

Data under new year influences

China's year-to-date trade performance has far exceeded market expectations. Although the unusually late Lunar New Year likely encouraged some front-loading of shipments, the sharp appreciation of the renminbi also helped inflate those YoY growth rates. With those temporary factors in force, it remains too early to conclude that such strong momentum can carry into 2Q26.

On the inflation front, February's spike in CPI growth was also largely a holiday-related distortion rather than a result of firmer underlying demand or rising energy prices. During the first two months, CPI increased by an average of 0.8% from a year ago, little changed from November and December. Meanwhile, PPI continued to show easing deflation, supported by improving upstream demand and official efforts to dampen oversupply.

Fig 1 Recent releases for China's major economic indicators

Indicators	Nov	Dec	Jan	Feb (survey)	Feb (actual)
Export growth (YoY %)	5.9	6.6	--	7.2	21.8 (Jan-Feb)
Import growth (YoY %)	1.9	5.7	--	7.0	19.8 (Jan-Feb)
Trade balance (USD\$b)	111.6	114.1	--	176.1	213.6 (Jan-Feb)
CPI (YoY %)	0.7	0.8	0.2	0.9	1.3
PPI (YoY %)	-2.2	-1.9	-1.4	-1.1	-0.9

Source: Bloomberg, Mizuho

Solid Trade under Influences

China's year-to-date trade performance has far exceeded market expectations. In the first two months, exports and imports surged 21.8% and 19.8% YoY, respectively in USD terms, both marking their fastest expansion since 2021. However, it is still premature to conclude that such improvement will persist into 2Q26.

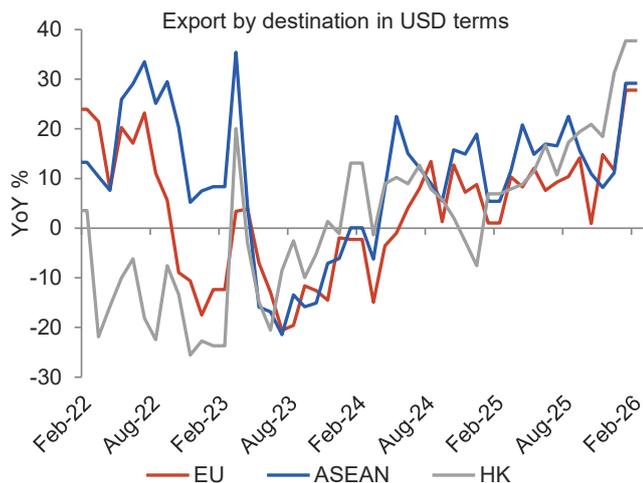
While the unusually late Lunar New Year (LNY) holiday may have prompted front-loaded shipments, the sharp appreciation of the renminbi further amplified those growth rates in YoY terms. As of the end of February, the currency had strengthened by 6.3% offshore and 6.1% onshore compared with a year earlier. Note that about 30% of China's foreign trade is now settled in renminbi.

By destination, the improvement in export growth was broad-based. China's major export markets, including ASEAN and the EU, posted solid increases of nearly 30% YoY over the first two months (Fig 2). Shipments to Africa were even more striking, soaring 49.8% YoY. Even exports to the US registered a smaller decline of 11% YoY, improving from the sharp 30% drop seen in December (Fig 3).

On the import front, the upbeat momentum was supported by increased demand for raw materials and high-tech goods. Purchases of copper ore jumped 43% YoY during the first two months, while imports of semiconductors rose 40% and LCD panels surged 69%.

As a result, China's monthly trade surplus averaged USD 106.8 billion during the period, which is still elevated but narrower than the levels recorded last November and December. Following the moderate trade surplus print, CNH movements remained relatively stable, hovering around the 6.89 level, before seeing more notable appreciation later in the afternoon session.

Fig 2 Both exports and imports soared during the first two months **Fig 3** Widening trade surplus driven by demand outside the US



Source: CEIC, Mizuho

Distorted February inflation

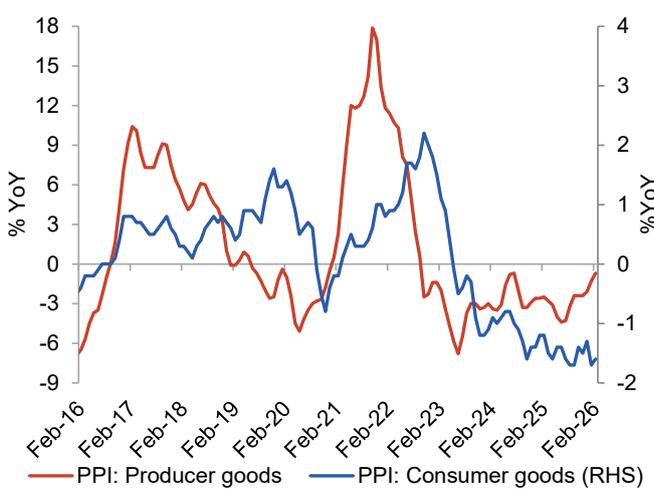
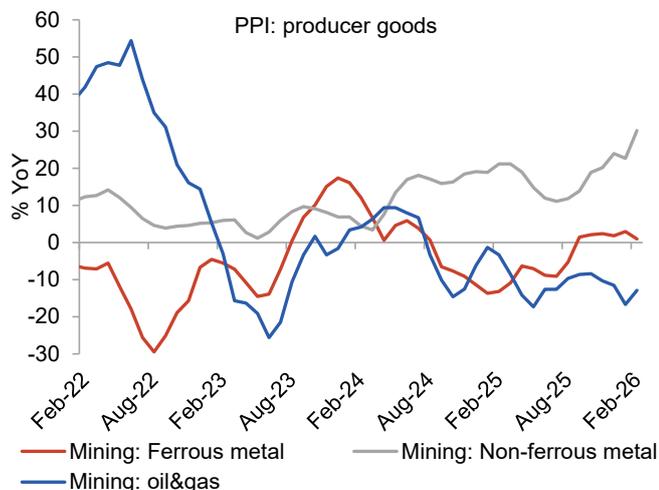
Growth in the consumer price index (CPI) jumped to a three-year high in February, largely reflecting distortions from the LNY holiday rather than stronger underlying demand or higher energy costs. The holiday typically boosts consumption, from pork to jewelry, while temporarily reducing service supply. This year's LNY fell on 15 February, the latest in almost a decade, with the longest holiday period on record. To smooth these distortions, it is more meaningful to look at January and February data combined.

On average, CPI rose 0.8% YoY over the first two months, unchanged from December. Non-food inflation edged up to 0.8% YoY from 0.6% in December, while average food inflation moderated to 0.5% YoY. Notably, service inflation climbed to 1.6% YoY in February and averaged 0.9% across the first two months, compared with 0.6% in December, reflecting resilient demand for travel and car maintenance services during the holiday.

Meanwhile, the producer price index (PPI), less affected by LNY volatility, continued to show easing deflation in February, falling 0.9% YoY, the slowest pace in 18 months. In addition to a slower decline in mining prices (Fig 4), growth in manufacturing prices turned positive for the first time since mid-2022, at 0.3% YoY. However, the PPI for consumer goods continued its ~1.5% YoY decline (Fig 5), indicating ongoing pressure on manufacturers' profit margins.

Fig 4 Non-ferrous metals led the rebound in PPI mining prices

Fig 5 The widening gap between producer and consumer goods



Source: CEIC, Mizuho

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