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Greater China – Week in Review

Highlights: Weak PMI reinforced the case for more policy supports

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China's markets endured a turbulent week, shaped by three overlapping forces: new US Section 301 tariffs, a sharp global AI and semiconductor sell-off that weighed heavily on mainland growth stocks mid-week, and the July 30 Politburo meeting, which signalled broad policy continuity.

Mainland growth indices corrected despite the blockbuster debut of China's leading memory-chip producer, CXMT. Its shares surged 466% on the first trading day, making it the country's most valuable listed company by market capitalisation. However, the broader market reaction remained highly differentiated. Rotation flows continued to support onshore blue chips and Hong Kong-listed Chinese equities, suggesting that the sell-off was driven more by repositioning than a broad-based risk-off move.

Friday's weaker-than-expected PMI data further strengthened the case for additional policy support. China's manufacturing PMI fell by 1.1 points to 49.2 in July, underperforming seasonal norms and returning to contraction. The decline likely reflected a combination of the traditional summer slowdown and the unusually early and severe impact of extreme weather associated with a strong El Niño, including typhoons, heavy rainfall and flooding across parts of the country.

Both supply and demand weakened, although the deterioration was more pronounced on the demand side. The production index declined by 1.5 points to 49.9, while the new orders index fell by 2.7 points to 48.5. By comparison, the new export orders index edged down by only 0.5 points, suggesting that domestic demand and production softened more sharply, while external demand remained relatively resilient.

High-tech manufacturing remained a key bright spot, with its PMI holding at 53.3 and staying in expansion for the 18th consecutive month. In contrast, consumer goods manufacturing contracted markedly, underscoring the continued divergence between new and traditional growth drivers.

The weakness extended beyond manufacturing. The services PMI fell by 1.1 points to 49.3, also underperforming seasonal patterns, while the construction PMI declined by 2.0 points to 47.0 and remained firmly in contraction.

Overall, both manufacturing and services PMIs declined more sharply than seasonal norms and slipped into contraction in July. The data pointed to four key divergences: supply outperformed demand, external demand outperformed domestic demand, price pressures remained weak, and new growth drivers continued to outperform traditional sectors. The broad-based slowdown reinforces the case for faster policy implementation, particularly through fiscal deployment and infrastructure-related financing, although the resilience of high-tech manufacturing and export demand provides some offset.

China's top policymakers concluded the July Politburo meeting on 30 July. The meeting reinforced the message of policy continuity rather than policy acceleration. The near-term priority is to improve implementation and unlock existing policy capacity.

The policy toolkit still retains flexibility. Although the meeting did not commit to a fresh round of policy rate or reserve requirement ratio cuts, we still see probability of a token rate cut in the last quarter to support credit demand.

Hong Kong's economy remained on a solid growth trajectory in the second quarter of 2026, although the pace of expansion moderated from the exceptionally strong performance recorded in the previous quarter and fell short of market expectations. Real GDP grew by 4.3% YoY in 2Q26, easing from a five-year high of 5.9% in 1Q26. On a seasonally adjusted quarter-on-quarter basis, GDP contracted by 0.6%, following robust growth of 2.9% in the first quarter. The underlying activity remained resilient, supported by continued expansion in domestic demand and improvement in external trade dynamics. Reflecting the better-than-expected underlying momentum in the first half of the year, we revise our full-year GDP growth forecast upward by 0.4 percentage points to 3.8%.

On a separate note, Hong Kong's housing price rose by the 13th consecutive month in June, reaching a two-and-a-half-year high, though the pace of rally slowed on hawkish repricing of the Fed policy path, correction in the local equity market, and heightened global macroeconomic uncertainty. On a sequential basis, the residential property price index increased in a moderated pace of 0.3% MoM in June (1.5% MoM in May). In contrast, the increase in rental index accelerated to 0.9% MoM from 0.5% MoM previously, underscoring the resilient leasing demand.

In the first half of 2026, the official residential property price and rental index rose cumulatively by 7.9% and 2.6% respectively. While the strong first-half performance has already brought property prices close to our full-year forecast at 8.5%, we continue to expect a more moderated pace of appreciation in housing prices in the second half. On the other hand, given the stronger-than-expected rental market performance, we have revised our full-year rental growth forecast upward to 4.5% from 3.5% previously.

On monetary policy front, the HKMA held base rate unchanged at 4%, following Fed's decision to stay put. In parallel, local commercial banks also kept the Hong Kong Dollar prime rate unchanged. On the other hand, HIBORs were little changed over the week, remaining large upward sticky.

We pitch 1-month and 3-month HIBOR at 2.80% and 2.95% respectively at end-2026. As spot USD/HKD trades closer to the weak-side Convertibility Undertaking of 7.85, investors are watching the liquidity implications. Should FX intervention be triggered, liquidity may need to shift from the bills market to the interbank market, and these operations could cause two-way fluctuations in HKD rates.

Moving to Macau, the real economy grew marginally by 0.3% YoY in 2Q26, down from 7.1% in the previous quarter. For the first half of 2026 as a whole, Macau's economy expanded by 3.7% YoY, bringing the total economic output back to 89.1% of its 2019 level. Breaking down, total exports of services and private consumption expenditure grew at still solid pace of 7.2% YoY and 2.8% during the quarter, while government consumption expenditure and gross fixed capital formation recorded contraction. The adverse impact of FIFA World Cup on inbound tourism and foot traffic in casinos, as well as the weaker-than-expected momentum in investment, have prompted a slight downward revision of our full-year 2026 growth forecast to 4.0% from the previous estimate of 4.2%.

Key Events	
Facts	**OCBC Opinions**
▪ China's top policymakers concluded the July Politburo meeting on 30 July, with the overall message pointing to policy continuity rather than a major stimulus push.	▪ There was no major "policy bazooka", broadly in line with our expectation that policy support would remain focused on putting a floor under growth rather than delivering large-scale stimulus. The overall macro policy stance was unchanged: "a more proactive fiscal policy and a moderately accommodative monetary policy", identical to the wording used in April. ▪ The meeting did not raise the GDP growth target, commit to a fresh round of policy rate or reserve requirement ratio cuts, introduce a dedicated consumption voucher programme, or signal an expansion of housing inventory purchases. ▪ The policy toolkit still retains flexibility, but the focus in the third quarter will likely be on accelerating the deployment of existing policy resources. In our view, the Fifth Plenum in October, which is expected to finalise the recommendations for the 15th Five-Year Plan, will be the more important policy-pricing event. The scope for meaningful incremental easing therefore appears more concentrated in the fourth quarter.
▪ Hong Kong: As expected, the HKMA held base rate unchanged at 4%, following Fed's decision to stay put. In parallel, local commercial banks also kept the Hong Kong Dollar prime rate unchanged. On the other hand, HIBORs were little changed over the week, remaining large upward sticky.	▪ We pitch 1-month and 3-month HIBOR at 2.80% and 2.95% respectively at end-2026. As spot USD/HKD trades closer to the weak-side Convertibility Undertaking of 7.85, investors are watching the liquidity implications. Should FX intervention be triggered, liquidity may need to shift from the bills market to the interbank market, and these operations could cause two-way fluctuations in HKD rates.

Key Economic Data	
Facts	**OCBC Opinions**
▪ China's manufacturing PMI fell by 1.1 points to 49.2 in July, underperforming seasonal norms and returning to contraction.	▪ The decline likely reflected a combination of the traditional summer slowdown and unusually early and severe extreme weather associated with a strong El Niño, including typhoons, heavy rainfall and flooding across parts of the country. ▪ Both supply and demand weakened, although the deterioration was more pronounced on the demand side. The production index declined by 1.5 points to 49.9, while the new orders index fell by 2.7 points to 48.5. By comparison, the new export orders index edged down by only 0.5 points, suggesting that domestic demand and production softened more sharply, while external demand remained relatively resilient. ▪ High-tech manufacturing remained a key bright spot, with its PMI holding at 53.3 and staying in expansion for the 18th consecutive month. In contrast, consumer goods manufacturing contracted markedly, underscoring the continued divergence between new and traditional growth drivers. Business sentiment weakened across firms of all sizes, with the PMIs for large, medium-sized and small enterprises falling by 1.2, 0.8 and 0.8

	points, respectively. Employment conditions also remained under pressure, partly reflecting disruptions from high temperatures, heavy rainfall and flooding. ▪ The weakness extended beyond manufacturing. The services PMI fell by 1.1 points to 49.3, also underperforming seasonal patterns, while the construction PMI declined by 2.0 points to 47.0 and remained firmly in contraction. In the near term, attention will focus on the pace of local government special bond and special treasury bond issuance, the deployment of policy-based financial instruments, and implementation progress under the “six networks” infrastructure programme. ▪ Overall, both manufacturing and services PMIs declined more sharply than seasonal norms and slipped into contraction in July. The data pointed to four key divergences: supply outperformed demand, external demand outperformed domestic demand, price pressures remained weak, and new growth drivers continued to outperform traditional sectors. The broad-based slowdown reinforces the case for faster policy implementation, particularly through fiscal deployment and infrastructure-related financing, although the resilience of high-tech manufacturing and export demand provides some offset.
▪ Hong Kong: The economy remained on a solid growth trajectory in the second quarter of 2026, although the pace of expansion moderated from the exceptionally strong performance recorded in the previous quarter and fell short of market expectations. Real GDP grew by 4.3% YoY in 2Q26, easing from a five-year high of 5.9% in 1Q26. On a seasonally adjusted quarter-on-quarter basis, GDP contracted by 0.6%, following robust growth of 2.9% in the first quarter. The underlying activity remained resilient, supported by continued expansion in domestic demand and improvement in external trade dynamics. Reflecting the better-than-expected underlying momentum in the first half of the year, we revise our full-year GDP growth forecast upward by 0.4 percentage points to 3.8%.	▪ Domestic demand continued to provide the primary engine of growth, although the pace of expansion moderated. Private consumption and gross domestic fixed capital formation expanded at a slower pace of 2.9% YoY and 4.6% YoY (1Q26: 4.9% YoY and 18.3% YoY), respectively. Together, these two components contributed approximately 2.0 percentage points (pp) and 0.8pp respectively, to headline growth (excluding inventory changes). Meanwhile, government consumption growth diminished to 0.5% YoY (1Q26: 2.8% YoY), with contribution to overall growth modest at 0.1pp. ▪ The external sector remained a drag on growth, but the negative contribution narrowed significantly compared with previous quarters. Goods and services exports grew by 28.8% YoY and 3.4% YoY respectively, while imports rose by 29.3% YoY and 2.8% YoY respectively. As a result, the net exports subtracted 1.5pp from GDP growth in the quarter. ▪ Strong momentum in AI-related trade and sustained recovery in domestic consumption should continue to support growth in the second half of 2026, albeit at a more moderated pace than the solid expansion recorded in the first half.
▪ Hong Kong: Merchandise exports surged 53.4% YoY in June, the fastest pace of growth since March 1984, on the back of strong global AI infrastructure demand. Merchandise imports also recorded a strong increase, by 45.4% YoY in June. The trade deficit widened to HKD 52.0 billion, from HKD 44.2 billion in May.	▪ On a sequential basis, merchandise exports rebounded by 4.9% MoM following a temporary soft patch in the previous month, while imports rose further by 5.9% MoM. Solid growth in merchandise export to Mainland China, US and Japan, more than offset the contraction in exports to some Asian economies. ▪ In the first half of 2026, the value of merchandise exports and imports rose by 39.1% YoY and 40.6% YoY respectively, resulting in a cumulative trade deficit of HKD294.6 billion. ▪ Looking ahead, the rapid growth of AI infrastructure spending is likely to sustain elevated levels of trade activity through the

	remainder of the year. Benefiting from its strategic position between Mainland China's manufacturing ecosystem and international markets, Hong Kong is evolving into a regional hub for AI-related trade and logistics.
▪ Hong Kong: Housing price rose by the 13th consecutive month in June, reaching a two-and-a-half-year high, though the pace of rally slowed on hawkish repricing of the Fed policy path, correction in the local equity market, and heightened global macroeconomic uncertainty. On a sequential basis, the residential property price index increased in a moderated pace of 0.3% MoM in June (1.5% MoM in May). In contrast, the increase in rental index accelerated to 0.9% MoM from 0.5% MoM previously, underscoring the resilient leasing demand.	▪ Analyzed by flat size, the price indexes of mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square metre or above) rose by 0.3% MoM and 1.0% MoM respectively in June (1.5% MoM and 1.4% MoM respectively in May). ▪ Looking ahead, the uptrend in housing prices is likely to lose momentum as elevated interest rates, lingering macroeconomic uncertainty, and softer financial market conditions weigh on buyers' sentiment. At the same time, the rental market is expected to remain comparatively tight, supported by demand from incoming talent, non-local students, and households delaying home purchases. The recent divergence between rental and price growth suggests that the earlier "buy-to-rent" conversion trend is beginning to reverse, with rental yields gradually improving. ▪ In the first half of 2026, the official residential property price and rental index rose cumulatively by 7.9% and 2.6% respectively. While the strong first-half performance has already brought property prices close to our full-year forecast at 8.5%, we continue to expect a more moderated pace of appreciation in housing prices in the second half. On the other hand, given the stronger-than-expected rental market performance, we have revised our full-year rental growth forecast upward to 4.5% from 3.5% previously.
▪ Macau: Real economy grew marginally by 0.3% YoY in 2Q26, down from 7.1% in the previous quarter. For the first half of 2026 as a whole, Macau's economy expanded by 3.7% YoY, bringing the total economic output back to 89.1% of its 2019 level.	▪ Breaking down, total exports of services and private consumption expenditure grew at still solid pace of 7.2% YoY and 2.8% during the quarter, while government consumption expenditure and gross fixed capital formation recorded contraction. ▪ The adverse impact of FIFA World Cup on inbound tourism and foot traffic in casinos, as well as the weaker-than-expected momentum in investment, have prompted a slight downward revision of our full-year 2026 growth forecast to 4.0% from the previous estimate of 4.2%. ▪ Separately, Macau's gross gaming revenue (GGR) fell 8.4% YoY in July, to MOP20.26 billion, partly due to the FIFA World Cup which have diverted interest away from gambling services. Year-to-date, GGR amounted to MOP147.16 billion, 4.4% higher than in the prior-year period.

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