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CHINA

China steps up policy support amid rising uncertainty

China's recent State Council meeting appeared to signal a more proactive policy push amid flagging growth. Even though trade ties with key partners such as the US and EU look more stable, global risks abound as 2027 approaches



Trade ties may be calmer, but Beijing's global challenges are far from over

State Council meeting triggers new targeted policy support

China's State Council meeting on 28 September called for stronger countercyclical policy adjustments. The following day, the People's Bank of China cut the one-year pledged supplementary lending rate by 25bp to 1.5%. It also increased re-lending quotas for technology and equipment upgrades and for rural and small businesses. Beijing announced the first-ever nationwide mortgage interest subsidy for first-time homebuyers to boost the struggling property market.

The package maintains an accommodative policy direction but relies on targeted tools and fiscal-monetary coordination rather than broad-based rate cuts.

Overall, these moves are likely to offer modest support to investment and housing at a time when credit demand is likely to remain under pressure amid weak sentiment.

There remains room for further support measures, such as policies to boost employment and

incomes and other measures to boost domestic demand. Should economic momentum remain subdued into year-end, policymakers may respond with further fiscal stimulus and a broader easing of monetary policy.

External trade ties stable for now, but risks remain

President Xi's visit to the US in September continued the "constructive strategic stability" framework agreed in May. It secured a short-term extension of the trade truce to January 2027, and $30bn of tariff cuts on both sides.

It's possible the leaders will meet again at the APEC summit in Shenzhen on 18-19 November and at the G20 meetings in Florida on 14-15 December.

Aside from the US, possible tensions with the EU have also grabbed the spotlight over the past month. A joint letter from German Chancellor Friedrich Merz and French President Emmanuel Macron calling for tougher trade tools signals increasing risk that we could see trade barriers come into effect. EU-China trade talks concluded with an initial agreement to ease tensions. It includes reducing hybrid vehicle exports from China to the EU, improving market access, and increasing medical equipment imports from the EU to China. This should keep trade ties stable for now, but further negotiations are still likely ahead.

With the EU representing around 14-15% of China's total exports, the second-largest export market after ASEAN, maintaining stable trade ties remains important for China's outlook.

China's inflation remains the exception to the rule

We've seen inflation rise in many economies across the world. But prices in China have largely remained under control. Most worry about a return to deflation more than out-of-control inflation.

Two factors are curbing China's inflation: food and housing. Together, these represent over half of China's CPI basket. Food inflation has been kept low amid an extended downturn in China's pork price cycle. Supply has been aided by advancements in hog megafarms, low feed prices, and general efforts to maintain high levels of food self-sufficiency. Housing prices, meanwhile, have declined amid China's multi-year property bust.

On net, China's inflation looks likely to end the year solidly in positive territory. We expect 0.9% CPI inflation in 2026, firmly positive after three years of flirting with deflation. However, it will once again fall short of the target, raising questions about whether China has successfully escaped deflation. While we believe the worst is likely behind us, downside risks remain.

PPI inflation, on the other hand, averaged 2.0% in the first eight months of the year, peaking at 4.1% year-on-year in June. This suggests industrial prices have moved out of deflation, driven by upstream and select technology sectors. Yet this level is generally still a fair bit lower than

in other Asian economies this year.

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