



# MARKET INSIGHTS

July 2025

China's July Manufacturing PMI came in at 49.3%, reflecting a decline in manufacturing activity, while the Non-Manufacturing PMI stood at 50.1% but still above the expansion threshold. Retail sales growth slowed due to calendar effects, fixed-asset investment declined, but exports rose 5.8% YoY, benefiting from easing U.S.-China tensions and front-loading, and industrial production maintained growth. June CPI edged up 0.1% YoY and total social financing increased. In the U.S., inflation rebounded and unemployment rate edged up to 4.2%, while the Fed kept rates unchanged with dissent and a hawkish tone from Chair Powell weighing on easing expectations. The July Politburo meeting suggests a more cautious policy outlook going forward. Export momentum may persist in the short term, but property and consumption makes a broad economic recovery less likely. We continue to seek a balance between value and growth, focusing on sectors aligned with China's push for technological self-sufficiency, new consumption, and high-quality SOEs, amid risks of higher U.S. inflation, weaker earnings, and liquidity fluctuations.

## Macroeconomy Data

Domestically, China's July Manufacturing PMI came in at 49.3%, down 0.4 percentage points from June, reflecting a decline in manufacturing activity due to seasonal weakness and extreme weather conditions—including high temperatures and flooding in some regions. Among sub-indices: the Production Index remained in expansion at 50.5%, the New Orders Index fell to 49.4%, indicating softer demand, while the Employment Index improved slightly to 48.0%. By enterprise size, large enterprises held steady at 50.3%, medium-sized firms edged up to 49.5%, and small enterprises remained under pressure at 46.4%. The Non-Manufacturing PMI stood at 50.1%, down 0.4 percentage points month-on-month but still above the expansion threshold. Sectors such as rail transport, air transport, postal services, and cultural and entertainment services remained buoyant, while real estate and residential services continued to underperform. June economic data showed retail sales growth of 4.8% year-on-year, significantly below May's 6.4%. The decline was partly due to calendar effects from the "618" online shopping festival, which shifted consumption into May and dampened June growth. In trade, June exports totalled USD 325.18 billion, up 5.8% YoY (vs. +4.8% in May), while imports reached USD 210.41 billion, up 1.1% YoY (vs. -3.4% in May). Export growth benefited from easing U.S.-China tensions, the suspension of retaliatory tariffs, and a front-loading of shipments ahead of the July 9 deadline for U.S. tariff exemptions. Fixed-asset investment declined by 0.1% YoY in June, reversing from +2.7% in May, with slower growth in infrastructure and manufacturing investment and continued drag from the property sector. Industrial production rose 6.8% YoY in June (vs. +5.8% in May), driven by export-related sectors—again reflecting front-loaded shipments.

June CPI rose 0.1% YoY (vs. -0.1% in May), while the MoM CPI decline narrowed to -0.1% (vs. -0.2%). In credit and liquidity: total social financing increased by RMB 4.2 trillion in June, up RMB 0.9 trillion YoY, with new RMB loans of RMB 2.24 trillion. As of end-June, M2 grew 8.3% YoY, M1 grew 4.6%, and total social financing stock stood at RMB 430.22 trillion, up 8.9% YoY.

Overseas, June U.S. CPI rose 2.7% YoY (vs. +2.4% in May) and 0.3% MoM (vs. +0.1%), indicating a rebound in overall inflation. The Trump administration's tariff policy has begun to impact goods inflation. On the labor front, July non-farm payrolls rose by only 73,000—marking the weakest print in nine months—while May and June figures were revised down by a combined 258,000. The unemployment rate edged up to 4.2%. At the July 31 FOMC meeting, the Fed kept the federal funds rate unchanged at 0–0.25%, in line with expectations. The policy statement was broadly dovish, but notably, two members dissented—the first time since 1993 that two votes opposed the consensus, highlighting internal divergence.

Meanwhile, Chair Powell struck a more hawkish tone at the press conference, stating no decision had been made on a September rate cut, which weighed on market expectations for easing. In terms of trade policy, President Trump announced the completion of trade talks with several countries, including the Philippines and Malaysia, and reached preliminary agreements with Japan, South Korea, and the EU.

Policy Measures

On July 24, the National Development and Reform Commission (NDRC) and the State Administration for Market Regulation released a draft amendment to the Price Law—the first update since its enactment in 1998. The revision seeks to refine rules around price dumping, explicitly ban the use of algorithms for unfair pricing practices, and extend regulatory oversight to services and platform-based pricing—furthering China’s efforts to curb unhealthy competition. On July 30, the Communist Party’s Politburo convened its quarterly meeting, with an overall tone of maintaining stability. Key messages included a call to maintain proactive fiscal policy and moderately accommodative monetary policy, accelerate government bond issuance and usage, lower social financing costs, and support technological innovation, consumption, and SME development. The meeting also emphasized deepening reform, developing a unified national market, expanding high-level opening-up, and managing local government debt risks in a prudent manner—while consolidating the recent recovery in capital markets. On July 31, the U.S.-China economic and trade consultations in Stockholm concluded, with both sides agreeing to extend the suspension of previously imposed tariffs.

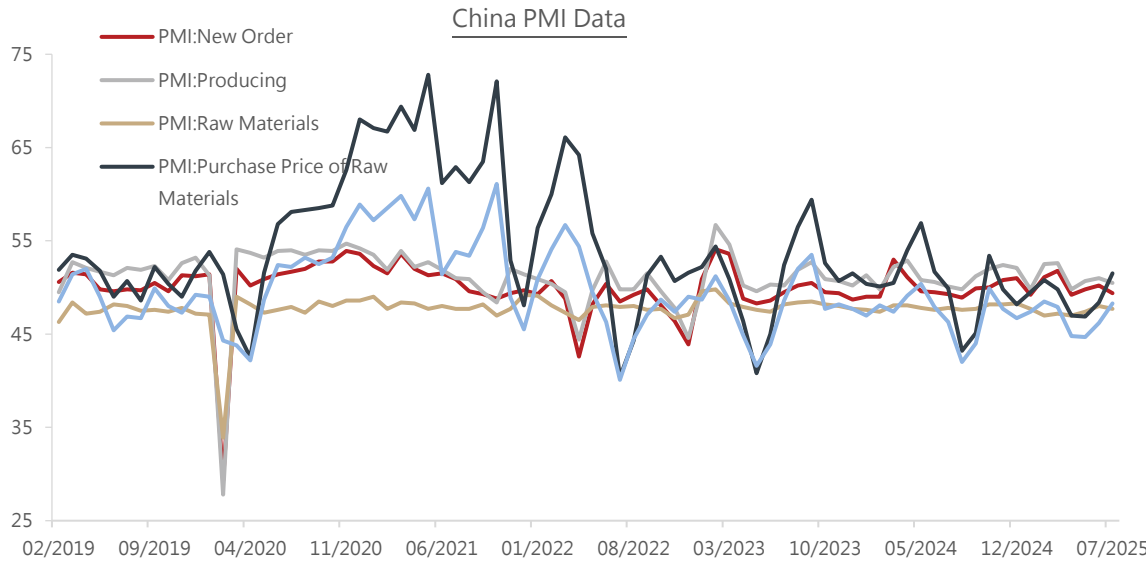
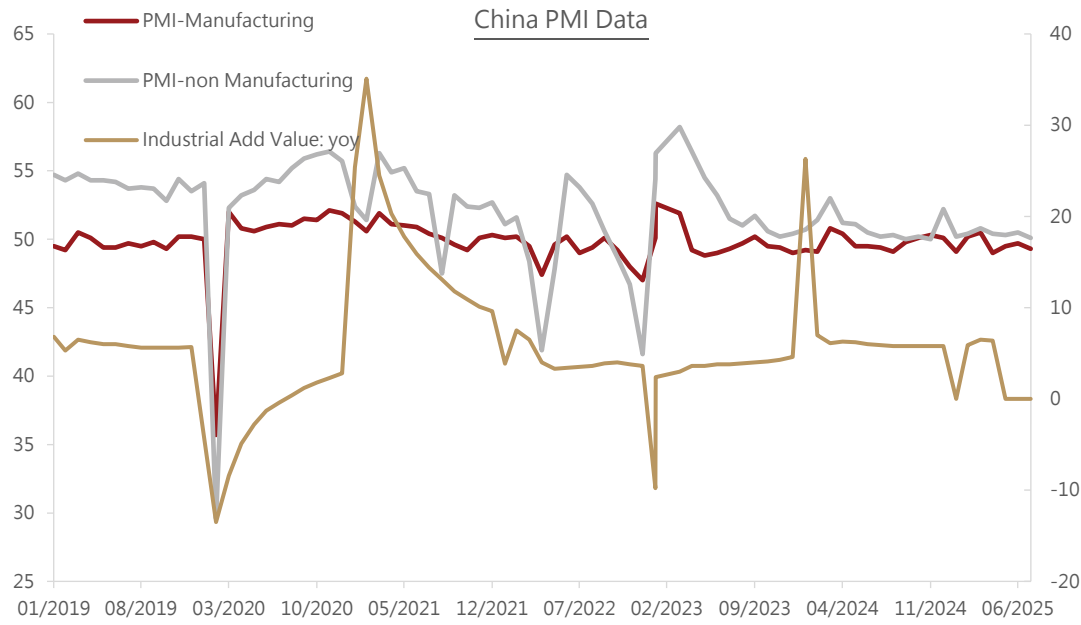
| Greater China Indices        | June Close | Monthly % Change | YTD % | 52 Week Low | 52 Week High |
|------------------------------|------------|------------------|-------|-------------|--------------|
| CSI 300                      | 4075.59    | 6.13             | 3.58  | 3145.79     | 4450.37      |
| MSCI China                   | 78.94      | 7.86             | 21.99 | 54.37       | 81.96        |
| HSI                          | 24773.33   | 6.37             | 23.50 | 16611.14    | 25735.89     |
| HSCEI                        | 8882.95    | 5.35             | 21.85 | 5839.44     | 9295.86      |
| Global Indices               |            |                  |       |             |              |
| S&P 500                      | 6339.39    | 7.23             | 7.78  | 4835.04     | 6427.02      |
| Dow Jones Industrial Average | 44130.98   | 4.40             | 3.73  | 36611.78    | 45073.63     |
| Nasdaq Composite             | 21122.45   | 10.51            | 9.38  | 14784.03    | 21457.48     |
| FTSE 100                     | 9132.81    | 4.11             | 11.74 | 7544.83     | 9190.73      |
| DAX 30                       | 24065.47   | 0.28             | 20.88 | 17233.07    | 24639.10     |
| Nikkei 225                   | 41069.82   | 8.18             | 2.95  | 30792.74    | 42065.83     |

Outlook

The tone of the late-July Politburo meeting suggests a more cautious policy outlook going forward. While export momentum may persist in the short term due to front-loading, continued weakness in property and consumption makes a broad economic recovery less likely. Despite a sharp rebound in southbound flows from mainland investors in July, external liquidity conditions have softened. The Fed’s rate path remains uncertain, maintaining pressure on global liquidity. In Hong Kong, the HKD has repeatedly tested the weak-side Convertibility Undertaking under the Linked Exchange Rate System. We continue to seek a balance between value and growth, focusing on sectors aligned with China’s push for technological self-sufficiency—including AI, internet, and innovative pharmaceuticals. At the same time, we are closely monitoring opportunities in new consumption themes and high-quality SOEs and central state-owned enterprises offering attractive dividend yields.

Risk

- Upside inflation surprises in the U.S. driven by Trump’s tariff policies.
- Weaker-than-expected interim earnings reports.
- Short-term liquidity fluctuations.



Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Wind, as of 31 July 2025. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

In July, overall market sentiment remained constructive, with fiscal and trade uncertainties easing as the U.S. extended tariff deadlines and reached agreements with major partners. The U.S. economy showed mild signs of slowing, but most soft indicators remained solid, underscoring resilience. Within the Federal Reserve, divisions emerged, yet Chair Powell reiterated a “wait-and-see” stance, lowering the probability of a September rate cut. U.S. Treasury yields moved higher with increased volatility, the dollar index rebounded, and U.S. equities reached new highs. Downward revisions to employment data raised concerns, though unemployment remained stable and the likelihood of a sharp downturn was low. Rising equities and continued AI investment provided additional buffers. Internationally, the European economy weakened, while Japan faced inflationary pressures. Looking ahead, Treasury yields are expected to fluctuate within a range, credit spreads to remain at low levels, and opportunities may emerge in non-U.S. currencies and specific industries and issuers.

## Market Performance

Overall market sentiment remained constructive in July. With the smooth passage of the OBBB Act, the U.S. extended tariff deadlines and gradually reached trade agreements with Europe, Japan, South Korea, and others, easing concerns over fiscal and trade uncertainties. The U.S. economy showed mild signs of slowing, while divisions emerged within the Federal Reserve as two members dissented against maintaining the benchmark rate. Chair Powell, however, reiterated a “wait-and-see” stance, lowering the probability of a September rate cut. U.S. Treasury yields trended higher with increased volatility. The U.S. dollar index rebounded, U.S. equities reached fresh historical highs, and both A/H shares and crude oil also performed well.

|  | 美国  | 现值 % | 一月变动bp | YTD变动bps | 52周低点% | 52周高点% |
|---|-----|------|--------|----------|--------|--------|
|   | 2Y  | 3.96 | 24     | -28      | 3.43   | 4.42   |
|   | 5Y  | 3.97 | 18     | -41      | 3.38   | 4.62   |
|   | 7Y  | 4.16 | 17     | -32      | 3.48   | 4.72   |
|   | 10Y | 4.37 | 15     | -20      | 3.60   | 4.81   |
|   | 30Y | 4.90 | 13     | 12       | 3.89   | 5.15   |

|  | 中国  | 现值 % | 一月变动bp | YTD变动bps | 52周低点% | 52周高点% |
|---|-----|------|--------|----------|--------|--------|
|   | 3Y  | 1.45 | 4      | 25       | 1.09   | 2.06   |
|   | 5Y  | 1.58 | 7      | 18       | 1.33   | 1.97   |
|   | 7Y  | 1.69 | 7      | 12       | 1.49   | 2.19   |
|   | 10Y | 1.71 | 6      | 4        | 1.59   | 2.26   |
|   | 30Y | 1.96 | 9      | 2        | 1.80   | 2.45   |

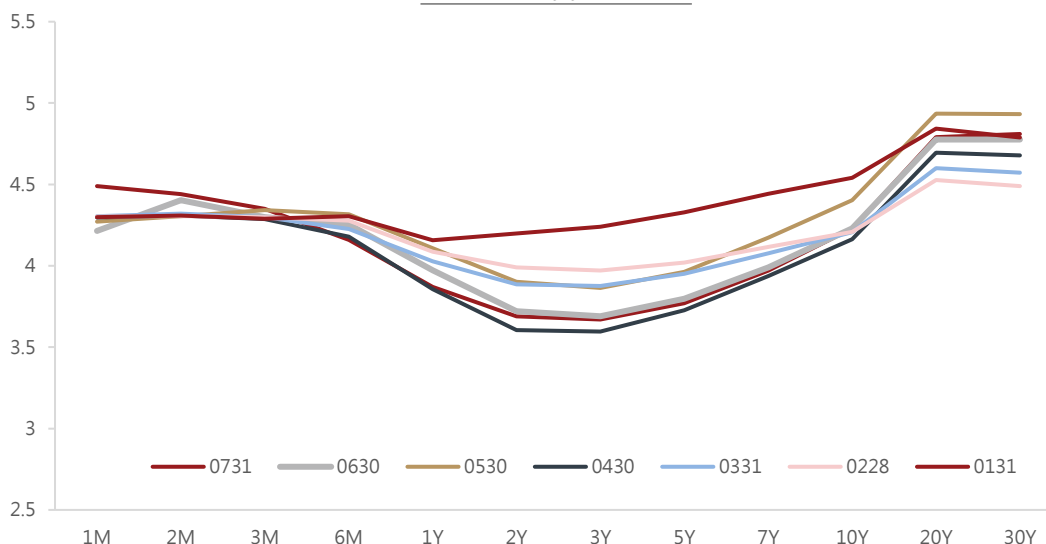
  

|  | 日本  | 现值 % | 一月变动bp | YTD变动bps | 52周低点% | 52周高点% |
|---|-----|------|--------|----------|--------|--------|
|   | 2Y  | 0.82 | 7      | 22       | 0.25   | 0.89   |
|   | 5Y  | 1.10 | 12     | 35       | 0.36   | 1.19   |
|   | 7Y  | 1.31 | 15     | 46       | 0.46   | 1.39   |
|   | 10Y | 1.56 | 13     | 46       | 0.74   | 1.62   |
|   | 30Y | 3.08 | 17     | 79       | 1.90   | 3.22   |

|  | 德国  | 现值 % | 一月变动bp | YTD变动bps | 52周低点% | 52周高点% |
|---|-----|------|--------|----------|--------|--------|
|   | 2Y  | 1.96 | 10     | -12      | 1.62   | 2.46   |
|   | 5Y  | 2.30 | 13     | 14       | 1.84   | 2.61   |
|   | 7Y  | 2.43 | 10     | 29       | 1.83   | 2.71   |
|   | 10Y | 2.70 | 9      | 33       | 2.01   | 2.94   |
|   | 30Y | 3.18 | 8      | 58       | 2.26   | 3.26   |

U.S. Treasury yield curve





## Economic Data

In July, U.S. nonfarm payrolls increased by 73,000, while figures for May and June were sharply revised downward, casting doubt on the reliability of labor market data. Inflation continued to undershoot expectations, though the full impact of tariffs on goods prices has yet to materialize. U.S. Q2 GDP growth slightly exceeded forecasts, but household demand components were relatively lackluster. On the other hand, most soft indicators remained solid, underscoring economic resilience. Internationally, the European economy weakened, while Japan continued to face inflationary pressures alongside political turbulence.

| CDX Index                            | Current Value | 1M chg bp | YTD chg bps | 52W low% | 52W high% |
|--------------------------------------|---------------|-----------|-------------|----------|-----------|
| IG CDX                               | 51            | 0         | 1           | 47       | 81        |
| HY CDX                               | 323           | 5         | 12          | 289      | 476       |
| EM CDX                               | 154           | (3)       | 3           | 150      | 230       |
| Bond Index                           |               |           |             |          |           |
| ICE Asian Dollar Corporate           | 493           | 0.6%      | 4.8%        | 446      | 485       |
| ICE China Issuers Dollar IG Corprate | 231           | 0.4%      | 4.5%        | 210      | 228       |
| ICE China Issuers Dollar HY Corprate | 196           | 0.7%      | 7.2%        | 163      | 192       |
| ICE US Corprate                      | 3473          | 0.1%      | 4.4%        | 3171     | 3441      |
| ICE US High Yield                    | 1806          | 0.4%      | 5.0%        | 1600     | 1756      |
| ICE Emerging Markets Corporate       | 486           | 0.6%      | 5.9%        | 433      | 473       |
| Bloomberg Global-Aggregate           | 490           | -1.5%     | 5.7%        | 450      | 490       |
| Bloomberg Global-Aggregate 1-3 Year  | 185           | -1.2%     | 5.9%        | 170      | 184       |



## US Treasury

U.S. Treasury yields moved higher overall, showing a bearish flattening pattern. The main driver was the market's further delay in rate cut expectations. The Treasury's quarterly refunding program largely met expectations, easing concerns over long-end supply. Global interest rates also rose to varying degrees. In credit markets, primary issuance was subdued, while corporate earnings showed sectoral divergence. Supported by technical factors, credit spreads narrowed modestly, with some sectors reaching new lows. For Chinese issuers, USD bonds remained stable, while trading activity in dim sum bonds picked up.

## Future Outlook

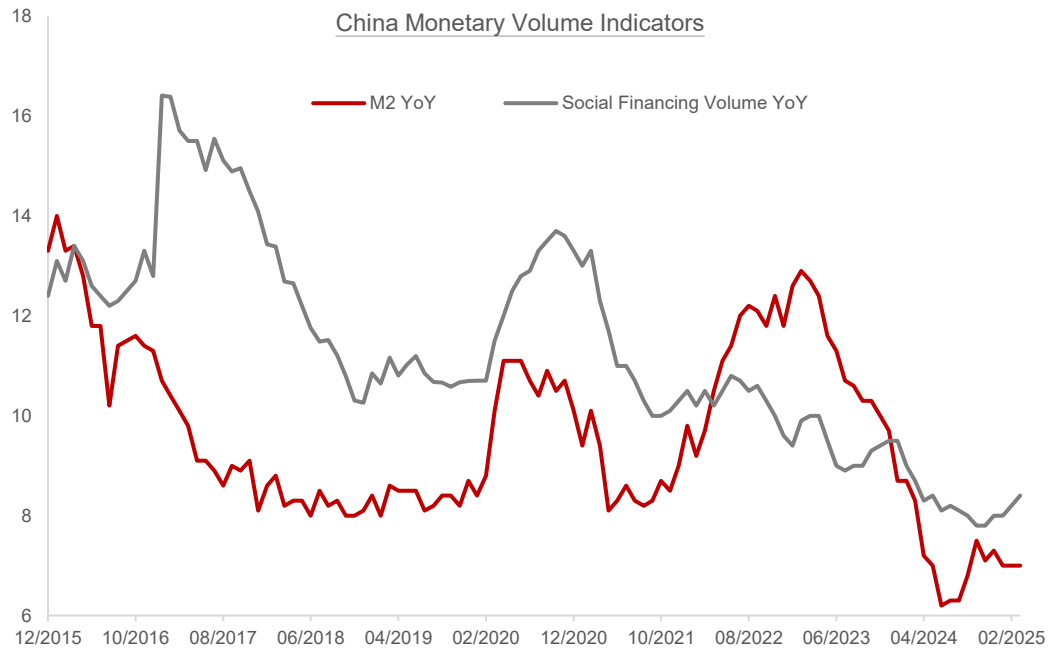
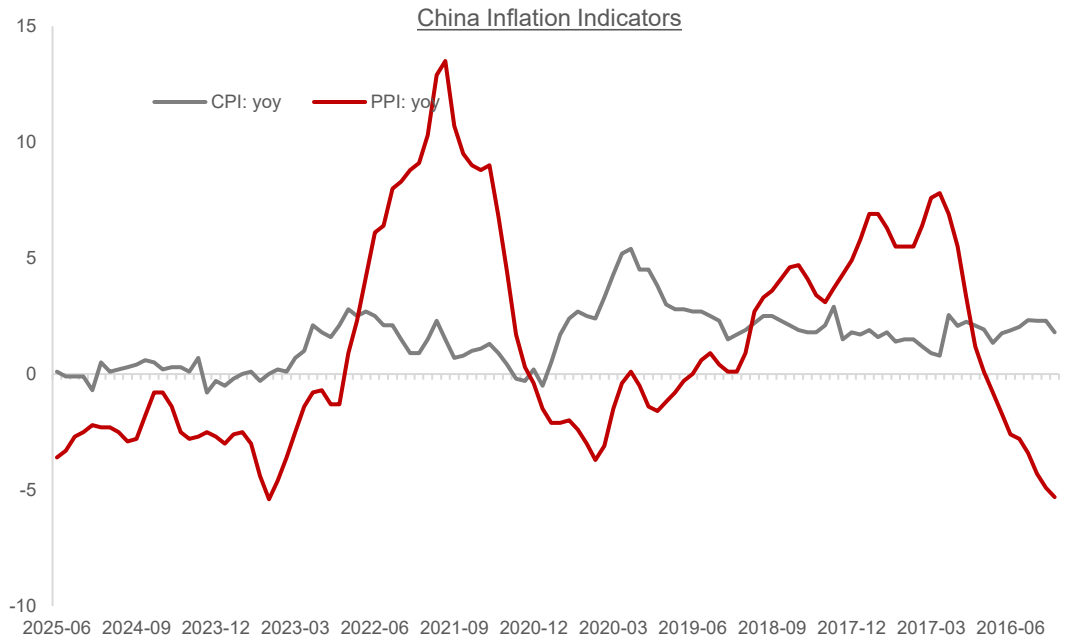
Markets have remained relatively calm in recent weeks. Although former President Trump has continued to pressure the Fed for rate cuts, the Fed has thus far maintained its independence. The unexpected downward revisions to employment data triggered concerns about the U.S. economy, but the reliability of the new payroll figures remains in doubt. With unemployment stable and most soft data holding firm, the labor market may not be as weak as implied by the revisions, and the likelihood of a sharp U.S. economic downturn is low. Meanwhile, rising U.S. equities are fueling wealth effects, while major corporations' continued investments in AI provide an additional buffer. Fiscal and trade negotiations are proceeding smoothly, reducing event-driven risks. While recent de-dollarization flows have partially reversed, easing political uncertainties in Europe and Japan, alongside stronger-than-expected data in several emerging markets, support a more constructive medium-term outlook for non-U.S. assets. Strategic competition between the U.S. and China remains a key risk factor.

Against the backdrop of U.S.-China negotiations and tensions between Trump and the Fed, asset price volatility is expected to persist. For Treasuries, based on our economic outlook, we expect no more than two rate cuts this year. The 2-year Treasury yield is likely to fluctuate between 3.6–3.9%, while the 10-year yield is expected in the 4.15–4.5% range. Considering tariff agreements with Europe, Japan, and South Korea include clauses requiring investment into the U.S., these measures—though subject to implementation uncertainty—could partly alleviate U.S. fiscal pressures. The 2s10s spread is likely to remain in a narrow range. In credit markets, heavy maturities provide technical support for spreads, while U.S. corporate earnings in Q2 extended a modest recovery. Overall, credit spreads are expected to stay range-bound at low levels. We maintain a neutral view on credit, with a focus on diversified allocation and selective opportunities in non-U.S. currencies as well as specific industries and issuers.

US CORE PCE









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