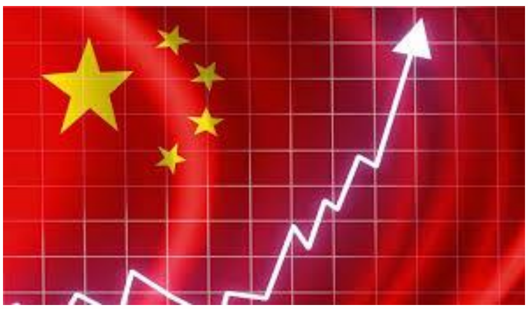
MASHREQ GLOBAL DIGEST
China
July 27 – August 2

This edition of Market Digest highlights key macroeconomic indicators in China, recent financial and tech developments, and notable deals—providing valuable insights into the country's current economic trends.

Macroeconomic News

IMF Raises China's 2025 GDP Forecast to 4.8%



The IMF has raised its 2025 GDP growth forecast for China to 4.8% from 4.0%, marking the largest upward revision among major economies. This improvement reflects stronger-than-expected economic activity in the first half of 2025 and a significant reduction in U.S.–China tariffs, with the effective U.S. tariff rate assumed to have dropped to 17.3% from 24.4% in earlier forecasts. Despite this positive outlook, risks remain due to ongoing trade tensions and an August 12 deadline for a durable tariff agreement with Washington. China posted 5.2% growth in Q2, but challenges persist amid broader uncertainties.

Reference: Reuters, China Daily

US-China Tariff Talks Stall Ahead of August 12 Deadline

New US tariffs of 10% to 41% have been imposed on 69 countries, with China currently exempt as a tariff pause expires August 12. During the pause, US tariffs on Chinese goods fell from 145% to 30%, and China's tariffs on US products dropped from 125% to 10%. Recent Stockholm talks failed to secure a long-term deal due to disagreements over technology exports—mainly US limits on semiconductor chips—and concerns about China's Russian oil purchases. Without an agreement, tariffs could return to triple-digit rates, threatening global supply chains. Forecasts predict Chinese exports to the US could drop by $485 billion by 2027, while US exports to China may fall by $101 billion. Meanwhile, China is boosting trade with Russia, Vietnam, and others, gaining billions in new markets.

Reference: Aljazeera, CNBC

China's Manufacturing and Industrial Profits Decline

China's manufacturing PMI stood at 49.3 in July, marking the fourth consecutive month of contraction due to weak demand, extreme weather, and escalating U.S. trade tensions, which have led firms to shift production to lower-tariff countries like Vietnam. Industrial profits fell 4.3% in June compared to a year earlier, following a 9.1% decline in May. With the U.S.-China trade truce nearing expiration and little new stimulus announced, further economic slowdown is anticipated.

Reference: CNBC, Reuters

China Sets $12.5B Childcare Budget Amid Falling Birth Rate

China will begin offering a 3,600 yuan ($500) annual subsidy per child under age 3 starting this year, part of a broader 90 billion yuan ($12.54 billion) childcare support package. Families can begin applying in August. While this marks a national step toward addressing the country's record-low birth rate, experts say the budget is modest compared to actual childcare costs and global standards. For context, China spends under 1% of its GDP on family-friendly policies, versus 2–4% in OECD countries.

Reference: Reuters

China's Budget Deficit Hits Record as Spending Ramps Up

China's budget deficit surged to a record 5.25 trillion yuan ($733 billion) in the H1-2025, increasing 45% year-on-year as the government ramped up spending to support the economy. Total expenditures rose 9% to 18.8 trillion yuan, while government revenue declined slightly, pressured by falling tax income and shrinking land sales due to a weak property market.

Reference: Bloomberg

China's Central Bank to Ease Policy for Growth Support

China's central bank has pledged to ease monetary policy in the second half of 2025 by lowering borrowing costs and reserve requirement ratios to support economic growth amid sluggish domestic demand and external uncertainties. It aims to coordinate closely with fiscal policies to boost consumption, innovation, small businesses, and exports while addressing inefficient competition within the financial sector. Despite these efforts, major rate cuts are unlikely in the third quarter, with policymakers focusing on steady implementation and stabilizing foreign trade and investment.

Reference: South China Morning Post

Financial/Tech News

Alibaba to Launch AI-Powered Smart Glasses to Rival Meta

Alibaba plans to launch its Quark AI Glasses in China by the end of 2025. Powered by the company's Qwen large language model and AI assistant Quark, the glasses will support hands-free calling, music streaming, real-time language translation, meeting transcription, and include a built-in camera. This move puts Alibaba in direct competition with Meta's smart glasses (developed with Ray-Ban) and Chinese competitor Xiaomi. Pricing and full specs have not yet been announced.

Reference: CNBC

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China's Z.ai Challenges DeepSeek With Cheaper AI Model

Chinese startup Z.ai, formerly Zhipu, unveiled its new AI model GLM-4.5, which it claims is cheaper to run than rival DeepSeek. Built on "agentic" AI and requiring only 8 Nvidia H20 chips — half the size of DeepSeek's model — GLM-4.5 is also open source and free to download. Z.ai will charge just $0.11 per million input tokens and $0.28 per million output tokens, compared to DeepSeek's $0.14 and $2.19 respectively. Backed by Alibaba, Tencent, and others, Z.ai has raised over $1.5 billion and is planning an IPO in China, showcasing China's AI ambitions despite U.S. restrictions.

Reference: CNBC

China Cracks Down on Herd Behavior in Emerging Industries

China is cracking down on uncontrolled "herd behavior" in emerging sectors like electric vehicles, batteries, and solar energy, aiming to prevent overinvestment and damaging price wars that hurt profits and economic stability. The government plans to encourage healthy competition while standardizing local investment promotions and curbing excessive rivalry that undermines quality and harms consumers, as part of efforts to ease ongoing deflationary pressures.

Reference: CNN

China's Copper Output Hits Record Amid Global Shortage

China is set to produce a record amount of refined copper in 2025, growing between 7.5% and 12% despite a global shortage of copper ore. By relying on scrap, stockpiles, and byproduct revenues, Chinese smelters are maintaining high output while rivals abroad cut back. With strong demand from exports and infrastructure, China's share of global refined copper output will rise to 57%, reducing its need for imports and reinforcing its dominance in the global copper market.

Reference: Zawya

Evergrande Faces Delisting as China's Property Crisis Deepens

China Evergrande Group, once the nation's largest developer, is set to be delisted from the Hong Kong stock exchange after an 18-month trading suspension due to its failure to restructure $23 billion in offshore debt. Once valued at over $51 billion, its market cap has plummeted to just $280 million. This reflects a broader crisis in China's property sector, where more than 70% of dollar-denominated property bonds—over $140 billion—have defaulted since 2021. Developers delay restructuring amid falling home prices and tight funding, with construction expected to drop 30% by 2035, deepening the property crisis.

Reference: Reuters

Deals

Malaysia Secures $700 Million in Chinese Digital Investments

Following a visit by Malaysia's Digital Minister Gobind Singh Deo to China, Malaysia announced it secured $700 million in investments from major Chinese tech firms. The funds will support the development of AI-powered innovation hubs, smart customer service centers, and next-generation digital infrastructure, creating over 6,800 tech-related jobs in Malaysia.

Reference: Al-Arabiya

Markets

Market Dashboard

- U.S. stocks slumped as new tariffs and weak July jobs data spooked investors. On August 1, the S&P 500 suffered its largest single-day drop since May 21, falling 1.6%, while the Nasdaq declined 2.24% and the Dow fell 1.23%. For the week, the S&P 500 dropped 2.36%, the Nasdaq 2.17%, and the Dow 2.92%. The disappointing jobs report raised expectations of a Fed rate cut in September. Amazon's shares plunged 8.3% after underwhelming cloud computing growth, dragging the market lower. Volatility surged to its highest level since June, reflecting increased investor unease.
- Bitcoin ended the week down about 4%, amid profit-taking and growing concerns over U.S. trade tariffs and interest rate uncertainty. Despite a major Bitcoin purchase by corporate holder MicroStrategy (MSTR), the crypto struggled to gain momentum after hitting record highs in mid-July. Weak U.S. jobs data further pressured the market, increasing expectations for a Federal Reserve rate cut in September, which weighed on riskier assets like cryptocurrencies.
- Gold rose 0.8% for the week, boosted by Friday's sharp rally as weak U.S. jobs data and rising trade tensions increased demand for safe-haven assets. Broader economic uncertainty and shifting investor sentiment also supported the move.
- On Friday, oil prices fell about $2 a barrel due to concerns over a potential OPEC+ production increase and weaker-than-expected U.S. jobs data. However, for the week, prices still ended higher, supported by ongoing supply worries, U.S. tariffs, and threats of sanctions on Russian oil buyers. By the end of the week, OPEC+ agreed in principle to boost oil output by 548,000 barrels per day in September, completing the unwinding of previous production cuts amid fears of further supply disruptions from Russia.
- In July, the U.S. dollar gained nearly 3% against the euro, boosted by easing trade tensions, steady Federal Reserve interest rates, and new tariff agreements with key partners like South Korea and Mexico. However, on Friday, a much weaker-than-expected U.S. jobs report—with payroll growth falling far short of forecasts and June figures sharply revised down—triggered a sharp sell-off in the dollar. The dollar index fell 1.4%, reversing much of the dollar's earlier gains as traders increased bets on Federal Reserve rate cuts amid signs of a cooling U.S. labor market and growing economic uncertainty.

Indicators	25-Jul-25	1-Aug-25	% Change
S&P 500	6,388.64	6,238.01	-2.36%
Bitcoin	117,635.88	113,320.09	-3.67%
Gold	3,337.18	3,362.88	0.77%
Crude Oil	68.44	69.67	1.80%
EUR/USD	1.1756	1.1594	-1.38%

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