21 November 2013

Flash Comment

China: HSBC PMI declines but too early to call peak

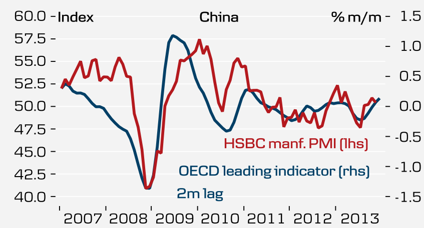
- The flash estimate for HSBC manufacturing PMI declined to 50.4 (consensus: 50.8, DBM: 51.2) in November from a final reading of 50.9 in October. The details were relatively weak with new orders declining slightly to 51.0 from 51.5 and export orders dropping markedly to 49.4 from 51.3 in October. Hence, weakness appears to have been most pronounced in external demand in November. On a positive note, Chinese companies again started to cut their inventories in November with the finished goods inventory component declining to 49.8 from 50.2 and the stocks of inputs declining to 49.0 from 50.1 in October. The new order-inventory balance remains relatively healthy despite a slight decline in new orders in November (see chart on next page).
- The output price component declined to 49.8 in November from 50.4 in October and hence does not suggest any severe inflationary pressure (see chart on next page). Consumer price inflation has increased to over 3% y/y in recent months and has started to become a concern. However, the increase in inflation has mainly been driven by higher food prices and there should be a good chance it will ease slightly in the coming months.
- Have Chinese manufacturing PMIs already peaked? In our view, it is still too early to call the peak for Chinese manufacturing although admittedly the forward-looking indicators are mixed at the moment. The leading indicator for China still suggests a moderate improvement in the manufacturing PMI (see right chart) and as mentioned above the new order-inventory balance remains relatively healthy. In addition, the weakness in November appears to a large degree to have been driven by external demand. We still expect external demand to be a slight positive for China next year although there are some dark clouds hanging over emerging markets. However, financial indicators such as money supply and credit growth have for some time indicated that China's growth could start soon although these indicators with their usual lead suggest a peak early next year rather than late 2013.
- We continue to expect the manufacturing PMIs to improve slightly in the coming months with a peak in the HSBC manufacturing around 52 early in Q1 14 although today's HSBC manufacturing PMI suggests downside risk. We still expect GDP growth to accelerate marginally to 7.8% y/y in Q4 from 7.7% y/y in Q3.

Flash HSBC manufacturing PMI

	November	October
Total	50.4	50.9
-Output	51.3	51.1
-New orders	51.0	51.5
-Export orders	49.4	51.3
-Inventory	49.8	50.2
-Output prices	49.8	50.4

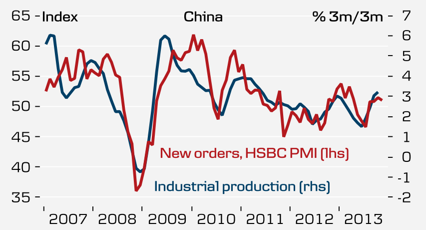
Source: Reuters EcoWin

Leading indicators do not suggest a peak yet for HSBC PMI



Source: Markit, Danske Bank Markets

Data still consistent with slightly stronger growth in Q4



Source: Reuters EcoWin, Markit, Danske Bank Markets

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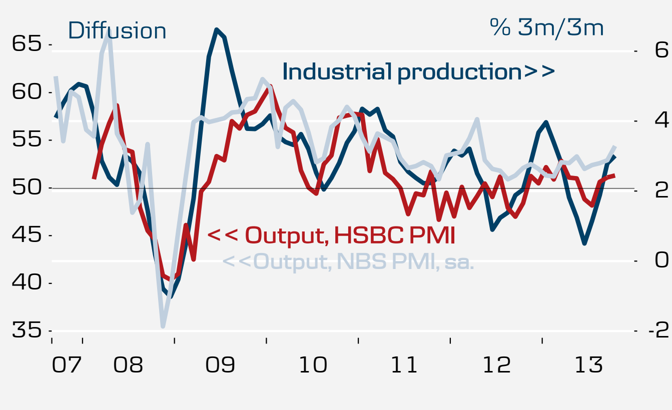
New orders decline slightly in November but remain above 50

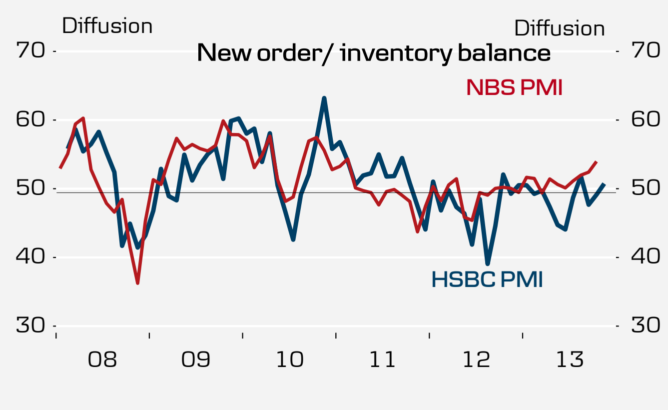
Source: Reuters EcoWin, Markit, Danske Bank Markets

Output continued to improve slightly in October



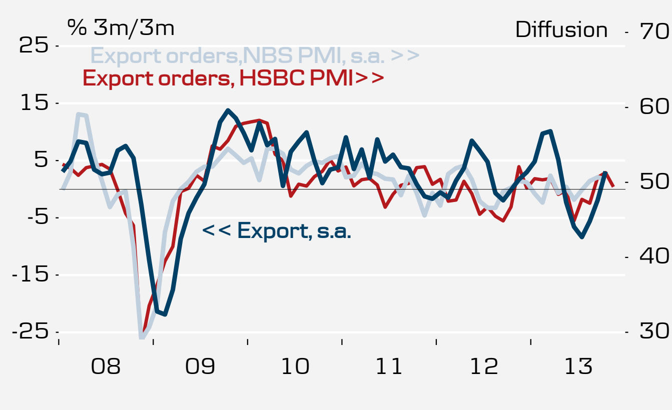
Source: Reuters EcoWin, Markit, Danske Bank Markets

The new order-inventory balance remained relatively healthy in November



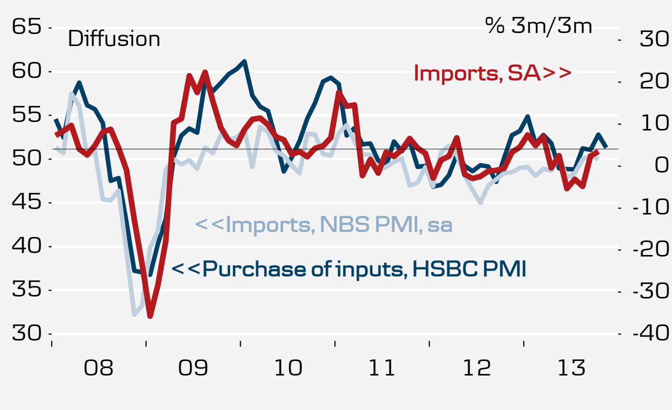
Source: Reuters EcoWin, Markit, Danske Bank Markets

New export orders weakened markedly in November and are now again below 50



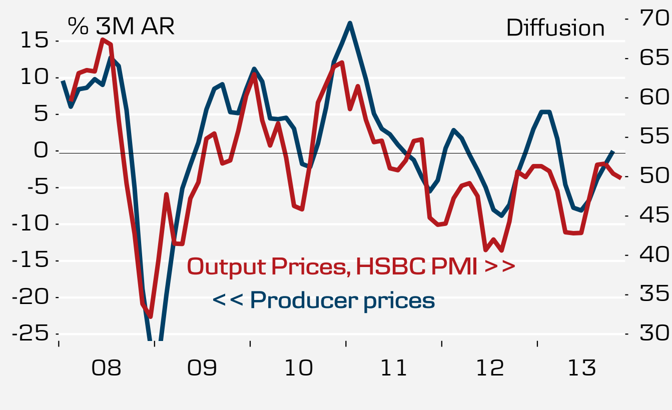
Source: Reuters EcoWin, Markit, Danske Bank Markets

PMIs still suggest a moderate improvement in China's imports in the coming months



Source: Reuters EcoWin, Markit, Danske Bank Markets

Finished good price component does not suggest any severe inflationary pressure



Source: Reuters EcoWin, Markit, Danske Bank Markets

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of the research report is Flemming Jegbjærg Nielsen, Senior Analyst.

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