Greater China – Week in Review

Highlights: More monetary supports

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Despite the high base in December 2024 caused by front-loading ahead of President Trump's inauguration, China's exports in US dollar terms once again surprised to the upside, rising 6.6% YoY in December 2025. Notably, the anticipated drag from earlier front-loaded shipments, tighter re-export controls, and RMB appreciation has so far been limited, highlighting the underlying resilience of China's export sector.

The full-year 2025 goods trade surplus climbed to an unprecedented US$1.19tn. In our view, the pace of trade integration between China and ASEAN has exceeded expectations and will remain a key structural support for China's external sector. Looking ahead, we expect China's exports to grow by around 3% in 2026, assuming no major global economic shock, helping the economy weather an increasingly uncertain external environment. We will publish a separate report to share our observations about China's resilient supply chain integration.

Nevertheless, China's credit expansion remained sluggish. New Yuan lending has now posted six consecutive months of YoY contraction, driven primarily by continued household-sector deleveraging. Household loans declined by RMB 91.6bn, RMB 441.6bn less YoY, marking the third consecutive month of negative growth. Both short-term and medium-to-long-term household lending contracted, underscoring ongoing weakness in consumption and the property sector.

M2 growth accelerated sharply by 0.5ppt to 8.5%, while M1 growth slowed by 1.1ppt to 3.8%, widening the M2–M1 growth gap to 4.7ppt. The rebound in M2 points to ample system liquidity, but the continued weakness in M1 suggests subdued short-term corporate activity and transaction demand.

The weak credit and monetary expansion warrant further monetary support. The People's Bank of China (PBoC) last week unveiled a comprehensive policy "combination package" aimed at supporting high-quality economic development. Key measures include a 25bp cut in relending and rediscount rates, alongside the consolidation of agriculture- and SME-supporting relending quotas with rediscount quotas. In addition, the PBoC raised the agriculture- and SME-focused relending quota by RMB 500bn.

Both external and domestic constraints on further monetary easing have largely been lifted. According to PBoC Deputy Governor Zou Lan, external pressures are manageable: the RMB exchange rate has remained broadly stable, while the U.S. dollar has entered a rate-cut cycle, implying that exchange-rate considerations are unlikely to materially constrain additional easing.

On the domestic front, Zou noted that bank net interest margins (NIMs) have shown clear signs of stabilization, holding at 1.42% for two consecutive quarters since 2025. Looking ahead to 2026, a meaningful volume of long-tenor deposits, including three-year and five-year deposits, will mature and be repriced at lower rates. Combined with the PBoC's reductions in relending facility rates, these factors should lower banks' funding costs and anchor NIM stability, thereby creating additional room for further policy rate cuts.

Importantly, the PBOC stated it would "conduct government bond trading in a flexible manner" to ensure bonds are issued smoothly and at reasonable costs. This highlights that fiscal funding costs have become a key consideration in monetary operations. In practice, this implies the central bank is likely to manage bond yield volatility to prevent expansionary fiscal policy from being undermined by rising interest rates—effectively signaling closer monetary–fiscal coordination to support fiscal expansion.

December FX settlement data suggest that a key factor underpinning the RMB last month was a rising willingness—particularly among exporters—to sell foreign currency.

The willingness to sell foreign currency rose sharply to 69% in December from 61% in November. Interestingly, this improvement in conversion willingness was not accompanied by higher trading activity: daily FX trading volumes declined in December, while onshore foreign-currency deposits continued to rise, increasing to US$884.99bn from US$880.98bn in November.

This divergence suggests that corporates are still accumulating foreign-currency assets despite a higher propensity to sell, implying that there remains further upside potential for conversion willingness. In our view, this residual buffer should continue to provide near-term support for the RMB, even in the absence of a material pickup in FX trading volumes.

Risk sentiment in Hong Kong equity market remained buoyant, and trading activities turned much more fervent with average daily market turnover standing at 301 billion last week (vs average daily turnover in Dec 25 at 186 billion). However, Chinese authorities' decision to raise the minimum margin requirement for financing securities purchase and clamp down on high frequency trading left a mild dent on sentiment.

Overweighing Hong Kong stocks has been a crowded call this year, and the strategy has worked out quite well so far. Hang Seng Index climbed to the high of 27,206.84 last Thursday, refreshing three-month high, led by rallies in property and tech sectors.

Riding on the positive risk sentiment, fund raising demand should remain exuberant with more quality dual A-H listings. The total fund raised through IPO is expected to reach HKD350 billion this year, up from HKD286 billion last year. So far this year, the market has already seen a wave of IPO applications from AI related firms.

Sustained equity market rally and further gain in housing prices will likely stimulate domestic consumption in Hong Kong this year via positive wealth effect. We pitched Hong Kong's 2026 GDP growth at 2.6%.

Key Development	
Facts	**OCBC Opinions**
▪ The People's Bank of China (PBoC) unveiled a comprehensive policy "combination package" aimed at supporting high-quality economic development. Key measures include a 25bp cut in relending and rediscount rates, alongside the consolidation of agriculture- and SME-supporting relending quotas with rediscount quotas. In addition, the PBoC raised the agriculture- and SME-focused relending quota by RMB 500bn. ▪ Within this expanded framework, a dedicated RMB 1trn relending facility has been earmarked specifically for private enterprises, with an emphasis on small and medium-sized private firms. The central bank also increased the quota for the technology innovation and technological upgrading relending facility by RMB 400bn, while broadening the scope of eligible uses. ▪ Complementing these measures, the PBoC extended the coverage of its carbon-emissions reduction support tool and lowered the minimum down-payment ratio for commercial property purchase loans to 30%, signalling a more targeted and multi-pronged approach to easing financial conditions and supporting structural upgrading.	▪ This sends a clear signal that policy remains focused on stabilizing growth and expectations. The central bank also reiterated that there remains room for further RRR and policy rate cuts, reinforcing its easing bias. ▪ Both external and domestic constraints on further monetary easing have largely been lifted. According to PBoC Deputy Governor Zou Lan, external pressures are manageable: the RMB exchange rate has remained broadly stable, while the U.S. dollar has entered a rate-cut cycle, implying that exchange-rate considerations are unlikely to materially constrain additional easing. ▪ On the domestic front, Zou noted that bank net interest margins (NIMs) have shown clear signs of stabilization, holding at 1.42% for two consecutive quarters since 2025. Looking ahead to 2026, a meaningful volume of long-tenor deposits, including three-year and five-year deposits, will mature and be repriced at lower rates. Combined with the PBoC's reductions in relending facility rates, these factors should lower banks' funding costs and anchor NIM stability, thereby creating additional room for further policy rate cuts. ▪ Importantly, the PBOC stated it would "conduct government bond trading in a flexible manner" to ensure bonds are issued smoothly and at reasonable costs. This highlights that fiscal funding costs have become a key consideration in monetary operations. In practice, this implies the central bank is likely to manage bond yield volatility to prevent expansionary fiscal policy from being undermined by rising interest rates—effectively signaling closer monetary–fiscal coordination to support fiscal expansion.
▪ Risk sentiment in Hong Kong equity market remained buoyant, and trading activities turned much more fervent with average daily market turnover standing at 301 billion last week (vs average daily turnover in Dec 25 at 186 billion). However, Chinese authorities' decision to raise the minimum margin requirement for financing securities purchase and clamp down on high frequency trading left a mild dent on sentiment.	▪ Overweighing Hong Kong stocks has been a crowded call this year, and the strategy has worked out quite well so far. Hang Seng Index climbed to the high of 27,206.84 last Thursday, refreshing three-month high, led by rallies in property and tech sectors. ▪ Riding on the positive risk sentiment, fund raising demand should remain exuberant with more quality dual A-H listings. The total fund raised through IPO is expected to reach HKD350 billion this year, up from HKD286 billion last year. So far this year, the market has already seen a wave of IPO applications from AI related firms. ▪ Sustained equity market rally and further gain in housing prices will likely stimulate domestic consumption this year via positive wealth effect. We pitched Hong Kong's 2026 GDP growth at 2.6%.

Key Economic News	
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▪ Despite the high base in December 2024 caused by front-loading ahead of President Trump's inauguration, China's exports in US dollar terms once again surprised to the upside, rising 6.6% YoY in December 2025.	▪ Exports to the US declined sharply, falling 30% YoY, reflecting ongoing trade frictions and structural decoupling pressures. That said, this weakness was more than offset by robust growth in other markets. Exports to ASEAN, Latin America, and other BRICS economies rose 11.1% YoY, 9.8% YoY, and 12.0% YoY, respectively, underscoring China's continued success in market diversification. ▪ Notably, the anticipated drag from earlier front-loaded shipments, tighter re-export controls, and RMB appreciation has so far been limited, highlighting the underlying resilience of China's export sector. On the import side, December data also surprised to the upside, driven by strong demand for semiconductors and crude oil. The import value of electronic integrated circuits surged 16.6% YoY, while crude oil imports by volume jumped 17% YoY to a record high, suggesting ongoing stockpiling activity that is likely to continue underpinning imports in the near term. ▪ As a result, China's trade surplus in December reached a record US$114.1bn, while the full-year 2025 surplus climbed to an unprecedented US$1.19tn. In our view, the pace of trade integration between China and ASEAN has exceeded expectations and will remain a key structural support for China's external sector. Looking ahead, we expect China's exports to grow by around 3% in 2026, assuming no major global economic shock, helping the economy weather an increasingly uncertain external environment.
▪ In December, new RMB loans totaled RMB 910bn, RMB 80bn less YoY, but still better than market expectations.	▪ New lending has now posted six consecutive months of YoY contraction, driven primarily by continued household-sector deleveraging. ▪ Household loans declined by RMB 91.6bn, RMB 441.6bn less YoY, marking the third consecutive month of negative growth. Both short-term and medium-to-long-term household lending contracted, underscoring ongoing weakness in consumption and the property sector. ▪ By contrast, the corporate sector showed a notable improvement. Corporate loans increased by RMB 1.07trn, RMB 580bn more YoY, with medium-to-long-term corporate lending rising by RMB 330bn, RMB 290bn more YoY. This points to a marginal recovery in corporate financing demand, likely supported by the rollout and transmission of policy-based financial instruments. ▪ Aggregate social financing increased by RMB 2.21trn, RMB 646.2bn less YoY, also beating market expectations. The TSF stock growth rate edged down to 8.3%, 0.2ppt lower MoM. ▪ The moderation was mainly driven by weaker government bond issuance. Government bond net financing totaled RMB 683.3bn, RMB 1.07trn less YoY, making it the largest drag on TSF growth. This largely reflects a high base effect, following the front-loaded issuance of debt-swap bonds at end-2024. ▪ M2 growth accelerated sharply by 0.5ppt to 8.5%, while M1 growth slowed by 1.1ppt to 3.8%, widening the M2–M1 growth

	gap to 4.7ppt. The rebound in M2 points to ample system liquidity, but the continued weakness in M1 suggests subdued short-term corporate activity and transaction demand.
▪ Chinese banks sold US$318bn of foreign currency while purchasing US$217.9bn, resulting in a net sale of roughly US$100bn, the highest monthly reading on record.	▪ December FX settlement data suggest that a key factor underpinning the RMB last month was a rising willingness—particularly among exporters—to sell foreign currency. ▪ The willingness to sell foreign currency rose sharply to 69% in December from 61% in November. Interestingly, this improvement in conversion willingness was not accompanied by higher trading activity: daily FX trading volumes declined, while onshore foreign-currency deposits continued to rise, increasing to US$884.99bn from US$880.98bn in November. ▪ This divergence suggests that corporates are still accumulating foreign-currency assets despite a higher propensity to sell, implying that there remains further upside potential for conversion willingness. In our view, this residual buffer should continue to provide near-term support for the RMB, even in the absence of a material pickup in FX trading volumes.

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