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Greater China – Week in Review

Highlights: Two Fronts, Two Games: China's External Squeeze

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The world continues to drift towards greater protectionism and economic fragmentation. Ahead of this week's Trump-Xi meeting, markets have started to speculate about how China might negotiate its way towards a more stable relationship with the US. But we think there are two structurally different games being played at the same time, with China increasingly caught in a pincer between them.

The US-China relationship remains confrontational but relatively episodic and deal-driven. Tariffs, agricultural purchases, energy, technology controls and critical minerals can all become bargaining chips. By contrast, the EU-China challenge is becoming more structural and institutionalised, as Brussels increasingly embeds economic security and "European preference" into the rules governing market access.

This structural pressure resurfaced last week when China's Ministry of Commerce expressed serious concern over the European Commission's proposed Public Procurement Act. MOFCOM urged the EU to comply with WTO rules, maintain market openness and revise what Beijing described as discriminatory provisions, while saying it would closely monitor the legislative process and assess its impact.

The European Commission adopted its proposal for the Public Procurement Act on 9 September. This is more than a technical adjustment. The proposal would replace the three main 2014 procurement directives with a single directly applicable Regulation and represents the most substantial overhaul of the EU procurement framework since 2014. EU public procurement amounts to roughly €2tn annually, or around 14% of EU GDP, giving the framework considerable economic significance.

Two elements are particularly relevant for China.

First, the proposal introduces a horizontal European-preference framework. Public buyers would be given greater scope to favour European or internationally "covered" suppliers and products, including through restrictions on participation or advantages in tender evaluation. Suppliers protected under the EU's international procurement commitments would continue to receive covered status, while operators from countries without such commitments would face greater uncertainty over market access. China is not currently a party to the WTO Government Procurement Agreement and has no FTA procurement agreement with the EU, leaving Chinese suppliers more exposed to these provisions.

Second, the proposal explicitly brings economic security and resilience into procurement decisions. Public buyers would be enabled — and in some circumstances required — to consider issues including cybersecurity, sensitive information, critical infrastructure, supply-chain resilience and "undue third-country influence." At the same time, the EU is moving away from procurement based predominantly on the lowest price. The best price-quality ratio would become the standard approach, with quality normally accounting for at least 30% of tender evaluation and 50% for labour-intensive contracts.

The important point is that this is still a proposal, not law. The European Parliament and Council must negotiate the final text, and its eventual impact will depend on how binding European-preference requirements become, how individual sectors are treated and whether localisation by foreign companies can mitigate some of the restrictions.

Against this backdrop, the US track looks very different. President Xi Jinping will skip this week's UN General Assembly in New York and instead travel to Washington for talks with President Trump on 24 September. The immediate objective is likely to be preserving the relative stability established under the current US-China trade truce, which is due to expire on 10 November.

A potential US$30bn reciprocal tariff-reduction package is among the issues under discussion. Negotiations include possible reductions in Chinese tariffs on US energy products, alongside increased purchases of US agricultural products, while Washington could reduce tariffs on a corresponding basket of Chinese goods. US LNG has emerged as one concrete area under negotiation. Such measures could provide one of the more tangible economic deliverables from the summit, although negotiations remain ongoing.

The RMB has also strengthened noticeably ahead of the summit. USD/CNY moved below 6.70 last week, while the PBOC strengthened its daily fixing to 6.7521 on 18 September, the firmest fixing in several years. The RMB is now trading around a four-year high against the dollar.

We would be cautious, however, about interpreting the move as the beginning of a sustained RMB appreciation cycle. A stronger and relatively stable currency certainly helps create a more constructive backdrop for US-China negotiations and reduces the scope for renewed accusations of competitive depreciation. But given the wide US-China yield differential and still-soft domestic fundamentals, part of the recent appreciation may reflect policy-managed stability around the summit rather than a fundamental re-rating of the RMB. China's regulators have already encouraged exporters to increase FX hedging as the stronger currency begins to affect corporate earnings.

From China's perspective, there are therefore strong incentives to stabilise the US front.

First, the US and EU challenges are increasingly asymmetric. Washington remains difficult but potentially transactional: tariffs, purchases and selected restrictions can still be negotiated. Second, a US truce reduces the risk of another escalation in technology and critical-input restrictions. Third, external stability buys Beijing time. With domestic demand still soft and credit demand subdued, avoiding simultaneous escalation on both the US and European fronts would give China more room to rebalance its economy and strengthen domestic demand.

The broader takeaway is that China is no longer managing one trade conflict, but two very different forms of economic pressure. The US challenge is volatile, political and potentially negotiable. The European challenge is slower-moving but increasingly embedded in institutions, regulation and market-access rules. For Beijing, reaching a workable accommodation with Washington therefore has value beyond the bilateral relationship itself: it prevents the two fronts from tightening simultaneously.

The Hong Kong government unveiled its first Five-Year Plan for Economic and Social Development (2026-2030) (the Plan), before delivering the 2026 Policy Address, in a bid to align the city's top-down medium-term strategic planning with China's national strategy. The Plan closely aligned with the goals that featured prominently in China's 15th Five-Year Plan, namely high-quality development, innovation, regional integration and RMB internationalisation. Separately, the government pledged to step up efforts to strengthen "Four Centres and One Hub", accelerate Northern Metropolis development, increase spending on tech and innovation, support the tourism sector, and introduce additional livelihood support measures. For details, please refer to our earlier report.

Last week, the Hong Kong Monetary Authority raised the Base Rate by 25bps to 4.25%, in lockstep with Fed's hike decision, according to the pre-set formula. However, major commercial banks kept their best lending rates unchanged, given the still flush HKD liquidity.

HKD IRS were paid up across curve in a flattening manner, following the US rates after the FOMC decision. HIBOR fixings, however, were mixed. Overnight and one-week HIBORs edged modestly lower, suggesting that near-term liquidity conditions remained comfortably loose, while six-month and longer-tenor HIBORs moved higher over the week.

On the labour market front, conditions softened further. The seasonally unadjusted unemployment rate rose further to 4.0% in the June-August 2026 period, from 3.8% previously, with jobless rates increasing across most sectors. The number of unemployed persons rose to 153,900, the highest level since July-September 2025, partly reflecting an increase in school leavers at the end of the academic year. After seasonal adjustment, the unemployment rate and underemployment rate edged up by 0.1 percentage point and 0.2 percentage point, respectively, to 3.8% and 1.9% in June-August 2026.

Key Events	
Facts	**OCBC Opinions**
▪ China's Ministry of Commerce expressed serious concern over the European Commission's proposed Public Procurement Act. MOFCOM urged the EU to comply with WTO rules, maintain market openness and revise what Beijing described as discriminatory provisions, while saying it would closely monitor the legislative process and assess its impact.	▪ The European Commission adopted its proposal for the Public Procurement Act — COM(2026) 590 — on 9 September. This is more than a technical adjustment. The proposal would replace the three main 2014 procurement directives with a single directly applicable Regulation and represents the most substantial overhaul of the EU procurement framework since 2014. EU public procurement amounts to roughly €2tn annually, or around 14% of EU GDP, giving the framework considerable economic significance. ▪ Two elements are particularly relevant for China. ▪ First, the proposal introduces a horizontal European-preference framework. Public buyers would be given greater scope to favour European or internationally "covered" suppliers and products, including through restrictions on participation or advantages in tender evaluation. Suppliers protected under the EU's international procurement commitments would continue to receive covered status, while operators from countries without such commitments would face greater uncertainty over market access. China is not currently a party to the WTO Government Procurement Agreement and has no FTA procurement agreement with the EU, leaving Chinese suppliers more exposed to these provisions. ▪ Second, the proposal explicitly brings economic security and resilience into procurement decisions. Public buyers would be enabled — and in some circumstances required — to consider issues including cybersecurity, sensitive information, critical infrastructure, supply-chain resilience and "undue third-country influence." At the same time, the EU is moving away from procurement based predominantly on the lowest price. The best price-quality ratio would become the standard approach, with quality normally accounting for at least 30% of tender evaluation and 50% for labour-intensive contracts. ▪ The important point is that this is still a proposal, not law. The European Parliament and Council must negotiate the final text, and its eventual impact will depend on how binding European-preference requirements become, how individual sectors are treated and whether localisation by foreign companies can mitigate some of the restrictions.
▪ Qiushi magazine published a signed article by PBOC Governor Pan Gongsheng titled "Deepening Understanding of Changes in China's Financial Structure and Improving the Alignment of Financial Services with the Real Economy."	▪ The article reinforced the PBOC's ongoing shift toward a more price-based monetary policy framework. Pan noted that the moderation in the growth of aggregate financing is conducive to keeping China's macro leverage ratio broadly stable, suggesting that slower growth in traditional credit aggregates should not necessarily be interpreted as insufficient monetary support. ▪ Going forward, the PBOC will further refine its intermediate policy targets, placing less emphasis on quantitative indicators—particularly bank lending as a single financing channel. Broader financial aggregates will increasingly serve as observational,

	reference and expectation-guiding indicators, rather than hard policy targets. ▪ At the same time, monetary policy will place greater emphasis on price-based instruments, supported by further improvements in market-based interest-rate formation, policy-rate transmission and the broader interest-rate regulation framework.
▪ The Hong Kong Monetary Authority raised the Base Rate by 25bps to 4.25%, in lockstep with Fed's hike decision, according to the pre-set formula. However, major commercial banks kept their best lending rates unchanged, in view of the still flush HKD liquidity.	▪ HKD IRS were paid up across curve in a flattening manner, following the US rates after the FOMC decision. HIBOR fixings, however, were mixed. Overnight and one-week HIBORs edged modestly lower, suggesting that near-term liquidity conditions remained comfortably loose, while six-month and longer-tenor HIBORs moved higher over the week. The cut-off yields of recent Exchange Fund Bills tender were largely stable, at 2.83% for 91-day bills and 3.02% for 182-day bills. ▪ We expect 1M and 3M HIBOR to edge moderately higher to 3.00% and 3.15% by year end. Still, we do not see too much upside room from current HIBOR levels, given the upward move thus far, while HKD liquidity stays mostly supportive (outside of periods of interim flow-driven liquidity demand).

Key Economic Data	
Facts	**OCBC Opinions**
▪ Hong Kong: The seasonally unadjusted unemployment rate rose further to 4.0% in the June-August 2026 period, from 3.8% previously, with jobless rates increasing across most sectors. The number of unemployed persons rose to 153,900, the highest level since July-September 2025, partly reflecting an increase in school leavers at the end of the academic year. After seasonal adjustment, the unemployment rate and underemployment rate edged up by 0.1 percentage point and 0.2 percentage point, respectively, to 3.8% and 1.9% in June-August 2026.	▪ The rise in unemployment was accompanied by a continued expansion in labour supply. Labour force rose for the third consecutive month to 3,805k in June-August 2026, upon the entry of new graduates. On the other hand, labour participation rate rose further by 0.3 percentage point to 56.6%, albeit still not far from the record low at 56.1%. ▪ Unemployment rate (not seasonally adjusted) increased across most major economic sectors, with more notable increase in the food and beverage service activities sector (at 6.8%), and decoration, repair and maintenance for building sector (at 8.1%). We project the full-year unemployment rate at 3.8%. ▪ Separately, the Hong Kong government announced to step up efforts to combat illegal employment in the 2026 Policy Address, by strengthening functions of taskforce against illegal employment, enhancing cyber patrol and reviewing penalties. However, these measures should not have any material impact on the overall labour market conditions.

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