

Greater China — Week in Review

1 September 2025

Highlights: China trip notes

I just wrapped up my China trip last week, meeting clients, counterparties, and local media in Shenzhen and Hong Kong. Compared with my last visit in late May, the conversation has clearly shifted: **Chinese corporates are now less preoccupied with the trade war and far more focused on three hot topics—equities, RMB, and domestic consumption.**

On equities, the hype is real (and admittedly, I'm no equity guru). From a macro lens, though, the recent anti-involution campaign has undeniably injected optimism into the market. History gives us a useful playbook here: every cycle of overcapacity resolution and the bottoming-out of the Producer Price Index (PPI) has been followed by a bull run in the capital market. Typically, PPI leads industry profits by about three months, and industry profits move in lockstep with A-share earnings. In other words, the PPI cycle tends to lead the A-share profit cycle by about a quarter.

August PMI data adds to the story: input prices jumped 1.8 points to 53.3, suggesting anti-involution measures are working their way through the system, while business expectations rose to 53.7 from 52.6, signaling firmer price expectations despite still-sluggish demand. If history rhymes, the rebound in PPI could well keep fueling the current equity rally.

On RMB, the buzz is just as intense. The recent creep higher in the daily fixing looks like the opening act of a managed appreciation against the dollar. Clients are glued to the daily fixing—sometimes I wonder if they know more than me. Whether this guided appreciation is tied to ongoing US-China trade talks remains unclear, but it does suggest that RMB is transitioning from prolonged stability to a carefully steered grind higher.

SAFE data shows the willingness to sell foreign currency in July ticked up slightly to 63%, though still below the 10-year average of 64%. This means corporates remain hypersensitive to RMB swings, raising the risk of overshooting if momentum builds. Our FX strategist has revised the year-end USDCNH forecast down to 7.08, assuming the PBoC keeps guiding, domestic stabilization continues, and Fed easing proceeds as expected. In short—keep an eye on that chart, it may move fast.

Lastly, on domestic consumption, our clients were somewhat split. The missing piece, of course, is income growth—since consumption, at the end of the day, is still a function of income growth, income expectations, and the wealth effect. Without that foundation, stimulus feels a bit like serving hotpot without the broth: plenty of ingredients, but something essential is missing. That said, the latest policy signals all point toward a more determined push to boost consumption.

A prime example is the State Council's newly unveiled "AI Plus" initiative, which takes a broad-brush approach to weaving artificial intelligence into nearly every aspect of the economy. By 2027, Beijing expects next-generation intelligent

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terminals and AI agents to surpass 70% penetration, climbing above 90% by 2030. Clearly, policymakers see the intelligent economy not just as the future of industry, but also as a key driver of China's high-quality growth.

The initiative is also designed to support and stimulate consumption through multiple channels. First, AI-powered services will be embedded in daily life—from culture, entertainment, and e-commerce to elderly and childcare—enhancing consumer experience and demand. Second, the rapid adoption of intelligent terminals such as smart home systems, wearable devices, and connected vehicles is expected to create an “Internet of Everything” that fuels new categories of consumer products. Third, the government will introduce targeted policy tools such as “AI vouchers” to subsidize computing power, reducing R&D and application costs for enterprises. Finally, AI integration with frontier technologies—including the metaverse, low-altitude mobility, additive manufacturing, and brain-computer interfaces—may unlock new waves of consumption potential.

In short, China is betting that AI will turn consumption into a self-reinforcing feedback loop: smarter devices drive new demand, which in turn accelerates industrial innovation and, eventually, income growth. The million-dollar question is whether households will actually feel wealthier and more confident enough to spend—because without that, even the smartest fridge can't stock itself.

In Hong Kong, strong equity inflows together with the month-end effect, have kept HKD liquidity at the tight side and pushed HIBORs to multi-week high last week. Front-end HIBORs were more responsive to the liquidity tightness and rose substantially than the back-end, hence leading to an inverted curve. As month-end effect abates and equity inflow normalizes, further upside room for HIBORs should be capped.

HIBORs may consolidate around the current levels for now, in the absence of imminent additional liquidity drainage. Near-term consolidation is also likely for HKD IRS – USD OIS spreads, while we continue to see room for further upward moves at short-end HKD-USD rates spreads over a multi-month horizon.

Spot USDHKD hovered at below the mid-point of band at 7.80 levels, and pressure appeared to be biased slightly to the downside. We flag two-way risks in terms of the direction of potential FX intervention.

Exports performance in Hong Kong continued to hold up in July, with growth of merchandise exports and imports picking up again to 14.3% YoY and 16.5% YoY respectively in July (June: 11.9% YoY and 11.1% YoY). In sequential terms, exports rebounded by 6.8% MoM, snapping the three-month losing streak. During the period, trade balance deficit narrowed to HKD3.41 billion in July, from that of HKD58.9 billion in June.

For the first seven months of 2025 as a whole, the value of total exports and imports still recorded solid growth at 13.1% YoY and 12.8% YoY respectively. We expect Hong Kong's trade performance to weaken further in the coming months, due to the high base a year ago and the slowing global growth. For the whole year, we expect merchandise exports to grow by around 10%, barring major escalations in trade tensions.

Hong Kong's housing market is showing tentative signs of bottoming out. The residential property price index rose by 0.4% MoM in July, after staying flatlined for two straight months. Meanwhile, rental index increased further by 0.6% MoM. In the second half this year, we expect the housing market to stabilize further alongside the rising market yield, though with some turbulence ahead as the 'low-rate honeymoon' ends. We expect the housing price index to flatline this year, while rental index is expected to increase by 3-4% YoY.

Key Development	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's State Council unveiled a guideline last week on the comprehensive implementation of the "AI Plus" initiative, which aims to accelerate the development and application of AI across six priority sectors: science and technology, industrial upgrading, consumption, personal well-being, public governance, and global cooperation. 	<ul style="list-style-type: none"> By 2027, the penetration rate of next-generation intelligent terminals and AI agents is projected to exceed 70%, rising further to above 90% by 2030. This underscores Beijing's view that the intelligent economy will evolve into a key driver of China's high-quality growth. The initiative is also designed to support and stimulate consumption through multiple channels. First, AI-powered services will be embedded in daily life—from culture, entertainment, and e-commerce to elderly and childcare—enhancing consumer experience and demand. Second, the rapid adoption of intelligent terminals such as smart home systems, wearable devices, and connected vehicles is expected to create an "Internet of Everything" that fuels new categories of consumer products. Third, the government will introduce targeted policy tools such as "AI vouchers" to subsidize computing power, reducing R&D and application costs for enterprises. Finally, AI integration with frontier technologies—including the metaverse, low-altitude mobility, additive manufacturing, and brain-computer interfaces—may unlock new waves of consumption potential. From smart devices to AI companions and immersive media, the AI Plus initiative aims to transform consumption into a powerful feedback loop that reinforces industrial innovation and economic growth.
<ul style="list-style-type: none"> Hong Kong: Strong equity inflows together with the month-end effect, have kept HKD liquidity at the tight side and pushed HIBORs to multi-week high last week. Front-end HIBORs were more responsive to the liquidity tightness and rose substantially than the back-end, hence leading to an inverted curve. As month-end effect abates and equity inflow normalizes, further upside room for HIBORs should be capped. 	<ul style="list-style-type: none"> Onshore equity market continued to rally on hopes of more participation from retail investors, while Hong Kong market saw hefty southbound inflow and outflow in the past week. Net southbound equity inflow on 26 and 27 August amounted to HK\$31.94 bn, accounting for 23.5% of total inflow in July, before seeing a large outflow at HK\$20bn on 28 August. HIBORs may consolidate around the current levels for now, in the absence of imminent additional liquidity drainage. Near-term consolidation is also likely for HKD IRS – USD OIS spreads, while we continue to see room for further upward moves at short-end HKD-USD rates spreads over a multi-month horizon. Spot USDHKD hovered at below the mid-point of band at 7.80 levels, and pressure appeared to be biased slightly to the downside. We flag two-way risks in terms of the direction of potential FX intervention.
<ul style="list-style-type: none"> The Hong Kong dollar loan-to-deposit ratio bounced to 73.1% at the end of July, from the multi-year low of 72.0% at the end of June, as Hong Kong dollar deposits decreased at a faster pace than Hong Kong dollar loans. 	<ul style="list-style-type: none"> In July, total deposits rose by 0.2% MoM, with the increase in foreign currency deposits (+1.9% MoM) more than offsetting the decline in Hong Kong dollar deposits (-2.0% MoM), partly due to the still wide HKD-USD rate differentials. Renminbi deposits rose by 6.4% to RMB938.2 bn in July, mainly reflecting the steady southbound equity inflow. On the other hand, total loans and advances dropped by 1.1% in July, led mostly by the decline in loans for use in Hong Kong (-1.0% MoM). In the second quarter, loans to financial concerns and stockbrokers rose the most by 3.7% QoQ and 16.3% QoQ respectively, alongside improvement in risk sentiment in the equity market. Meanwhile, declines in loans to building and construction/ property development and investment narrowed

to 0.1% QoQ (Q1: -2.7% QoQ).

Key Economic News

Facts	OCBC Opinions
<ul style="list-style-type: none"> China's manufacturing PMI inched higher to 49.4 in August from 49.3 in July, indicating a marginal improvement but still signaling contraction. 	<ul style="list-style-type: none"> Both supply and demand showed modest gains, with the production sub-index rising to 50.8 (July: 50.5) and new orders edging up to 49.5 (July: 49.4). Input prices rose sharply by 1.8 points to 53.3, signalling that China's anti-involution is bearing fruit and raising the prospect of upward transmission to PPI. Meanwhile, the business expectations index improved notably to 53.7 from 52.6, reflecting firmer price expectations despite sluggish underlying demand. The non-manufacturing PMI improved slightly to 50.3 from 50.1 thanks to improving service sectors amid China's summer school holiday. However, construction PMI declined markedly to 49.1 from 50.6, its lowest level in over five years. While extreme weather conditions such as heat waves and heavy rainfall partly constrained activity, weak fiscal expenditure likely exacerbated the slowdown.
<ul style="list-style-type: none"> Hong Kong: Exports performance continued to hold up in July, with growth of merchandise exports and imports picking up again to 14.3% YoY and 16.5% YoY respectively in July (June: 11.9% YoY and 11.1% YoY). In sequential terms, exports rebounded by 6.8% MoM, snapping the three-month losing streak. During the period, trade balance deficit narrowed to HKD3.41 billion in July, from that of HKD58.9 billion in June. 	<ul style="list-style-type: none"> Breaking down, exports to major trading partners continued to show mixed performance. Total merchandise exports to Asia as a whole grew by 19.3% YoY in July, while exports to Netherlands and US plummeted by 42.1% YoY and 7.6% YoY respectively. For the first seven months of 2025 as a whole, the value of total exports and imports still recorded solid growth at 13.1% YoY and 12.8% YoY respectively. We expect Hong Kong's trade performance to weaken further in the coming months, due to the high base a year ago and the slowing global growth. For the whole year, we expect merchandise exports to grow by around 10%, barring major escalations in trade tensions.
<ul style="list-style-type: none"> Hong Kong's housing market is showing tentative signs of bottoming out. The residential property price index rose by 0.4% MoM in July, after staying flatlined for two straight months. Meanwhile, rental index increased further by 0.6% MoM. In the second half this year, we expect the housing market to stabilize further alongside the rising market yield, though with some turbulence ahead as the 'low-rate honeymoon' ends. 	<ul style="list-style-type: none"> Analyzed by flat size, the rental 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) rose by 0.5% MoM and 0.2% MoM respectively in July. In the first seven months this year, the residential property price index fell by 0.4%, while rental index grew by 2.0%. With the growth of housing rent outpacing price, the market yield is expected to extend its uptrend. Other high frequency data suggested that housing prices held steady at seven-month high. Anecdotal evidence suggested a broad-based improvement in housing market sentiment more recently. Developers are also offering less discount to the new home buyers in light of the easing inventory pressure. We expect the housing price index to flatline this year, while rental index is expected to increase by 3-4% YoY.

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