Greater China — Week in Review

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Highlights: Frontloading

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Markets responded positively to signs of de-escalation in the U.S.-China trade conflict. Chinese equities rose, with onshore and offshore indices posting gains of 3–6% month-to-date. Meanwhile, the RMB stabilized around the 7.20 level against the U.S. dollar, even as the dollar index rebounded.

In the fixed income space, Chinese government bond yields edged higher despite the implementation of the reserve requirement ratio (RRR) and 7-day reverse repo rate cuts last week. The modest uptick in yields was largely driven by tighter interbank liquidity conditions due to corporate tax payment flows.

Adding to the optimism, the U.S. announced it will lower the "de minimis" tariff rate on low-value Chinese shipments to 54% from 120% for items valued under USD 800. A planned increase in the flat postal fee—from USD 100 to USD 200—has also been canceled, providing partial relief to cross-border e-commerce. Although not mentioned in the Geneva joint statement, the announcement signals continued tactical flexibility in tariff implementation.

According to data from container tracking software provider Vizion, the seven-day average booking volume as of May 14 surged by 277% compared to the average for the week ending May 5, rising from 5,709 TEUs (twenty-foot equivalent units).

Multiple sources also point to a sharp rebound in China–U.S. shipping rates. On the spot market, Maersk's sailing from Shanghai to Los Angeles scheduled for May 26 is quoted at USD 3,705 per FEU (forty-foot equivalent unit), nearly double the May 12 rate, representing a 96% increase.

These developments suggest that frontloading activity is likely to dominate shipping flows over the next 2–3 months. This dynamic may help mitigate downside risks to China's near-term growth outlook. We now expect China's Q2 GDP to remain above 5% YoY.

China's outstanding aggregate social financing (AFS) growth accelerated to 8.7% YoY in April, up from 8.4% YoY in March, while M2 growth jumped to 8.0% YoY from 7.0% YoY. However, new yuan loans underperformed expectations, reflecting subdued credit demand from both households and corporates amid persistent external uncertainties. Short-term household loans contracted by CNY402 billion, while medium- to long-term household loans also declined by CNY123.1 billion, underscoring continued weakness in consumption-related credit demand.

For this week, market will watch for China's April economic indicators as well as any sign of trade negotiations between US and China. China's 1-year and 5-year loan prime rates are expected to be lowered this week following the recent rate cuts.

HKD liquidity situation stays very flush, especially in the front-end, as the liquidity injected earlier will stay within the system in the absence of weak-side Convertibility Undertaking triggering. Meanwhile, the moderation of southbound inflow and the smaller-than-expected scale of IPO activities left HKD liquidity at the loose side.

Moving to late May and June, listed Chinese firms are expected to distribute dividend totaling around HK$100 billion (60% of aggregate balance). We are looking for liquidity to tighten somewhat closer to the time, with the impact amplified by the half-yearly settlement.

HIBORs showed early signs of bottoming out, while HKD IRS also showed some stabilization. Further ahead, we expect HIBORs to adjust back higher, and maintain an upward bias to short-end HKD-USD rates spreads (i.e. for the spreads to turn less negative).

Spot USDHKD rose to above the mid-point of currency band at 7.8, after almost un-interrupted rally in the past few sessions. Rally of spot USDHKD appeared to be stalled for now, though the pair remains sensitive to HKD liquidity situation in the near term.

Key Development	
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Key Economic News	
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▪ China's outstanding aggregate social financing (AFS) growth accelerated to 8.7% YoY in April, up from 8.4% YoY in March, while M2 growth jumped to 8.0% YoY from 7.0% YoY.	▪ However, new yuan loans underperformed expectations, reflecting subdued credit demand from both households and corporates amid persistent external uncertainties. Short-term household loans contracted by CNY402 billion, while medium- to long-term household loans also declined by CNY123.1 billion, underscoring continued weakness in consumption-related credit demand. ▪ On a more positive note, fiscal policy remained supportive of credit expansion, with frontloaded government bond issuance providing a key boost. Net issuance of local government special bonds reached CNY972.9 billion in April, contributing significantly to the CNY1.16 trillion increase in aggregate social financing. ▪ The sharp rise in M2 was partly driven by a low base effect, as deposit growth was suppressed in April last year due to regulatory crackdowns on interest subsidies offered by banks. In addition, in Q1 2025, the People's Bank of China (PBoC) suspended government bond purchases and actively withdrew liquidity in an effort to engineer a moderate rebound in government bond yields. This policy shift weighed on the net asset value (NAV) of certain wealth management products, reducing the attractiveness of non-deposit instruments and prompting funds to remain within the banking system. As a result, deposit balances increased, reinforcing the upward momentum in M2 growth.

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