HSBC Global Investment Research
19 August 2026

China Macro Tracker

Domestic weakness calls for more support

Economics
China

- July's weak data calls for more support; policymakers emphasise faster implementation of existing measures
- The 15th FYP for traditional energy sectors reinforces a green-transition push, with ETS expansion a market-based tool
- The PBoC's Q2 implementation report echoes the Politburo meeting's tone, with targeted monetary support likely to continue

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The recent economic data prompts discussion on more countercyclical measures

The recent *economic data* shows ongoing softness in domestic demand as FAI and retail sales missed expectations again in July (chart 1). Industrial production also demonstrates a more pronounced K-shaped recovery: high-tech activity remained buoyant, but it was not sufficient to offset pressure in consumer-facing downstream industries and in segments closely linked to construction demand. July's credit figures reinforce this view: longer-term corporate lending and household borrowing remained the key weak spots, even as net government bond issuance picked up some momentum again (see *China credit*, 14 August). With growth still under pressure after a weaker-than-expected Q2 GDP performance, we think this has driven more calls for countercyclical policy support.

On the day the July activity data were released, Premier Li Qiang convened a plenary meeting of the State Council and emphasised the need to strive to achieve the full-year economic and social development targets (Xinhua, 17 August). In contrast, the State Council executive meeting on 20 July adopted a firmer tone, underscoring the need to ensure the full-year targets are met (Xinhua, 20 July). We think the subtle shift in tone suggests a more pragmatic stance and greater urgency in response to the recent softness in the data. Premier Li emphasised the need to recognise that insufficient domestic demand remains a prominent issue, challenges are increasing for some industries and enterprises, and external uncertainty is rising.

The meeting readout suggests that progress on the "six networks" and major infrastructure projects, as well as faster disbursement of funding support remain the key policy anchor. We continue to expect re-acceleration of special local government bond (SLGB) issuance and faster deployment of the new policy-based financial instrument in the coming months (chart 5). Of note, the implementation plan for the RMB800bn new policy-based financial instrument has recently been rolled out to local governments, with funding focused on new productive forces and new urbanisation, likely supporting infrastructure investment (Xinhua, 17 August).

On the consumption front, support will likely be directed towards service consumption and to unlock more potential in lower-tier cities. On 18 August, China released an 18-point policy package to energise county-level consumption (Xinhua, 18 August).

Lower-tier cities showed stronger consumption growth in H1, with rural retail sales slightly outpacing urban sales in Jan–Jul 2026, underscoring the consumption potential (chart 3-4).

The 15th FYP for coal, oil and natural gas: green transition remains a key anchor
After the July Politburo meeting reiterated the need to curb involutionary competition and accelerate progress towards carbon neutrality (see *China Politburo*, 30 July), the National Development and Reform Commission (NDRC) and the National Energy Administration (NEA) recently released the 15th FYP for the development of the coal, oil and gas industries (NDRC, 17 August). The plans reaffirmed China's commitment to peak coal and oil consumption, in line with its broader goal of achieving a nationwide carbon peak before 2030.

In our view, concrete measures to facilitate green transition will be a key pathway for industrial upgrading over the next five years across carbon-intensive sectors, including coal and oil. A key lever will be the expansion of the national carbon emissions trading scheme (ETS). At a 13 August State Council Information Office press conference, officials announced that the national ETS will expand beyond power generation, steel, cement, and aluminium smelting, to include petrochemicals and chemicals (STCN, 14 August). This expansion is expected to bring roughly 80% of China's total CO_2 emissions under more effective oversight. Quota allocation and market-based trading should accelerate the phase-out of outdated capacity as they raise compliance costs for inefficient producers. The coal industry plan similarly calls for guiding the exit of small and medium-sized mines with weaker safety assurance, while increasing the share of capacity from large, modern mines to 87% (NDRC, 10 August).

July's PPI data also points in this direction. Against the backdrop of intensified safety inspections and regulatory measures, coal mining prices continued to rise in y-o-y and m-o-m terms, even as other raw material prices weakened on a sequential basis amid easing Middle East tensions and seasonal factors (see *China inflation*, 9 August). That said, we think the near-term pace of "anti-involution" measures in energy sectors should partly depend on how developments in the Middle East may affect the stability of China's domestic energy supply. Recent trade data, for example, suggest China has been accelerating coal imports, to offset reliance on crude oil (see *China trade*, 7 August).

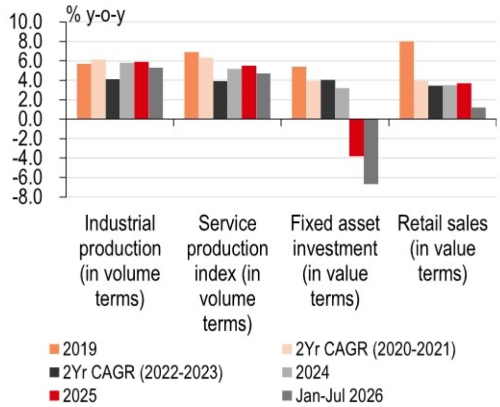
PBoC monetary policy report: transmission and precision over broad-based easing
The PBoC's Q2 2026 monetary policy implementation report reiterated a moderately loose stance, pledging to promptly introduce practical incremental measures and adjust monetary policy tools in a timely manner, a tone consistent with the July Politburo meeting.

In our view, near-term monetary policy tweaks are likely to focus on improving the efficiency of monetary policy transmission and optimising structural monetary tools rather than broad-based interest rate cuts and RRR cuts, barring a notable weakening in domestic demand. Relatedly, the Q2 monetary policy report also noted the need to enhance the transmission channels of monetary policy and strengthen financial support for key areas such as expanding domestic demand, technological innovation, and small and micro enterprises (PBoC, 12 August). On the liquidity support front, we expect the PBoC may continue to use tools including OMOs, MLF and treasury bond purchases, which may also ease the urgency for an imminent RRR cut. Another key policy focus will likely be on enhanced fiscal-monetary policy coordination, as we expect government bond issuance may re-accelerate in the coming months.

Recently, the PBoC also released its 15th Five-Year Reform and Development Plan, setting out key reform priorities (Xinhua, 10 August). The plan places upgrading the dual-pillar framework of monetary policy and macroprudential management at the top of the agenda, while aiming to refine targeted support across the five major areas (tech, green, inclusive, pension and digital finance) and step up financial support to boost consumption. This suggests structural monetary policy tools will likely play a larger role during the 15th FYP period.

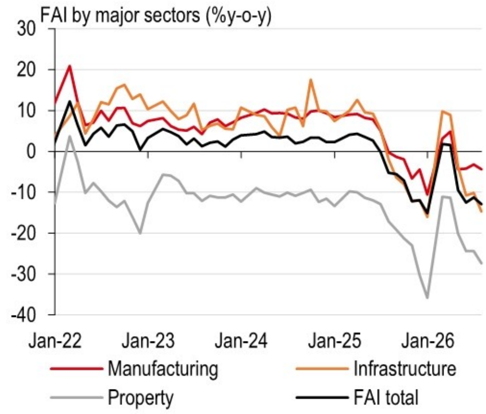
Charts of the week

1. Activity data showed ongoing domestic softness…



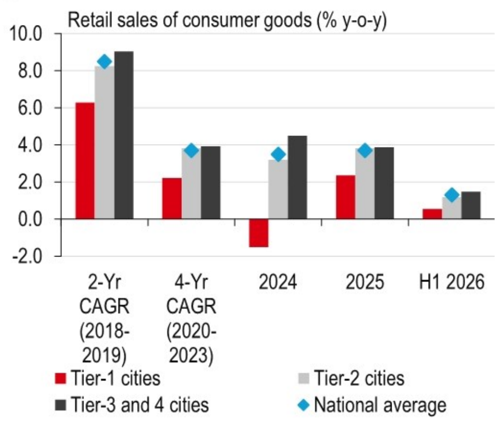
Source: Wind, HSBC

2. …especially for FAI



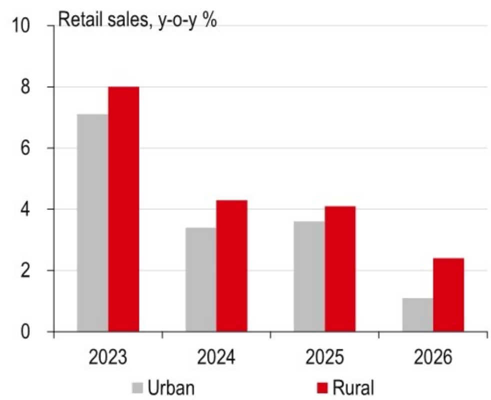
Source: Wind, HSBC

3. Low-tier cities have higher consumption growth



Source: CEIC, HSBC

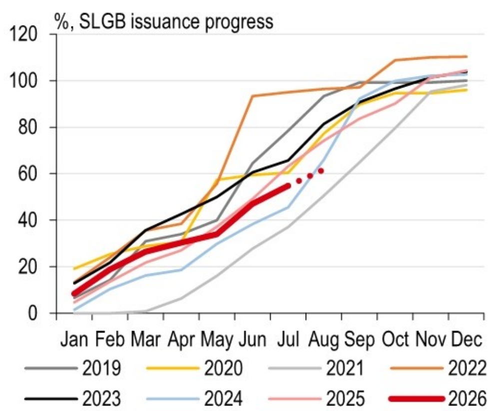
4. Rural retail sales also grew faster



Source: Wind, HSBC; Note: as of July 2026.

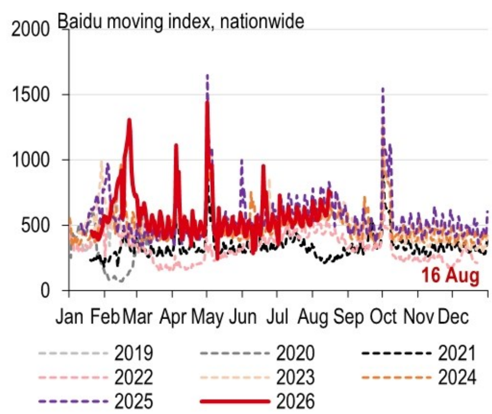
Economic activity

5. LGSB issuance can be stepped up to support infrastructure investment



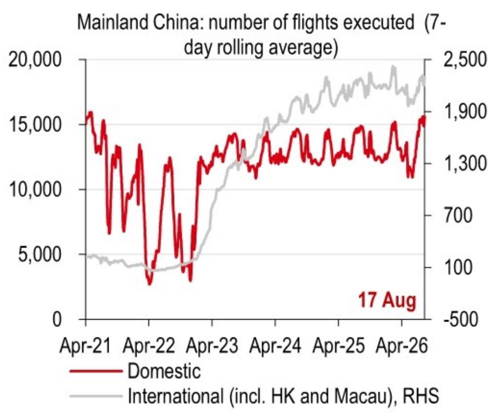
Source: Wind, HSBC; Note: Data as of 18 Aug.

6. Cross-city travel remained elevated



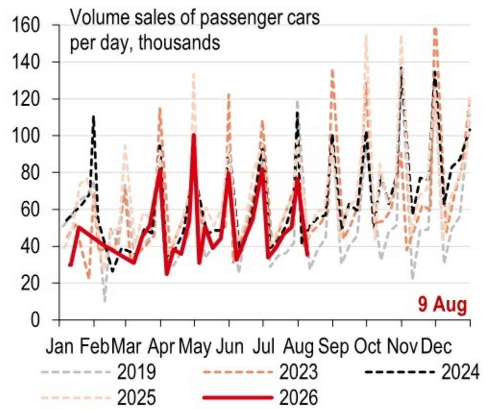
Source: Baidu index, HSBC

7. The number of domestic flights moved up



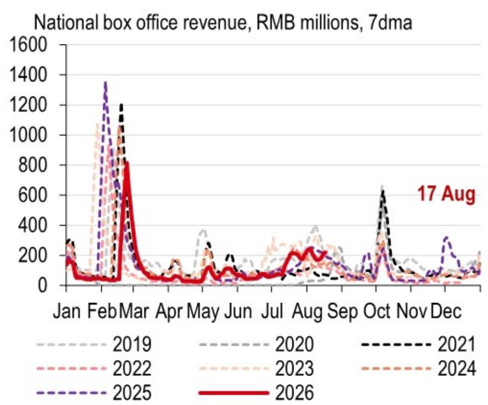
Source: Wind, HSBC

8. Car sales edged down in August in year-on-year terms



Source: Wind, HSBC

9. National box office revenues edged up

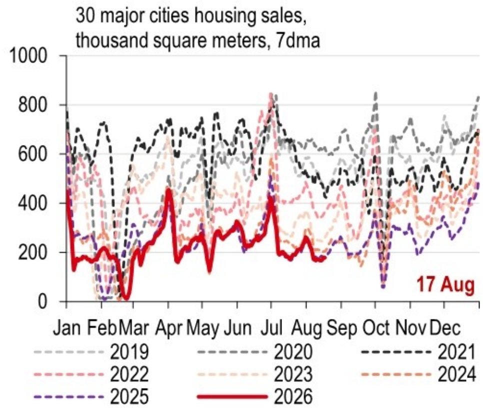


Source: Wind, HSBC

10. Housing prices in tier-1 cities have generally edged up

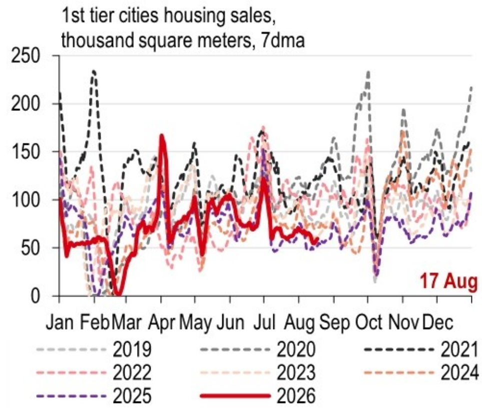
Source: Bloomberg, HSBC; Note: as of 18 Aug.

11. New home sales edged down seasonally



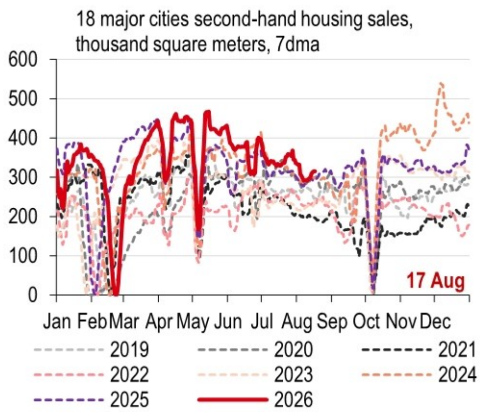
Source: Wind, HSBC

12. New home sales in Tier-1 cities remained higher y-o-y



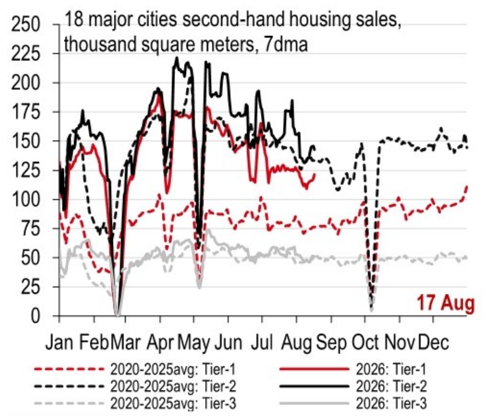
Source: Wind, HSBC

13. Second-hand home sales in 18 major cities edged up



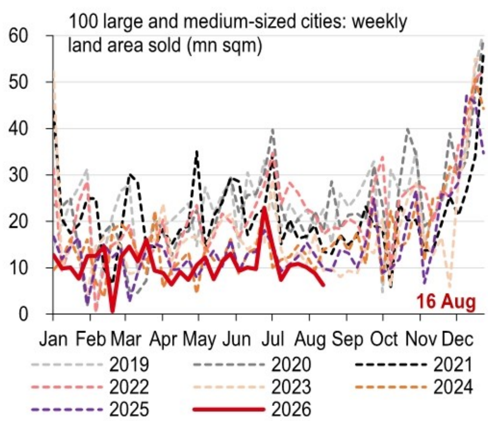
Source: Wind, HSBC

14. Transactions in second-hand homes in Tier-1&2 cities remained higher y-o-y



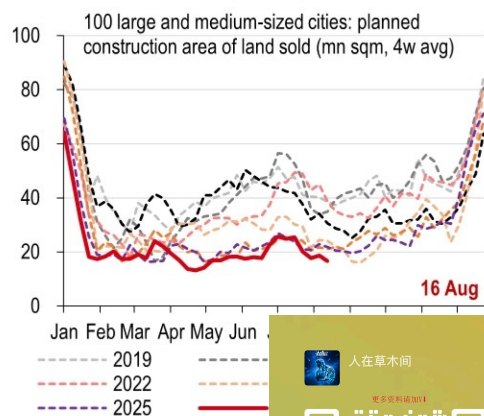
Source: Wind, HSBC

15. Land sales edged down



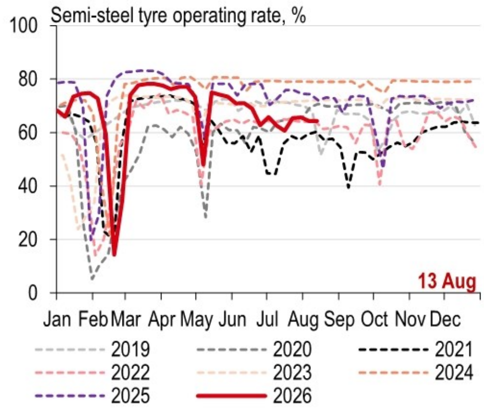
Source: Wind, HSBC

16. Planned construction area of land sold edged down



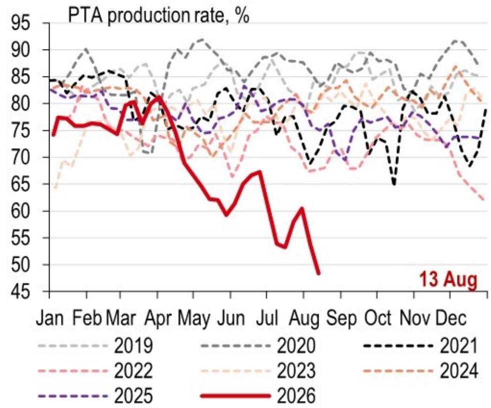
Source: Wind, HSBC

17. The semi-steel tyre operating rate edged down



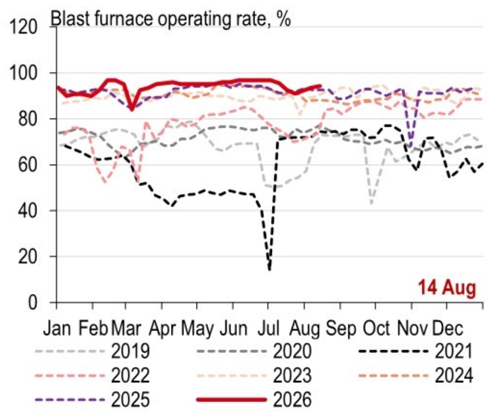
Source: Wind, HSBC

18. The PTA production rate edged down



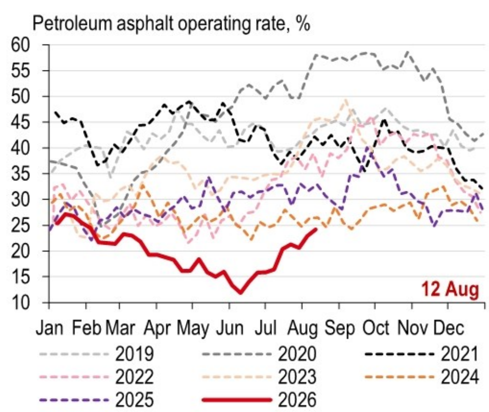
Source: Wind, HSBC

19. The blast furnace operating rate remained above historical levels



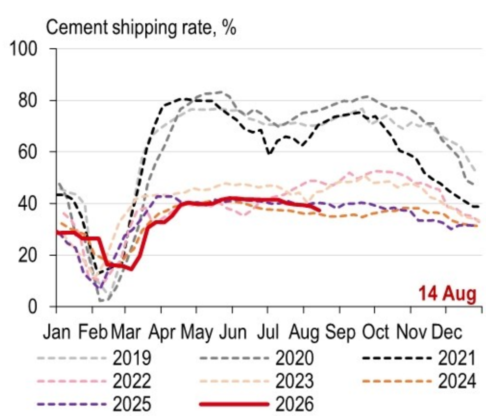
Source: Wind, HSBC

20. The petroleum asphalt operating rate moved up



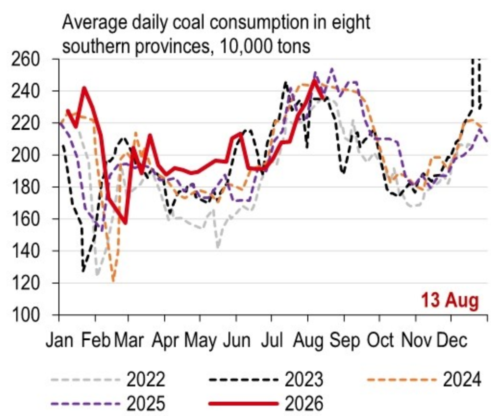
Source: Wind, HSBC

21. The cement shipping rate steadied



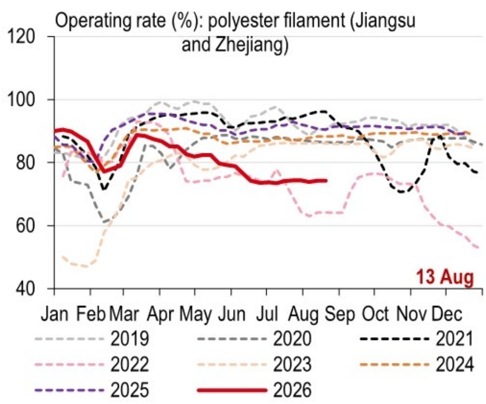
Source: Wind, HSBC

22. Coal consumption for eight major provinces edged down



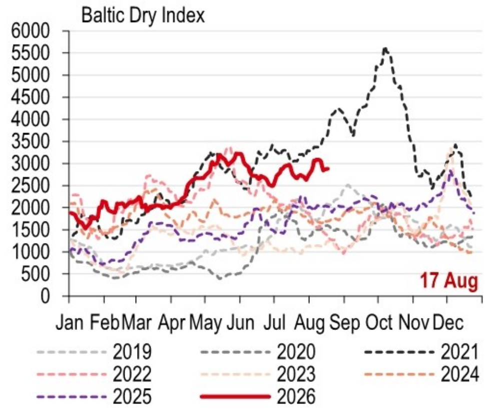
Source: Wind, HSBC

23. The operating rate of polyester filaments steadied



Source: Wind, HSBC

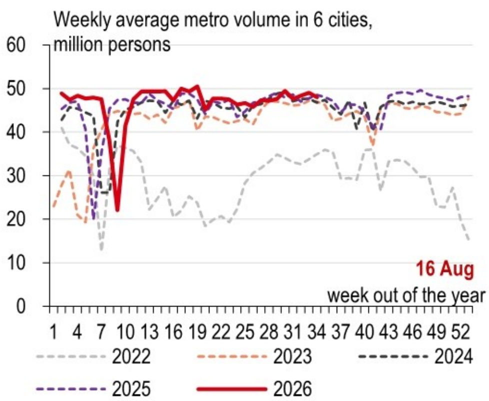
24. The Baltic Dry Index edged down



Source: Wind, HSBC

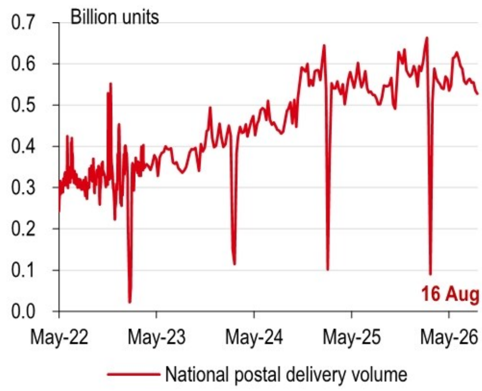
Travel and logistics

25. Metro volumes in large cities steadied



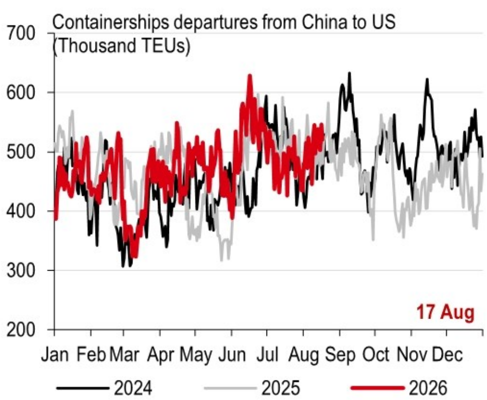
Source: Wind, HSBC; note: six cities include Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu and Tianjin.

26. Postal delivery volumes edged down



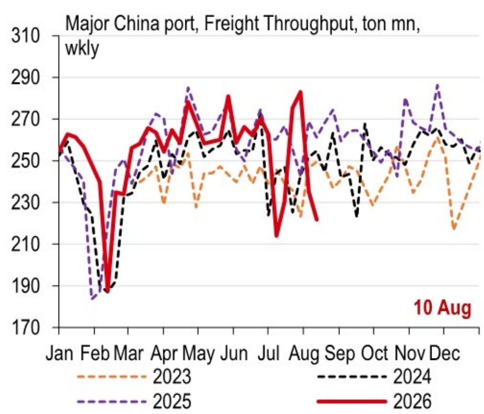
Source: Wind, HSBC

27. Container exports from China to the US edged up



Source: Bloomberg, HSBC

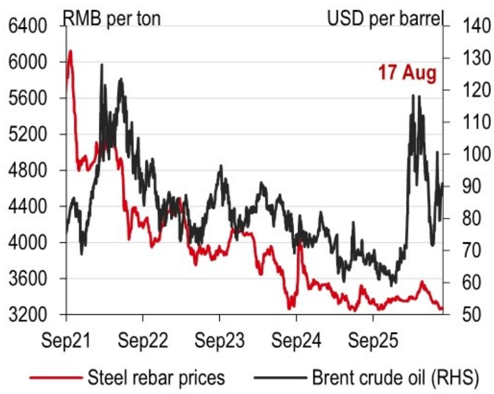
28. China's major ports' freight throughput edged down



Source: CEIC, HSBC; Note: Weekly beginning at Monday

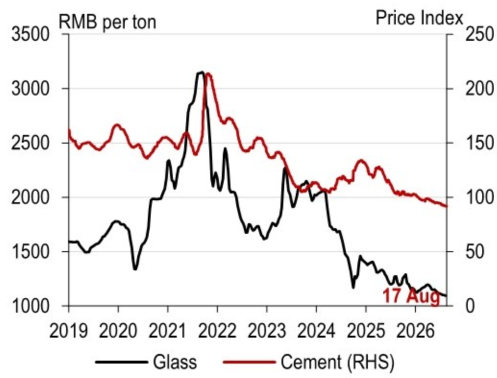
Inflation and policies

29. Crude oil prices fell in recent days due to easing tensions in the Middle East



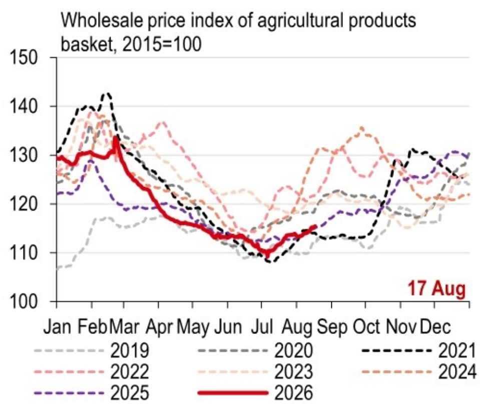
Source: Wind, HSBC

30. Cement prices and glass prices both edged down



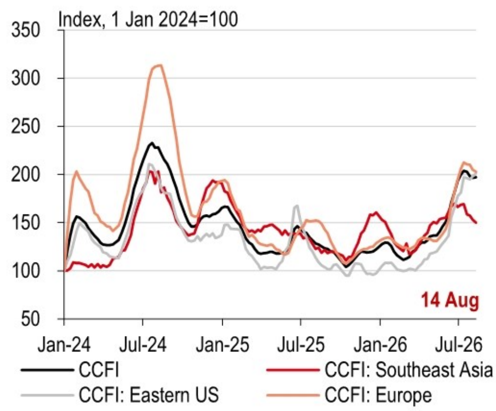
Source: Wind, HSBC

31. Agricultural product prices edged up seasonally



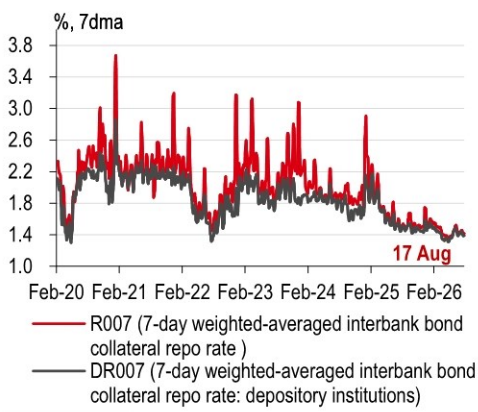
Source: Wind, HSBC

32. Container shipping costs edged down



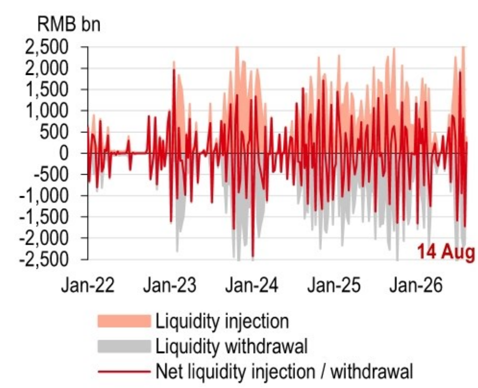
Source: Wind, HSBC

33. Interbank rates edged down



Source: Wind, HSBC

34. The PBOC made net injections through OMOs last week



Source: Wind, HSBC

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