

China's policy focus turns inward, though trade risks still loom

China's relatively steady economic data and a reprieve on the tariff front have policymakers shifting inward to address challenges such as excessive price competition and boosting consumption. Meanwhile, the Chinese yuan's strength presents a window to expand outward investment quotas



Chinese Premier Li Qiang has promised to make China a consumption powerhouse

May data a mixed bag showing tariff headwinds and policy tailwinds

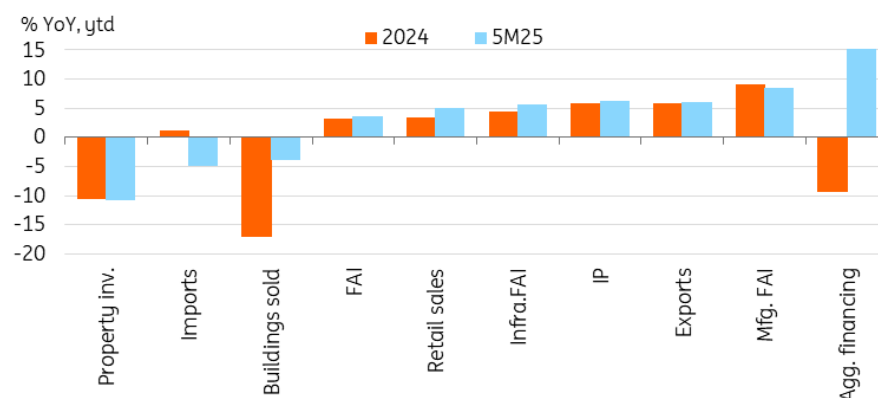
Last month's data offers something for both China bulls and bears. On the one hand, we continue to see the impact of tariffs, with export and industrial production growth decelerating in May. They slumped to 4.7% and 5.8% year-on-year, respectively, down from 8.1% and 6.1% YoY in April. Both are within the range of expectations, though the impact from the peak tariff period continues to affect the data. Further weakening of fixed asset investment growth suggests uncertainty prevails as companies hold back on new investment. This caution is also reflected in property prices, which saw a steeper decline, a bad sign for domestic confidence.

On the brighter side, retail sales rebounded strongly, hitting a 15-month high of 6.4% YoY. In

particular, we're seeing the positive impact of China's trade-in policies play out, as evidenced by the strong performance of beneficiary categories like household appliances and consumer electronics.

Overall, growth looks on track to remain above 5% through the first half of the year.

Key activity data has generally improved from 2024 levels



Source: CEIC, Bloomberg, ING

Policymakers turn attention inward

As the more time-sensitive challenges – from US trade talks to May's easing moves by the People's Bank of China – moved off centre stage, June proved to be a quieter month. But it was still an important one, with policymakers turning their focus inward to the toughest challenges facing the economy.

One of the top focuses has been on addressing the 'involution' themes of unhealthy cost competition, including encouraging market consolidation and cracking down on non-market practices. This includes abuses such as compelling businesses to sell goods on a below-cost basis.

Policymakers expanded the quotas for the Qualified Domestic Institutional Investors (QDII) scheme. There are also reports of a potential doubling of the Southbound Bond Connect quota. This could reduce downward pressure on bond yields and help domestic investors diversify their portfolios. The recent strength of the Chinese yuan has provided a timely window for such policy action.

Additionally, policymakers continue to focus more closely on boosting consumption. Premier Li Qiang pledged to transform China into a consumption powerhouse at the recent World Economic Forum. So far, little in the way of new direction has been detailed; the focus remains on trade-in policies and relending programmes.

These measures are being considered with an eye towards the longer term. Yet, they mark important steps towards addressing key issues plaguing China's economy over the past few years.

Trade issues continue to loom even in a window of relative calm

While other economies are now grappling with a new 1 August deadline for US tariffs, Chinese market participants are facing uncertainty on whether the 12 August deadline - following a 90-day tariff reprieve to allow time for negotiations - still applies. Or, if recent developments are sufficient

to delay or scrap this deadline.

If the deadline remains intact, the focus in the month ahead will once again swing to the countdown. Otherwise, China's main focus will likely be on assessing the impact of other trade deals the US might sign with other economies.

The US deal with Vietnam could set a potentially damaging precedent, with transshipments being tariffed at a higher rate. Data suggests a significant chunk of China's exports to Vietnam may be affected. Subsequently, US President Donald Trump threatened an additional 10% tariff on any country "aligning with anti-American policies of BRICS." It's another sign that the tariff story is likely far from over.

Aside from the US, we also saw some friction between China and the EU. China announced new curbs on government procurement of medical devices priced at over RMB 45mn, as well as tariffs of up to 34.9% on brandy. On the retaliation front, measures announced in the past week are broadly in line with previous steps. They are relatively modest, narrowly targeted and feature various exemptions. Nonetheless, proceeding with retaliatory actions rather than delaying them appears to dim prospects for reaching a breakthrough deal on electric vehicle tariffs in the near term.

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