# Greater China — Week in Review

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## Highlights: Mixed pictures

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The Chinese economy continued to paint a mixed picture in the month of June. On one hand, the economy remained resilient. For example, in the second quarter monetary policy meeting, China's central bank's official assessment of its domestic economic outlook has shifted from the more cautious "generally stable with steady progress" to a notably more optimistic tone of "showing an improving trend with continuously rising social confidence."

On the other hand, the hard data showed that challenges remain. For example, China's industrial profit growth turned negative in the first five months of 2025, contracting by 1.1% YoY after posting a 1.4% increase in the first four months.

The key problem lies in the low inflation. The performance of durable goods sectors of industrial profit—particularly automobiles and furniture—acted as a drag. Despite robust car sales in volume terms, the ongoing price war significantly eroded profit margins.

The weaker-than-expected industrial profit data for May highlights a broader challenge facing the Chinese economy: persistently weak nominal GDP growth, even as real activity remains relatively resilient. Current reflation efforts have yielded only limited results, suggesting that more forceful and coordinated policy action is needed.

While the overall tone on growth has become more upbeat, policymakers have concurrently acknowledged the persistence of structural challenges—particularly the ongoing pressure of low inflation. Regarding the property market, the policy stance has moved from "promoting a stabilization and recovery" to "further consolidating the stabilizing trend," in line with the messaging from the April Politburo meeting.

Taken together, the updated language suggests growing confidence in the economy's recovery trajectory, but also highlights the need for continued policy support. With price levels still subdued, the central bank retains room to further reduce interest rates if needed. In our view, a combination of stronger fiscal expansion and further monetary easing will be necessary to lift the economy out of its current disinflationary trap.

Hong Kong's weak-side convertibility undertaking (CU) was triggered last week, and the HKMA stepped in and bought a total of HKD9.42bn (relatively small amount comparing with the liquidity injection of around HKD130bn in early May). Correspondingly, the Aggregate Balance would fall to HKD164 bn, from that of HKD173 bn earlier.

HIBORs were little changed following the triggering of CU, as the HKD liquidity remained flush with the Aggregate Balance still at an elevated level. Given the still wide rates differential and persistent upward pressure on USDHKD, we do not rule out sustained carry trades and repeated FX interventions down the road. We also expect the FX interventions will push HIBORs higher in periods ahead.

Hong Kong's merchandise exports and imports expanded by faster paces of 15.5% YoY and 18.9% YoY respectively in May, against the lower base a year ago. However, in sequential terms, exports edged down by 0.1% MoM, as decline in exports to Mainland and US more than offset the increase in exports to other major Asian markets. During the period, trade balance deficit widened to HKD27.3 billion, from that of HKD16.0 billion in April.

We expect to see revival in of export front-loading flows in periods ahead, amid US-China trade truce. Nonetheless, Hong Kong's trade performance is expected to weaken in the second half, due to the high base a year ago and the slowing global growth.

Hong Kong's housing market is showing broadening signs of stabilization, sharp fall in interest rates, increased end-user demand and narrowing buy-rent gap. Housing prices flatlined in May, while rents extended the recent rally. The residential property rental index rose further by 0.7% MoM in May (0.4% MoM in April), widening the year-to-date gain to 1.4%.

| Key Development | |
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| **Facts** | **OCBC Opinions** |
| ▪ In the second quarter monetary policy meeting, China's central bank's official assessment of its domestic economic outlook has shifted from the more cautious "generally stable with steady progress" to a notably more optimistic tone of "showing an improving trend with continuously rising social confidence." | ▪ This upgrade in sentiment is also reflected in the evolving language around monetary policy. Previously framed as "lowering the RRR and interest rates at an appropriate time," the current guidance emphasizes "flexibly managing the strength and pace of policy implementation," signaling greater discretion and responsiveness.<br>▪ While the overall tone on growth has become more upbeat, policymakers have concurrently acknowledged the persistence of structural challenges—particularly the ongoing pressure of low inflation. Regarding the property market, the policy stance has moved from "promoting a stabilization and recovery" to "further consolidating the stabilizing trend," in line with the messaging from the April Politburo meeting.<br>▪ Taken together, the updated language suggests growing confidence in the economy's recovery trajectory, but also highlights the need for continued policy support. With price levels still subdued, the central bank retains room to further reduce interest rates if needed. |
| ▪ On June 25, the People's Bank of China (PBoC) conducted a CNY300 billion one-year Medium-term Lending Facility (MLF) operation. | ▪ With CNY182 billion in MLF maturing this month, the operation resulted in a net injection of CNY118 billion in medium- to long-term liquidity. This marks the fourth net MLF injection year-to-date and aligns with the PBoC's recent buyout-style reverse repo operations, underscoring its commitment to maintaining ample and stable liquidity conditions within the financial system. |
| ▪ Hong Kong: Weak-side convertibility undertaking (CU) was triggered last week, and the HKMA stepped in and bought a total of HKD9.42bn (relatively small amount comparing with the liquidity injection of around HKD130bn in early May). Correspondingly, the Aggregate Balance would fall to HKD164 bn, from that of HKD173 bn earlier. | ▪ HIBORs were little changed following the triggering of CU, as the HKD liquidity remained flush with the Aggregate Balance still at an elevated level. Given the still wide rates differential and persistent upward pressure on USDHKD, we do not rule out sustained carry trades and repeated FX interventions down the road. We also expect the FX interventions will push HIBORs higher in periods ahead. |

| Key Economic News | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's industrial profit growth turned negative in the first five months of 2025, contracting by 1.1% YoY after posting a 1.4% increase in the first four months. | ▪ Equipment manufacturing and high-tech industries continued to contribute positively to overall profit growth. However, the performance of durable goods sectors—particularly automobiles and furniture—acted as a drag. Despite robust car sales in volume terms, the ongoing price war significantly eroded profit margins.<br>▪ The weaker-than-expected industrial profit data for May highlights a broader challenge facing the Chinese economy: persistently weak nominal GDP growth, even as real activity remains relatively resilient. Current reflation efforts have yielded only limited results, suggesting that more forceful and coordinated policy action is needed. In our view, a combination of stronger fiscal expansion and further monetary easing will be necessary to lift the economy out of its current disinflationary trap.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. |

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| ▪ Hong Kong: Merchandise exports and imports expanded by faster paces of 15.5% YoY and 18.9% YoY respectively in May, against the lower base a year ago. However, in sequential terms, exports edged down by 0.1% MoM, as decline in exports to Mainland and US more than offset the increase in exports to other major Asian markets. During the period, trade balance deficit widened to HKD27.3 billion, from that of HKD16.0 billion in April. | ▪ Breaking down, exports to major trading partners showed mixed performance. Total merchandise exports to Asia as a whole grew by 21.8% YoY, while exports to US plummeted by 18.4% YoY.<br>▪ We expect to see revival in of export front-loading flows in periods ahead, amid US-China trade truce. Nonetheless, Hong Kong's trade performance is expected to weaken in the second half, due to the high base a year ago and the slowing global growth. |
| ▪ Hong Kong's housing market is showing broadening signs of stabilization, sharp fall in interest rates, increased end-user demand and narrowing buy-rent gap. Housing prices flatlined in May, while rents extended the recent rally. The residential property rental index rose further by 0.7% MoM in May (0.4% MoM in April), widening the year-to-date gain to 1.4%. | ▪ Analyzed by flat size, the rental indexes of mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square metre or above) rose further by 0.7% MoM and 0.6% MoM respectively.<br>▪ Trading activities quieted somewhat in May, recording 5,694 cases, but remained above the monthly average in 2024at 4,425 cases, amid increase in launches of primary projects. |

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