BEA 東亞銀行

Economic Research **July 2025**

Market Monitor – Chinese Mainland

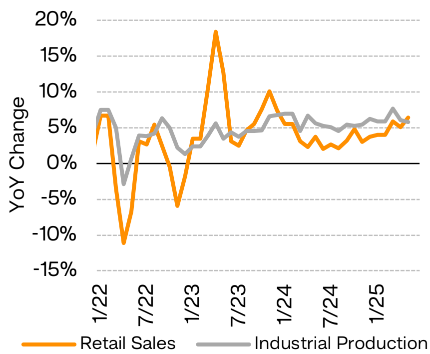
Resilient domestic demand is likely to sustain growth in Q2

- Growth momentum remained solid in May, led by stronger household spending, while PMI readings pointed to a continued expansion in June.
- China-US trade negotiations continued, with both sides reaffirming the details of the trade framework in June.
- The authorities issued new policy guidelines to foster financial support, aimed at boosting consumption.

Growth is set to hold up in Q2, driven by resilient domestic demand

The Chinese Mainland's growth momentum remained solid in May, supported by enhanced policy support, improved sentiment and continued progress in high-quality development. Retail sales growth accelerated markedly to 6.4% year-on-year (YoY) in May (5.1% in April). Positive drivers included a buoyant Labour Day holiday, trade-in subsidies, and an earlier "618 shopping festival". Early indicators pointed to firm durable goods spending. The China Passenger Car Association reported that passenger car sales surged by 24% YoY in the first 22 days of June. Meanwhile, industrial production rose by 5.8% YoY in May, led by equipment and high-tech manufacturing. However, industrial profits fell by 9.1% YoY in May, down from 3.0% growth in April. Fixed asset investment growth moderated to 3.7% YoY in January-May, largely due to subdued property investment.

Retail Sales & Industrial Production



Source: CEIC

The manufacturing PMIs entered expansion again in June. Both the official and Caixin manufacturing purchasing managers' index (PMI) climbed back above the expansionary threshold of 50 in June, reaching 50.7 and 50.4, respectively, up from 49.5 and 48.3 in May. This was supported by improved production and new orders sub-indices. Services activity held steady, with the official and Caixin indices at 50.1 and 50.6 in June, respectively.

China-US negotiations progress in the right direction

Chinese Mainland's exports continued to expand despite trade policy uncertainty. Chinese Mainland's exports grew by 4.8% YoY (in USD terms) in May, compared to 8.1% growth in April. Merchandise exports from the Chinese Mainland to the US were affected by the rapid shift in trade tariffs, falling by 34.4% YoY in May. That said, the export diversification strategy offered an offset, as Chinese Mainland's exports to ASEAN and the EU increased by 14.8% YoY and 12.0% in May, respectively. Following the tariff truce in early May, high-frequency data suggested that container shipments from the Chinese Mainland to the US have somewhat recovered.

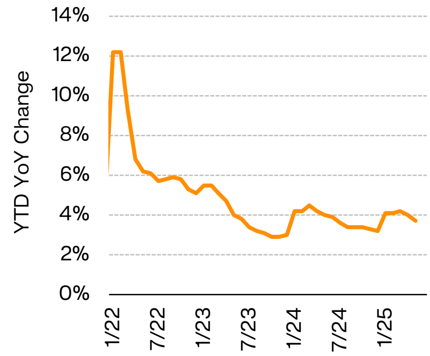
China and the US confirmed details of the trade framework. Following the trade talks in London (9th-10th June), both sides confirmed the details of a trade framework in late June, which included the relaxation of rare earth exports and technology restrictions. The Ministry of Commerce stated that China will review and allow exports of items subject to export control rules, while the US will correspondingly cancel a range of existing restrictive measures against China. Despite the positive news flows, both sides still must agree on a formal trade deal before the expiration of the 90-day truce in August.

The authorities retain ample policy room to stabilise growth

Macro-policy space remains sizeable. In late June, the Ministry of Finance pledged to implement more proactive fiscal policy by allocating more fiscal resources to support the economy amid a highly evolving macro backdrop. In the first five months, local government special bond issuances reached RMB 1.98 trillion (45% of the annual 4.4 trillion quota), leaving headroom to accelerate funding for various programmes like consumer subsidies, infrastructure investment and equipment renewals. On the monetary side, the People's Bank of China (PBoC) indicated in late June that the intensity of monetary policy adjustments could be stepped up. We see scope for a further 20 basis point (bps) cut in policy rates and a 50 bps reduction in the required reserve ratio in 2H 2025.

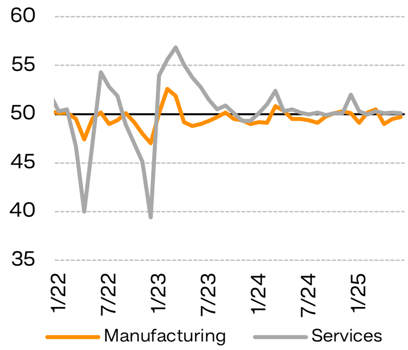
The authorities remain focused on lifting consumption to drive growth. More updates on the measures to support consumption have been announced. On 26th June, the National Development and Reform Commission revealed that the third batch of consumer goods trade-in subsidies will be disbursed in July, after a total of RMB 162 billion in funds were allocated in January and April, respectively. The programme was earmarked with RMB 300 billion throughout 2025. On 24th June, the PBoC and 5 authorities jointly issued a 19-point guideline to strengthen financial support for consumption, which called for 6 major directions: supporting the enhancement of consumption capacity, expanding financial supply in the consumption sector, tapping into and unleashing household consumption potential, promoting more effective consumption supply, improving the consumption environment and strengthening policy support. More supportive measures are expected to fuel consumer demand, as consumption will continue to be a key driver of economic growth.

Fixed Asset Investment



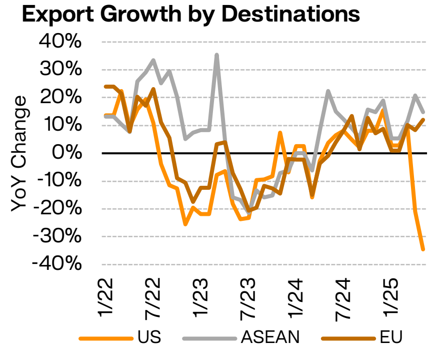
Source: CEIC

Official Purchasing Managers' Index



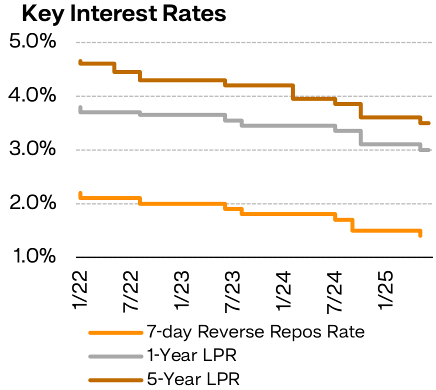
Source: CEIC

Export Growth by Destinations



Note: Combined figures for January and February
Source: CEIC

Key Interest Rates



Source: CEIC

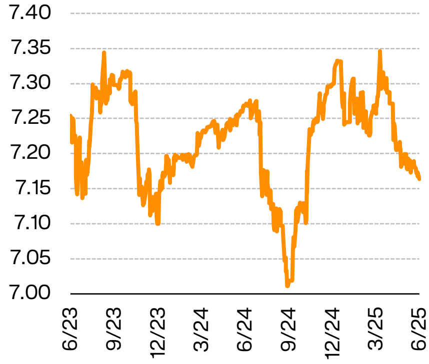
Economic Research

July 2025

Financial markets extended a rally

Financial markets rose on enhanced market optimism. Positive outcomes from China-US trade negotiations in London fuelled market sentiment. Moreover, firmer growth in consumer spending, along with the authorities' pledge for more supportive policies, further reinforced market confidence. By the end of June, the Shanghai Stock Exchange A-Share index rose by 2.9% in the month. The onshore CNY and offshore CNH appreciated by 0.5% and 0.7% against the US dollar in June, closing at 7.1638 and 7.1574, respectively.

USD/CNY Exchange Rate



Source: Bloomberg, data as of 30/6/2025

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