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Greater China – Week in Review

Highlights: Swing in monetary easing expectations

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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 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.

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▪ 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

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▪ 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.