Greater China — Week in Review

3 March 2025

Highlights: new tariff threat ahead of China's Two Sessions

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Since September 2024, the narrative surrounding China's equity market has shifted from "uninvestable" to "tradeable", and now in 2025, to "investable"—thanks to the DeepSeek moment and the private sector symposium between President Xi and China's top private entrepreneurs. This shift has provided strong support for China's equity market throughout February, helping offset the initial shock of President Trump's 10% additional tariff on all Chinese imports.

However, new volatility emerged on the last trading day of February following the unexpected announcement of an additional 10% tariff on China starting in early March. Notably, this new tariff's effective date coincides with the opening of China's Two Sessions, adding to anticipation around Beijing's policy responses to support growth.

In monetary policy, China's central bank net-injected liquidity via the 7-day reverse repo for the first time in 2025 during the final week of February. Over the month, the PBoC provided a net injection of RMB 600 billion in medium- to long-term funds through outright reverse repos, effectively offsetting the reduction in the Medium-Term Lending Facility (MLF) rollover. The central bank continued liquidity injections into the month-end, signaling a marginally more accommodative stance.

At the latest Politburo meeting, policymakers reaffirmed their commitment to more proactive and effective macroeconomic policies, focusing on expanding domestic demand, stabilizing the real estate and equity markets, and mitigating external risks. The meeting also emphasized stabilizing expectations and boosting market vitality, reinforcing the December Politburo message on property market stabilization, which sets the tone for the upcoming Two Sessions.

Consensus is building that China will raise its fiscal deficit target to 4% this year while maintaining its 5% growth target. However, a notable potential shift lies in the inflation target, which may be lowered from 3% to 2%. During the 2025 local Two Sessions meetings, 27 out of 31 provinces revised their inflation targets downward to around 2%. This reflects both a pragmatic response to prolonged low inflation and a shift in policy focus from "inflation prevention" to "economic recovery." A lower CPI target could shift from being an "upper-bound constraint" to an "expectations-guiding" tool, allowing for greater monetary policy flexibility. With inflationary pressures subdued, this adjustment could provide more room for monetary easing, reinforcing expectations of further policy support.

China's manufacturing PMI rebounded to 50.2 in February, up from 49.1 in January, as activity picked up post-Chinese New Year. Both production and new orders returned to expansion territory, while new export orders surged by over 2 points to 48.6 from 46.4, likely reflecting frontloading activities ahead of potential trade disruptions.

Amid rising global tariff threats, the RMB is likely to return to the spotlight. So far, markets have not fully priced in tariff risks in the currency market, largely due to the flip-flopping nature of Trump's rhetoric. However, if the new tariffs take effect as planned on March 4, we expect renewed pressure on the RMB to build up this week. The currency's movement will be closely watched as investors assess whether Beijing will respond with countermeasures or maintain stability through policy interventions.

Hong Kong's FY2025-26 budget clearly focuses on fiscal consolidation, with a dash of revenue enhancement measures, though all delivered at a moderate pace and restrained manner. Budgeted fiscal deficit would be reduced to HK$67.0 billion (2.0% of GDP), from that of HK$87.2 billion (2.7% of GDP) in FY2024-25. Total bond issuance would increase to HK$150-195 billion, with government debt to GDP ratio maintained at 12-16.5%. Government's plan of balancing the book or returning to surplus would be postponed to FY2028-29.

A slew of tax concessions or relief measures would be scaled back in the next fiscal year, slashing the total government expenses by an estimated HK$3.8 billion (0.5% of total government expenditure in FY2024-25) alongside cost savings from the adjustment of public transport subsidy schemes and discontinuation of HK$2,500 student grant. On top of that, civil servants would face a pay freeze for the year, while 10,000 posts would be axed in the next two years.

On revenue enhancement measures, a milder step was taken this year with only adjustment in government fees/charges and piecemeal tax hikes (i.e. increasing air passenger departure tax, imposing boundary facilities fee on private cars etc.). Together, these measures would bring an additional HK$4.2 billion revenue annually (0.7% of total government revenue in FY2024-25).

There were fewer fireworks or sparks in terms of support measures and industry policies in the budget. The government will suspend commercial land plot sales in coming year, and consider rezoning commercial sites to residential use, in a bid to support the struggling commercial property market. On the other hand, maximum of properties chargeable to a nominal stamp duty of HK$100 will be raised from HK$3 million to HK$4 million with immediate effect, benefiting 15% of total property transactions.

The government's GDP forecast for 2025 was pitched at 2.0%-3.0% (forecast range at 2.5%-3.5% in last year budget), in line with market's median forecast and our in-house forecast of 2.2%. Meanwhile, the headline inflation was tipped at 1.8% (vs. our estimate at 2.0%).

Macau's real GDP rose by a slower pace of 3.4% YoY in the final quarter last year (3Q: 3.8% YoY), dragged by the moderated growth in exports of services. For

2024 as a whole, Macau's GDP grew by 8.8% YoY (in-house forecast: 9% YoY), rebounding to around 86.4% of the pre-pandemic level in 2019.

During the final quarter of 2024, growth of exports of gaming services slowed further to 4.3% YoY (3Q: 13.1% YoY), while exports of other tourism services fell by a moderated pace at 6.0% YoY (3Q: -14.5% YoY). Taken together, exports of services grew by a slower pace of 2.1% YoY in 4Q (3Q: 2.5% YoY). On domestic front, the private consumption expenditure recorded modest gain at 2.9% YoY (2Q: 4.3% YoY), amid sustained recovery of local economic activities, coupled with a tight job market. Meanwhile, government consumption reverted to a growth at 6.3% YoY (3Q: -0.6% YoY).

We revise downward Macau's annual economic growth to 4.0% in 2025, from the previous estimate of 5%, taking into account the more challenging external environment and lagged recovery in China's outbound tourism. Separately, the unemployment and inflation rate are pitched at 1.7% and 0.8% YoY respectively for 2025. Macau's gross total gaming revenue is expected to refresh post-Covid high in 2025, after logging a 23.9% YoY increase in 2024. Yet, with the normalised base, year-on-year growth should fall to a mid- to high single digit figure, i.e. 5%-8%.

Key Development	
Facts	**OCBC Opinions**
▪ At the latest Politburo meeting, policymakers reaffirmed their commitment to more proactive and effective macroeconomic policies, focusing on expanding domestic demand, stabilizing the real estate and equity markets, and mitigating external risks.	▪ The meeting also emphasized stabilizing expectations and boosting market vitality, reinforcing the December Politburo message on property market stabilization, which sets the tone for the upcoming Two Sessions. ▪ Consensus is building that China will raise its fiscal deficit target to 4% this year while maintaining its 5% growth target. However, a notable potential shift lies in the inflation target, which may be lowered from 3% to 2%. During the 2025 local Two Sessions meetings, 27 out of 31 provinces revised their inflation targets downward to around 2%. This reflects both a pragmatic response to prolonged low inflation and a shift in policy focus from “inflation prevention” to “economic recovery.” A lower CPI target could shift from being an "upper-bound constraint" to an "expectations-guiding" tool, allowing for greater monetary policy flexibility. With inflationary pressures subdued, this adjustment could provide more room for monetary easing, reinforcing expectations of further policy support.
▪ The FY2025-26 budget clearly focuses on fiscal consolidation, with a dash of revenue enhancement measures, though all delivered at a moderate pace and restrained manner. Budgeted fiscal deficit would be reduced to HK$67.0 billion (2.0% of GDP), from that of HK$87.2 billion (2.7% of GDP) in FY2024-25. Total bond issuance would increase to HK$150-195 billion, with government debt to GDP ratio maintained at 12-16.5%. Government’s plan of balancing the book or returning to surplus would be postponed to FY2028-29.	▪ A slew of tax concessions or relief measures would be scaled back in the next fiscal year, slashing the total government expenses by an estimated HK$3.8 billion (0.5% of total government expenditure in FY2024-25) alongside cost savings from the adjustment of public transport subsidy schemes and discontinuation of HK$2,500 student grant. On top of that, civil servants would face a pay freeze for the year, while 10,000 posts would be axed in the next two years. ▪ On revenue enhancement measures, a milder step was taken this year with only adjustment in government fees/charges and piecemeal tax hikes (i.e. increasing air passenger departure tax, imposing boundary facilities fee on private cars etc.). Together, these measures would bring an additional HK$4.2 billion revenue annually (0.7% of total government revenue in FY2024-25). ▪ There were fewer fireworks or sparks in terms of support measures and industry policies in the budget. The government will suspend commercial land plot sales in coming year, and consider rezoning commercial sites to residential use, in a bid to support the struggling commercial property market. On the other hand, maximum of properties chargeable to a nominal stamp duty of HK$100 will be raised from HK$3 million to HK$4 million with immediate effect, benefiting 15% of total property transactions. ▪ The government’s GDP forecast for 2025 was pitched at 2.0%-3.0% (forecast range at 2.5%-3.5% in last year budget), in line with market’s median forecast and our in-house forecast of 2.2%. Meanwhile, the headline inflation was tipped at 1.8% (vs. our estimate at 2.0%).

Key Economic News	
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▪ China’s manufacturing PMI rebounded to 50.2 in February, up from 49.1 in January, as activity picked up post-Chinese New Year.	▪ The rebound was primarily driven by large companies, while PMI for medium-sized and small manufacturers declined to 49.2 and 46.3, respectively, remaining below the expansion threshold. This suggests that pressures persist amid rising global demand uncertainty. Both production and new orders returned to

	expansion territory, while new export orders surged by over 2 points to 48.6 from 46.4, likely reflecting frontloading activities ahead of potential trade disruptions. ▪ Non-manufacturing PMI also improved to 50.4 from 50.2, mainly due to a sharp rebound in construction PMI, which climbed from 49.3 to 52.7. However, new orders declined to 46.1 from 46.4, in line with a weakening service PMI, which fell to 50 from 50.3. This likely reflects a pullback in demand following the holiday season.
▪ Hong Kong: Growth of merchandise exports slowed to 0.1% YoY in January (Dec 24: 5.2% YoY), partly due to the difference in timing of the Lunar New Year holidays, while imports reverted to 0.5% YoY increase (Dec 24: -1.1% YoY). During the period, trade balance turned to a surplus at HK$2.1 billion (Dec 24: deficit of HK$34.5 billion). ▪	▪ Reflecting the front-loading of export orders ahead of "Trump 2.0", exports to US rose sharply by 32.3% MoM in January, while exports to India (+52.0% MoM), Netherland (+33.6% MoM) and Korea (+21.2% MoM) also showed strong growth. Beyond the immediate near term, Hong Kong's trade performance is expected to weaken further, partly due to the high base effect and heightened trade tensions.
▪ Hong Kong: The residential property price index declined further in January, albeit at a slower pace of 0.4% MoM (-0.9% MoM in December 2024). Meanwhile, rental index rose further by 0.4% MoM in January (0.4% MoM in December 2024). Trading activities remained subdued at 3,636 cases, partly due to the Chinese New Year effect.	▪ Analyze by flat size, both the 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 meter or above) fell by 0.4% and 1.0% respectively in January. As for rental index, mass-market and medium-sized and large-sized properties increased back by 0.5% and 0.4% MoM respectively. ▪ The narrowing of buy-rent gap, further cut in prime rate, together with increase in non-local demand, will likely lend some support to the housing market. We now expect the price index to stay flat in 2025, with decline in the first half of the year and rebound in the later half of the year.
▪ Macau: Real GDP rose by a slower pace of 3.4% YoY in the final quarter last year (3Q: 3.8% YoY), dragged by the moderated growth in exports of services. For 2024 as a whole, Macau's GDP grew by 8.8% YoY (in-house forecast: 9% YoY), rebounding to around 86.4% of the pre-pandemic level in 2019.	▪ During the final quarter of 2024, growth of exports of gaming services slowed further to 4.3% YoY (3Q: 13.1% YoY), while exports of other tourism services fell by a moderated pace at 6.0% YoY (3Q: -14.5% YoY). Taken together, exports of services grew by a slower pace of 2.1% YoY in 4Q (3Q: 2.5% YoY). On domestic front, the private consumption expenditure recorded modest gain at 2.9% YoY (2Q: 4.3% YoY), amid sustained recovery of local economic activities, coupled with a tight job market. Meanwhile, government consumption reverted to a growth at 6.3% YoY (3Q: -0.6% YoY). ▪ We revise downward Macau's annual economic growth to 4.0% in 2025, from the previous estimate of 5%, taking into account the more challenging external environment and lagged recovery in China's outbound tourism. Separately, the unemployment and inflation rate are pitched at 1.7% and 0.8% YoY respectively for 2025. Macau's gross total gaming revenue is expected to refresh post-Covid high in 2025, after logging a 23.9% YoY increase in 2024. Yet, with the normalised base, year-on-year growth should fall to a mid- to high single digit figure, i.e. 5%-8%.

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