Greater China — Week in Review

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Highlights: breakthrough, both domestically and externally

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Just days ago, President Trump was still floating the idea of imposing tariffs as high as 80% in public remarks. Against that backdrop, the unexpected pause in reciprocal tariffs and the rollback of earlier tit-for-tat measures—ultimately reducing the additional tariffs on Chinese imports this year to 30%—represents a notable win for China's negotiating team led byfor Vice Premier He Lifeng. China's "escalate to deescalate" strategy pays off.

With the most irrational elements of the tariff war now removed, two conclusions can be drawn. First, hardliners within the Trump Administration appear to have taken a step back—for now. Second, the "Trump put" may still be in place, reinforcing the perception that brinkmanship remains a tactical tool rather than a fixed policy path.

That said, this de-escalation does not equate to a full return to normalcy. Over the next 90 days and beyond, the trajectory of trade relations will largely depend on two factors: (1) the progress of direct U.S.-China negotiations. The removal of the 20% feternyl related tariff appears to be a low hanging fruit, especially considering that China's police chief was also involved in the trade discussions.(2) how both sides engage third-party countries and trade blocs through broader consultations and coalition-building.

From the U.S. perspective, efforts to form a trade alignment with like-minded allies are likely to continue, with the aim of coordinating and amplifying pressure on China. Even after the current dust settles, China is still likely to remain at the bottom tier of the U.S.'s new tariff hierarchy, given its persistent and sizeable trade surplus with the U.S.

From China's perspective, the strategic response will likely include continued efforts to reduce reliance on the U.S. export market—via both supply chain restructuring and third-country transshipment routes in the short to medium term. Moreover, the temporary truce is unlikely to deter China's longer-term export market diversification strategy.

China's exports showed surprising resilience in April, with total outbound shipments rising by 8.1% YoY, despite a sharp escalation in trade tensions with the United States. While exports to the U.S. declined significantly by 21% YoY, robust demand from regional partners helped offset the drag—exports to ASEAN surged by 21% YoY, underscoring the growing importance of intra-Asia trade.

Several factors help explain the relative resilience of China's exports to the U.S. in April. First, the bulk of the high tariffs came into force only in the second half of the month, allowing a large portion of shipments to clear customs before the new duties took effect. Second, key product categories—such as computers, smartphones, and other electronics—were exempted from the reciprocal tariffs. These account for roughly one-fifth of China's total exports to the U.S., helping to cushion the headline decline. Third, ongoing contractual obligations likely ensured that some trade flows continued despite the deteriorating tariff environment.

Looking ahead, with the 90-day pause in reciprocal tariffs now in effect, frontloading activity may continue into May and June, providing additional support to China’s export momentum. This suggests that net exports may pose a smaller drag on full-year GDP growth than previously anticipated.

China’s Consumer Price Index (CPI) declined by 0.1% YoY in April, marking the third consecutive month of deflation. Cumulatively, China’s CPI has declined 0.1% year-to-date, reinforcing disinflation concerns and strengthening the case for additional monetary support. That said, after last week’s policy moves—which included both a reserve requirement ratio (RRR) cut and an interest rate cut—the People’s Bank of China (PBoC) may adopt a wait-and-see approach to assess the efficacy of these measures in lifting inflation expectations.

In its Q1 Monetary Policy Report, the PBoC offered valuable insight into the structural nature of China’s low inflation. It noted that the effectiveness of monetary policy in influencing prices depends on the balance between supply and demand. In the context of an investment-led growth model focused on supply-side security, monetary easing may increase production capacity without boosting demand, thereby exacerbating supply-demand imbalances and making inflation harder to revive.

The report emphasizes that the key to restoring price momentum lies in expanding effective demand, resolving bottlenecks in the real economy, and improving the supply-demand circulation. This requires deepened structural reforms supported by coordinated fiscal, monetary, industrial, employment, and social security policies.

China unveiled a comprehensive package of policy supports last week. Unlike the September 2024 event, which featured high-impact and unexpected stimulus measures that catalyzed a sharp rebound in equity markets, today’s announcements offered fewer surprises in terms of depth. However, they delivered a broader scope — expanding beyond monetary, housing, and capital market support to include fresh initiatives targeting technology, consumption, and trade, areas which are currently at the heart of China's structural transition. Collectively, the measures signal a continuation of China’s counter-cyclical policy stance, aimed at anchoring expectations and preventing further erosion in sentiment. While lacking the “shock-and-awe” effect of earlier interventions, the breadth and coordination of the announcements are likely to support the bottoming process in both the economy and financial markets.

Hong Kong’s PMI was little changed at 48.3 in April, dragged by sharp decline in new orders sub-index, while domestic and external demand deteriorated. Forward looking indicators, including future activity sub-index, pointed to weak outlook.

The Hong Kong Monetary Authority sold a total of HKD129.4 billion Hong Kong dollars to the market since 2 May (NY session), as the strong-side Convertibility Undertaking was repeatedly triggered. The aggregate balance rose to HKD174.1

billion as a result, which help buffer the liquidity tightness amid IPOs, dividend payout activities, and other potential inflows.

HIBORs were fixed sharply lower last week, upon the additional liquidity brought about by FX intervention (albeit with settlement on the follow day only), compounded by the passing of month-end/long weekend.

Further ahead, we would look to position for an upward bias to short-end HKD-USD rates spreads (i.e. for the spreads to turn less negative). First, we maintain a lower USD rates view while the passthrough onto HKD rates is likely to be partial only, especially with the prospect of inflows. Second, the latest market reaction saw HKD-USD rates spreads lower already. Third, if HKD liquidity becomes overly flush, and there is demand for bills, liquidity can be shifted from interbank to Exchange Fund Bills. Our medium-term view remains for HKD rates to lag USD rate on a downward move.

Key Development	
Facts	**OCBC Opinions**
▪ China unveiled a comprehensive package of policy supports last week, including the much-anticipated interest rate cut and a reduction in the reserve requirement ratio (RRR), in a bid to stabilize the economy and reassure financial markets.	▪ While market participants speculated late into last night about who would attend the press conference, the final lineup exceeded expectations. The top leaders of China's three most influential financial regulatory bodies — the Governor of the People's Bank of China (PBoC), the head of the National Financial Regulatory Administration (NFRA), and the Chairman of the China Securities Regulatory Commission (CSRC) — all appeared jointly. Their presence immediately drew comparisons to the landmark press conference on September 24, 2024, when this same trio helped reverse deteriorating sentiment with a surprise policy package that marked a turning point in China's economic cycle. ▪ Unlike the September 2024 event, which featured high-impact and unexpected stimulus measures that catalyzed a sharp rebound in equity markets, today's announcements offered fewer surprises in terms of depth. However, they delivered a broader scope — expanding beyond monetary, housing, and capital market support to include fresh initiatives targeting technology, consumption, and trade, areas which are currently at the heart of China's structural transition. ▪ Collectively, the measures signal a continuation of China's counter-cyclical policy stance, aimed at anchoring expectations and preventing further erosion in sentiment. While lacking the "shock-and-awe" effect of earlier interventions, the breadth and coordination of the announcements are likely to support the bottoming process in both the economy and financial markets.
▪ Hong Kong: The Hong Kong Monetary Authority sold a total of HKD129.4 billion Hong Kong dollars to the market since 2 May (NY session), as the strong-side Convertibility Undertaking was repeatedly triggered. The aggregate balance rose to HKD174.1 billion as a result, which help buffer the liquidity tightness amid IPOs, dividend payout activities, and other potential inflows.	▪ HIBORs were fixed sharply last week, upon the additional liquidity brought about by FX intervention (albeit with settlement on the follow day only), compounded by the passing of month-end/long weekend. ▪ Further ahead, we would look to position for an upward bias to short-end HKD-USD rates spreads (i.e. for the spreads to turn less negative). First, we maintain a lower USD rates view while the passthrough onto HKD rates is likely to be partial only, especially with the prospect of inflows. Prospects remain for continued inflows into the HKD market, amid a strong IPO pipeline. CSRC said REITS would be included in Stock Connect. Second, the latest market reaction saw HKD-USD rates spreads lower already. Third, if HKD liquidity becomes overly flush, and there is demand for bills, liquidity can be shifted from interbank to Exchange Fund Bills. Our medium-term view remains for HKD rates to lag USD rate on a downward move.

Key Economic News	
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▪ China's Consumer Price Index (CPI) declined by 0.1% YoY in April, marking the third consecutive month of deflation.	▪ However, on a sequential basis, CPI rebounded slightly by 0.1% MoM, returning to positive territory for the first time in three months. The YoY contraction was primarily driven by falling energy prices—particularly oil—amid intensifying trade tensions, which more than offset the modest recovery in food prices. Food inflation rose 0.2% MoM, while the transportation category alone dragged headline CPI down by 0.44 percentage points. ▪ Core CPI, which excludes food and energy, remained stable at 0.5%

	YoY in April, unchanged from the previous month. Notably, travel-related prices rose by 3.1% MoM ahead of the May Labor Day holiday, while the "other goods and services" category surged 2.4% MoM, likely reflecting rising gold prices and associated jewelry costs. ▪ On the producer side, China's Producer Price Index (PPI) fell 0.4% MoM in April, extending its decline for the fifth consecutive month. Production-related PPI fell by 0.5% MoM, while consumption-related PPI slipped 0.2% MoM. Weaker steel and coal prices—pressured by both trade-related uncertainty and the continued softness in China's property sector—were the main contributors to the decline. ▪ Cumulatively, China's CPI has declined 0.1% year-to-date, reinforcing disinflation concerns and strengthening the case for additional monetary support. That said, after last week's policy moves—which included both a reserve requirement ratio (RRR) cut and an interest rate cut—the People's Bank of China (PBoC) may adopt a wait-and-see approach to assess the efficacy of these measures in lifting inflation expectations. ▪ The persistent decline in PPI also underscores weak industrial pricing power, in large part reflecting subdued activity in the real estate sector. A meaningful recovery in the property market remains critical to reversing disinflationary trends in upstream industries.
▪ China's exports showed surprising resilience in April, with total outbound shipments rising by 8.1% YoY, despite a sharp escalation in trade tensions with the United States.	▪ While exports to the U.S. declined significantly by 21% YoY, robust demand from regional partners helped offset the drag—exports to ASEAN surged by 21% YoY, underscoring the growing importance of intra-Asia trade. ▪ On the import side, the contraction moderated to just -0.2% YoY. Notably, imports from Latin America improved meaningfully, likely driven by substitution demand for agricultural goods such as soybeans amid rising uncertainty in U.S.-China trade relations. ▪ Several factors help explain the relative resilience of China's exports to the U.S. in April. First, the bulk of the high tariffs came into force only in the second half of the month, allowing a large portion of shipments to clear customs before the new duties took effect. Second, key product categories—such as computers, smartphones, and other electronics—were exempted from the reciprocal tariffs. These account for roughly one-fifth of China's total exports to the U.S., helping to cushion the headline decline. Third, ongoing contractual obligations likely ensured that some trade flows continued despite the deteriorating tariff environment. ▪ Looking ahead, with the 90-day pause in reciprocal tariffs now in effect, frontloading activity may continue into May and June, providing additional support to China's export momentum. This suggests that net exports may pose a smaller drag on full-year GDP growth than previously anticipated.
▪ Hong Kong's PMI was little changed at 48.3 in April, dragged by sharp decline in new orders sub-index, while domestic and external demand deteriorated. Forward looking indicators, including future activity sub-index, all pointed to weak outlook.	▪ New orders sub-index fell at the sharpest pace since June 2024. Pessimism among businesses intensified in April, amid concerns over US tariffs and weaker economic conditions. Muted demand and weak business sentiment led not only to the lowering of staffing and purchasing levels, but also limited firms' ability to share cost burden.

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