Greater China — Week in Review

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Highlights: Economic resilience amid uncertainty

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China's May economic data showed continued resilience in industrial production, while retail sales surprised to the upside, indicating a modest recovery in consumer spending. However, fixed asset investment remained a weak spot, largely weighed down by the ongoing downturn in the property sector.

Growth-supportive policies, including the "Two New" (new productive forces and new consumption) and "Two Heavy" (heavy manufacturing and heavy equipment) initiatives, continue to cushion the economy against external volatility. In addition, the government's "trade-in" program for consumer goods significantly lifted demand in related categories.

Meanwhile, momentum in equipment upgrade investment has strengthened further. Investment in machinery and tools rose by 17.3% year-on-year in the first five months of the year, contributing 2.3 percentage points to overall fixed asset investment growth and accounting for 63.6% of the total increase. This underscores the growing role of capital expenditure in supporting the recovery.

Overall, the combination of resilient industrial production, strong consumer goods sales, and robust equipment investment suggests that China's second-quarter GDP is likely to remain above 5% year-on-year.

In May, China's tax revenue growth edged down slightly but remained in positive territory for the second consecutive month. Domestic value-added tax (VAT) performed solidly, with cumulative year-on-year (YoY) growth of 2.4%, likely reflecting improved profitability in the industrial sector.

In terms of broader fiscal revenue, government fund revenue—largely tied to land sales—briefly turned positive in April for the first time this year but reverted to negative territory in May due to renewed weakness in the property market. While narrow fiscal revenue appears on track to meet full-year budget targets, broad fiscal performance remains uncertain and contingent on the outlook for the land market. A stabilization in the property sector would be instrumental in repairing the fiscal transmission chain that links land sales, government fund revenue, and overall fiscal health. In the meantime, quasi-fiscal measures are expected to remain critical in bridging the gap between narrow and broad fiscal balances.

The Hong Kong Monetary Authority and the PBoC announced the launch of Payment Connect, a new fast payment tool to conduct cross-border transactions, starting from 22 June 2025. Hong Kong resident will be able to transfer small sums of up to HK$10,000 each day per account to the Mainland, while the total annual remittance limit is set at HK$200,000. Meanwhile, Mainland residents will be subject to the current annual foreign exchange quota of US$50,000 per person.
Commercial banks in Hong Kong announced to keep their HKD prime rates unchanged, following Fed's hold decision last week.

We expect the local banks to slash the prime rate further by 25bps in 3Q25, following the potential for Fed to resume rate cuts. This will likely bring the HKD prime rate cut cycle to an end, after returning to the long-term level before the 2022 Fed rate hike cycle. Separately, the HKMA is reluctant to mop up the liquidity via issuance of Exchange Fund bills, though it has flagged the potential rebound in HKD interest rates. The HKMA also commented that carry trades, capital market activities, and seasonal factors may continue to influence HKD rates' trajectories.

Spot USDHKD hovered at 7.8489/99 in the past week, just 1-2pips away from the weak-side convertibility undertaking. We have flagged earlier that triggering of weak-side convertibility undertaking may lead to rapid and forceful reversal in HKD rates. However, there is growing market conviction that amounts of FX intervention may be smaller than what has been injected since early May. Hence, HKD rates may stay at levels lower than pre-May levels even after rebounds.

Hong Kong's labour market showed signs of broad weakening, with the seasonally adjusted unemployment rate and underemployment rate raising further by 0.1 percentage point to 3.5% and 1.4% respectively in the three-month ending May 2025. Unemployment rate rose in most major economic sectors, with most notable increases in the construction sector, retail sector and real estate sector.

Headline CPI and underlying CPI (netting out the effect of all Government's one-off relief measures) rose at slightly slower paces of 1.9% YoY and 1.0% YoY (2.0% YoY and 1.3% YoY in April) respectively in May, mainly due to decline in transport fares and charges for package tours. Price pressure is likely to stay moderate in the near term, and our full-year inflation forecast was at 1.7%.

Key Development	
Facts	**OCBC Opinions**
▪ Hong Kong: Commercial banks in Hong Kong announced to keep their HKD prime rates unchanged, following Fed's hold decision last week.	▪ We expect the local banks to slash the prime rate further by 25bps in 3Q25, following the potential for Fed to resume rate cuts. This will likely bring the HKD prime rate cut cycle to an end, after returning to the long-term level before the 2022 Fed rate hike cycle. Separately, the HKMA is reluctant to mop up the liquidity via issuance of Exchange Fund bills, though it has flagged the potential rebound in HKD interest rates. The HKMA also commented that carry trades, capital market activities, and seasonal factors may continue to influence HKD rates' trajectories. ▪ Spot USDHKD hovered at 7.8489/99 in the past week, just 1-2pips away from the weak-side convertibility undertaking. We have flagged earlier that triggering of weak-side convertibility undertaking may lead to rapid and forceful reversal in HKD rates. However, there is growing market conviction that amounts of FX intervention may be smaller than what has been injected since early May. Hence, HKD rates may stay at levels lower than pre-May levels even after rebounds.

Key Economic News	
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▪ China's May economic data showed continued resilience in industrial production, while retail sales surprised to the upside, indicating a modest recovery in consumer spending. However, fixed asset investment remained a weak spot, largely weighed down by the ongoing downturn in the property sector.	▪ Industrial output growth moderated slightly in May, with the value-added of the manufacturing sector—the largest component of industry—easing by 0.4 percentage points from the previous month to 6.2%. This slowdown dragged down the overall pace of industrial production, primarily due to the continued impact of sharp changes in the external trade environment on export-related activities. Nevertheless, cumulative industrial output growth for January to May reached 6.3%, well above the 5.8% recorded in the same period last year, suggesting that the broader industrial sector remains resilient. Growth-supportive policies, including the "Two New" (new productive forces and new consumption) and "Two Heavy" (heavy manufacturing and heavy equipment) initiatives, continue to cushion the economy against external volatility. ▪ In addition, the government's "trade-in" program for consumer goods significantly lifted demand in related categories. Among enterprises above the designated size, retail sales of home appliances and audiovisual equipment, communication devices, cultural and office supplies, and furniture rose sharply in May—recording year-on-year growth of between 25.6% and 53%. These categories collectively contributed 1.9 percentage points to total retail sales growth. Although some local governments suspended subsidies from June onward, potentially creating short-term pressure on consumption, we expect the central government to sustain such policies to support household demand. ▪ Meanwhile, momentum in equipment upgrade investment has strengthened further. Investment in machinery and tools rose by 17.3% year-on-year in the first five months of the year, contributing 2.3 percentage points to overall fixed asset investment growth and accounting for 63.6% of the total increase. This underscores the growing role of capital expenditure in supporting the recovery.

	▪ Overall, the combination of resilient industrial production, strong consumer goods sales, and robust equipment investment suggests that China's second-quarter GDP is likely to remain above 5% year-on-year.
▪ In May, China's tax revenue growth edged down slightly but remained in positive territory for the second consecutive month.	▪ Among key tax categories, domestic value-added tax (VAT) performed solidly, with cumulative year-on-year (YoY) growth of 2.4%, likely reflecting improved profitability in the industrial sector. Personal income tax also recorded robust performance, with cumulative growth accelerating to 8.2% YoY. This improvement was supported by a low base, tax settlement effects, increased activity in second-hand housing transactions, and shareholder equity reductions amid a relatively strong equity market performance year-to-date. ▪ On the expenditure side, public fiscal spending rose by 2.6% YoY in May, driven by an 11.0% increase in central government expenditure and a 0.9% increase at the local government level. ▪ In terms of broader fiscal revenue, government fund revenue—largely tied to land sales—briefly turned positive in April for the first time this year but reverted to negative territory in May due to renewed weakness in the property market. While narrow fiscal revenue appears on track to meet full-year budget targets, broad fiscal performance remains uncertain and contingent on the outlook for the land market. A stabilization in the property sector would be instrumental in repairing the fiscal transmission chain that links land sales, government fund revenue, and overall fiscal health. In the meantime, quasi-fiscal measures are expected to remain critical in bridging the gap between narrow and broad fiscal balances.
▪ Hong Kong's labour market showed signs of broad weakening, with the seasonally adjusted unemployment rate and underemployment rate raising further by 0.1 percentage point to 3.5% and 1.4% respectively in the three-month ending May 2025. Unemployment rate rose in most major economic sectors, with most notable increases in the construction sector, retail sector and real estate sector.	▪ Compared with the preceding three-month period, Hong Kong's unemployed person jumped by 22% (or 24.1k) in the three-month ending May 2025, to the highest level since 4Q 2022. Meanwhile, total labour force continued to shrink, by 20.8k to 3,800.5k. ▪ Anecdotal evidence suggested that hiring sentiment continued to worsen. Besides, the entry of fresh graduates and school leavers in the coming few months may further push up the employment rate. To reflect the cyclical pain ahead, we revised the full-year unemployment rate forecast higher to 3.4%, with weakness seen in construction sector, accommodation services sector, food and beverage service activities sectors.
▪ Hong Kong: Headline CPI and underlying CPI (netting out the effect of all Government's one-off relief measures) rose at slightly slower paces of 1.9% YoY and 1.0% YoY (2.0% YoY and 1.3% YoY in April) respectively in May, mainly due to decline in transport fares and charges for package tours. Price pressure is likely to stay moderate in the near term, and our full-year inflation forecast was at 1.7%.	▪ Among the components of CPI, prices of "transport", "clothing and footwear", "miscellaneous services" and "durable goods" fell by 1.6% MoM, 1.4% MoM, 0.7% MoM and 0.7% MoM respectively in May. ▪ Price pressure is likely to stay tamed in the near term, with the still-sluggish domestic demand, and limited impact from tariff imposition. Our full-year inflation forecast was at 1.7%.

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