

## What's Hot Today:

### ► China Construction Machinery – Sustainable sales growth

We are revisiting our observation in January where the construction machinery sector has been seen to be in its recovery mode with sales gradually picking up. The recent figures validate our previous view and we believe that the trend is sustainable.

**Strong sales momentum carried into May:** China Construction Machinery Association data shows that in May 2026, sales of excavator reached 24k units (+36.2% YoY) and wheel loader sales stood at 13k units (+27.2% YoY). For 5M26, excavator sales totaled 126k units (+24.7% YoY), loaders 67k units (+27.3% YoY). Moreover, the excavator sales growth accelerated from 26.4% YoY in March to 29.8% YoY in April, and further to 36.2% YoY in May, showing a sustained sequential pickup.

### Three engines powering sales growth:

**1). Solid downstream demand:** In 1Q26, about RMB 1.16 trillion (+21% YoY) of special-purpose bonds have been raised for major infrastructure projects such as the Yalong River Hydropower Station, the Xinjiang-Tibet Railway, and the Yangtze River High-Speed Railway. Meanwhile, global mining capex continues to be elevated due to strong commodity prices, fueling strong demand for large excavators and mining trucks. The gradually warming of the property markets and urban renewal projects also contribute to incremental demand for small and micro excavators.

**2). Replacement demand:** Equipment sold during the previous peak between 2016 and 2020 in China has entered the 8-10 years replacement cycle. Sector value chain also projects that replacement demand will increase significantly in 2026. Moreover, stricter carbon reduction and energy efficiency concerns are speeding up the phase-out of old equipment. In addition, there are various supportive policies including the Chinese government setting aside some RMB4.4tn funds to support equipment upgrades and local governments offering replacement subsidies of up to 30-50%.

**3). Robust overseas demand:** Exports are the most certain growth driver, benefiting from the global expansion of the construction machinery market. In May 2026, excavator exports reached 13k units (+34.2% YoY), and wheel loader exports roughly 6k units (+33.1% YoY). In 5M26, cumulative excavator exports stood at 58,748 units (+32.9% YoY), and wheel loader exports at 32,656 units (+41.1% YoY). Regionally, emerging markets such as Africa saw sales surge 77% YoY in Jan-Feb while Oceania also grew strong at 51% YoY. Exports to Belt and Road countries currently accounted for 43.4% of the total (+24.6% YoY).

| China & HK Indices | CLOSE  | 1D    | YTD    |
|--------------------|--------|-------|--------|
| HSI                | 24,657 | -1.2% | -3.8%  |
| HSCEI              | 8,341  | -1.1% | -6.4%  |
| HSCCI              | 4,335  | -0.4% | 8.0%   |
| CSI300             | 4,713  | -2.1% | 1.8%   |
| Shanghai A         | 4,152  | -1.7% | 8.0%   |
| Shanghai B         | 274    | -0.1% | 8.0%   |
| Shenzhen A         | 2,801  | -3.1% | 5.8%   |
| Shenzhen B         | 1,121  | -0.9% | -11.3% |

| Key Int'l Indices | CLOSE  | 1D    | YTD   |
|-------------------|--------|-------|-------|
| Dow Jones         | 50,786 | -0.2% | 5.7%  |
| S&P 500           | 7,405  | 0.3%  | 8.2%  |
| Nasdaq            | 25,929 | 0.9%  | 11.6% |
| NIKKEI Index      | 64,399 | 0.6%  | 27.9% |
| FTSE Index        | 10,373 | 0.0%  | 4.4%  |
| CAC Index         | 8,199  | -0.2% | 0.6%  |
| DAX Index         | 24,616 | -0.6% | 0.5%  |

| Commodities          | CLOSE  | 1D    | YTD    |
|----------------------|--------|-------|--------|
| GOLD (US\$/oz.)      | 4,330  | 0.0%  | -0.0%  |
| STEEL (US\$/oz.)     | 3,291  | -4.2% | 29.4%  |
| SILVER (US\$/oz.)    | 68     | 0.5%  | -5.7%  |
| CRUDE OIL (US\$/bbl) | 91     | 0.8%  | 58.4%  |
| COPPER (US\$/oz.)    | 13,615 | -2.3% | 9.6%   |
| ALUMINIUM (US\$/oz.) | 3,604  | -1.7% | 20.3%  |
| PLATINUM (US\$/oz.)  | 1,759  | -1.2% | -15.2% |
| ZINC (US\$/oz.)      | 3,537  | -1.4% | 13.5%  |
| WHEAT (US\$/bu)      | 583    | 0.6%  | 14.9%  |
| CORN (US\$/bu)       | 446    | 0.0%  | -3.0%  |
| SUGAR (US\$/lb)      | 123    | 2.6%  |        |
| SOYBEAN (US\$/bu)    | 1,115  | -0.5% | 3.8%   |
| PVC (US\$/t)         | 4,753  | -0.6% | 49.2%  |
| CRB                  | 377    | -1.7% | 3.0%   |
| BDI                  |        | -1.8% | 58.8%  |

| Exchange Rates | USD   | HKD   | EUR   | JPY     | CHF    | RMB   |
|----------------|-------|-------|-------|---------|--------|-------|
| USD            |       | 7.837 | 0.867 | 160.160 | 0.798  | 6.783 |
| HKD            | 0.128 |       | 0.111 | 20.438  | 10.181 | 0.866 |
| EUR            | 1.153 | 9.039 |       | 184.740 | 1.087  | 7.821 |
| JPY            | 0.006 | 4.893 | 0.541 |         | 0.498  | 0.042 |
| CHF            | 1.254 | 9.824 | 1.087 | 200.782 |        | 8.503 |
| RMB            | 0.147 | 1.155 | 0.128 | 23.626  | 0.118  |       |

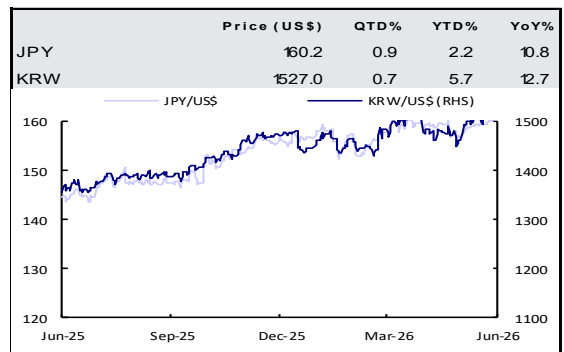
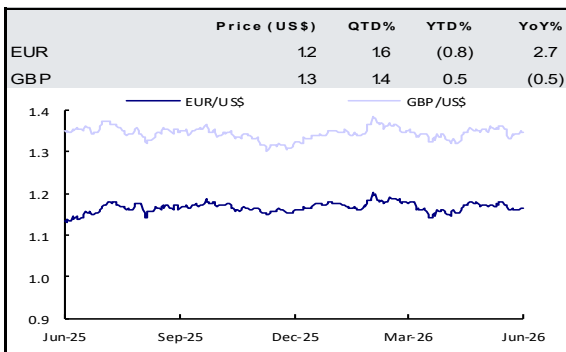
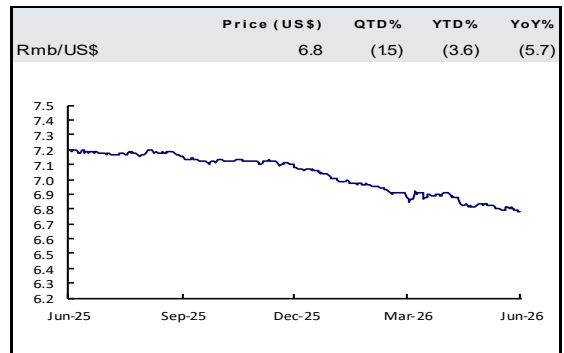
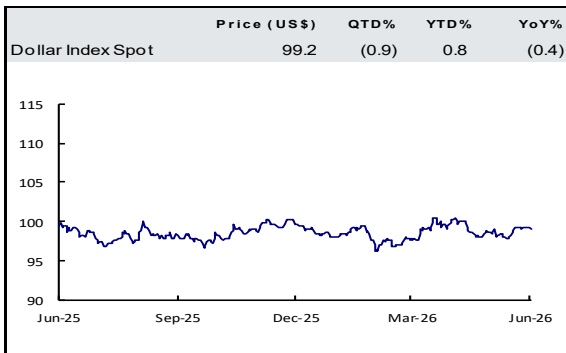
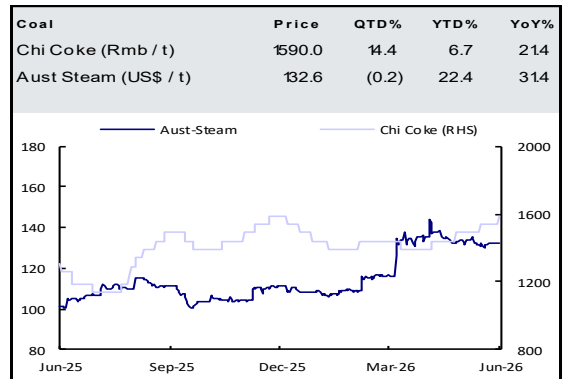
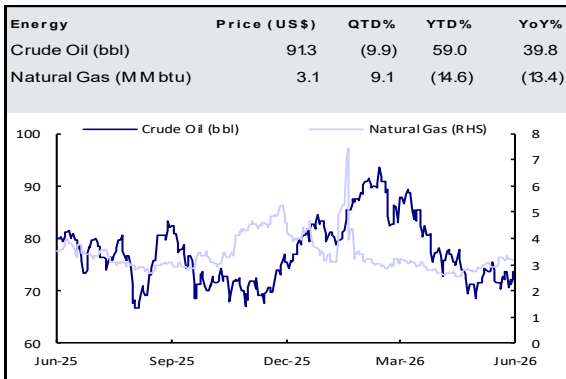
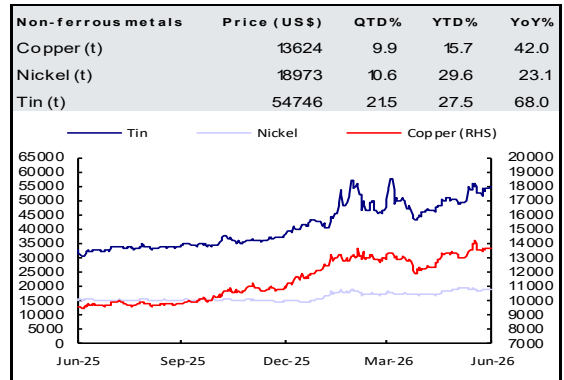
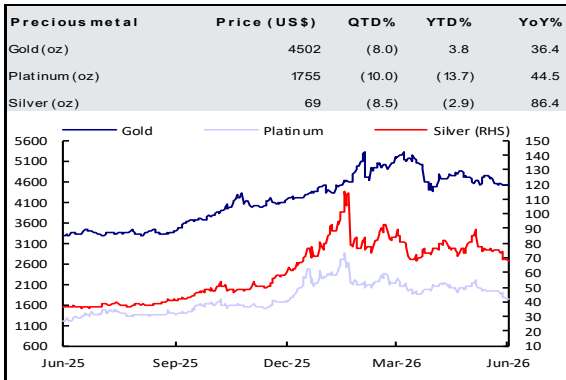
| Market Sentiment        | CURRENT | 5D    |
|-------------------------|---------|-------|
| CDS Monitor - USD SR 5Y |         |       |
| Greece                  |         | N/A   |
| Ireland                 | 83      | -2.4% |
| Italy                   | 139     | -0.6% |
| Portugal                | 207     | -0.0% |
| Spain                   | 108     | 0.3%  |
| VIX                     | 18      | 17.9% |

Source: Bloomberg

**Our views:** Sales growth continued to accelerate in May and remained strong. However, stock prices have faced sustained pressure in recent months, primarily because the first quarter's earnings did not improve in tandem with sales. While the reported profit decline was largely attributable to foreign exchange fluctuations, core operating profit and cash flow improved significantly after excluding FX-related losses, pointing to sound underlying business fundamentals. Since the cyclical low in late 2022, companies have been focusing on the overseas market to alleviate the effect from the downturn of the domestic real estate market. In 2025, overseas revenue and gross profit aggregated to about 55% and 65%, of the top five OEMs, respectively. This contributed to a systematic improvement in their financial metrics. Their combined net profit grew 27% YoY, operating cash flow rose 33% YoY and the NPM expanded to 10.4% (up 1.95ppts).

Recent raw material cost increases prompted leading players to raise list prices by around 5% in May, which could provide some support to margins. Going forward, the primary growth catalysts for the construction machinery will likely be driven by replacement demand and more overseas sales. We remain positive on the sector and continue to favor Sany Heavy Industry (6031 HK, HK\$21.44, HK\$15.4bn) and XCMG Machinery (000425 SZ, RMB9.93, RMB116.3bn), both of which have established strong overseas franchises and possess core product competitiveness. These are trading at 16x and 15x 2026E P/E, respectively. (Research Department)

**Market Watch – Major Commodities and Currencies**



Source: Bloomberg

**US Economic Calendar**

| Indicators                        | Freq | Obs Date | Expected Release Date |
|-----------------------------------|------|----------|-----------------------|
| Wholesale Inventories             | MoM  |          | 9-Jun-26              |
| Existing Home Sales               | MoM  |          | 9-Jun-26              |
| Trade Balance                     | MoM  |          | 9-Jun-26              |
| CPI                               | MoM  |          | 10-Jun-26             |
| Initial Jobless Claims            | WoW  |          | 11-Jun-26             |
| PPI                               | MoM  |          | 11-Jun-26             |
| Industrial Production             | MoM  |          | 15-Jun-26             |
| Housing Starts / Building Permits | MoM  |          | 16-Jun-26             |
| Business Inventories              | MoM  |          | 17-Jun-26             |
| Retail Sales                      | MoM  |          | 17-Jun-26             |
| New home Sales                    | MoM  |          | 24-Jun-26             |
| GDP                               | QoQ  |          | 25-Jun-26             |
| Personal Income & Spending        | MoM  |          | 25-Jun-26             |
| Durable Goods Orders              | MoM  |          | 25-Jun-26             |
| Consumer Confidence               | MoM  |          | 30-Jun-26             |
| ISM Manufacturing PMI             | MoM  |          | 1-Jul-26              |
| Factory Orders                    | MoM  |          | 2-Jul-26              |
| Employment Report                 | MoM  |          | 2-Jul-26              |
| Auto Sales                        | MoM  |          |                       |

**China Economic Calendar**

| Indicators                | Freq | Obs Date | Expected Release Date |
|---------------------------|------|----------|-----------------------|
| Money Supply - M2         | MoM  |          | 9-Jun-26              |
| Trade Balance             | MoM  |          | 9-Jun-26              |
| PPI                       | MoM  |          | 10-Jun-26             |
| CPI                       | MoM  |          | 10-Jun-26             |
| Retail Sales              | MoM  |          | 16-Jun-26             |
| Industrial Production     | MoM  |          | 16-Jun-26             |
| PMI Manufacturing         | MoM  |          | 30-Jun-26             |
| Foreign Exchange Reserves | QoQ  |          | 7-Jul-26              |
| GDP                       | YoY  |          | 15-Jul-26             |

**Hong Kong Economic Calendar**

| Indicators               | Freq | Obs Date | Expected Release Date |
|--------------------------|------|----------|-----------------------|
| Producer Prices Index    | QoQ  |          | 12-Jun-26             |
| Industrial Production    | QoQ  |          | 12-Jun-26             |
| Unemployment Rate        | MoM  |          | 16-Jun-26             |
| CPI                      | MoM  |          | 23-Jun-26             |
| Trade Balance            | MoM  |          | 25-Jun-26             |
| Money Supply - M2        | MoM  |          | 30-Jun-26             |
| Retail Sales             | MoM  |          | 2-Jul-26              |
| PMI                      | MoM  |          | 6-Jul-26              |
| Foreign Currency Reserve | MoM  |          | 7-Jul-26              |
| GDP                      | QoQ  |          | 31-Jul-26             |
| Composite Interest Rate  | MoM  |          |                       |

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