Greater China — Week in Review

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Highlights: Underlying demand remains weak

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The broader takeaway from China's October credit and activity data is, unfortunately, still the same old story: underlying demand remains weak. Households continue to shy away from borrowing, and corporates are in no mood to commit to long-term capex. Outside of pockets of high-tech financing needs, organic credit appetite is likely to stay under pressure.

Retail sales rose 2.9% YoY in October, a touch softer than September's 3.0% but still slightly ahead of expectations. Given last October's relatively high base, I would characterise the print as reasonably resilient. The divergence across categories was striking: household appliance sales plunged, while communication equipment jumped over 23% YoY, reflecting ongoing momentum from the consumer goods replacement programme. The extra public holiday also helped lift services spending, particularly in catering and restaurants—never underestimate the Chinese consumer's willingness to eat out when given an extra day off.

But the same holiday proved a double-edged sword. Fewer working days and elevated inventories weighed on industrial activity, with value-added growth slowing sharply to 4.9% YoY from 6.5% previously.

Investment offered little comfort. From January to October, fixed-asset investment (FAI) contracted 1.7% YoY, while private investment fell 4.5%. Excluding property, overall FAI managed only a 1.7% gain and private investment barely mustered a 0.2% increase. Infrastructure dipped 0.1%, and real-estate investment dropped a steep 14.7% YoY—further evidence that the sector remains the economy's heaviest anchor.

Aggregate financing (TSF) rose CNY815bn in October, a sizeable CNY597bn less YoY, weighed down by a pullback in government bond issuance and softer CNY loan growth. TSF stock growth continued to decelerate as the earlier front-loading of fiscal financing tapered off.

New Yuan loans amounted to just CNY220bn—down CNY280bn YoY—with households again the clear weak spot. Short-term household loans fell CNY335bn YoY, while medium- to long-term household loans declined CNY70bn, marking the fourth monthly contraction this year. Consumers remain firmly in de-leveraging mode, hindered by soft income expectations and persistent uncertainty in the property market.

Corporate credit demand was similarly subdued. Despite PPI improving for three consecutive months, firms are still hesitant to expand capex. The CNY500bn in new policy-based financial instruments has been fully deployed—partially reflected in entrusted loans—but the liquidity has yet to meaningfully spill over into broader credit creation.

The additional CNY500bn in local-government debt quota scheduled for November–December should add support. Still, contributions from government bond financing to TSF may continue to moderate. In my view, this signals a recalibration of counter-cyclical tools rather than any pulling back on policy intensity—more of a "reorganising the toolbox" than "putting the tools away."

Looking ahead, the trajectory of TSF growth will hinge on the spillover effects of the latest policy measures. Follow-up financing from the newly deployed instruments should gradually lift corporate medium- to long-term lending—slowly, perhaps unevenly, but hopefully more convincingly than October's reading.

In its third quarter Monetary Policy Implementation Report, the PBoC reiterated its commitment to maintaining a "moderately loose" policy stance. However, the tone turned slightly less dovish. The central bank replaced the previous emphasis on "strengthening counter-cyclical adjustments" with "effective implementation of both counter-cyclical and cross-cyclical adjustments," signaling reduced urgency for broad-based easing. This suggests that policy focus may shift toward more targeted credit support rather than another round of across-the-board rate cuts.

With limited room left for further RRR or policy-rate cuts, the PBoC is no longer sprinting ahead of the cycle; it's pacing itself like a marathoner who realised the race is longer than expected. Looking ahead, November's PMI will be pivotal. Another disappointment would materially strengthen the case for more forceful counter-cyclical measures—and could put rate cuts squarely back on the table. Markets will be watching closely, and so will policymakers.

Overall, we believe the PBoC is likely to keep rates unchanged for the remainder of this year, with the next potential rate cut postponed to the first quarter of 2026.

Hong Kong government revised upward 2025's growth forecast to 3.2%, from 2%-3% in August, following the release of revised third quarter GDP (unchanged from advance estimate at 3.8% YoY and 0.7% QoQ respectively). On a similar note, the headline inflation forecast is revised down from 1.8% to 1.5%.

Despite the ongoing challenges, Hong Kong recorded three consecutive quarters of stronger-than-expected growth, reinforcing the narrative of an economic comeback. The flareup of US-China trade tensions early this year and softening of global growth turned out to be less a drag on Hong Kong's economy than initially feared. External demand continued to hold up, supported by positive spillover from China's stellar performance in exports and still benign global monetary/fiscal environment. On domestic front, further easing of financial condition and robust performance in the asset market revived the once sluggish demand.

Earlier on, we revised our full-year 2025 GDP growth forecast upward to 3.4%, exceeding the government's 3.2%, and raised the 2026 forecast to 2.6%. Notwithstanding the broader growth, HK's labour market is expected to stay soft under the shadow of structural imbalances. On a separate note, we see two-way risk to inflation, but with slight bias to the upside. We tip the unemployment rate and inflation forecast at 3.6% and 1.4% YoY respectively for 2025, and 3.7% and 1.6% respectively for 2026.

Separately, Macau's GDP grew sharply by 8.0% YoY in the third quarter, same as the advance estimate. During 3Q25, growth of total exports of services accelerated to

10.5% YoY (2Q25: 5.0% YoY), on the back of a surge in visitor arrivals. Increases in government consumption expenditure accelerated somewhat to 2.7% YoY (2Q25: 0.91.0% YoY), after the meagre growth in the first two quarters. Conversely, growth of private consumption slowed to 0.8% YoY (2Q25:1.7% YoY), amid softening of labour market during the quarter. Meanwhile, gross fixed capital formation declined further by 25.6% YoY (2Q25: -4.6% YoY), owing to decreases in private and public construction projects.

Stronger-than-expected service exports prompted an upward revision of our full-year 2025 growth forecast to 5.0% from the previous estimate of 2.6%.

Hong Kong government issued HK$10 billion worth of digital green bonds last week, denominated in HK dollars (2-year tranche at 2.5%), Renminbi (5-year tranche at 1.9%), US dollars (3-year tranche at 3.633%) and euro (4-year tranche at 2.512%). The issuance is met with solid demand, drawing total subscription of more than HK$130 billion (12 times over-subscripted). It affirmed government's determination to build a digital asset ecosystem and develop Hong Kong into a regional DA hub.

The government has started regular issuances of tokenised government bonds since 2023 (first issuance in 2023: HK$800 million tokenized green bond; second issuance in 2024: HK$6 billion multi-currency digital green bond). For the latest issuance, the authorities also introduced the option to settle via tokenized central bank money alongside traditional settlement rails in the primary issuance process for the both local dollar and yuan tranches.

Key Development	
Facts	**OCBC Opinions**
▪ In its third quarter Monetary Policy Implementation Report, the PBoC reiterated its commitment to maintaining a "moderately loose" policy stance.	▪ However, the tone turned slightly less dovish. The central bank replaced the previous emphasis on "strengthening counter-cyclical adjustments" with "effective implementation of both counter-cyclical and cross-cyclical adjustments," signaling reduced urgency for broad-based easing. This suggests that policy focus may shift toward more targeted credit support rather than another round of across-the-board rate cuts. We believe the PBoC is likely to keep rates unchanged for the remainder of this year, with the next potential rate cut postponed to the first half of 2025.
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Key Economic News	
Facts	**OCBC Opinions**
▪ China's retail sales rose 2.9% YoY in October, easing marginally from 3.0% in September but still slightly beating market expectations.	▪ Given the relatively high base last October, I would characterise the month's performance as reasonably resilient. The divergence across categories was notable: household appliance sales slumped, but communication equipment sales surged more than 23% YoY, suggesting that the consumer goods replacement programme is still driving purchases. The "Double 11" promotion window also lifted demand for selected durables. Meanwhile, the additional public holiday helped support services spending—catering revenue strengthened by 2.9ppt MoM to 3.8% YoY. ▪ That same holiday, however, became a double-edged sword. Fewer working days, combined with elevated inventories, weighed on production. Industrial value-added growth slowed sharply to 4.9% YoY in October from 6.5% previously. ▪ On the investment front, the picture remained weak. From January to October, fixed-asset investment (FAI) contracted 1.7% YoY cumulatively, with private investment down 4.5%. Stripping out property, overall FAI rose just 1.7% and private investment eked out only a 0.2% gain. By sector, manufacturing investment grew 2.7%, infrastructure slipped 0.1%, and real-estate investment fell a steep 14.7% YoY. ▪ Overall, domestic demand is still soft. The falling share of household loans in total new credit this year continues to illustrate households' cautious leverage stance and subdued risk appetite.
▪ China's aggregate financing (TSF) rose by CNY815bn in October, CNY597bn less YoY, driven mainly by the pullback in government bond issuance and weaker CNY loan growth.	▪ TSF stock growth continued to decelerate as front-loaded fiscal financing tapered off and government net bond issuance declined. Government bond net financing fell CNY560bn YoY, becoming the single largest drag on TSF—unsurprising given that most of this year's issuance had already been concentrated in 1H25 under the "front-loading" strategy. ▪ New Yuan loans increased by only CNY220bn, down CNY280bn YoY, with the household sector again the weakest link. Short-term household loans contracted by CNY335bn YoY, while medium- to long-term household loans fell CNY70bn, marking the fourth outright decline this year. Households remain firmly in de-leveraging mode, reflecting softer income expectations and prolonged uncertainty in the property market. ▪ Corporate credit demand was also subdued. Medium- to long-

	term corporate loans rose just CNY30bn, CNY140bn less YoY. Even with PPI improving for three consecutive months, firms are still holding back on capex. The CNY500bn in new policy-based financial instruments has now been fully deployed—partly showing up in entrusted loans—but the associated liquidity has not yet meaningfully diffused into broader credit creation. The slowdown in long-term credit growth weighed on M2 as well, reinforcing the picture of still-weak endogenous demand amid the "anti-involution" push. ▪ After hitting a recent high of 7.2% YoY in September, M1 growth retreated to 6.2% in October. The September uptick was mainly driven by unusually strong household demand deposits. But with household loan appetite sharply weakening in October especially short-term loans, demand deposits lost momentum, pulling M1 lower. ▪ The additional CNY500bn local-government debt quota scheduled for November–December will provide further support. That said, contributions from government bond financing to TSF may continue to soften. In my view, this reflects a recalibration of counter-cyclical tools rather than any retreat in policy intensity. ▪ The broader takeaway from the credit data remains unchanged: underlying demand is still weak. Households are reluctant to borrow, and corporates remain cautious on long-term investment. Outside of financing needs from high-tech industries, organic credit demand will likely stay under pressure. In the coming months, TSF growth will hinge heavily on the spillover effects of incremental policy tools—follow-up financing from the newly deployed instruments should gradually lift corporate medium- to long-term lending.
▪ Hong Kong government revised upward 2025's growth forecast to 3.2%, from 2%-3% in August, following the release of revised third quarter GDP (unchanged from advance estimate at 3.8% YoY and 0.7% QoQ respectively). On a similar note, the headline inflation forecast is revised down from 1.8% to 1.5%.	▪ Despite the ongoing challenges, Hong Kong recorded three consecutive quarters of stronger-than-expected growth, reinforcing the narrative of an economic comeback. The flareup of US-China trade tensions early this year and softening of global growth turned out to be less a drag on Hong Kong's economy than initially feared. External demand continued to hold up, supported by positive spillover from China's stellar performance in exports and still benign global monetary/fiscal environment. On domestic front, further easing of financial condition and robust performance in the asset market revived the once sluggish demand. ▪ Earlier on, we revised our full-year 2025 GDP growth forecast upward to 3.4%, exceeding the government's 3.2%, and raised the 2026 forecast to 2.6%. Notwithstanding the broader growth, HK's labour market is expected to stay soft under the shadow of structural imbalances. On a separate note, we see two-way risk to inflation, but with slight bias to the upside. We tip the unemployment rate and inflation forecast at 3.6% and 1.4% YoY respectively for 2025, and 3.7% and 1.6% respectively for 2026.
▪ Hong Kong government issued HK$10 billion worth of digital green bonds last week, denominated in HK dollars (2-year tranche at 2.5%), Renminbi (5-year tranche at 1.9%), US dollars (3-year tranche at 3.633%) and euro (4-year tranche at 2.512%). The issuance is met with solid demand, drawing total subscription of	▪ The government has started regular issuances of tokenised government bonds since 2023 (first issuance in 2023: HK$800 million tokenized green bond; second issuance in 2024: HK$6 billion multi-currency digital green bond). For the latest issuance, the authorities also introduced the option to settle via tokenized central bank money alongside traditional settlement rails in the primary issuance process for the both local dollar and yuan tranches.

more than HK$130 billion (12 times over-subscripted). It affirmed government's determination to build a digital asset ecosystem and develop Hong Kong into a regional DA hub.	▪ Aside from tokenized green bond, the real-world assets tokenisation products on the market are mostly related to fixed income products (eg. tokenised money market fund). Through implementing advanced regulatory framework and pro-tokenization policies, together with various government-backed programs to support private sector participation (eg. Digital Bond Grant Scheme), Hong Kong strives to become the leading digital asset hub.
▪ Macau's GDP grew sharply by 8.0% YoY in the third quarter, same as the advance estimate. For the first three quarters of 2025, the real economy grew by 4.2% YoY, but was still below the 2019 size by 11.6%.	▪ During 3Q25, growth of total exports of services accelerated to 10.5% YoY (2Q25: 5.0% YoY), on the back of a surge in visitor arrivals. Increases in government consumption expenditure accelerated somewhat to 2.7% YoY (2Q25: 0.91.0% YoY), after the meagre growth in the first two quarters. Conversely, growth of private consumption slowed to 0.8% YoY (2Q25:1.7% YoY), amid softening of labour market during the quarter. Meanwhile, gross fixed capital formation declined further by 25.6% YoY (2Q25: -4.6% YoY), owing to decreases in private and public construction projects. ▪ Stronger-than-expected service exports prompted an upward revision of our full-year 2025 growth forecast to 5.0% from the previous estimate of 2.6%.

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