

Growth momentum remained divergent in early 2026



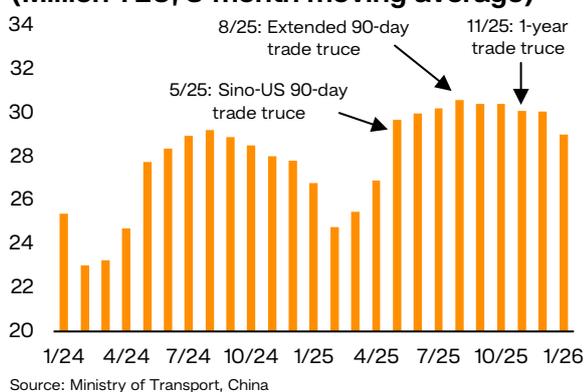
- Leading indicators highlighted a mixed picture in early 2026, characterised by resilient external trade alongside soft retail sales for durable goods.
- CPI inflation slowed due to strong seasonal factors, while PPI deflationary pressures abated.
- The upcoming "Two Sessions" in early March will unveil a new growth target for 2026 and provide clarity on policies aimed at boosting domestic demand and high-tech development.

Leading indicators highlighted a mixed economic picture

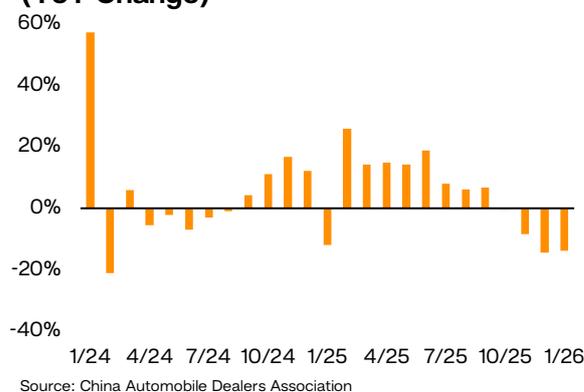
Growth momentum in the Chinese Mainland remained uneven in early 2026. As monthly official economic data for January and February are combined to smooth out the Chinese New Year (CNY) holiday distortions, high-frequency leading indicators currently provide a gauge of early-year performance. From 1 January to 15 February 2026, container throughput in Chinese Mainland ports grew by 13.8% year-on-year (YoY), accelerating from a 8.3% increase in December 2025, indicating solid momentum in external trade. Notably, container shipments to the US recorded a narrower decline of 6.2% YoY during this period, compared to a 11.0% drop in December, which likely reflected stabilising bilateral relations following the trade truce agreed upon last November. Furthermore, the outlook for Chinese products has been bolstered with lower US tariffs, following the US Supreme Court's February ruling that struck down President Trump's tariffs under the International Emergency Economic Powers Act (IEEPA). While the US administration plans to replace the IEEPA tariffs with a 15% global tariff under Section 122, the impact is expected to be less severe and is legally capped at 150 days, providing a constructive near-term backdrop for the exports sector.

Domestic consumption, however, exhibited restraint, underscoring the divergence between robust exports and fragile household demand. According to the China Automobile Dealers Association, passenger car sales volume declined by 13.8% YoY in January. This contraction could be partially attributed to the scaling-back of the new energy vehicle purchase tax exemption that came into effect in 2026. In addition, spending on major household appliances weakened. Bloomberg's data from major e-commerce platforms (JD, Tmall & Suning) showed that online retail sales of washing machines, air conditioners and refrigerators fell by 18.0% YoY during 1 January to 8 February 2026. These figures highlighted soft consumer spending on big-ticket durable goods.

**Ports Container Throughput
(Million TEU, 3-month moving average)**



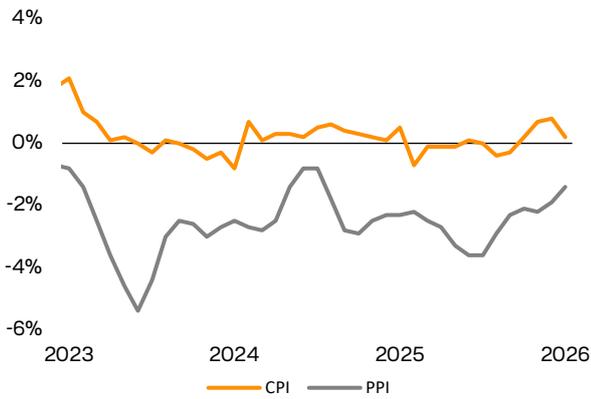
**Retail Sales Volume of Passenger Cars
(YoY Change)**



CPI inflation slowed due to strong seasonal factors, while PPI deflationary pressures abated. The headline and core consumer price index (CPI) rose by 0.2% YoY and 0.8% in January 2026, respectively, moderating from 0.8% and 1.2% in December 2025. The slowdown was primarily driven by strong seasonal factors, as the CNY holidays shifted from January last year to February this year. Meanwhile, the YoY decline in the producer price index (PPI) narrowed further, from 1.9% in December 2025 to 1.4% in January 2026. Ongoing policy efforts aimed at stabilising supply conditions and curbing excessive competition have mitigated downward pressures on producer prices. In addition, a surge in international precious metal prices in January translated into notable PPI gains for non-ferrous metal mining and processing sectors.

Government financing continued to be the primary driver of credit expansion at the start of 2026.

Total social financing increased by RMB 7.2 trillion in January 2026, slightly more than the RMB 7.1 trillion recorded in the same month last year. Specifically, new government bond financing rose by RMB 976.4 billion in January, up from RMB 693.3 billion a year ago, reflecting the authorities' efforts to front-load fiscal resources for public investment. In contrast, credit demand from the private sector remained sluggish. Both medium and long-term loans to households and enterprises registered lower increments relative to the previous year, as housing demand remained tepid and corporate capital expenditure plans stayed conservative. On the liquidity front, M2 money supply growth accelerated to 9.0% YoY in January 2026, marking the fastest pace since December 2023 and signaling an accommodative monetary environment.

Inflation (YoY Change)

M2 Money Supply (YoY Change)


President Trump announced a to visit China from March 31 to April 2. Following a phone call between President Xi Jinping and President Trump in early February, the White House confirmed that President Trump will visit China from March 31 to April 2. This high-stakes summit is expected to strengthen bilateral communication and potentially seek further deliverables on the trade front, making its outcome critical for global supply chain stability going forward.

The upcoming "Two Sessions" is expected to unveil major economic targets and policies for 2026

The "Two Sessions" in early March is expected to unveil a new growth target for 2026 and shed light on upcoming economic policies. With the majority of local governments having set their regional growth targets at or above 5% for 2026, there is a strong probability that the national GDP growth target will be maintained at around 5% for the year. To achieve this, macro-policy is expected to remain supportive, with targeted measures aimed at stimulating domestic demand and fostering high-tech development. Fiscal policy is likely to mirror the expansionary stance of 2025, as the Ministry of Finance has pledged to sustain necessary fiscal expenditures. In 2025, the fiscal deficit-to-GDP ratio and the issuance quota of special government bonds were set at 4.0% and RMB 4.4 trillion, respectively. In addition, a moderately loose monetary policy will persist in 2026, providing room for further reductions in policy rates by 10-20 basis points (bps) and cuts to the reserve requirement ratio by 50 bps. On balance, this year's early front-loading of fiscal and monetary tools directed at targeted areas, such as services consumption, technology innovation, private small-and-medium enterprises, underscored a measured approach to policy support, rather than a reliance on broad-based stimulus.

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