# Greater China — Week in Review

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## Highlights: escalate to deescalate

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Despite resilient performance in the first quarter—reflected in China's macro surprise index reaching its highest level since May 2023, following the post-COVID reopening—the adverse effects of the trade war have started to surface in both sentiment and data. China's official Manufacturing Purchasing Managers' Index (PMI) declined to 49.0 in April, down 1.5 points from the previous month, falling back into contraction territory and marking the lowest level since December 2023. The sharper-than-seasonal decline was broad-based, with weakness observed across both supply and demand. Notably, external headwinds—especially those stemming from heightened tariff pressures—have begun to weigh on business sentiment and industrial activity.

Price pressures also weakened further. The input prices index declined 2.8 points, while the output prices index fell 3.1 points, reflecting subdued demand conditions and ongoing declines in global commodity prices. These dynamics suggest that April's Producer Price Index (PPI) will likely remain deeply in negative territory.

The employment sub-index edged down by 0.3 points, signaling marginal softening in labor demand. However, it may not yet fully capture the lagged effects of the ongoing tariff war. Looking ahead, a further deterioration in labor market conditions could place additional downward pressure on manufacturing sentiment and PMI readings in the coming months.

Nevertheless, China's Ministry of Commerce said last week in the press conference that China's exports have generally maintained stable growth since the beginning of April despite external headwinds. The recently concluded Canton Fair saw the participation of 224,000 overseas buyers from 219 countries and regions, setting a new historical record for the same period. The strong attendance highlights resilient foreign demand and continued global interest in Chinese goods amid an increasingly complex international trade environment.

In terms of trade war, China's Ministry of Foreign Affairs released a high-profile bilingual video last week titled "Never Kneel Down," warning against capitulating to external pressure. "Bowing to a bully is like drinking poison to quench thirst—it only deepens the crisis," the video stated. This messaging underscores Beijing's hardened stance and signals that meaningful engagement with Washington is unlikely in the near term unless the US suspends its reciprocal tariffs.

However, markets appeared to discount the hardline rhetoric, instead responding positively to a more conciliatory statement from China's Ministry of Commerce, which noted that "the U.S. has recently conveyed messages through relevant parties, expressing a willingness to initiate talks with China, and China is currently evaluating this." The RMB, along with broader Asian currencies, rallied sharply despite a still-firm U.S. dollar index. It seems that China's escalate to deescalate strategy pays off.

China's consumer goods trade-in program has made significant progress, providing an important boost to domestic demand. As of April 27, a total of 2.814 million vehicles had been replaced under the auto trade-in scheme. Additionally, 49.416 million units across 12 major categories of home appliances were renewed, while 37.855 million new digital products—including smartphones and tablets—were purchased. The program also supported the upgrade of 40.906 million home improvement and kitchen/bathroom items, alongside the replacement of more than 4.2 million electric bicycles. Altogether, these initiatives have generated more than CNY 720 billion in sales, underscoring the growing momentum behind China's domestic consumption strategy.

According to advance estimate, Hong Kong's real GDP growth accelerated to 3.1% YoY in the first quarter of 2025, from an upwardly revised 2.5% YoY in the last quarter of 2024, on the back of export boom. On a seasonally adjusted basis, the economy grew by 2.0% QoQ (4Q24: 0.9% QoQ).

During the first quarter this year, private consumption expenditure contracted by a faster pace of 1.2% YoY (4Q24: -0.2%), yet it was offset by brisk pace of expansion in other components of GDP. Growth in goods and service exports paced up to 8.7% YoY and 6.6% YoY respectively (4Q24: 1.3% YoY and 6.5% YoY), with the former due to front-loading of exports ahead of US' tariff implementation. Meanwhile, gross domestic fixed capital formation reverted to growth, increasing by 2.8% YoY (4Q24: -0.7% YoY). Growth in government consumption however slowed to 1.2% YoY (4Q24: 2.1% YoY).

Our full-year GDP growth forecast for 2025 and 2026 is revised downward to 1.9% and 2.3% respectively, accounting for the slowdown in global growth and worsened US-China trade relationship. Yet the forecasts were made basing on assumptions of some concessions over tariffs and more accommodative fiscal/monetary policies rolled out by the Chinese government. We expect to see soft patches in economic data in coming quarters, but recession is still not our baseline scenario.

The Hong Kong Monetary Authority sold $46.5 billion Hong Kong dollars to the market on Saturday, as the strong-side Convertibility Undertaking was triggered. The aggregate balance will rise to HK$91.3 billion as a result. Spot USDHKD is expected to stay close to the 7.75 handle in the near-term, as HKD liquidity tightened on investment-related inflows, pending funding raising and dividend payout activities.

Housing price and rent in Hong Kong continued to show a diverging trend. The residential property price index fell for the fourth straight month, albeit at a slower pace of 0.5% MoM in March (-0.7% MoM and -0.6% in January and February), refreshing the 8-year low. Meanwhile, rental index extended the recent rally by 0.1% MoM in March (0.2% MoM in January and February). Trading activities bounced to four-month high of 5,367 cases in March, on the back of increase in launches of primary projects and reduction in stamp duty for some property transactions.

The narrowing of buy-rent gap, further cut in prime rate, together with increases in non-local demand, will likely lend some support to the housing market. However, the heightened macroeconomic uncertainties still clouded the outlook. We expect the price index to stay largely flat in 2025, with decline in the first half of the year and a mild rebound in the latter half of the year.

| Key Development | |
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| **Facts** | **OCBC Opinions** |
| ▪ The Ministry of Commerce reported that China's exports have generally maintained stable growth since the beginning of April despite external headwinds. | ▪ The recently concluded Canton Fair saw the participation of 224,000 overseas buyers from 219 countries and regions, setting a new historical record for the same period. The strong attendance highlights resilient foreign demand and continued global interest in Chinese goods amid an increasingly complex international trade environment. |

| Key Economic News | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's official manufacturing Purchasing Managers' Index (PMI) fell to 49.0 in April, down 1.5 points from the previous month, reversing back into contraction territory and marking the weakest reading since December 2023. | ▪ The sharper-than-seasonal decline reflects broad-based weakness across both supply and demand, with external headwinds—particularly from tariffs—beginning to weigh on sentiment and activity.<br>▪ On the supply side, the production sub-index dropped 2.8 points to 49.8, falling below the 50-neutral mark. Meanwhile, the demand side also deteriorated, with the new orders index slipping 2.6 points to 49.2. Most notably, the new export orders index plunged 4.3 points to 44.7, its lowest level since December 2022, offering the clearest indication yet that tariff-related uncertainty is starting to depress external demand.<br>▪ Price pressures also weakened further. The input prices index declined 2.8 points, while the output prices index fell 3.1 points, reflecting subdued demand conditions and ongoing declines in global commodity prices. These dynamics suggest that April's Producer Price Index (PPI) will likely remain deeply in negative territory.<br>▪ The employment sub-index edged down by 0.3 points, signaling marginal softening in labor demand. However, it may not yet fully capture the lagged effects of the ongoing tariff war. Looking ahead, a further deterioration in labor market conditions could place additional downward pressure on manufacturing sentiment and PMI readings in the coming months. |
| ▪ Hong Kong: According to advance estimate, Hong Kong's real GDP growth accelerated to 3.1% YoY in the first quarter of 2025, from an upwardly revised 2.5% YoY in the last quarter of 2024, on the back of export boom. On a seasonally adjusted basis, the economy grew by 2.0% QoQ (4Q24: 0.9% QoQ). | ▪ During the first quarter this year, private consumption expenditure contracted by a faster pace of 1.2% YoY (4Q24: -0.2%), yet it was offset by brisk pace of expansion in other components of GDP. Growth in goods and service exports paced up to 8.7% YoY and 6.6% YoY respectively (4Q24: 1.3% YoY and 6.5% YoY), with the former due to front-loading of exports ahead of US' tariff implementation. Meanwhile, gross domestic fixed capital formation reverted to growth, increasing by 2.8% YoY (4Q24: -0.7% YoY). Growth in government consumption however slowed to 1.2% YoY (4Q24: 2.1% YoY).<br>▪ Our full-year GDP growth forecast for 2025 and 2026 is revised downward to 1.9% and 2.3% respectively, accounting for the slowdown in global growth and worsened US-China trade relationship. Yet the forecasts were made basing on assumptions of some concessions over tariffs and more accommodative fiscal/monetary policies rolled out by the Chinese government. We expect to see soft patches in economic data in coming quarters, but recession is still not our baseline scenario. |
| ▪ Hong Kong: Growth of merchandise exports and imports paced up to 18.5% YoY | ▪ Breaking down, exports to major trading partners showed mixed performance. Total merchandise exports to Asia as a whole and US |

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| and 16.6% YoY respectively in March (Feb: 15.4% YoY and 11.8% YoY), due to export front-loading ahead of "Liberation Day". During the period, trade balance deficit widened to HK$45.4 billion (Feb: HK$36.3 billion). | grew by 22.4% YoY and 11.4% YoY respectively, while exports to United Arab Emirate, Netherlands fell further.<br>▪ Under the US' latest tariff policy, shipments from Hong Kong regardless of size will now be subject to tariffs of 145% plus any prior duties, except for products such as smartphones. Beyond the immediate near term, Hong Kong's trade performance is expected to weaken, due to the high base effect and tariff implementation. |
| ▪ Hong Kong: Housing price and rent continued to show a diverging trend. The residential property price index fell for the fourth straight month, albeit at a slower pace of 0.5% MoM in March (-0.7% MoM and -0.6% in January and February), refreshing the 8-year low. Meanwhile, rental index extended the recent rally by 0.1% MoM in March (0.2% MoM in January and February). Trading activities bounced to four-month high of 5,367 cases in March, on the back of increase in launches of primary projects and reduction in stamp duty for some property transactions. | ▪ Analyzed by flat size, the price 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 meter or above) fell by 0.5% MoM and 0.8% MoM respectively in March. As for rental index, mass-market and medium-sized and large-sized properties rose by 0.2% MoM and 0.3% MoM respectively.<br>▪ The narrowing of buy-rent gap, further cut in prime rate, together with increases in non-local demand, will likely lend some support to the housing market. However, the heightened macroeconomic uncertainties still clouded the outlook. We expect the price index to stay largely flat in 2025, with decline in the first half of the year and a mild rebound in the latter half of the year. |
| ▪ Hong Kong: Domestic demand stabilized somewhat, amid improved sentiment in equity market. Hong Kong's retail sales fell further by 3.5% YoY and 4.8% YoY respectively in value and volume terms in March, albeit moderating from the decline of 9.9% YoY in the first two months of the year. For the first quarter this year as a whole, retail sales declined by 6.5% YoY. | ▪ In sequential basis, total retail sales rose by 2.4% MoM in value terms in March. Sales in most outlets recorded varied degree of increases, with the exception of "food and alcoholic drinks" (-17.0% MoM), "clothing and footwear" (-14.6% MoM) and "jewellery, watches and valuable gifts" (-2.6% MoM).<br>▪ If positive wealth effects stemming from asset market rallies are sustained, retail sales are expected to stabilize further in the next couple of months. Otherwise, we expect retail sales to stay weak. |

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