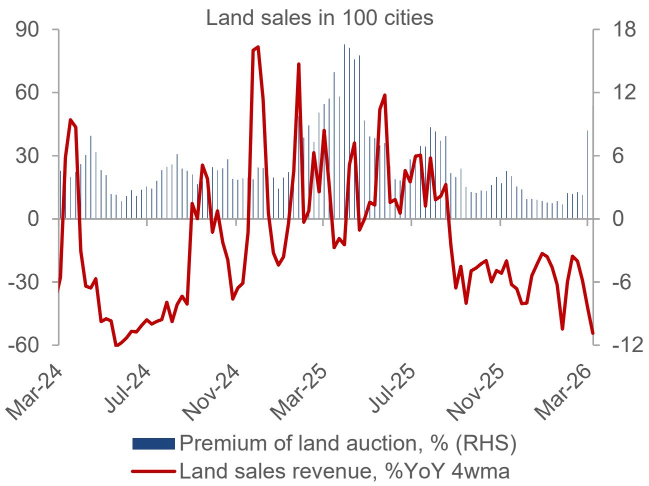
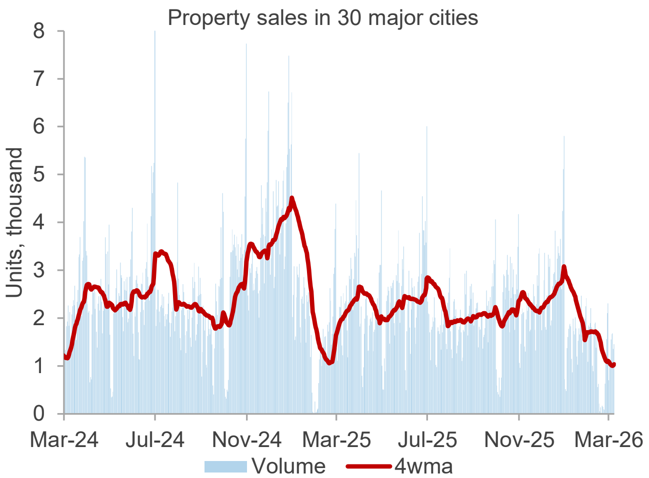


Fig 10 New home sales continued to decline



Source: Wind, Mizuho

Fig 11 Movie box office revenue saw a limited pickup in holiday

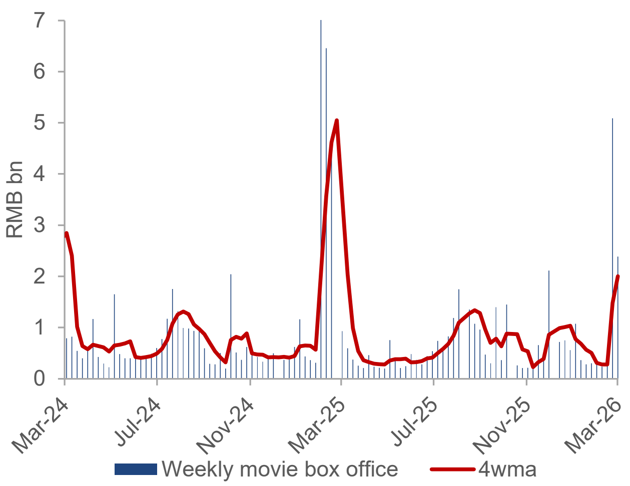
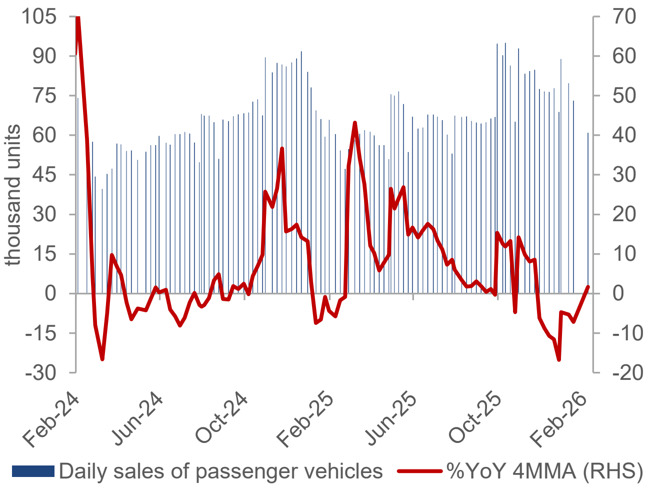


Fig 12 PV sales saw a mild increase in February



Source: Wind, Mizuho

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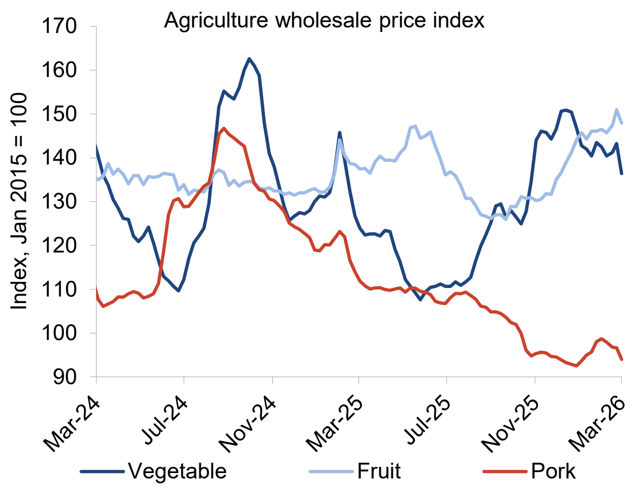
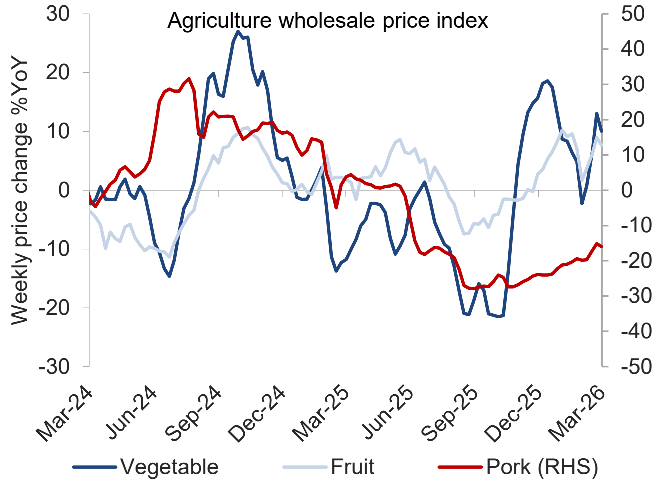
Price monitor

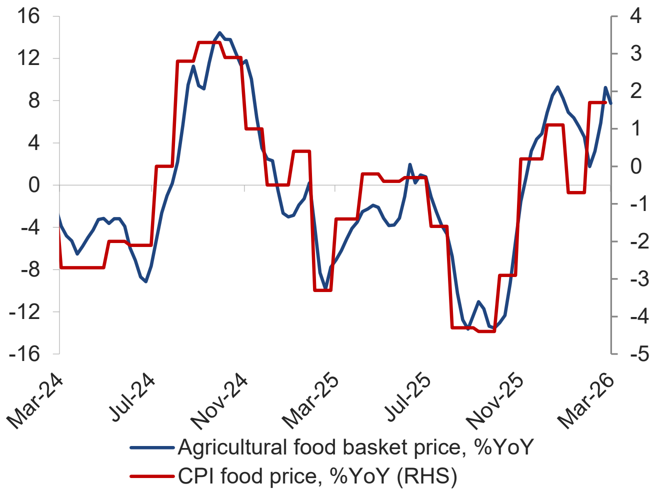
Fig 13 Major food items: prices for fruits and vegetables started to normalize after the holiday

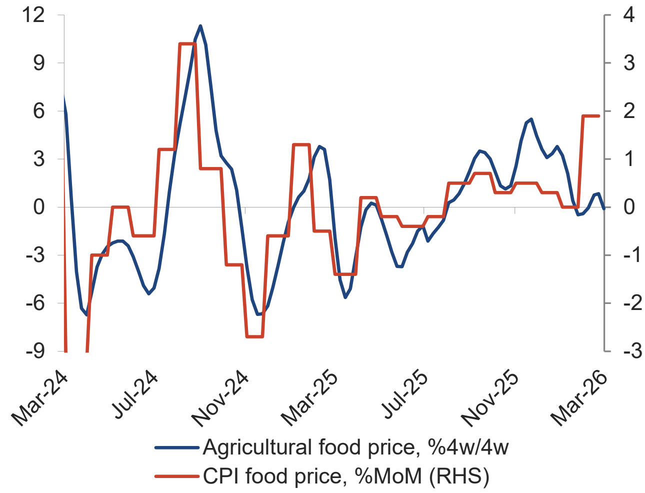




Source: Wind, Mizuho

Fig 14 Wholesale food prices: YoY growth picked up during the Lunar New Year holiday





Source: CEIC, Mizuho

Fig 15 Non-ferrous metal prices returned to their previous highs

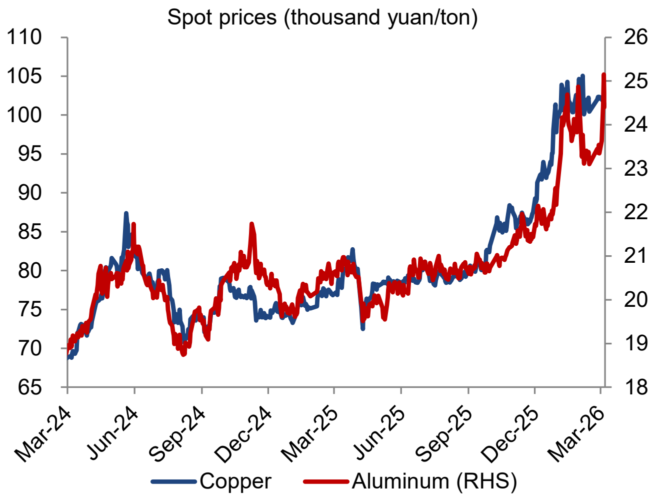
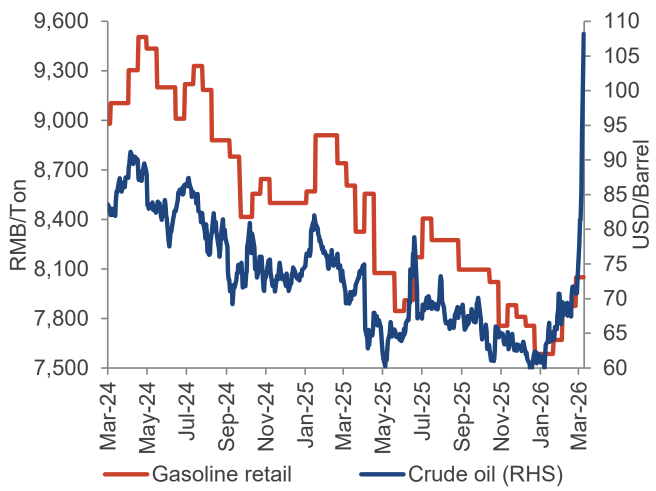


Fig 16 Oil prices soared post the Iran strikes



Source: CEIC, Wind, Mizuho

Liquidity monitor

Fig 17 OMOs: net withdrawal of RMB1247.4b during 2 – 6 Mar

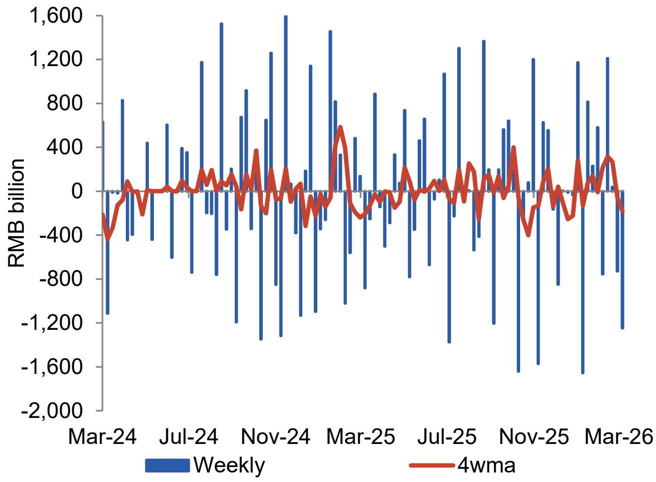
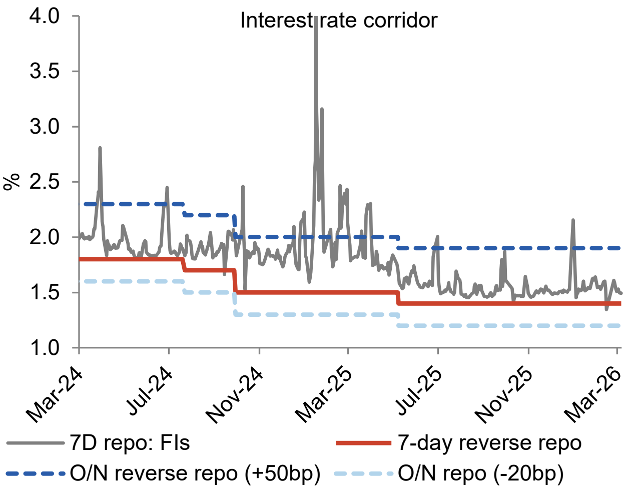


Fig 18 7D repo for FIs edged lower last week



Source: CEIC, Wind, Mizuho

Fig 19 Short-end CGB yields dropped at the front end

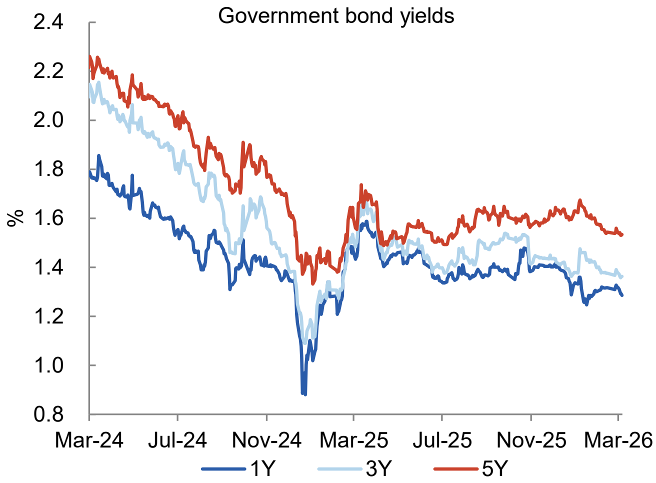
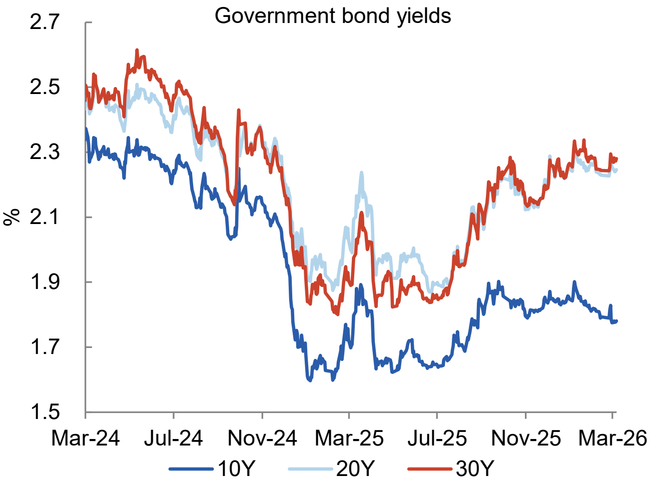
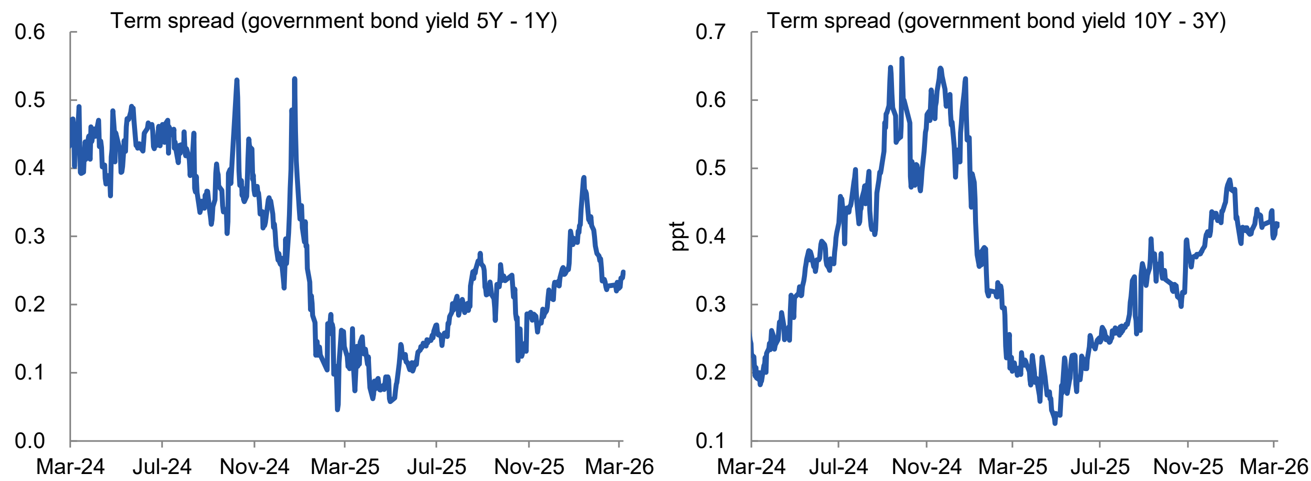


Fig 20 Long-end CGB yields: ticked up at the ultra-long tenure



Source: Wind, CEIC, Mizuho

Fig 21 CGB term spreads slightly widened at the front-end of the curve



Source: CEIC, Mizuho

Credit monitor

Fig 22 Onshore IG credit yields edged lower

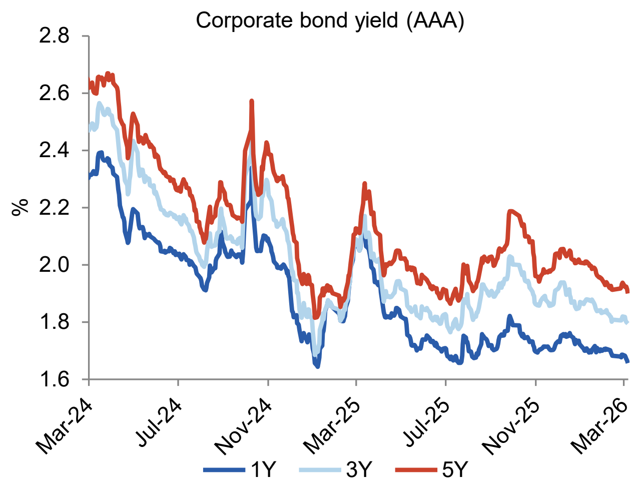
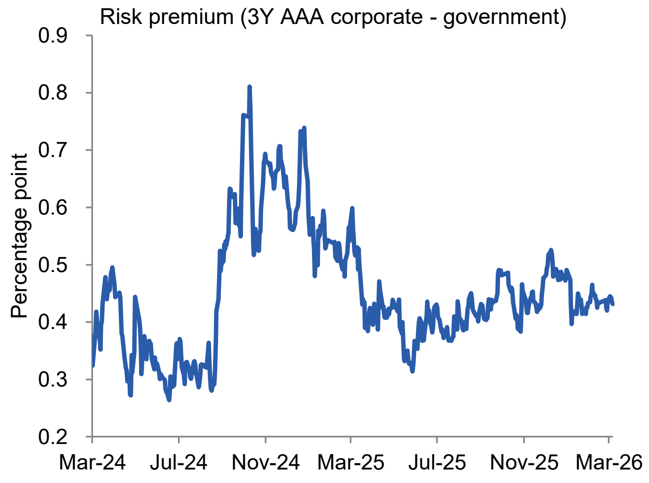


Fig 23 IG corporate risk premium remains relatively subdued



Source: Wind, Mizuho

Fig 24 Onshore HY credit yields stayed much flat

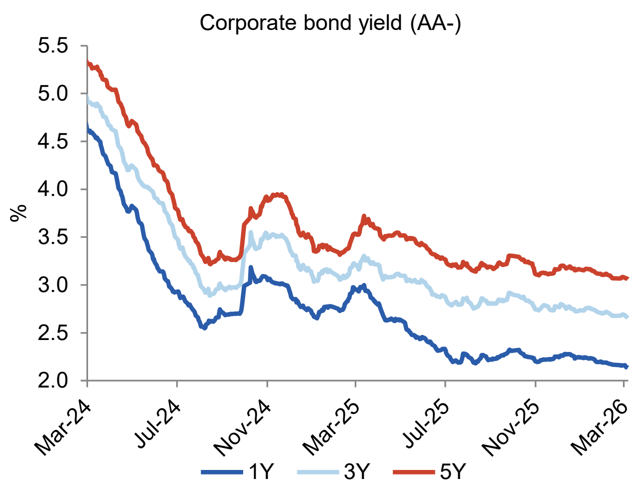
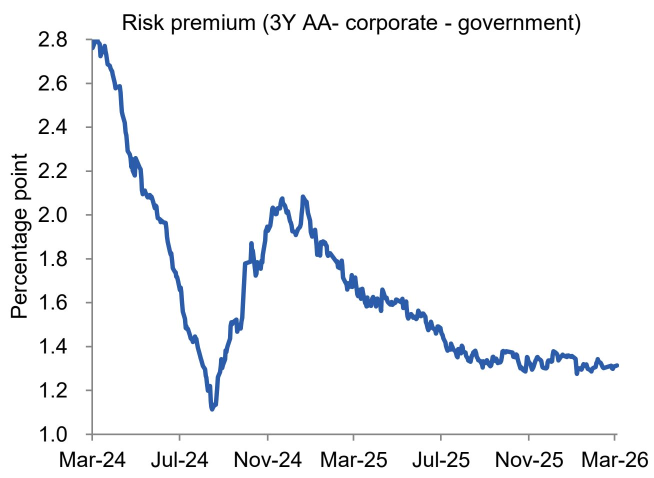
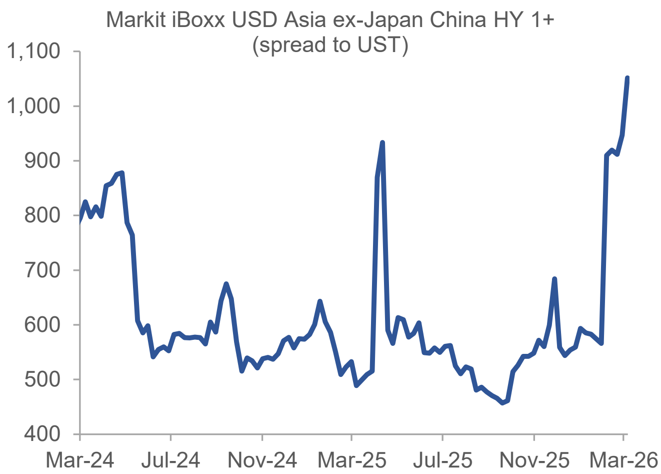


Fig 25 HY corporate risk premium remained relatively tight



Source: Wind, Mizuho

Fig 26 China USD credit spreads were mixed last week as treasury yields spiked and energy prices surged amid the Middle East turmoil



Source: IHS Markit, Mizuho

FX monitor

Fig 27 RMB fixing rate: the PBoC returned to neutral last week

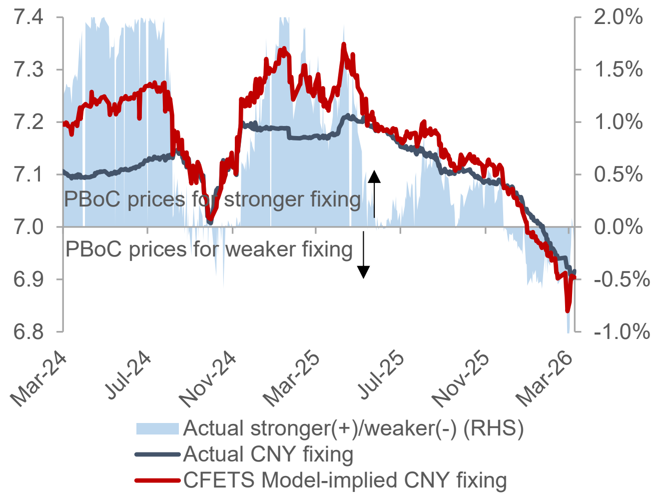
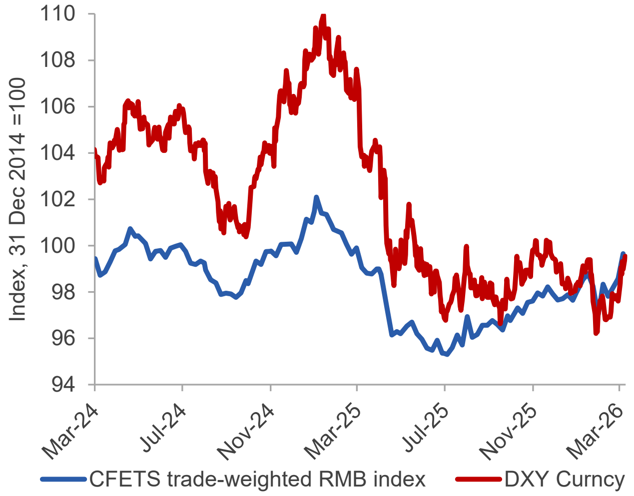
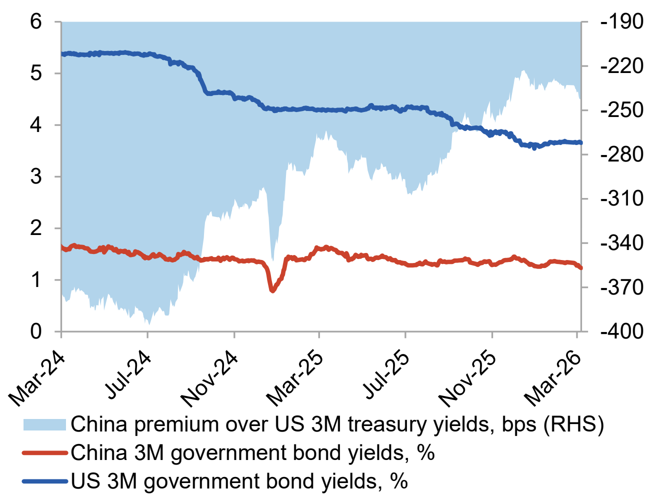


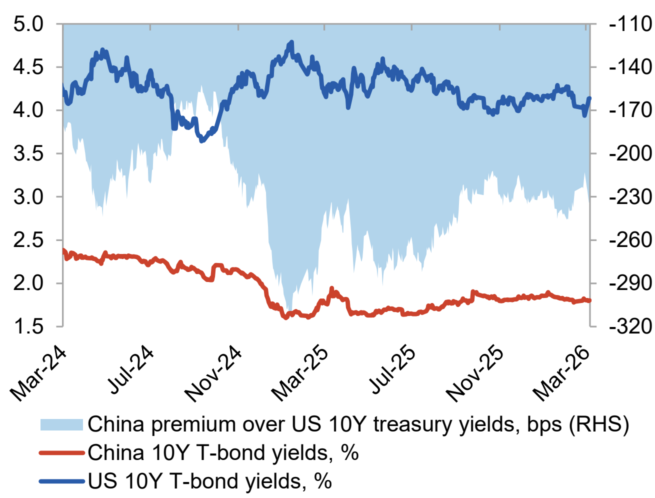
Fig 28 RMB trade-weighted index picked up along the DXY



Source: CEIC, Bloomberg, Mizuho

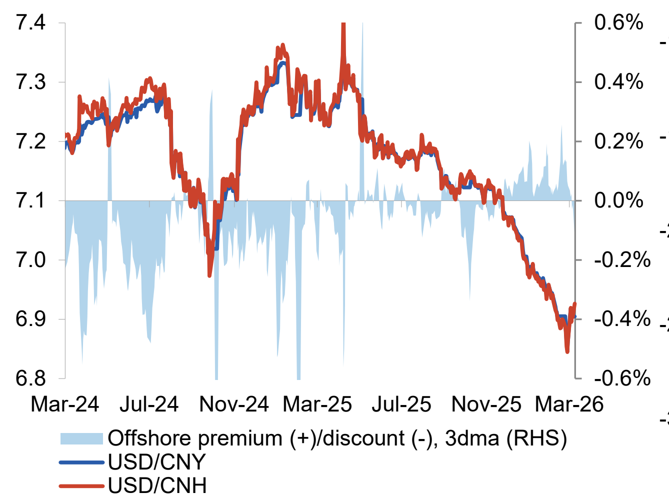
Fig 29 China-US interest rate spreads moved slight wider at both the front end and back end

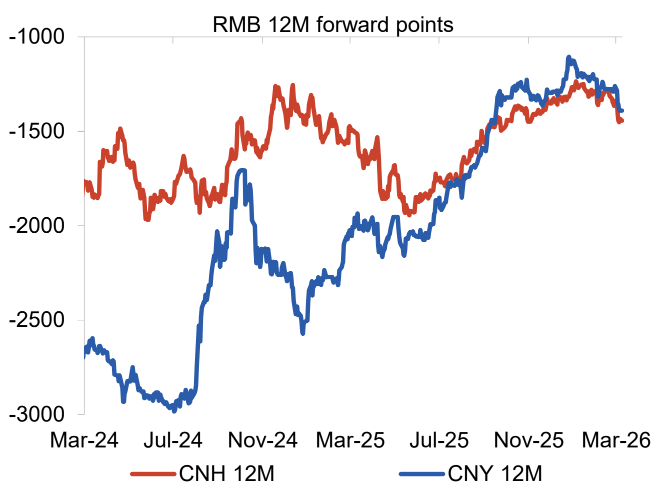




Source: CEIC, Bloomberg, Mizuho

Fig 30 Offshore RMB (CNH) is trading almost on par with the CNY amid renewed dollar strength





Source: Bloomberg, Mizuho

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