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# Greater China – Week in Review

## Highlights: Still subdued credit demand

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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.

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 | |
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| **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.<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ 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, |

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