

Greater China – Week in Review

Highlights: Swing in monetary easing expectations

At the start of the week, the PBOC deployed its newly introduced overnight reverse repo (OMO) facility for the first time to stabilise quarter-end liquidity conditions. The move initially fuelled expectations of easier monetary policy, triggering a sharp rally in the bond market and driving long-term government bond yields lower. However, once the quarter-end funding pressure had passed, the PBOC quickly recalibrated liquidity conditions with a net withdrawal of more than RMB1 trillion. Combined with the stronger-than-expected June manufacturing PMI, which returned to expansion territory, the move swiftly unwound the market's earlier easing expectations.

Although the PBOC did not officially disclose the interest rate on the overnight reverse repo operations, media reports suggested that the facility was conducted at 1.25% on both operating days, at the low end of market expectations. This has led some investors to view the operation rate as a new policy signal. We believe such an interpretation is unwarranted.

At this stage, the overnight reverse repo remains a contingency liquidity management tool rather than a regular monetary policy instrument. It has so far been deployed only during special periods, such as month-end and quarter-end, and has yet to establish itself as an effective anchor for the overnight interbank funding rate (DR001). If the facility does not meaningfully anchor overnight funding conditions even when it is in operation, it is even less likely to influence market pricing during periods when no operations are conducted.

More importantly, the PBOC has chosen not to officially publish the operation rate. Without formal disclosure, it is difficult to argue that the rate is intended to convey a policy signal. If anything, the opposite is more likely: by withholding the rate, the PBOC appears to be deliberately discouraging excessive market focus on the operational details of the new facility, reinforcing that its primary purpose is to facilitate short-term liquidity management rather than to introduce a new policy benchmark or signal a shift in the monetary policy stance.

June PMI data pointed to a modest but broad-based improvement in economic activity, with the manufacturing PMI rising to 50.3 from 50.0 and the non-manufacturing PMI edging up to 50.2 from 50.1.

Within the manufacturing survey, both domestic and external demand improved noticeably. The new orders index climbed from 49.9 to 51.2, while new export orders rebounded from 48.6 to 50.1, returning to expansionary territory. We believe the recovery in export orders partly reflects sustained global investment in AI infrastructure, which continues to support external demand for China's technology products, electronics and capital goods.

High-tech manufacturing remained the primary engine of growth. Compared

Tommy Xie Dongming
Head of Asia Macro Research

Keung Ching (Cindy)
Hong Kong & Macau Economist

with May's pronounced "K-shaped" divergence—where high-tech and equipment manufacturing significantly outperformed while basic materials and consumer goods lagged—the expansion became somewhat more broad-based in June. Consumer goods manufacturing returned to expansion, with its PMI rising back above the 50 threshold. That said, the divergence between new-economy industries and traditional sectors remains considerable, underscoring that the recovery continues to be driven primarily by technology-related industries rather than broad-based domestic demand.

Both the construction PMI and the construction new orders index strengthened, rising from 48.8 to 49.0 and from 43.5 to 46.3, respectively. However, both indicators remained below the 50 threshold, suggesting that the recovery in construction activity has yet to gain meaningful traction.

The persistent weakness in construction continues to reflect the soft spot in China's economy—fixed asset investment. Following the front-loading of fiscal spending in 1Q26, infrastructure investment momentum has remained subdued, limiting the recovery in overall investment activity. Looking ahead, we expect infrastructure investment by local governments to strengthen in 2H26 as implementation of major projects accelerates, including the "Six Networks" (六张网) infrastructure programme. Even so, stronger fiscal execution and faster project implementation will be required to generate a more sustained improvement in investment and construction activity.

Total loans and advances in Hong Kong increased by 1.4% MoM in May, while total deposits expanded by a stronger 2.3% MoM. Among the total, loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong both rose by 1.4%. Monetary aggregates also remained supportive, with M1 and M2 increasing by 2.0% YoY and 1.1% YoY respectively in May.

The faster growth in deposits relative to loans led the Hong Kong dollar loan-to-deposit ratio to decline further to 71.0% at end-May, from 71.6% a month earlier. The continued recovery in the property market, together with broader economic growth, has provided support to credit demand. However, loan growth remains relatively modest, suggesting that both households and corporates are still cautious in leveraging despite the broader cyclical upswing. Looking ahead, we expect total loans and advances to record moderate growth of around 5% in 2026. While the HKD loan-to-deposit ratio should gradually bottom out as credit demand improves, the timing of this inflection is likely to be pushed back to late 2026 or early 2027 given the persistent strength in deposit accumulation and still-subdued loan demand.

Hong Kong's retail sales growth moderated in May but remained robust, with sales value and volume increasing by 7.9% YoY and 4.8% YoY respectively, supported by resilient tourism-related spending (visitor arrivals from Mainland China increased by 12.3% MoM). On a sequential basis, retail sales rebounded by 7.7% MoM in value terms and 7.3% MoM in volume terms, partly driven by increased spending during the Labour Day holiday period.

The Hong Kong Trade Development Council upgraded its 2026 export growth forecast to above 20%, which is also in line with our in-house forecast. The revision reflects solid regional hardware demand fueled by AI-driven technology upgrade cycles and firmer macroeconomic outlooks across mainland China and

the ASEAN.

Macau's gross gaming revenue (GGR) declined by 12.1% YoY to MOP18.52 billion in June, marking the weakest monthly reading since September last year. The decline was largely anticipated and reflects the temporary diversion of foot traffic during the FIFA World Cup, which runs from 11 June to 19 July.

Despite the June weakness, gaming activity remained broadly resilient in the first half of 2026, with GGR increasing cumulatively by 6.8% YoY (below our full-year growth forecast of 8%).

Looking ahead, we expect casino visitation and gaming activity to normalise following the conclusion of the World Cup tournament. Foot traffic should recover progressively in late July and early August as regional tourism flows return during Summer holiday, supporting our constructive outlook for Macau's gaming sector in 2026.

Key Economic News	
Facts	OCBC Opinions
June PMI data pointed to a modest but broad-based improvement in economic activity, with the manufacturing PMI rising to 50.3 from 50.0 and the non-manufacturing PMI edging up to 50.2 from 50.1.	- Within the manufacturing survey, both domestic and external demand improved noticeably. The new orders index climbed from 49.9 to 51.2, while new export orders rebounded from 48.6 to 50.1, returning to expansionary territory. We believe the recovery in export orders partly reflects sustained global investment in AI infrastructure, which continues to support external demand for China's technology products, electronics and capital goods. - High-tech manufacturing remained the primary engine of growth. Compared with May's pronounced "K-shaped" divergence—where high-tech and equipment manufacturing significantly outperformed while basic materials and consumer goods lagged—the expansion became somewhat more broad-based in June. Consumer goods manufacturing returned to expansion, with its PMI rising back above the 50 threshold. That said, the divergence between new-economy industries and traditional sectors remains considerable, underscoring that the recovery continues to be driven primarily by technology-related industries rather than broad-based domestic demand. - The non-manufacturing survey also showed modest improvement. Both the construction PMI and the construction new orders index strengthened, rising from 48.8 to 49.0 and from 43.5 to 46.3, respectively. However, both indicators remained below the 50 threshold, suggesting that the recovery in construction activity has yet to gain meaningful traction. - The persistent weakness in construction continues to reflect the soft spot in China's economy—fixed asset investment. Following the front-loading of fiscal spending in 1Q26, infrastructure investment momentum has remained subdued, limiting the recovery in overall investment activity. Looking ahead, we expect infrastructure investment by local governments to strengthen in 2H26 as implementation of major projects accelerates, including the "Six Networks" (六张网) infrastructure programme. Even so, stronger fiscal execution and faster project implementation will be required to generate a more sustained improvement in investment and construction activity.
Hong Kong: Total loans and advances in Hong Kong increased by 1.4% MoM in May, while total deposits expanded by a stronger 2.3% MoM. Among the total, loans for use in Hong Kong (including trade finance) and loans for use outside Hong Kong both rose by 1.4%. Monetary aggregates also remained supportive, with M1 and M2 increasing by 2.0% YoY and 1.1% YoY respectively in May.	- The faster growth in deposits relative to loans led the Hong Kong dollar loan-to-deposit ratio to decline further to 71.0% at end-May, from 71.6% a month earlier. The continued recovery in the property market, together with broader economic growth, has provided support to credit demand. However, loan growth remains relatively modest, suggesting that both households and corporates are still cautious in leveraging despite the broader cyclical upswing. - Looking ahead, we expect total loans and advances to record moderate growth of around 5% in 2026. While the HKD loan-to-deposit ratio should gradually bottom out as credit demand improves, the timing of this inflection is likely to be pushed back

	to late 2026 or early 2027 given the persistent strength in deposit accumulation and still-subdued loan demand.
Hong Kong: Retail sales growth moderated in May but remained robust, with sales value and volume increasing by 7.9% YoY and 4.8% YoY respectively, supported by resilient tourism-related spending (visitor arrivals from Mainland China increased by 12.3% MoM). On a sequential basis, retail sales rebounded by 7.7% MoM in value terms and 7.3% MoM in volume terms, partly driven by increased spending during the Labour Day holiday period.	- Consumption patterns remained uneven, reflecting a persistent bifurcation between discretionary and necessity spending. High-end and discretionary segments continued to outperform, with sales of jewellery, watches and valuable gifts surging by 25.8% YoY, while department store sales rose by 9.2% YoY in May. In contrast, demand for consumer staples remained subdued, as sales of food and alcoholic beverages continued to record mild year-on-year declines. - This bifurcation is also evident within the retail property market. Prime retail districts have largely stabilised, supported by stronger tourist traffic. However, secondary retail locations continue to face elevated vacancy rates, weak leasing demand and persistent rental pressure, highlighting the uneven nature of the consumption recovery across different market segments.
Macau's gross gaming revenue (GGR) declined by 12.1% YoY to MOP18.52 billion in June, marking the weakest monthly reading since September last year. The decline was largely anticipated and reflects the temporary diversion of foot traffic during the FIFA World Cup, which runs from 11 June to 19 July.	- Despite the June weakness, gaming activity remained broadly resilient in the first half of 2026, with GGR increasing cumulatively by 6.8% YoY (below our full-year growth forecast of 8%). - Looking ahead, we expect casino visitation and gaming activity to normalise following the conclusion of the World Cup tournament. Foot traffic should recover progressively in late July and early August as regional tourism flows return during Summer holiday, supporting our constructive outlook for Macau's gaming sector in 2026.

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.