Greater China — Week in Review

2 June 2025

Highlights: China trip notes

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I just came back from my trip in Shanghai and Beijing as part of the ASEAN delegation for a high-level dialogue in Beijing themed "A Shared Future with Neighbouring Countries." This initiative follows President Xi Jinping's recent call in April to "build a community with a shared future with neighboring countries and strive to open new ground for China's neighborhood diplomacy"

There were some company visits and dialogue sessions with various government officials. In today's weekly report, I would like to share one insightful dialogue with Professor Jiang Xiaojuan, former Deputy Secretary-General of China's State Council. As both acadmiecs and former senior politician, she gave us a comprehensive overview about China's to do lists from four perspectives including policy, reform, opening and innovation.

On policy, new-type urbanization is likely to be a key strategic focus in the coming year. This initiative aims to address hukou-related barriers faced by migrant workers, enabling them to purchase homes and access public services in urban centers. If implemented effectively, the reforms could yield a "threefold benefit": improving social equity, unlocking housing demand by absorbing excess inventory, and boosting consumption as migrant workers settle and gain access to broader services.

In terms of structural reform, Professor Jiang underscored two priorities: supporting the private sector and establishing a more effective enterprise exit mechanism. The direction of reform is clear: enhancing the role of markets and promoting fair competition between state-owned and private enterprises. Currently, the lack of a robust exit system has led to the survival of inefficient firms, exacerbating overcapacity and what she termed "involution". While details remain limited, a better-designed exit framework could help address misallocation and support productivity gains.

In terms of openness, she outlined four evolving priorities. First, China is placing greater emphasis on trade balance, including efforts to expand imports. Second, outbound direct investment is being encouraged as a tool for sustainable development in host countries through local production, employment, and taxation. Third, China's exports are becoming greener and more sophisticated, aiding global industrial upgrading and the green transition. Finally, China is open to greater unilateral market liberalization to deepen its integration with the global economy.

Lastly, on debt issue, she emphasized that, unlike in many other countries, a significant portion of China's debt has been used to finance long-term infrastructure projects—investments that generate lasting value and benefit multiple generations. From this perspective, it is reasonable for future generations to share part of the repayment responsibility. In contrast, when public debt is primarily used to cover current fiscal shortfalls, as is often the case elsewhere, it becomes harder to justify intergenerational burden-sharing. This misalignment frequently triggers political and social tensions.

China's official manufacturing PMI in May rose modestly to 49.5, up from 49.0 in April, reflecting early signs of stabilization amid a temporary de-escalation in U.S.-China trade tensions. The forward-looking business expectations index also edged up to 52.5 from 52.1, suggesting a modest improvement in corporate sentiment. However, inventory and pricing indicators continue to reflect caution. The producer price index subcomponent fell 0.1ppt to 44.7, while the finished goods inventory sub-index declined by 0.8ppt to 46.5. These declines suggest firms remain hesitant to rebuild inventories due to lingering uncertainties surrounding trade policy and overall demand recovery.

The trade negotiation between US and China is likely to be the focus this week after President Donald Trump accused China of backtracking on commitments to roll back tariffs last Friday.

Hong Kong's growth of merchandise exports and imports slowed to 14.7% YoY and 15.8% YoY respectively in April (March: 18.5% YoY and 16.6% YoY), as US and China engaged in tit-for-tat tariff battle during the month. During the period, trade balance deficit narrowed to HK$16.0 billion (March: HK$45.4 billion).

Breaking down, exports to major trading partners showed mixed performance. Total merchandise exports to Asia as a whole grew by 20.8% YoY respectively, while exports to US rose at a much slower pace of 1.0% YoY. Despite the US-China trade war truce, Hong Kong's trade performance is expected to weaken in periods ahead, due to the high base effect and fading front-loading of exports.
Gross gaming revenue in Macau rose 5.0% YoY (12.4% MoM) to MOP21.19 billion in May, the highest monthly tally since the Covid pandemic, due to the increased foot traffic during the five-day Golden week holiday in mainland.

Strict controls over the junket and gambling related activities, as well as China's lagged economic recovery and intensified regional rivalries, stunted the city's gaming sector's recovery. Gross gaming revenue is expanding at a meagre pace of 1.7% YoY in the first five months of the year.

There appeared to be slight pickup in the share of VIP segments, though still within recent range after the regulatory shifts. Generally speaking, we still expect share of the mass market to VIP segments to hold at roughly 75%-25% levels, with the landscape of latter permanently changed by the rounds of junket activities crackdown. Macau's gross total gaming revenue may still refresh post-Covid high in coming months. Yet, with the normalised base, year-on-year growth should fall to a low-to -mid single digit figure, i.e. 3%-6%, in 2025.

Key Economic News	
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▪ China's official manufacturing PMI in May rose modestly to 49.5, up from 49.0 in April, reflecting early signs of stabilization amid a temporary de-escalation in U.S.-China trade tensions.	▪ Although the headline index remains in contractionary territory, key subcomponents show improvement, suggesting a possible bottoming in industrial activity. The production sub-index returned to expansionary territory at 50.7, likely driven by frontloading activity in exports. On the demand side, both new orders and new export orders improved to 49.8 and 47.5, respectively, up from 49.2 and 44.7 in April — signaling firmer external and domestic demand. ▪ By enterprise size, PMI for large and small enterprises rose to 50.7 and 49.3, respectively, from 49.2 and 48.7, indicating broader support across firm sizes. The forward-looking business expectations index also edged up to 52.5 from 52.1, suggesting a modest improvement in corporate sentiment. However, inventory and pricing indicators continue to reflect caution. The producer price index subcomponent fell 0.1ppt to 44.7, while the finished goods inventory sub-index declined by 0.8ppt to 46.5. These declines suggest firms remain hesitant to rebuild inventories due to lingering uncertainties surrounding trade policy and overall demand recovery.
▪ Hong Kong: Growth of merchandise exports and imports slowed to 14.7% YoY and 15.8% YoY respectively in April (March: 18.5% YoY and 16.6% YoY), as US and China engaged in tit-for-tat tariff battle during the month. During the period, trade balance deficit narrowed to HK$16.0 billion (March: HK$45.4 billion).	▪ Breaking down, exports to major trading partners showed mixed performance. Total merchandise exports to Asia as a whole grew by 20.8% YoY respectively, while exports to US rose at a much slower pace of 1.0% YoY. ▪ Despite the US-China trade war truce, Hong Kong's trade performance is expected to weaken in periods ahead, due to the high base effect and fading front-loading of exports.
▪ Hong Kong: Housing prices ended the four-month losing streak, while rents extended the recent rally. The residential property price index rebounded by 0.4% MoM in April (-0.3% MoM in March), narrowing the year-to-date loss to 1.2%. Meanwhile, rental index rose further by 0.3% MoM in April (0.1% MoM in March).	▪ Analyzed by flat size, the price indexes of mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square metre or above) rebounded by 0.3% MoM and 0.4% MoM respectively in April. As for rental index, mass-market and medium-sized and large-sized properties rose by 0.3% MoM and 0.1% MoM respectively. ▪ Trading activities increased to five-month high of 5,694 cases in April, amid increase in launches of primary projects. We expect the price index to stay largely flat in 2025, on the back of narrowing buy-rent gap, further cut in prime rate, together with increases in non-local and end-user demand.
▪ Macau: Gross gaming revenue in Macau rose 5.0% YoY (12.4% MoM) to MOP21.19 billion in May, the highest monthly tally since the Covid pandemic, due to the increased foot traffic during the five-day Golden week holiday in mainland.	▪ Strict controls over the junket and gambling related activities, as well as China's lagged economic recovery and intensified regional rivalries, stunted the city's gaming sector's recovery. Gross gaming revenue is expanding at a meagre pace of 1.7% YoY in the first five months of the year. ▪ There appeared to be slight pickup in the share of VIP segments, though still within recent range after the regulatory shifts. Generally speaking, we still expect share of the mass market to VIP segments to hold at roughly 75%-25% levels, with the landscape of latter permanently changed by the rounds of junket activities crackdown. Macau's gross total gaming revenue may still refresh post-Covid high in coming months. Yet, with the normalised base,

	year-on-year growth should fall to a low-to -mid single digit figure, i.e. 3%-6%, in 2025.

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