

Greater China — Week in Review

21 July 2025

Highlights: Rebound of industrial prices despite lack of property stimulus

China's economy grew by 5.2% YoY in the second quarter, bringing first-half 2025 GDP growth to 5.3%, above the government's annual target. The stronger-than-expected performance was underpinned by three key drivers: robust external demand, continued upgrade in high-tech industries, and policy support from the consumer trade-in program. For details, you may refer to our report published last week.

China's efforts to reflate its economy hit the bottleneck. The persistent disinflationary trend was partially due to involution. The good news is amid China's ongoing "anti-involution" campaign, domestic industrial product futures prices have shown a sustained rebound in recent weeks. With the continued rollout and implementation of supportive industry policy plans, industrial product prices are expected to maintain their upward momentum in the near term. This may help set the floor for the producer prices index.

In the first half of the year, the value-added output of the equipment manufacturing industry above designated size contributed 3.4 percentage points to the overall growth of all above-scale industries, accounting for 35.5% of total industrial output—an increase of 0.9 percentage points from the same period last year. Meanwhile, the value-added of the high-tech manufacturing sector above designated size rose by 9.5% YoY, contributing 23.3% to the overall industrial growth.

During the 14th Five-Year Plan period, China's service consumption has entered a phase of rapid expansion. From 2020 to 2024, the average annual growth rate of household service consumption expenditure reached 9.6%, outpacing the growth of goods consumption. At this stage, the primary challenge lies on the supply side—specifically, a shortage of high-quality services. To address this, China will work closely with relevant departments to implement targeted measures, including further opening-up and easing of domestic restrictions, to improve the supply of premium services.

Meanwhile, the "Shopping in China" campaign has delivered encouraging results. In 2024, total spending by inbound tourists reached USD 94.2 billion, representing a strong year-on-year increase of 77.8%. The momentum generated by the "Tourism in China" initiative has successfully translated into increased spending under the "Shopping in China" drive.

Last week, the Central Urban Work Conference—chaired by President Xi Jinping—was convened for the first time in a decade. Over the past ten years, the pace of China's urbanization has gradually decelerated, prompting a shift in policy focus from expansion (incremental growth) to optimization and renewal (stock adjustment). Key themes from the conference included "promoting the renovation of urban villages and dilapidated housing" and "improving urban landscape management systems."

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Drawing lessons from the 2015 Central Urban Work Conference—which triggered a wave of monetized shantytown redevelopment—the short-term reduction in housing inventory at that time came at the cost of rapidly rising home prices, distorting real estate fundamentals. The current policy direction emphasizes urban renewal and physical upgrades rather than a repeat of monetized shantytown redevelopment. We think China is unlikely to launch large-scale real estate fiscal stimulus. First, China’s fiscal capacity is now more constrained than it was in 2015. Second, lingering concerns about the property bubble that followed the previous monetization wave remain fresh in policymakers’ minds.

In Hong Kong, weak-side convertibility undertaking (CU) was repeatedly triggered in the last three weeks, and the HKMA stepped in and bought a total of HKD86.8 bn thus far (reversing more than half of the liquidity injection). Correspondingly, the Aggregate Balance fell to HKD86.4 bn, from that of HKD173 bn earlier.

We expect to see more FX intervention down the road, amid the still appealing carry. HIBORs are likely to be more responsive to further liquidity drainage, in the process of normalisation. However, if spot USDHKD moved away from the 7.85 level in the presence of some position rebalancing flow, upward normalization in front-end HKD rates may take a while longer.

| Key Development | |
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| Facts | OCBC Opinions |
| <ul style="list-style-type: none"> China hosted a few press conference last week. | <ul style="list-style-type: none"> China's Ministry of Commerce said during the 14th Five-Year Plan period, China's service consumption has entered a phase of rapid expansion. From 2020 to 2024, the average annual growth rate of household service consumption expenditure reached 9.6%, outpacing the growth of goods consumption. At this stage, the primary challenge lies on the supply side—specifically, a shortage of high-quality services. To address this, China will work closely with relevant departments to implement targeted measures, including further opening-up and easing of domestic restrictions, to improve the supply of premium services. Meanwhile, the “Shopping in China” campaign has delivered encouraging results. In 2024, total spending by inbound tourists reached US\$94.2 billion, representing a strong year-on-year increase of 77.8%. The momentum generated by the “Tourism in China” initiative has successfully translated into increased spending under the “Shopping in China” drive. China's Ministry of Industry and Information Technology said in the first half of the year, the value-added output of the equipment manufacturing industry above designated size contributed 3.4 percentage points to the overall growth of all above-scale industries, accounting for 35.5% of total industrial output—an increase of 0.9 percentage points from the same period last year. Meanwhile, the value-added of the high-tech manufacturing sector above designated size rose by 9.5% YoY, contributing 23.3% to the overall industrial growth. |
| <ul style="list-style-type: none"> China host its first Central Urban Work Conference in ten years last week. | <ul style="list-style-type: none"> Over the past ten years, the pace of China's urbanization has gradually decelerated, prompting a shift in policy focus from expansion (incremental growth) to optimization and renewal (stock adjustment). Key themes from the conference included “promoting the renovation of urban villages and dilapidated housing” and “improving urban landscape management systems.” Drawing lessons from the 2015 Central Urban Work Conference—which triggered a wave of monetized shantytown redevelopment—the short-term reduction in housing inventory at that time came at the cost of rapidly rising home prices, distorting real estate fundamentals. The current policy direction emphasizes urban renewal and physical upgrades rather than a repeat of monetized shantytown redevelopment. We think China is unlikely to launch large-scale real estate fiscal stimulus. First, China's fiscal capacity is now more constrained than it was in 2015. Second, lingering concerns about the property bubble that followed the previous monetization wave remain fresh in policymakers' minds. Looking ahead, funding is expected to come primarily from special treasury bonds and local government special-purpose bonds. The policy emphasis will likely be on “renovation and upgrading” and “physical resettlement,” with a stronger focus on aligning resources with residents' actual needs—aiming to avoid reigniting housing price speculation. |
| <ul style="list-style-type: none"> Hong Kong: Weak-side convertibility undertaking (CU) was repeatedly triggered in the last three weeks, and the HKMA stepped in and bought a total of HKD86.8 | <ul style="list-style-type: none"> We expect to see more FX intervention down the road, amid the still appealing carry. HIBORs are likely to be more responsive to further liquidity drainage, in the process of normalisation. However, with spot USDHKD moving away from the 7.85 level late |

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last week, in the presence of some position rebalancing flow, upward normalization in front-end HKD rates may take a while longer.

Key Economic News

| Facts | OCBC Opinions |
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| <ul style="list-style-type: none"> China's economy grew by 5.2% YoY in the second quarter, bringing first-half 2025 GDP growth to 5.3%, above the government's annual target. | <ul style="list-style-type: none"> The stronger-than-expected performance was underpinned by three key drivers: robust external demand, continued upgrade in high-tech industries, and policy support from the consumer trade-in program. Net exports contributed 31.2% to GDP growth in the first half, surpassing the 30.3% contribution in 2024. Looking ahead, July trade data may remain resilient due to the deferred tariff implementation. However, the real test could emerge in August if new tariffs are implemented. China's efforts to reflate its economy hit the bottleneck. The persistent disinflationary trend was partially due to involution. The rollout of anti-involution measures is expected to be more gradual compared to previous supply-side reforms. Given the still-uncertain trade outlook and the sluggish recovery in the property sector, we think hurdle for China to reach its "around 5%" GDP target remains high. Nevertheless, we upgrade our full year GDP forecast to 4.8% from 4.6% to reflect the stronger than expected external demand. |
| <ul style="list-style-type: none"> Hong Kong's seasonally adjusted unemployment rate and underemployment rate held unchanged at 3.5% and 1.4% respectively in the three-month ending June 2025. Analyze by sector, unemployment rate fell notably in arts, entertainment and recreation sector, and professional and business services sector; and increased in construction sector and food and beverage service activities sector. | <ul style="list-style-type: none"> Unemployed person rose further to the highest level since 4Q 2022 at 136.2k (+11% QoQ) in the three-month ending June 2025. Meanwhile, total labour force shrank by 22.0k to 3,793.5k. Anecdotal evidence suggested that labour market stayed soft more recently. Besides, the entry of fresh graduates and school leavers in the coming few months may further push up the unemployment rate. We pitched the full-year unemployment rate at 3.4%, with weakness seen in construction sector, accommodation services sector, food and beverage service activities sectors. |

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