Greater China — Week in Review

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Highlights: Narrative and policy hopes

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China's Shanghai Composite Index ended the week above the 3,500 mark for the first time since early 2022, defying persistent concerns over the ongoing disinflationary trend.

June's Producer Price Index (PPI) declined by 3.6% year-on-year, missing market expectations of a 3.3% drop and remaining firmly in negative territory, signaling continued weakness in industrial prices. However, the slower-than-expected pace of recovery may be reinforcing expectations for stronger policy support. Indeed, much of the recent market rally has been driven by policy optimism, ranging from the emerging "anti-involution" narrative to renewed hopes for stabilization in the property sector.

On June 29, 2025, the People's Daily published an article titled "Achieving High-Quality Development by Breaking 'Involution-Type' Competition", which emphasized that "multiple measures by government departments and coordinated efforts from relevant parties" will be key to advancing anti-involution governance. This marks a notable departure from the supply-side reforms in 2015-16, which were predominantly government-led. The current anti-involution campaign is positioned as a joint effort between the government and market participants.

Industries currently targeted under this governance framework fall into two broad categories. First are traditional sectors such as cement, steel, aluminum, petroleum, chemicals, and coal-fired power. Second are fast-growing emerging industries, including photovoltaics, lithium batteries, new energy storage, new energy vehicles, and e-commerce platforms.

Based on recent policies and regulatory meetings, the approach varies by industry structure. In sectors with a high concentration of state-owned enterprises—such as steel, coal, aluminum, and coal-fired power—administrative tools like production curbs and capacity reduction remain the primary instruments. In contrast, industries dominated by private enterprises, such as photovoltaics, new energy vehicles, energy storage, and cement, are more reliant on industry association-led self-regulation and market-based discipline.

Overall, the rollout of anti-involution measures is expected to be more gradual compared to previous supply-side reforms. As such, the short-term impact may be more catalytic in shaping sentiment than in delivering immediate fundamental improvements.

Despite the improvement in June, CPI for 1H 2025 remained in slight deflation at -0.1% YoY, with core inflation staying below 0.5%, underscoring the persistent challenges along China's reflation path. The prolonged downturn in the property sector—now entering its fourth year—continues to erode household wealth and dampen consumer confidence.

For the first half of the year, PPI fell 2.8% YoY—0.6 percentage points deeper than the contraction recorded in 2023. The weakness was driven by a combination of lower global commodity prices and sustained domestic pressures, including the property downturn and lackluster consumer demand.

Looking ahead, the ongoing downturn in pork prices suggests that CPI inflation will remain subdued in 2H 2025. Should external demand soften further, exporters may divert more inventory into the domestic market, adding deflationary pressure. While recent anti-"involution" policies may lend some marginal price support, the broader reflation process will hinge on sustained and coordinated policy support. Fiscal expansion and monetary easing will remain critical tools in guiding the economy out of deflation in the months ahead.

For this week, the focus will be on China's hard data including June trade data today and second quarter GDP tomorrow.

Key Development	
Facts	**OCBC Opinions**
▪ On June 29, 2025, the People's Daily published an article titled "Achieving High-Quality Development by Breaking 'Involution-Type' Competition", which emphasized that "multiple measures by government departments and coordinated efforts from relevant parties" will be key to advancing anti-involution governance.	▪ This marks a notable departure from the supply-side reforms of the past, which were predominantly government-led. The current anti-involution campaign is positioned as a joint effort between the government and market participants. ▪ Industries currently targeted under this governance framework fall into two broad categories. First are traditional sectors such as cement, steel, aluminum, petroleum, chemicals, and coal-fired power. Second are fast-growing emerging industries, including photovoltaics, lithium batteries, new energy storage, new energy vehicles, and e-commerce platforms. ▪ Based on recent policies and regulatory meetings, the approach varies by industry structure. In sectors with a high concentration of state-owned enterprises—such as steel, coal, aluminum, and coal-fired power—administrative tools like production curbs and capacity reduction remain the primary instruments. In contrast, industries dominated by private enterprises—such as photovoltaics, new energy vehicles, energy storage, and cement—are more reliant on industry association-led self-regulation and market-based discipline. ▪ Overall, the rollout of anti-involution measures is expected to be more gradual compared to previous supply-side reforms. As such, the short-term impact may be more catalytic in shaping sentiment than in delivering immediate fundamental improvements.

Key Economic News	
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▪ China's CPI returned to positive territory in June, broadly in line with market expectations.	▪ The improvement was partially driven by food prices, as the usual seasonal decline was smaller than expected—mainly due to heavy rainfall and high temperatures pushing up vegetable prices. Rising global oil prices also contributed to higher energy costs. Meanwhile, domestic consumption-supportive policies lent strength to prices of automobiles and home appliances. Notably, prices of cultural and entertainment durable goods, home textiles, and household appliances rose by 2.0%, 2.0%, and 1.0% YoY, respectively. ▪ Despite the improvement in June, CPI for 1H 2025 remained in slight deflation at -0.1% YoY, with core inflation staying below 0.5%, underscoring the persistent challenges along China's reflation path. The prolonged downturn in the property sector—now entering its fourth year—continues to erode household wealth and dampen consumer confidence. ▪ On the producer side, PPI contracted by -3.6% YoY in June, below market expectations. MoM, prices fell 0.4% for the fourth consecutive month. Despite a rebound in global oil prices, weak momentum persisted across upstream sectors, reflecting deteriorating supply-demand dynamics in specific industries. Inclement weather also weighed on construction activity, further depressing prices of materials like steel and cement. ▪ For the first half of the year, PPI fell 2.8% YoY—0.6 percentage points deeper than the contraction recorded in 2023. The weakness was driven by a combination of lower global commodity prices and sustained domestic pressures, including the property

	downturn and lackluster consumer demand. ▪ Looking ahead, the ongoing downturn in pork prices suggests that CPI inflation will remain subdued in 2H 2025. Should external demand soften further, exporters may divert more inventory into the domestic market, adding deflationary pressure. While recent anti-"involution" policies may lend some marginal price support, the broader reflation process will hinge on sustained and coordinated policy support. Fiscal expansion and monetary easing will remain critical tools in guiding the economy out of deflation in the months ahead.

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