

Greater China – Week in Review

Highlights: Stronger external demand

China's equity market suffered its sharpest weekly decline in nearly three months, led by a broad sell-off in growth and AI hardware stocks. The ChiNext index plunged 8.90% over the week, while the CSI 300 fell 3.40%. According to Bloomberg, Chinese regulators convened a meeting on 15 October to discuss measures to stabilise the equity market. Authorities reportedly urged major insurers to refrain from crystallising losses on their equity holdings and encouraged the state-backed "national team" to step up stock purchases.

The macroeconomic picture remains mixed ahead of today's release of 3Q GDP data. China's CPI inflation edged up to 0.9% YoY in September from 0.8% in August, while core CPI inflation remained unchanged at 1.0% YoY. In contrast, PPI inflation accelerated sharply to 5.0% YoY, its highest level in nearly four years, from 3.8% in August. The PPI–CPI inflation gap widened to 4.1ppt, also the largest in nearly four years, highlighting the limited pass-through of rising upstream costs to consumer prices. Against a backdrop of subdued domestic demand and weak corporate pricing power, higher input costs could further squeeze margins in midstream and downstream industries, exacerbating the divergence in industrial profitability.

Despite better than expected loan and aggregate social financing data, household credit demand remained subdued, highlighting the continued reluctance to take on additional leverage. Corporate borrowing showed tentative signs of stabilisation, particularly in medium- and long-term financing. Encouragingly, medium- and long-term corporate loans rose by RMB890bn, just RMB20bn below the year-earlier level. This relative resilience may reflect improving demand for complementary financing as fiscal stimulus gains traction, offering an early indication of policy support beginning to filter through to the corporate sector.

Overall, September's credit data point to a widening divergence between policy-driven financing and private-sector credit demand. Accelerated government bond issuance is providing the main support to aggregate financing, with tentative signs of positive spillovers into corporate borrowing. However, household credit demand remains stubbornly weak, highlighting the limitations of relying on fiscal expansion alone to revive domestic demand. The key question is whether the latest policy measures announced in late September can translate stronger government financing into a sustained recovery in private-sector borrowing, particularly among households. In our view, the next phase of China's recovery will depend less on the scale of policy support and more on the effectiveness of its transmission to the real economy.

External trade remains the lone bright spot in China's economy for now. China's trade surplus widened to US\$939bn in the first three quarters of 2026, up 7.9% YoY, putting it on track to reach a new record high for the full year.

September's robust export performance was underpinned by four key drivers.

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First, AI-related demand remained a major engine of export growth. Second, automobile exports provided another significant boost. Third, elevated oil prices provided a boost to export values, particularly for refined petroleum products and chemicals. Fourth, a favourable base effect supported a recovery in labour-intensive exports.

Looking ahead, the stronger export performance should translate into a larger contribution from net exports to GDP growth in 3Q26 compared with 1H26. We expect export growth to remain above 20% YoY in 4Q26, supported by resilient AI-related demand and other favourable factors, although the sustainability of recent gains in some export categories warrants monitoring. On the domestic front, faster fiscal spending, together with the Ministry of Finance's plan to mobilise RMB550bn in unused local government debt quota, should provide additional support to economic activity. Taken together, stronger external demand and stepped-up fiscal support should help keep China on track to achieve its full-year GDP growth target of 4.5%.

Key Economic Data	
Facts	OCBC Opinions
China's export growth accelerated sharply in September, significantly exceeding market expectations. Exports surged by 36.3% YoY in USD terms, well above market expectations of 25.9% and up from 25.0% in August. Imports also surprised on the upside, rising by 31.0% YoY, compared with expectations of 23.8% and growth of 28.2% in August. As a result, the trade surplus widened further to USD133.5bn from USD119.1bn in the previous month.	- China's export growth accelerated sharply in September, significantly exceeding market expectations. Exports surged by 36.3% YoY in USD terms, well above market expectations of 25.9% and up from 25.0% in August. Imports also surprised on the upside, rising by 31.0% YoY, compared with expectations of 23.8% and growth of 28.2% in August. As a result, the trade surplus widened further to USD133.5bn from USD119.1bn in the previous month. - September's robust export performance was underpinned by four key drivers. - First, AI-related demand remained a major engine of export growth. Exports of AI-related intermediate goods, including integrated circuits and automatic data processing equipment, surged by 80.8% YoY in the first three quarters of 2026. Their share of China's total exports rose sharply to 15.8%, from 10.7% in 2025, highlighting the growing importance of the global AI investment cycle to China's export performance. - Second, automobile exports provided another significant boost. Auto exports jumped by 62% YoY in September, contributing 2.4ppt to overall export growth. The sharp increase may partly reflect front-loading of shipments ahead of China-EU trade negotiations, suggesting that some of the strength could prove temporary. - Third, elevated oil prices provided a boost to export values, particularly for refined petroleum products and chemicals. The value of refined petroleum exports surged by 125.1% YoY in September, reflecting the impact of higher energy prices alongside potential changes in export volumes. - Fourth, a favourable base effect supported a recovery in labour-intensive exports. Traditional export categories, including apparel and luggage, recorded strong growth against a low base of comparison. Meanwhile, exports to the US maintained strong momentum, rising by 39.6% YoY in September, marking the second consecutive month of growth exceeding 30%. - Looking ahead, the stronger export performance should translate into a larger contribution from net exports to GDP growth in 3Q26 compared with 1H26. We expect export growth to remain above 20% YoY in 4Q26, supported by resilient AI-related demand and other favourable factors, although the sustainability of recent gains in some export categories warrants monitoring. On the domestic front, faster fiscal spending, together with the Ministry of Finance's plan to mobilise RMB550bn in unused local government debt quota, should provide additional support to economic activity. Taken together, stronger external demand and stepped-up fiscal support should help keep China on track to achieve its full-year GDP growth target of 4.5%.
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energy prices and AI-related price pressures, rather than a broad-based recovery in consumer demand. Rising energy prices contributed approximately 0.55ppt to headline CPI inflation. Meanwhile, food prices remained subdued, declining 1.7% YoY, a slightly steeper contraction than in August. The AI boom continued to fuel price increases in consumer electronics, particularly through higher memory prices. Prices of data storage devices, tablets, computers and mobile phones rose by 46.7%, 23.6%, 21.8% and 14.9% YoY, respectively, with all four categories recording faster increases. Together, these categories contributed approximately 0.23ppt to headline CPI inflation.

- In contrast, prices of consumer durables more closely tied to domestic demand weakened further, underscoring persistent deflationary pressures in parts of the economy. Vehicle prices fell 0.3% MoM, marking the seventh consecutive monthly decline and suggesting little respite from intense price competition in the auto industry. Household appliance prices also declined 0.2% MoM, with the YoY contraction deepening to 1.8%. This partly reflects the fading impact of earlier consumer trade-in subsidies, which brought forward demand but provided a diminishing boost to subsequent purchases. The resulting demand payback is adding further downward pressure on appliance prices.
- On the production side, PPI inflation surged to a nearly four-year high, driven largely by rising crude oil prices. Higher prices for coal, non-ferrous metals and AI-related products added to upstream inflationary pressures. However, the sharp divergence between producer and consumer prices suggests that manufacturers are facing increasing difficulty passing higher costs on to end consumers, raising the risk of further margin compression, particularly in downstream industries.
- Looking ahead, we expect the PPI–CPI inflation gap to widen further in October as upstream price pressures continue to outpace consumer inflation. With global commodity prices remaining elevated, PPI inflation could accelerate to around 5.5% YoY. CPI inflation may also edge up to approximately 1.2% YoY, supported by some pass-through of higher producer prices to core consumer goods and persistent AI-related price pressures. Nevertheless, sluggish domestic demand and constrained corporate pricing power are likely to limit the extent of this pass-through. The key concern is that China's emerging inflationary pressures remain predominantly cost-driven rather than demand-led, potentially intensifying the squeeze on downstream corporate margins without signalling a meaningful recovery in domestic demand.

- China's new RMB loans and total social financing (TSF) both exceeded expectations in September, largely driven by accelerated government bond issuance. Net government bond financing reached RMB1.53tn, up RMB343.8bn YoY, underscoring the stepped-up pace of fiscal

- Household credit demand remained subdued, highlighting the continued reluctance to take on additional leverage. Short-term household loans contracted by RMB90bn, RMB232.1bn lower than a year earlier, pointing to persistently weak consumer confidence and borrowing appetite. Medium- and long-term household loans returned to positive territory at RMB87.4bn, but were still RMB162.6bn below the year-earlier level,

support. In contrast, new RMB loans under the TSF measure totalled RMB1.27tn, down RMB334.2bn YoY, remaining the main drag on overall credit expansion. Despite the stronger-than-expected headline figures, outstanding TSF growth edged down by 0.1ppt to 7.1% YoY.

suggesting that the recovery in housing-related credit demand remains fragile. Overall, households have yet to respond meaningfully to the recent policy support.

- Corporate borrowing showed tentative signs of stabilisation, particularly in medium- and long-term financing. Short-term corporate loans increased by RMB460bn, down RMB250bn YoY, reflecting continued weakness in short-term financing demand. Encouragingly, medium- and long-term corporate loans rose by RMB890bn, just RMB20bn below the year-earlier level. This relative resilience may reflect improving demand for complementary financing as fiscal stimulus gains traction, offering an early indication of policy support beginning to filter through to the corporate sector.
- Money supply growth moderated, reflecting subdued credit creation and a relatively slow pace of fiscal fund disbursement. M2 growth eased by 0.3ppt to 7.2% YoY, while M1 growth slowed by 0.9ppt to 3.2% YoY, partly due to a higher base effect. Meanwhile, fiscal deposits declined by RMB430bn, a decrease RMB410bn smaller than a year earlier. This suggests that fiscal spending has yet to fully catch up with the acceleration in government bond issuance, potentially delaying the transmission of fiscal support to the real economy.
- Overall, September's credit data point to a widening divergence between policy-driven financing and private-sector credit demand. Accelerated government bond issuance is providing the main support to aggregate financing, with tentative signs of positive spillovers into corporate borrowing. However, household credit demand remains stubbornly weak, highlighting the limitations of relying on fiscal expansion alone to revive domestic demand. The key question is whether the latest policy measures announced in late September can translate stronger government financing into a sustained recovery in private-sector borrowing, particularly among households. In our view, the next phase of China's recovery will depend less on the scale of policy support and more on the effectiveness of its transmission to the real economy.

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