OCBC Group Research

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Greater China – Week in Review

Highlights: Underlying strength

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China's manufacturing PMI eased only marginally to 50.3 in April from 50.4 in March, but the underlying picture was more resilient than the headline suggests, showing China's manufacturing sector may have benefited from the Iran war.

First, new export orders rose to 50.3, returning to expansionary territory for the first time in two years. **Second,** PMIs for medium- and small-sized enterprises improved to 50.5 and 50.1, respectively, marking the first time in two years that all enterprise-size PMIs were in expansion. This suggests that China's exporters may be benefiting from order relocation amid global supply-chain disruptions. **Third,** the business expectations index strengthened further to 54.5 in April, pointing to improving confidence. In our view, the war has reinforced the market's re-rating of China's manufacturing resilience, supported by its comprehensive and reliable supply chain. This should remain a near-term tailwind for China's exports.

At the April Politburo meeting, China's top leadership struck a more optimistic tone on the economy, highlighting a strong start to the year and outperformance across key indicators.

On the fiscal side, the focus has moved to "optimizing expenditure structure," suggesting a reallocation of resources rather than a step-up in headline spending intensity. In terms of boosting domestic demand, the authorities no longer emphasized "stabilizing and reversing the decline in investment." Instead, they called for "accelerating the commencement of major projects with mature conditions." This shift likely reflects the improvement already seen on the investment side.

The change of policy tone also matched the latest construction PMI, which fell by 1.3ppt to 48.0 in April, remaining in contractionary territory and underperforming seasonal trends. After March's rebound, which was supported by post-holiday work resumption and the property market's "mini spring", construction activity softened again by more than usual seasonal patterns.

The policy emphasis is now moving from broad-based stabilization toward selective project implementation, suggesting that the investment impulse may become more measured in the coming quarters. This reinforces our view that China's growth momentum likely peaked in 1Q.

Nevertheless, China's strong start also prompted the rating agency Moody's to revise China's sovereign outlook from "negative" to "stable" while affirming the A1 long-term issuer rating, citing the economy and fiscal position's resilience amid domestic, trade and geopolitical headwinds.

Notably, the negative outlook was first placed in Dec 2023, and such outlooks are typically resolved—either via downgrade or stabilization—within a 12–24 month window. This revision therefore comes slightly beyond the usual timeframe. It is also worth highlighting that Moody's had been the sole major outlier maintaining a negative stance, suggesting that the latest move is, in part, a convergence toward broader market consensus.

China's ability over the past year to absorb external shocks—including tariff escalation and the Iran conflict—has likely been a key catalyst behind this shift. More structurally, major global disruptions have repeatedly triggered a re-rating of China's manufacturing depth and supply chain resilience, reinforcing its role as a global stabilizer in periods of uncertainty. To sum up, we see this adjustment as helping to put a floor under sentiment rather than acting as a fresh catalyst for a broad-based re-rating of China assets.

Hong Kong's merchandise exports and imports continued to record solid growth in March, at 35.8% YoY and 41.2% YoY respectively (Jan-Feb: 29.6% YoY and 34.1% YoY). During the period, trade balance deficit widened to HKD89.1 billion in March, up from HKD64.2 billion in February. From a GDP accounting perspective, net exports are therefore expected to remain a drag on overall economic growth in the first quarter.

In light of strong global demand for AI-related electronic products, we revised up the growth forecast of merchandise exports and import to 20% and 22% respectively for this year.

Early-cycle recovery in Hong Kong's housing market has evolved into a more durable uptrend in housing prices, with end-user demand improving alongside a gradual return of speculative interest. The official property price and rental index rose cumulatively by 4.4% and 0.8% respectively in the first quarter of 2026, accompanied by a notable pickup in transaction activity. Reflecting this strengthening momentum, we have revised up our full-year price growth forecast to 8.5%. In addition, with prices outpacing rents, the market yield is expected to revert to a downtrend.

On a separate note, Macau's first quarter real GDP grew by 7.1% YoY, supported by a low base effect from last year, bringing the total economic output back to 90.3% of its 2019 level, according to preliminary data. Growth was driven primarily by the exports of services, while weakness in public spending and investment posed drag.

During the quarter, growth of total exports of services and private consumption expenditure accelerated to 13.9% YoY and 2.8% YoY respectively. Yet, government consumption expenditure and gross fixed capital formation contracted by 4.8% YoY and 21.9% YoY respectively, highlighting the uneven growth picture.

Exports of service are expected to remain the key growth driver in 2026, with growth in gross gaming revenue (GGR) likely to slow but stay solid. We tip the year-on-year growth of GGR at 5% for 2026, taking into account the higher base. Riding on the steady expansion of exports of services, Macau's 2026 real GDP growth is tipped at 2.8%. Meanwhile, unemployment rate and inflation rate are pitched at 1.8% and 1.0% respectively.

Key Events	
Facts	**OCBC Opinions**
▪ At the April Politburo meeting, China's top leadership struck a more optimistic tone on the economy, highlighting a strong start to the year and outperformance across key indicators.	▪ Notably, the emphasis on external challenges was dialed down, with previous references to "international trade disputes" omitted from the readout. ▪ Both monetary and fiscal policies were framed around being more "precise and targeted." In our view, this signals a shift toward better execution of existing measures rather than the rollout of incremental stimulus. On the fiscal side, the focus has moved to "optimizing expenditure structure," suggesting a reallocation of resources rather than a step-up in headline spending intensity. ▪ On the monetary front, while the stance remains "moderately loose," the Politburo stopped short of referencing specific easing tools such as policy rate cuts or RRR reductions. Instead, the emphasis was placed on maintaining ample interbank liquidity and broadly stable FX conditions. Given already abundant system liquidity — partly supported by ongoing capital inflows — we see a lower probability of additional RRR cuts this year. ▪ In terms of boosting domestic demand, the authorities no longer emphasized "stabilizing and reversing the decline in investment." Instead, they called for "accelerating the commencement of major projects with mature conditions." This shift likely reflects the improvement already seen on the investment side. By end-1Q, infrastructure and manufacturing investment had risen by 8.9% YoY and 4.1% YoY, respectively, while the contraction in real estate investment also narrowed from end-2025. In other words, earlier efforts to stabilize investment appear to be gaining traction. The policy emphasis is now moving from broad-based stabilization toward selective project implementation, suggesting that the investment impulse may become more measured in the coming quarters. This reinforces our view that China's growth momentum likely peaked in 1Q.
▪ Moody's has revised China's sovereign outlook from "negative" to "stable" while affirming the A1 long-term issuer rating, citing the economy and fiscal position's resilience amid domestic, trade and geopolitical headwinds.	▪ Notably, the negative outlook was first placed in Dec 2023, and such outlooks are typically resolved—either via downgrade or stabilization—within a 12–24 month window. This revision therefore comes slightly beyond the usual timeframe. It is also worth highlighting that Moody's had been the sole major outlier maintaining a negative stance, suggesting that the latest move is, in part, a convergence toward broader market consensus. ▪ In our view, China's ability over the past year to absorb external shocks—including tariff escalation and the Iran conflict—has likely been a key catalyst behind this shift. More structurally, major global disruptions have repeatedly triggered a re-rating of China's manufacturing depth and supply chain resilience, reinforcing its role as a global stabilizer in periods of uncertainty. ▪ That said, market impact should remain contained. Equity inflows have been normalizing in recent months ahead of the

	announcement, indicating that expectations of a stabilization in outlook were already partly priced in. Importantly, Moody's continues to flag rising debt risks, which caps the scope for a more constructive re-rating narrative at this stage. ▪ To sum up, we see this adjustment as helping to put a floor under sentiment rather than acting as a fresh catalyst for a broad-based re-rating of China assets.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's manufacturing PMI eased only marginally to 50.3 in April from 50.4 in March.	▪ The underlying picture was more resilient than the headline suggests, despite uncertainties from the Iran war. First, new export orders rose to 50.3, returning to expansionary territory for the first time in two years. Second, PMIs for medium- and small-sized enterprises improved to 50.5 and 50.1, respectively, marking the first time in two years that all enterprise-size PMIs were in expansion. This suggests that China's exporters may be benefiting from order relocation amid global supply-chain disruptions. Third, the business expectations index strengthened further to 54.5 in April, pointing to improving confidence. In our view, the war has reinforced the market's re-rating of China's manufacturing resilience, supported by its comprehensive and reliable supply chain. This should remain a near-term tailwind for China's exports. ▪ On services, the services PMI declined by 0.6ppt to 49.6 in April, returning to contractionary territory, though the fall was still milder than seasonal patterns. By sector, activity remained relatively firm in railway transportation, postal services, telecommunications, radio and television, and satellite transmission services, while wholesale, retail, and resident services stayed relatively weak. ▪ On construction, the construction PMI fell by 1.3ppt to 48.0 in April, remaining in contractionary territory and underperforming seasonal trends. After March's rebound, which was supported by post-holiday work resumption and the property market's "mini spring", construction activity softened again by more than usual seasonal patterns.
▪ Hong Kong: Merchandise exports and imports continued to record solid growth in March, at 35.8% YoY and 41.2% YoY respectively (Jan-Feb: 29.6% YoY and 34.1% YoY). During the period, trade balance deficit widened to HKD89.1 billion in March, up from HKD64.2 billion in February. From a GDP accounting perspective, net exports are therefore expected to remain a drag on overall economic growth in the first quarter.	▪ Exports to most markets and of most major commodities increased visibly in March. Most notable increases were recorded in exports of "electrical machinery, apparatus and appliances, and electrical parts thereof", "telecommunications and sound recording and reproducing apparatus and equipment" and "non-ferrous metals". ▪ On a separate note, imports of petroleum and petroleum products surged by 95.7% month-on-month in March, nearly doubling from the prior month. This sharp increase was driven by higher energy prices and precautionary stockpiling amid expectations of prolonged disruptions to energy supplies from

	the Middle East. ▪ For the first quarter of 2026 as a whole, the value of merchandise exports and imports rose by 32.0% YoY and 37.0% YoY respectively. A visible trade deficit of HKD168.4 billion, equivalent to 9.8% of the value of imports of goods, was recorded during the quarter. As a result, net exports are likely to have exerted a negative contribution to GDP growth during the first quarter. ▪ In light of strong global demand for AI-related electronic products, we revised up the growth forecast of merchandise exports and import to 20% and 22% respectively for this year.
▪ Hong Kong: Total deposits and loans and advances rose by 0.1% MoM and 1.3% MoM respectively in March. Meanwhile, Hong Kong dollar loan-to-deposit ratio fell to 72.3% at the end of March, from 72.4% at the end of February, as Hong Kong dollar deposits (0.7% MoM in March) increased at a faster pace than Hong Kong dollar loans (0.6% MoM).	▪ For the first quarter as a whole, increase in loans for use in Hong Kong (including trade finance) paced up to 3.0% QoQ (0.2% QoQ in 4Q25). Analysed by economic use, the increase in loans during the first quarter was mainly led by loans to financial concerns and trade finance. ▪ The looser monetary conditions and bottoming out of property market should continue to support loan demand. Total loans and advances are expected to see mild growth at around 5% in 2026.
▪ Early-cycle recovery in housing market has evolved into a more durable uptrend in housing prices, with end-user demand improving alongside a gradual return of speculative interest. The official property price and rental index rose cumulatively by 4.4% and 0.8% respectively in the first quarter of 2026, accompanied by a notable pickup in transaction activity. Reflecting this strengthening momentum, we have revised up our full-year price growth forecast to 8.5%. In addition, with prices outpacing rents, the market yield is expected to revert to a downtrend.	▪ Increase in housing prices outpaced that of rents in the first quarter of 2026, suggesting demand leakage from the leasing market, enabled by compression in the rent-own spread and improved affordability. Rental growth in the Class A and B segments (units with area less than 69 m2), which are typically dominated by first-time buyers and upgrader households transitioning from rental accommodation, remained subdued at 0%–1.1% in the quarter. By contrast, rental indices for larger units in Class D and E segments (units with area 100 m2 or above) increased more sharply, by 2.7% in 1Q26. ▪ Due to the notable rebound in property prices, the estimated number of residential mortgage loans in negative equity plunged to 11,424 cases at end-March 2026, down by 46.4% from 21,304 cases at end-2025. ▪ Looking into 2026, our baseline forecast is upgraded to 8.5% YoY rise in the overall residential price index and a milder 3.5% YoY rise in rent index, consistent with the drivers already in place—improved affordability, positive carry, supportive policy mix, and steady demographic tailwinds. The mass market should continue to outperform on deeper demand pools and superior rental yields. That said, upside will remain constrained by inventory overhangs and interest-rate uncertainty. The recovery is likely to be steady rather than V-shaped, with sentiment and financing conditions remaining key swing factors.
▪ Macau's first quarter real GDP grew by 7.1% YoY, supported by a low base effect from last year, bringing the total economic output back to 90.3% of its 2019 level, according to preliminary data. Growth was driven primarily by the exports of services, while weakness in public spending and	▪ During the quarter, growth of total exports of services and private consumption expenditure accelerated to 13.9% YoY and 2.8% YoY respectively. Yet, government consumption expenditure and gross fixed capital formation contracted by 4.8% YoY and 21.9% YoY respectively, highlighting the uneven growth picture. ▪ Exports of service are expected to remain the key growth driver

investment posed drag.	in 2026, with growth in gross gaming revenue (GGR) likely to slow but stay solid. We tip the year-on-year growth of GGR at 5% for 2026, taking into account the higher base. Riding on the steady expansion of exports of services, Macau's 2026 real GDP growth is tipped at 2.8%. Meanwhile, unemployment rate and inflation rate are pitched at 1.8% and 1.0% respectively.

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