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Greater China – Week in Review

Highlights: China's central bank accelerated its gold purchase

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The dominant story in China markets last week was the sharp rebound in AI and semiconductor stocks following July's correction. Chinese government bond yields, meanwhile, remained broadly stable. A dovish PBOC tone and softer economic data continued to support the bond market, but the lack of an explicit policy rate cut or RRR reduction limited the scope for a further rally in yields.

China's headline CPI inflation moderated further to 0.5% YoY in July from 1.0% YoY in June. On a sequential basis, CPI fell 0.1% MoM, significantly weaker than seasonal norms: over the past decade, July CPI has risen by an average of around 0.3% MoM.

Encouragingly, core CPI rose 0.3% MoM, pointing to relatively resilient underlying consumer demand once the more volatile food and energy components are excluded. Looking ahead, weather-related disruptions should continue to support seasonal increases in food prices in August, while pork prices have also begun to stabilise and rebound from low levels. These factors should provide some support to headline inflation. We expect CPI inflation to edge up to around 0.7% YoY in August.

PPI inflation also moderated, slowing to 3.5% YoY in July from 4.1% YoY in June and undershooting market expectations of 3.9%. PPI fell 0.7% MoM, extending the 0.3% MoM decline in June. The weakness was concentrated in upstream commodity-related sectors, particularly crude oil and non-ferrous metals, while cuts in domestic refined fuel prices added further downward pressure.

By contrast, AI-related demand remained a notable source of pricing support in selected manufacturing industries. Producer prices in electrical equipment and computer-related sectors continued to rise, with prices for computer and communications equipment increasing 0.6% MoM in July. The divergence suggests that weaker commodity prices are weighing on headline PPI, while demand linked to AI and advanced manufacturing continues to support pricing power in parts of the industrial sector.

AI-related products also remained the key export growth engine. In the first seven months, combined exports of integrated circuits and automatic data-processing (ADP) equipment surged 71% YoY, lifting their share of China's total exports further to 15.2%. Export growth was also broad-based across major developed markets, with shipments to the US, Japan and the EU all rising by more than 10% YoY in July.

Meanwhile, the value of integrated-circuit imports reached another record high in July, increasing by more than 71% YoY. The continued strength in both imports and exports of AI-related products points to robust activity across China's technology supply chain, which should remain an important driver of export growth in 3Q. China's goods trade surplus remained elevated at USD112.5 billion in July, on track to surpass last year's record high of USD1.19 trillion.

China's central bank accelerated its gold purchase in the past few months taking advantage of price weakness to advance their longer-term objective of raising gold's share of official reserves. The PBOC's gold holdings increased by 640,000 ounces to 76.08 million ounces in July, marking the 21st consecutive month of purchases and a further acceleration from the 480,000-ounce increase in June, already the largest monthly purchase since October 2023.

Hong Kong's retail sector appeared to lose some momentum in June, with sales value and volume increasing by 4.6% YoY and 2.3% YoY respectively, marking a further moderation from previous months. Total visitor arrivals fell to 3.72 million during the month, the lowest level since September 2025, partly reflecting the impact of persistent heavy rainfall and adverse weather conditions. On a sequential basis, retail sales declined by 6.8% MoM in value terms and volume terms in June, following strong visitor spending during the Labour Day holiday in May.

Consumer spending softened across most categories, although discretionary spending continued to outperform. Sales of "consumer durables" and "jewellery, watches and valuable gifts" rose by 5.4% YoY and 20.1% YoY respectively in June. In contrast, demand for consumer staples remained subdued. We continue to expect retail sales to record modest growth of around 6% for full-year 2026.

Separately, Hong Kong's PMI (covering the manufacturing, construction, wholesale, retail and services sectors) remained in expansionary zone, but eased to 51.0 in July (52.0 in June). The largest drag came from the inventory sub-index, as muted demand led to lower purchasing activities and staffing levels. On the other hand, inflationary pressure cooled in July, with slower increases in overall input prices, staff costs and prices charged.

Macau's housing market showed tentative signs of stabilization, with the official property price index rebounding by 1.9% QoQ in 2Q26, reversing the 1.5% QoQ decline recorded in the previous quarter. On year-on-year term, the property index in Q2 was still down by 1.9% compared with the same quarter in 2025. Transaction activity also softened during the quarter, with average monthly residential transactions declining to 424 cases from 538 cases in 1Q26, suggesting that the modest rebound in prices was not accompanied by a sustained improvement in market demand. In our view, the recent uptick in prices is more indicative of short-term market stabilisation than the beginning of a durable recovery cycle. Structural headwinds remain significant, including modest population growth, relatively low rental yields and financing costs that remain elevated compared with pre-pandemic levels.

Looking ahead, the housing market is likely to remain under pressure in the near term, although downside risks appear to be moderating. We expect Macau's housing market to remain in a gradual adjustment phase over the coming quarters. A meaningful rebound in property prices is likely to be delayed until demand fundamentals strengthen more decisively

Key Events	
Facts	**OCBC Opinions**
▪ China's top policymakers concluded the July Politburo meeting on 30 July, with the overall message pointing to policy continuity rather than a major stimulus push.	▪ There was no major "policy bazooka", broadly in line with our expectation that policy support would remain focused on putting a floor under growth rather than delivering large-scale stimulus. The overall macro policy stance was unchanged: "a more proactive fiscal policy and a moderately accommodative monetary policy", identical to the wording used in April. ▪ The meeting did not raise the GDP growth target, commit to a fresh round of policy rate or reserve requirement ratio cuts, introduce a dedicated consumption voucher programme, or signal an expansion of housing inventory purchases. ▪ The policy toolkit still retains flexibility, but the focus in the third quarter will likely be on accelerating the deployment of existing policy resources. In our view, the Fifth Plenum in October, which is expected to finalise the recommendations for the 15th Five-Year Plan, will be the more important policy-pricing event. The scope for meaningful incremental easing therefore appears more concentrated in the fourth quarter.
▪ Hong Kong: As expected, the HKMA held base rate unchanged at 4%, following Fed's decision to stay put. In parallel, local commercial banks also kept the Hong Kong Dollar prime rate unchanged. On the other hand, HIBORs were little changed over the week, remaining large upward sticky.	▪ We pitch 1-month and 3-month HIBOR at 2.80% and 2.95% respectively at end-2026. As spot USD/HKD trades closer to the weak-side Convertibility Undertaking of 7.85, investors are watching the liquidity implications. Should FX intervention be triggered, liquidity may need to shift from the bills market to the interbank market, and these operations could cause two-way fluctuations in HKD rates.

Key Economic Data	
Facts	**OCBC Opinions**
▪ China's headline CPI inflation moderated further to 0.5% YoY in July from 1.0% YoY in June. On a sequential basis, CPI fell 0.1% MoM, significantly weaker than seasonal norms: over the past decade, July CPI has risen by an average of around 0.3% MoM.	▪ The reading also undershot market expectations for a seasonal pickup in food and services prices. While both categories did strengthen, including a 6.6% MoM jump in tourism prices, the gains were more than offset by a sharp decline in energy prices. Despite volatility in crude oil markets during the month, vehicle fuel prices fell another 9.8% MoM. ▪ Encouragingly, core CPI rose 0.3% MoM, pointing to relatively resilient underlying consumer demand once the more volatile food and energy components are excluded. Looking ahead, weather-related disruptions should continue to support seasonal increases in food prices in August, while pork prices have also begun to stabilise and rebound from low levels. These factors should provide some support to headline inflation. We expect CPI inflation to edge up to around 0.7% YoY in August. ▪ PPI inflation also moderated, slowing to 3.5% YoY in July from 4.1% YoY in June and undershooting market expectations of 3.9%. PPI fell 0.7% MoM, extending the 0.3% MoM decline in

	June. The weakness was concentrated in upstream commodity-related sectors, particularly crude oil and non-ferrous metals, while cuts in domestic refined fuel prices added further downward pressure. ▪ By contrast, AI-related demand remained a notable source of pricing support in selected manufacturing industries. Producer prices in electrical equipment and computer-related sectors continued to rise, with prices for computer and communications equipment increasing 0.6% MoM in July. The divergence suggests that weaker commodity prices are weighing on headline PPI, while demand linked to AI and advanced manufacturing continues to support pricing power in parts of the industrial sector.
▪ China's official foreign exchange reserves edged up by USD2.52 billion MoM to USD3.419 trillion in July 2026. Meanwhile, the PBOC's gold holdings increased by 640,000 ounces to 76.08 million ounces, marking the 21st consecutive month of purchases and a further acceleration from the 480,000-ounce increase in June.	▪ The acceleration in gold purchases for a second consecutive month reinforces the view that China is steadily diversifying the composition of its official reserves. The PBOC added 480,000 ounces in June—already the largest monthly purchase since October 2023—despite a sharp correction in gold prices. The further increase to 640,000 ounces in July suggests that the authorities are taking advantage of price weakness to advance their longer-term objective of raising gold's share of official reserves.
▪ In USD terms, China's exports rose 23.9% YoY in July, beating market expectations of 22.9%, although growth moderated from 27.0% in June. Imports increased 27.5% YoY, slightly above the 27.0% consensus forecast but down from 36.0% previously. The trade surplus remained elevated at USD112.5 billion.	▪ AI-related products remained the key export growth engine. In the first seven months, combined exports of integrated circuits and automatic data-processing (ADP) equipment surged 71% YoY, lifting their share of China's total exports further to 15.2%. Export growth was also broad-based across major developed markets, with shipments to the US, Japan and the EU all rising by more than 10% YoY in July. ▪ Meanwhile, the value of integrated-circuit imports reached another record high in July, increasing by more than 71% YoY. The continued strength in both imports and exports of AI-related products points to robust activity across China's technology supply chain, which should remain an important driver of export growth in 3Q.
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