

China Economy

Mild improvement after US-China tariff truce

China's manufacturing PMI shrank at a slower pace in May with production and new orders rebounding after US-China tariff truce. The effects of front-loading and export rerouting underpinned China's manufacturing resilience. The confidence shock to consumers appeared to be limited, with the service PMI remaining above 50 and durable sales continuing to expand amid the trade-in program. However, deflationary pressure intensified as commodity prices slid following the tariff shock. Private business capex was weak as enterprises tried to keep inventory as low as possible amid increasing uncertainty. Looking forward, China might launch additional fiscal stimulus to boost consumption and reduce excess capacity to rebalance its economy if the country could reach a trade deal with the US. We expect an additional 10bps LPR cut in 2H25. In the short term, USD/RMB rates might fluctuate within 7.20-7.25 before a moderate decline to 7.12-7.17 if a trade deal is reached. There may also be two-way fluctuations in Chinese equities when the two largest economies hold trade talks, with a new rally potentially occurring after the two countries reach a deal.

■ Manufacturing PMI narrowed its contraction after the tariff truce.

Manufacturing PMI rebounded to 49.5% in May from 49% in Apr, in line with market expectations. The rebound was primarily driven by production, rising from 49.8% to 50.7% in May, as the tariff truce lifted export and import orders to 47.5% and 47.1%, from 44.7% and 43.4%. Deflation pressure continued to intensify as raw material purchase price and ex-factory price index both contracted further to 46.9% and 44.7% in May, as we might see another negative MoM growth of PPI. Employment and corporates procurement both moderately recovered but remained in contraction. Breaking down by sector, agricultural product processing, specialized equipment, and transportation equip saw strong resilience in both new orders and production, while textiles, rubber & plastic products, ferrous and non-ferrous metal smelting and processing saw notable declines.

■ Service PMI maintained expansion. Service PMI edged up to 50.2% in May from 50.1%, with new order index rising to 46.6% from 45.9%, while the employment index edged down. Price index of input and final sale both rebounded but remained in contraction. Breaking down by sector, activities in rail & air transportation, postal, telecom, broadcasting & TV and information technology services remained in high prosperity; while capital market and real estate services contracted. Construction PMI dipped to 51% in May from 51.9%, as business activity expectations fell to 52.4% from 53.8%.

■ China's policy dynamics depend on both economic condition and the outcome of Sino-US trade talks.

The resilient performance of consumer demand and uncertainty in Sino-US trade talks lowers China's urgency for additional fiscal expansion and consumption stimulus. Recently, Trump has accused China of breaching tariff agreements, casting a shadow over ongoing negotiations. While this may be a tactical move to accelerate talks, the slow progress in US's parallel discussions with Europe and Japan suggests that China-US negotiations will likely prove even more complex and protracted. Looking forward, China might launch additional fiscal stimulus to boost consumption and reduce excess capacity to rebalance its economy if the country could reach a trade deal with the US. In the short term, USD/RMB rates might fluctuate within 7.20-7.25 before a moderate decline to 7.12-7.17 if a trade deal is reached. There may also be two-way fluctuations in Chinese equities when the two largest economies hold trade talks, with a new rally potentially occurring after the two countries reach a deal.

Frank Liu

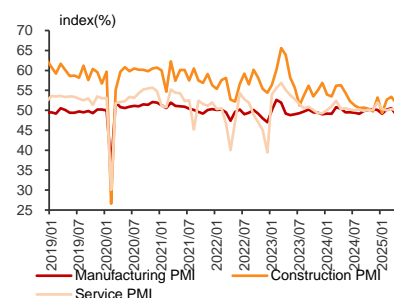
(852) 3761 8957

frankliu@cmbi.com.hk

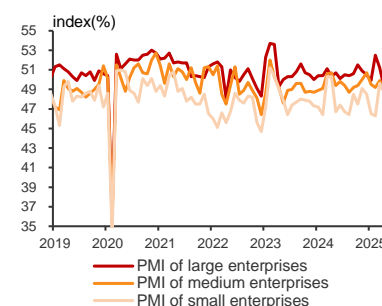
Bingnan YE, Ph.D

(852) 3761 8967

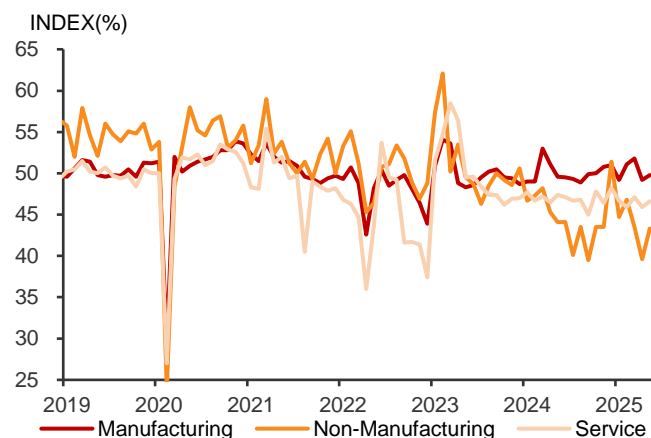
yebingnan@cmbi.com.hk



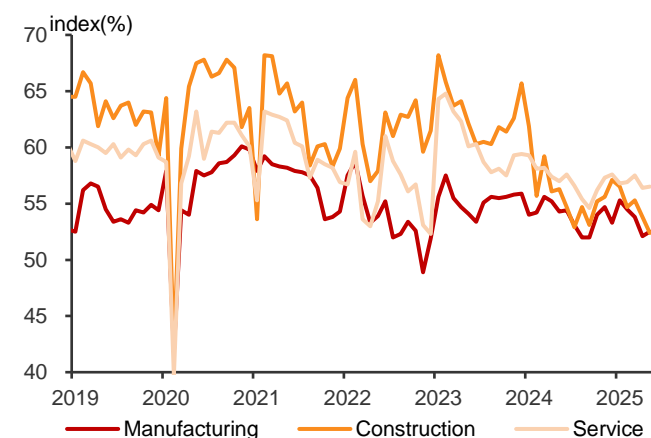
Source: NBS, CMBIGM



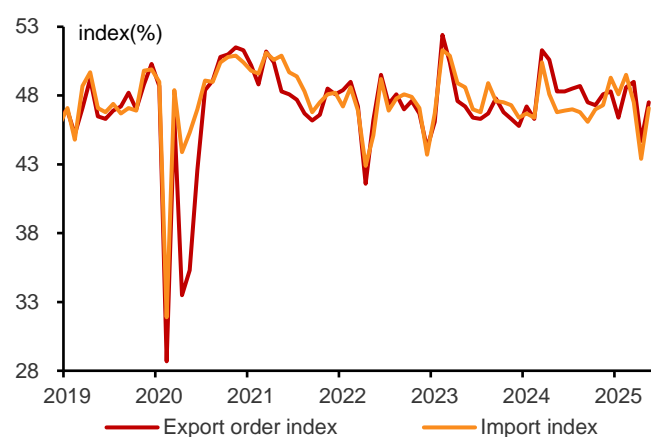
Source: NBS, CMBIGM

Figure 1: New Order Index

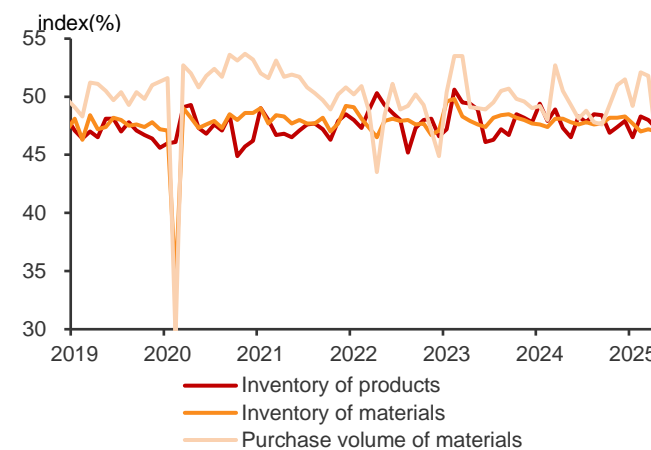
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index

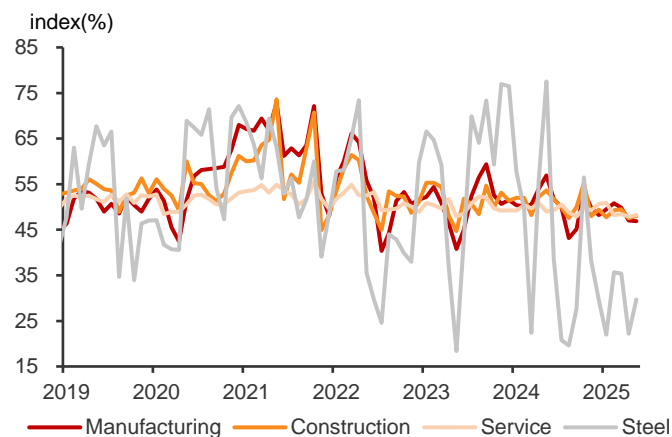
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index

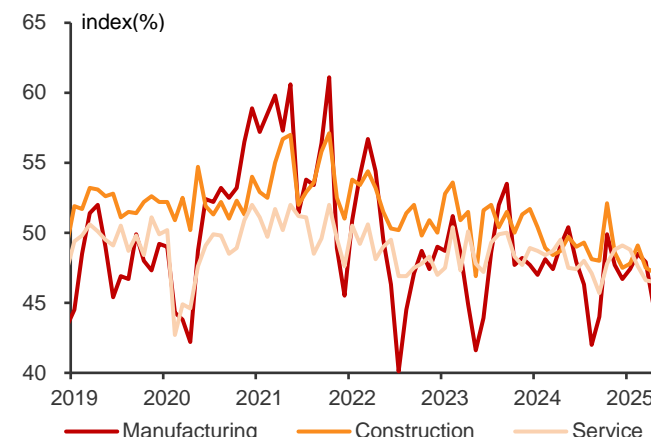
Source: Wind, CMBIGM

Figure 4: Inventory Index

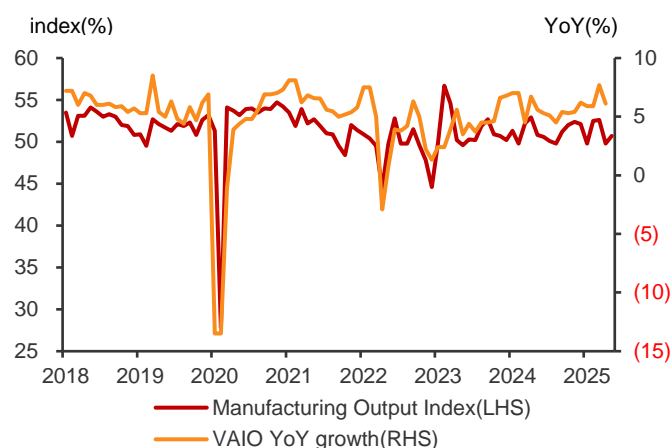
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index

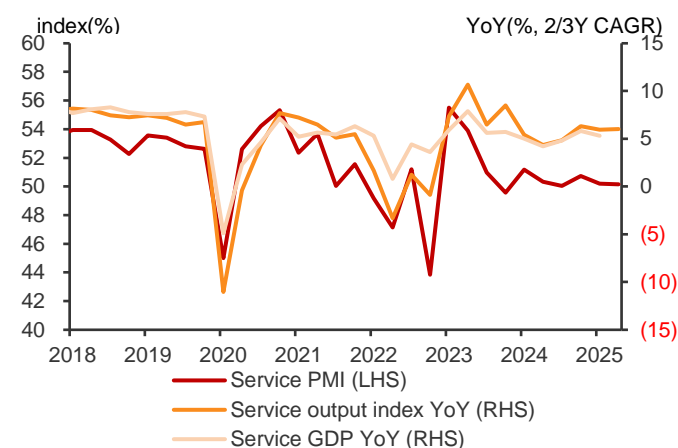
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index

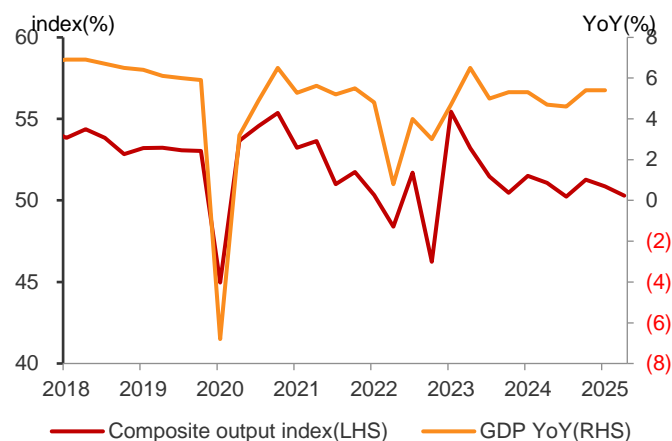
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index

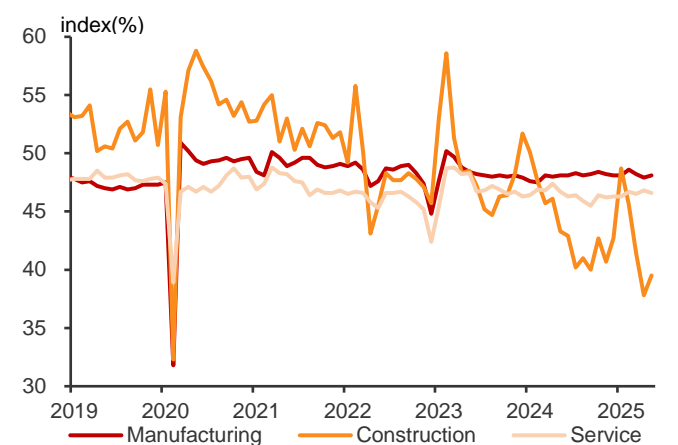
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index

Source: Wind, CMBIGM

Figure 9: Composite Output Index

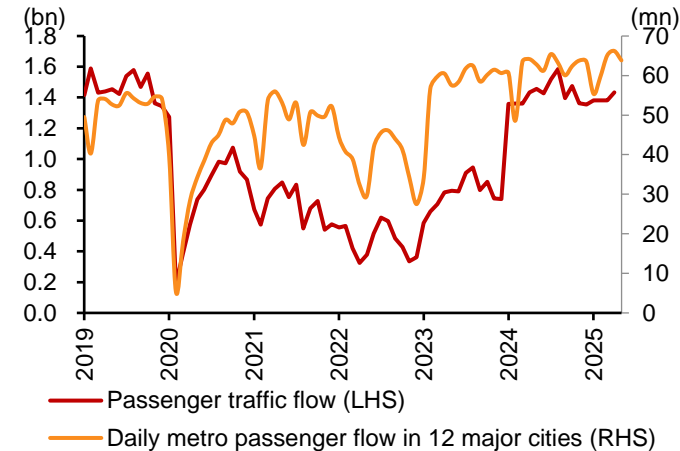
Source: Wind, CMBIGM

Figure 10: Employment Index

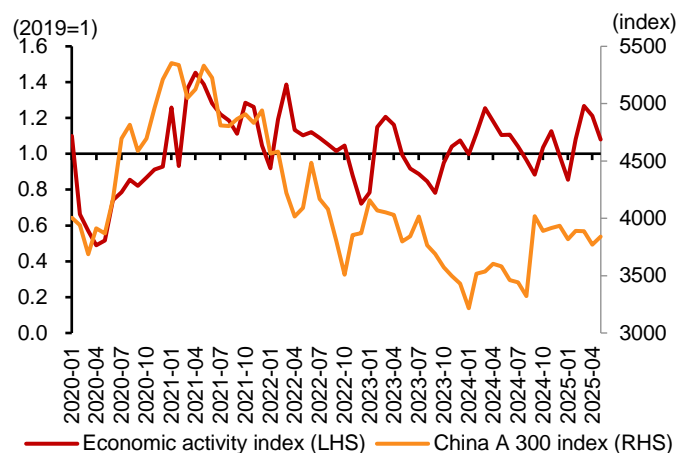
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index

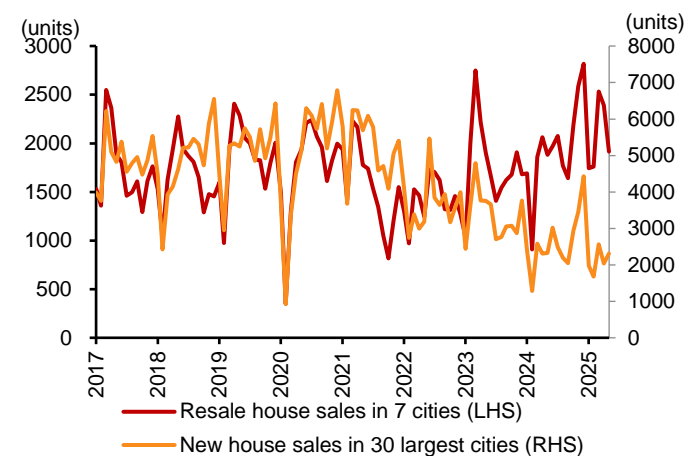
Source: Wind, CMBIGM

Figure 12: Passenger flow

Source: Wind, CMBIGM

Figure 13: Economic Activity & A Share Index

Source: Wind, CMBIGM

Figure 14: House sales

Source: Wind, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.