

Greater China – Week in Review

Highlights: Three notable divergences

China's scenario-based consumption remains remarkably resilient. During a visit to a hamburger festival at a shopping mall in Shanghai last week, I was struck by the crowds. By around 4pm, long queues had already formed at many stalls, and all 80 pop-up stores appeared to be doing brisk business.

While China's overall consumption recovery remains uneven, certain consumption scenarios continue to attract strong demand. Social interaction, experiential spending, and emotional value are increasingly important drivers of consumer behavior. Consumers may be cautious about big-ticket purchases, but they remain willing to spend on experiences that offer enjoyment, social engagement, and a sense of participation.

The popularity of events such as hamburger festivals, coffee festivals, concerts, and pop-up markets suggests that scenario-based consumption is becoming an increasingly important pillar of China's consumption story.

In addition, inbound tourism is clearly gaining momentum. During my recent trip, I noticed that the queues for tax refunds at the airport were noticeably longer than a year ago.

Interestingly, medical tourism is also emerging as a new growth area. An increasing number of foreign visitors are travelling to China to access medical and healthcare services that offer a combination of quality and affordability (I saw one foreign vlogger live stream his experience in Shanghai hospital). As China continues to improve its services sector and international connectivity, medical tourism could become another important consumption scenario supporting domestic demand.

On data, there are **three notable divergences** in the latest credit data that warrant close monitoring.

First, the continued contraction in household medium- and long-term loans appears inconsistent with the perceived recovery in housing transactions in China's first-tier cities. Medium- and long-term household loans declined for a second consecutive month in May, pointing to continued household deleveraging. One possible explanation is that the recent improvement in the property market has been concentrated in low-ticket, owner-occupier demand. In Shanghai, for example, improving rental yields have supported demand for homes priced below RMB3 million. Many of these purchases may have been financed through housing provident fund loans and self-owned funds rather than commercial bank mortgages. As a result, the recovery in housing market sentiment has not been fully reflected in bank credit data.

Second, household deposit behavior appears to be shifting. After household deposits fell by RMB1.94 trillion in April, they declined by a further RMB110 billion in May, marking the first two consecutive months of contraction since 2015. Meanwhile, deposits at non-bank financial institutions surged by a

Tommy Xie Dongming
Head of Asia Macro Research

Keung Ching (Cindy)
Hong Kong & Macau Economist

combined RMB3.61 trillion during April and May, highlighting a clear "see-saw" effect between traditional bank deposits and alternative financial assets.

The primary driver appears to be the continued decline in deposit rates. In May 2026, major banks implemented another round of coordinated deposit-rate cuts, pushing one-year time deposit rates at large banks below 1% and five-year rates down to just 1.3%. By comparison, fixed-income wealth management products continue to offer yields of around 2%, making deposits increasingly less attractive on a relative basis.

On a more positive note, while precautionary savings remain elevated amid ongoing pressure on employment and household income, the composition of savings is beginning to change. Rather than simply accumulating deposits, households appear increasingly focused on asset allocation and return optimization. This suggests a gradual shift from a "savings mindset" toward an "investment mindset." From a macro perspective, the migration of funds away from traditional deposits could provide an incremental source of liquidity for capital markets over time.

The rebound in M1 growth in May provides further evidence of this shift. As the opportunity cost of holding demand deposits declines, household funds appear to be becoming more active. On one hand, subdued wealth effects and lingering uncertainty continue to constrain risk appetite, limiting a large-scale reallocation into equities or higher-risk investment products. On the other hand, historically low time-deposit rates reduce the incentive to lock up savings for extended periods. As a result, some funds appear to be moving from time deposits into demand deposits, preserving flexibility while households reassess investment and consumption opportunities. The recovery in M1 growth may therefore signal not only stronger monetary activity, but also a gradual increase in households' willingness to redeploy accumulated savings into the broader economy.

Third, the rebound in PPI inflation and industrial profits has yet to translate into stronger corporate borrowing. Corporate medium- and long-term loans contracted for a second consecutive month in May. This contrasts with the rebound in PPI inflation to 3.9% YoY and the recovery in industrial profits, suggesting that stronger headline data have not translated into a broad-based improvement in corporate investment sentiment.

One possible explanation is the increasingly pronounced K-shaped divergence across sectors. While upstream commodity producers and selected technology-related industries have benefited from higher prices and policy support, many downstream manufacturers continue to face margin pressure from rising input costs, including those associated with the recent oil supply shock. As a result, businesses remain cautious about expanding capacity or undertaking new long-term investment. The fact that corporate medium- and long-term loans were RMB1.2 trillion lower year-to-date than a year earlier suggests that corporate confidence and capital expenditure intentions have yet to recover meaningfully despite improving producer prices and profitability indicators.

The southbound travel scheme for Guangdong vehicles entering Hong Kong will be expanded, effectively from 25 July. The scheme now extended to vehicles from Shenzhen, Foshan, Dongguan, Huizhou and Zhaoqing, with daily quota

doubling from 100 to 200.

Hong Kong's PMI bounced back to expansionary zone at 50.4 in May (48.6 in April), with the largest increase coming from output (51.6 vs. 48.3 in April) and new orders sub-indexes (50.1 vs. 47.6 in April). External demand improved, while margin pressure in downstream sectors persisted in May, on the back of the Middle East conflict.

In April, retail sales rose by a slower but still solid pace of 8.6% YoY in value terms, with broad-based growth across most retail categories, except for fuels and department stores categories. On a sequential basis, the retail sales fell by 7.6% in April, largely due to front-loading of electric cars in March, ahead of the expiry of first-registration tax concessions at the end of the month.

Underlying trends pointed to a continued bifurcation in consumption. Discretionary spending remains strong, with sales of "consumer durable" and "jewellery, watches and valuable gifts" increasing by 26.2% YoY and 19.8% YoY respectively in April. In contrast, sales of consumer staples face subdued demand, with categories such as food and supermarkets still seeing mild growth in recent months.

Solid underlying economic fundamentals, further recovery in tourism, positive wealth effect and ongoing promotion campaign are expected to carry forward and support retail activities for the rest of the year. We expect retail sales to register a mild increase of around 4–6% in 2026.

Reflecting the solid momentum in the gaming sector, Macao's gross gaming revenue (averaging at MOP21.4bn per month) grew by 10.9% YoY in the first five months of the year, led by the sharp gain in the VIP segment which rose by a whopping 35.4% YoY in 1Q26.

Growth of gross gaming (GGR) revenue re-accelerated to 6.7% YoY (5.5% YoY in April), to MOP22.61 in May, partly supported by improved access to credit. However, growth momentum is expected to moderate in the coming months due to a higher base effect, external demand uncertainties, and seasonal headwinds from the World Cup, which may divert casino foot traffic. We forecast full-year GGR growth of around 8% in 2026, with Mainland China's policy and regulatory setting in Macau remaining a key source of uncertainty.

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> May CPI was unchanged from April at 1.2% YoY, while declining 0.1% MoM. Food prices fell 1.7% YoY, with the decline widening slightly from April, and dropped 0.4% MoM. Pork prices remained near the cyclical bottom, falling 1.6% MoM in May, marking the third consecutive monthly decline. 	<ul style="list-style-type: none"> The average oil prices eased in May, leading to a mild decline in domestic refined fuel prices. The energy component of CPI fell 0.1% MoM. Specifically, transportation fuel prices declined 0.3% MoM, while utility fuel prices were broadly stable. On a YoY basis, however, energy prices remained elevated, rising 10.7% and contributing around 0.8ppt to headline CPI inflation. Core CPI edged down by 0.1ppt to 1.1% YoY and fell 0.1% MoM, suggesting that underlying price momentum remained modest. That said, some structural price pressures continued to emerge. Prices of communication devices rose 1.5% MoM, marking the sixth consecutive monthly increase, while tablet prices increased 1.1% MoM, likely reflecting the recent rise in memory-chip prices. Gold prices declined in May, narrowing the YoY increase in domestic gold jewelry prices, although gold jewelry continued to provide a positive contribution to headline CPI. May PPI rebounded further to 3.9% YoY, the highest level in nearly four years, and rose MoM for the eighth consecutive month. Structurally, the MoM increase was mainly driven by downstream and midstream segments of the petrol value chain, as well as AI-related sectors. Although the average level of international oil prices eased in May, leading to a slight MoM decline in upstream oil extraction prices, prices in midstream and downstream petrochemical sectors continued to rise. Chemical products, chemical fibers, and rubber & plastics increased by 2.0%, 1.5%, and 1.5% MoM, respectively. Downstream textile and apparel prices also rose by 0.7% and 0.2% MoM, respectively. AI-related sectors have also seen consecutive price increases. Since the beginning of the year, rising demand for computing power has tightened supply-demand conditions in communication electronics and electrical machinery, pushing related prices higher for several months. Overall, with oil prices likely to remain range-bound at elevated levels, PPI inflation still has room to rise and may approach 5% in 3Q. At the same time, markets should monitor the spillover from global AI computing demand into copper prices and downstream products such as optical fiber and memory chips. Structural price increases in new growth sectors are likely to persist. For CPI, the continued decline in pork prices has so far offset pressure from energy prices. CPI inflation is therefore likely to remain below 1.5% in the near term. However, during the summer months, a rebound in pork prices, together with elevated oil prices, could still push CPI above 1.5%.
<ul style="list-style-type: none"> In May, new aggregate social financing, or TSF, reached around RMB2.03 trillion, with government bond financing remaining the main source of support. Net government 	<ul style="list-style-type: none"> RMB loans increased by around RMB520 billion in May, marking a clear recovery from April's outright contraction, but still came in RMB100 billion lower than a year earlier. Beneath the headline improvement, credit demand from both households and

bond financing stood at around RMB1.22 trillion, continuing to act as the key stabilizer for TSF. This reflects both the continuation of a more proactive fiscal policy stance and the ongoing rollout of debt-swap programs.

corporates remained weak. Household loans contracted by RMB141.2 billion, RMB195.2 billion more than a year earlier, extending the decline in household credit balances. Notably, medium- and long-term household loans contracted for a second consecutive month, pointing to continued household deleveraging.

- This appears to diverge from the perceived recovery in first-tier city housing prices. One possible explanation is that the recent improvement in the property market has been concentrated in low-ticket, end-user demand. In Shanghai, for example, improving rental yields have supported demand for units priced below RMB3 million. Many purchases may have been funded through housing provident fund loans and self-owned funds, meaning the recovery in market sentiment has not been fully reflected in bank credit data.
- Corporate credit demand also remained cautious. Corporate medium- and long-term loans contracted for a second consecutive month in May and have undershot year-earlier levels for three straight months. This stands in contrast to the rebound in PPI and industrial profits, suggesting that amid K-shaped sectoral divergence and the crude oil supply shock, corporate investment expectations remain subdued. In January–May, corporate medium- and long-term loans were RMB1.2 trillion lower than a year earlier. Although PPI inflation rebounded to 3.9% YoY in May, the divergence in corporate profitability continued to widen.
- The key bright spot came from monetary aggregates. M2 growth stayed stable at 8.6% YoY. On one hand, RMB appreciation likely supported stronger FX settlement, contributing to domestic money creation. On the other hand, the smaller increase in fiscal deposits compared with the same period last year may point to faster fiscal spending. Together, these factors helped stabilize M2 growth.
- M1 growth improved to 5.5% YoY from 5.0% in April, narrowing the negative M1–M2 gap from -3.6ppt to -3.1ppt. This suggests that while overall liquidity remains ample, “active money” is recovering at the margin, with some improvement in the activation of corporate and household cash balances.
- Overall, the resilience of TSF still reflects government leveraging and the expansion of direct financing more than a meaningful recovery in endogenous financing demand from the real economy.

- Hong Kong’s PMI bounced back to expansionary zone at 50.4 in May (48.6 in April), with the largest increase coming from output (51.6 vs. 48.3 in April) and new orders sub-indexes (50.1 vs. 47.6 in April). External demand improved, while margin pressure in downstream sectors persisted in May, on the back of the Middle East conflict.

- Surveyed businesses reported modest improvement in the business environment. Margin pressure on downstream sectors persisted in May, while both the input price and output price sub-indexes fell (by 1.2 percentage points and 1.0 percentage point respectively).
- Surveyed firms also indicated that their existing staffing capacity was sufficient to handle workloads, and therefore they did not fill vacancies left by departing staff, leading to a modest decline in employment. Yet, the employment sub-index edged up to 49.2

	<p>in May (vs. 49.0 in April).</p> <ul style="list-style-type: none"> Despite improvement in the business environment, companies remain cautious, reflecting ongoing concerns over geopolitical risks, cost pressures, and trade policy uncertainty.
<ul style="list-style-type: none"> Hong Kong: In April, retail sales rose by a slower but still solid pace of 8.6% YoY in value terms, with broad-based growth across most retail categories, except for fuels and department stores categories. On a sequential basis, the retail sales fell by 7.6% in April, largely due to front-loading of electric cars in March, ahead of the expiry of first-registration tax concessions at the end of the month. 	<ul style="list-style-type: none"> Underlying trends pointed to a continued bifurcation in consumption. Discretionary spending remains strong, with sales of “consumer durable” and “jewellery, watches and valuable gifts” increasing by 26.2% YoY and 19.8% YoY respectively in April. In contrast, sales of consumer staples face subdued demand, with categories such as food and supermarkets still seeing mild growth in recent months. Solid underlying economic fundamentals, further recovery in tourism, positive wealth effect and ongoing promotion campaign are expected to carry forward and support retail activities for the rest of the year. We expect retail sales to register a mild increase of around 4–6% in 2026.
<ul style="list-style-type: none"> Macau: Reflecting the solid momentum in the gaming sector, the gross gaming revenue (averaging at MOP21.4bn per month) grew by 10.9% YoY in the first five months of the year, led by the sharp gain in the VIP segment which rose by a whopping 35.4% YoY in 1Q26. 	<ul style="list-style-type: none"> Growth of gross gaming (GGR) revenue re-accelerated to 6.7% YoY (5.5% YoY in April), to MOP22.61 in May, partly supported by improved access to credit. However, growth momentum is expected to moderate in the coming months due to a higher base effect, external demand uncertainties, and seasonal headwinds from the upcoming World Cup, which may divert casino foot traffic. We forecast full-year GGR growth of around 8% in 2026, with Mainland China’s policy and regulatory setting in Macau remaining a key source of uncertainty.



Disclaimers

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Additional disclosures and disclaimers applicable only to clients of Bank of Singapore Limited

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) ("BOS") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). BOS and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by BOS' or OCBC Bank's wilful default or gross negligence.

The DIFC Branch of BOS has not conducted or produced any research contained in this material and is acting solely as a conduit in forwarding it to you.

For BOS clients in the United Kingdom:

This research has been prepared by OCBC Bank and made available to BOS. It is intended solely for informational purposes and does not constitute investment advice, a personal recommendation, or an offer or solicitation to buy or sell any financial instruments. Any payments or non-monetary benefits received or paid will be fully disclosed in accordance with applicable regulations, promptly and transparently, and will not influence the advice or services offered to you. If you would like more information about any inducements received, please contact your Relationship Manager.

Cross Border Disclaimer and Disclosures

Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.