

Greater China – Week in Review

Highlights: Still subdued credit demand

Mainland Chinese equities posted their steepest weekly decline in more than two-and-a-half years, weighed down by three key headwinds including a weaker-than-expected Q2 GDP reading; concerns over potential liquidity absorption from CXMT's USD8.6 billion mega-IPO—the largest in Asia this year; and a sharp rebound in oil prices amid the escalating US–Iran conflict. The Shanghai Composite tumbled 5.81% over the week, closing near an 11-month low, while the tech-heavy ChiNext plunged 10.78%. Meanwhile, the rotation from onshore to offshore Chinese equities continued, with Hong Kong's Hang Seng Index bucking the mainland sell-off to record a modest weekly gain.

Tommy Xie Dongming
Head of Asia Macro Research

Keung Ching (Cindy)
Hong Kong & Macau Economist

China's economy slowed more than expected to 4.3% YoY (0.9% QoQ SA) in 2Q26 from 5.0% in 1Q26. Nominal GDP growth accelerated to 5.9% YoY in 2Q from 4.9% in 1Q, while China's GDP deflator turned positive for the first time since March 2023, signalling that deflationary pressures are gradually easing. For details, you may refer to our China Insights report last week.

China's merchandise trade surplus narrowed only marginally to USD577.3 billion in the first half, from USD583.4 billion a year earlier, while remaining historically elevated. Against the backdrop of subdued domestic demand, exports continued to serve as the key engine of economic growth.

AI-related products remained one of the most important drivers of export performance. China's AI exports are concentrated mainly in intermediate goods, particularly semiconductors and computing hardware. In June, integrated circuit (IC) exports surged 121.9% YoY, extending this year's record-breaking momentum. During the first half, integrated circuits and automatic data processing (ADP) equipment together accounted for 14.8% of China's total exports, up from 10.7% in 2025, while their combined exports expanded 67.5% YoY. On the import side, IC imports also reached a new monthly record, with growth accelerating to 72.3% YoY, highlighting robust demand for upstream semiconductor components. The simultaneous strength in both IC exports and imports points to sustained expansion across China's AI supply chain, suggesting that AI-related exports should remain a key source of support for overall export growth in the coming months.

In the first half of 2026, new RMB loans totalled RMB10.72 trillion, RMB2.20 trillion lower YoY. Credit demand—particularly for corporate medium- and long-term loans and household borrowing—has remained subdued for three main reasons. First, businesses continue to show limited appetite for investment and capacity expansion. Second, household deleveraging reflects the prolonged property-market adjustment, cautious consumer sentiment and the sluggish recovery in self-employed business activity. Third, declining bond yields have encouraged corporate bond issuance, reinforcing the shift in corporate financing from bank loans towards bonds.

China's M2 growth moderated by 0.6 percentage points to 8.0% YoY in June, as the sharp YoY decline in new lending constrained deposit creation.

Nevertheless, M2 continued to grow faster than both outstanding aggregate social financing and RMB loans, partly supported by foreign-exchange settlement inflows amid robust export growth.

Meanwhile, M1 growth slowed by 1.5 percentage points to 4.0% YoY, widening the M2–M1 growth gap to an elevated 4.0 percentage points. The widening gap underscores the continued weakness in money circulation, as the ongoing property-market adjustment and subdued investment and consumption demand impede the transmission of ample system liquidity into stronger credit demand and economic activity.

Nevertheless, M2 and outstanding aggregate social financing growth remained within the 7.0–8.0% range, comfortably above the 5.9% nominal GDP growth recorded in 2Q. This suggests that monetary and financial conditions continue to provide adequate support to the real economy. However, the key constraint is no longer the availability of liquidity, but the willingness of businesses and households to borrow—reinforcing the case for the PBOC to maintain an accommodative policy stance while placing greater emphasis on improving monetary-policy transmission.

With retail sales growth still substantially below the implied medium-term target, we expect policymakers to announce additional consumption-support measures at the July Politburo meeting, particularly to stimulate durable goods consumption. At the same time, policymakers are placing increasing emphasis on services consumption, which is not fully captured by traditional retail sales data.

Hong Kong's seasonally adjusted unemployment rate was unchanged at 3.7% in April – June 2026, while underemployment rate edged up to 1.6% respectively. The number of unemployed persons declined by 1.0% to 139,700, marking the first sequential decrease since the December 2025-February 2026 period. Meanwhile, the labour force expanded marginally by 0.1% to 3.79 million, with the labour force participation rate rising by 0.1 percentage point to 56.2%, rebounding slightly from the record low recorded in the previous period.

Labour market conditions were mixed across sectors. Comparing the March-May 2026 period with February-April 2026, unemployment rates declined notably in the import and export trade sector and the food and beverage services sector, likely reflecting continued support from AI-related trade boom and stronger consumption associated with the FIFA World Cup. In contrast, unemployment rates increased in the manufacturing sector, suggesting that employment conditions remain uneven despite a solid expansion in economic activity.

Looking ahead, we expect labour market slack to widen modestly as the temporary boost from World Cup-related spending fades. Over the medium to longer term, structural factors are likely to play a more significant role in shaping employment trends. Rising productivity, increasing automation, and broader adoption of artificial intelligence are enabling firms to expand output without a corresponding increase in labour demand.

Key Economic News	
Facts	OCBC Opinions
- New RMB loans reached RMB1.61 trillion in June, RMB630 billion lower than a year earlier, pointing to relatively weak credit expansion at the half-year mark. - Aggregate social financing increased by RMB3.36 trillion in June, up RMB1.34 trillion from May due largely to seasonal factors, but RMB861.5 billion lower YoY. Consequently, growth in outstanding aggregate social financing slowed by 0.3 percentage points from May to 7.4% YoY, 0.9 percentage points below its end-2025 pace.	- Corporate medium- and long-term loans increased by RMB560 billion but remained RMB450 billion lower YoY. Meanwhile, the household sector ended two consecutive months of deleveraging, with medium- and long-term borrowing increasing by RMB158.4 billion, although this was still RMB176.9 billion lower YoY. - In the first half of 2026, new RMB loans totalled RMB10.72 trillion, RMB2.20 trillion lower YoY. Credit demand—particularly for corporate medium- and long-term loans and household borrowing—has remained subdued for three main reasons. First, businesses continue to show limited appetite for investment and capacity expansion. Second, household deleveraging reflects the prolonged property-market adjustment, cautious consumer sentiment and the sluggish recovery in self-employed business activity. Third, declining bond yields have encouraged corporate bond issuance, reinforcing the shift in corporate financing from bank loans towards bonds. - Aggregate social financing increased by RMB3.36 trillion in June, up RMB1.34 trillion from May due largely to seasonal factors, but RMB861.5 billion lower YoY. Consequently, growth in outstanding aggregate social financing slowed by 0.3 percentage points from May to 7.4% YoY, 0.9 percentage points below its end-2025 pace. - M2 growth moderated by 0.6 percentage points to 8.0% YoY in June, as the sharp YoY decline in new lending constrained deposit creation. Nevertheless, M2 continued to grow faster than both outstanding aggregate social financing and RMB loans, partly supported by foreign-exchange settlement inflows amid robust export growth. - Meanwhile, M1 growth slowed by 1.5 percentage points to 4.0% YoY, widening the M2–M1 growth gap to an elevated 4.0 percentage points. The widening gap underscores the continued weakness in money circulation, as the ongoing property-market adjustment and subdued investment and consumption demand impede the transmission of ample system liquidity into stronger credit demand and economic activity. - Nevertheless, M2 and outstanding aggregate social financing growth remained within the 7.0–8.0% range, comfortably above the 5.9% nominal GDP growth recorded in 2Q. This suggests that monetary and financial conditions continue to provide adequate support to the real economy. However, the key constraint is no longer the availability of liquidity, but the willingness of businesses and households to borrow—reinforcing the case for the PBOC to maintain an accommodative policy stance while placing greater emphasis on improving monetary-policy transmission.
Hong Kong: The seasonally adjusted unemployment rate was unchanged at	Labour market conditions were mixed across sectors. Comparing the March-May 2026 period with February-April 2026,

3.7% in April – June 2026, while underemployment rate edged up to 1.6% respectively. The number of unemployed persons declined by 1.0% to 139,700, marking the first sequential decrease since the December 2025-February 2026 period. Meanwhile, the labour force expanded marginally by 0.1% to 3.79 million, with the labour force participation rate rising by 0.1 percentage point to 56.2%, rebounding slightly from the record low recorded in the previous period.

unemployment rates declined notably in the import and export trade sector and the food and beverage services sector, likely reflecting continued support from AI-related trade boom and stronger consumption associated with the FIFA World Cup. In contrast, unemployment rates increased in the manufacturing sector, suggesting that employment conditions remain uneven despite a solid expansion in economic activity.

- Looking ahead, we expect labour market slack to widen modestly as the temporary boost from World Cup-related spending fades. Over the medium to longer term, structural factors are likely to play a more significant role in shaping employment trends. Rising productivity, increasing automation, and broader adoption of artificial intelligence are enabling firms to expand output without a corresponding increase in labour demand.

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.