

Greater China – Week in Review

Highlights: flight to safety

Chinese equities extended their losses for another week as the escalating U.S.-Iran conflict continued to dominate market sentiment. That said, a late-week rebound—supported by stronger-than-expected industrial profit data and tentative diplomatic signals—helped limit the downside. The Shanghai Composite Index closed the week modestly lower by 1.1%.

In contrast to developed markets, where government bond yields have surged amid rising stagflation concerns, China's bond market outperformed, supported by renewed flight-to-safety demand. The 10-year government bond yield declined by 3bps last week, reaching a two-week low.

Similar to most Asian central banks, we believe the recent surge in oil prices may delay market expectations for further rate cuts in China. However, in China's case, easing is still not off the table. In our view, China's relatively lower sensitivity to the recent oil shocks—underpinned by structural factors—continues to provide policymakers with greater flexibility compared to its regional peers. We keep our 10bps rate cut unchanged for now though the timing is likely to be pushed back to the second half of 2026.

In January-February 2026, profits of China's industrial enterprises above designated size rose 15.2% YoY, rebounding by 9.9ppts from December 2025. The improvement was mainly driven by firmer revenue growth, easing cost pressures, and a recovery in investment income.

Across sectors, profit growth in both mining and manufacturing improved notably. Mining sector profits increased 9.9% YoY, 12.6ppts higher than in December 2025, while manufacturing profits rose 18.9% YoY, marking a 13.9ppt rebound. Within manufacturing, upstream raw material producers delivered particularly strong earnings growth, with profits surging 67.2% YoY. Among them, the non-ferrous metals processing industry stood out, with profits jumping 148.2% YoY, largely supported by higher non-ferrous metal prices. In the midstream segment, equipment manufacturing profits grew 25.7% YoY, while electronics equipment manufacturing profits soared 203.5%, continuing to benefit from strong AI-related demand.

Looking ahead, the recent spike in oil prices is likely to lift prices across the domestic petrochemical chain. That said, I suspect the bigger issue may not be the headline rise in prices, but the pressure from margin compression and softer downstream demand. Through these transmission channels, industrial profitability is likely to face renewed pressure in the coming months.

Hong Kong's seasonally adjusted unemployment rate eased slightly to 3.8% for the period December 2025 to February 2026, marking a decline of 0.1 percentage point from the previous three-month period. The improvement reflects a faster decline in the number of unemployed persons relative to the contraction in the overall labour force. Despite the marginal improvement in headline unemployment, the labour force participation rate continued to trend

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downward, reaching a new record low of 56.5%, well below the long-term average of 59.3% observed between 2016 and 2025.

Looking ahead, both incoming data and industry intelligence indicate that Hong Kong's unemployment rate may continue to edge lower in the coming months, provided that broader economic conditions remain stable and the labour market is not adversely affected by potential economic scarring from ongoing geopolitical tensions. Our full-year forecast for the unemployment rate in 2026 remains unchanged at 3.7%, reflecting optimism about continued labour market resilience.

In the first two months of 2026, headline and underlying CPI (netting out the effect of all government's one-off relief measures) rose by fast pace of 1.5% YoY and 1.3% YoY respectively, compared with 1.4% YoY and 1.2% YoY in December 2025.

Oil prices have surged since end-February amid the heightened geopolitical tensions in the Middle East, the import price pressures for specific fuel-related items have increased. Oil-intensive industries, such as airline, local transport and utilities, respond relatively swiftly to increase in energy cost by adjusting fares, tariffs, and fuel surcharges. However, the broader inflation impact is expected to remain contained. Energy-sensitive components represent only around 10% of Hong Kong's CPI basket, limiting the degree of pass-through to the overall inflation index.

Earlier on, our strategy team has lift Brent forecast, primarily to account for the risk of prolonged shipping disruptions through the Strait of Hormuz. We now expect Brent to hold around USD100/bbl through mid-year before easing toward USD70/bbl by 1Q27. Reflecting the implications of this revised oil price trajectory on imported inflation and domestic cost structures, we have raised our full-year 2026 inflation projection for Hong Kong to 1.9%.

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> In January-February 2026, profits of China's industrial enterprises above designated size rose 15.2% YoY, rebounding by 9.9ppts from December 2025. 	<ul style="list-style-type: none"> The improvement was mainly driven by firmer revenue growth, easing cost pressures, and a recovery in investment income. Over the same period, industrial revenue expanded 5.3% YoY, accelerating by 8.5ppts from December 2025. Across sectors, profit growth in both mining and manufacturing improved notably. Mining sector profits increased 9.9% YoY, 12.6ppts higher than in December 2025, while manufacturing profits rose 18.9% YoY, marking a 13.9ppt rebound. Within manufacturing, upstream raw material producers delivered particularly strong earnings growth, with profits surging 67.2% YoY. Among them, the non-ferrous metals processing industry stood out, with profits jumping 148.2% YoY, largely supported by higher non-ferrous metal prices. In the midstream segment, equipment manufacturing profits grew 25.7% YoY, while electronics equipment manufacturing profits soared 203.5%, continuing to benefit from strong AI-related demand. Looking ahead, the recent spike in oil prices is likely to lift prices across the domestic petrochemical chain. That said, I suspect the bigger issue may not be the headline rise in prices, but the pressure from margin compression and softer downstream demand. Through these transmission channels, industrial profitability is likely to face renewed pressure in the coming months.
<ul style="list-style-type: none"> Hong Kong's seasonally adjusted unemployment rate eased slightly to 3.8% for the period December 2025 to February 2026, marking a decline of 0.1 percentage point from the previous three-month period. The improvement reflects a faster decline in the number of unemployed persons relative to the contraction in the overall labour force. Despite the marginal improvement in headline unemployment, the labour force participation rate continued to trend downward, reaching a new record low of 56.5%, well below the long-term average of 59.3% observed between 2016 and 2025. 	<ul style="list-style-type: none"> During the period, the number of unemployed persons fell by 3,700, bringing the total to 134,700, while the labour force contracted by 6,600 to 3.797 million—its lowest level since early 2023. The drop in labour force size continues to be a key structural concern, reflecting demographic pressures and ongoing post-pandemic shifts in labour market dynamics. On a non-seasonally-adjusted basis, unemployment declined across most major economic sectors. The most notable improvement was recorded in the retail, accommodation, and food services sector, where the unemployment rate fell to 4.9%, the lowest level since the first quarter of 2025. This sector-specific recovery aligns with recent signs of strengthening retail activity and improving consumer sentiment. Looking ahead, both incoming data and industry intelligence indicate that Hong Kong's unemployment rate may continue to edge lower in the coming months, provided that broader economic conditions remain stable and the labour market is not adversely affected by potential economic scarring from ongoing geopolitical tensions. Our full-year forecast for the unemployment rate in 2026 remains unchanged at 3.7%, reflecting cautious optimism about continued labour market resilience.
<ul style="list-style-type: none"> Hong Kong: In the first two months of 2026, headline and underlying CPI (netting out the 	<ul style="list-style-type: none"> Oil prices have surged since end-February amid the heightened geopolitical tensions in the Middle East, the import price

effect of all government's one-off relief measures) rose by fast pace of 1.5% YoY and 1.3% YoY respectively, compared with 1.4% YoY and 1.2% YoY in December 2025.

pressures for specific fuel-related items have increased. Oil-intensive industries, such as airline, local transport and utilities, respond relatively swiftly to increase in energy cost by adjusting fares, tariffs, and fuel surcharges.

- However, the broader inflation impact is expected to remain contained. Energy-sensitive components represent only around 10% of Hong Kong's CPI basket, limiting the degree of pass-through to the overall inflation index. Past episodes of oil price volatility also indicate that, despite short-term pressures on specific CPI components, the aggregate inflation effect has typically been mild due to the basket's composition and Hong Kong's competitive and flexible pricing environment.
- Earlier on, our strategy team lift Brent forecast, primarily to account for the risk of prolonged shipping disruptions through the Strait of Hormuz. We now expect Brent to hold around USD100/bbl through mid-year before easing toward USD70/bbl by 1Q27. Reflecting the implications of this revised oil price trajectory on imported inflation and domestic cost structures, we have raised our full-year 2026 inflation projection for Hong Kong to 1.9%.

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