14 December 2012

Flash Comment

China: HSBC PMI improves for the fourth month in a row

- **China's HSBC manufacturing PMI improved to 50.9 in December from 50.5 in November. The details were also relatively strong with new orders improving to its highest level since April 2011. Export orders weakened slightly in December, underscoring that external demand remains the biggest short-term threat for the Chinese economy.**
- **The HSBC manufacturing PMI, in line with the hard data released since September, confirms that the Chinese economy has bottomed out and has started a moderate recovery. We do not expect any major fiscal and monetary easing from here.**

Details

The flash estimate for China HSBC manufacturing PMI in December improved to 50.9 (consensus: 50.8) from a final reading of 50.5 in November. This is the fourth month in a row with an improvement in HSBC manufacturing and it is now at its highest level since October last year.

The details were also relatively strong with new orders improving markedly from 50.8 to 52.7, taking it to its highest level since April 2011. Export orders declined to 49.3 from 52.1, but it should be remembered that export orders were just 46.7 in October. Hence, overall, the external picture has improved slightly in the past month as also evident in the hard export data (see charts on next page). Nonetheless, the recovery in China continues to be mainly driven by domestic demand and, in the short term, the biggest risk for China is the development in external demand.

The inventory cycle also appears to be coming to an end as the inventory cuts are easing. The finished goods inventory component in December improved to 49.7 from 48.8 in November. The new order-inventory balance still managed to improve on the back of the substantial improvement in new orders in November.

Assessment & outlook

With the new order-inventory balance improving and new orders increasing markedly faster than output in December, we have relatively strong signals of continued improvement in the HSBC manufacturing PMI in January. We expect the manufacturing PMIs to improve to the 52-53 range by Q2 13.

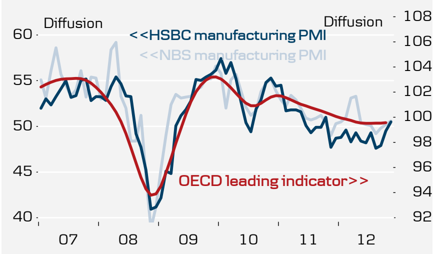
The continued improvement in the manufacturing PMI confirms what has also been evident in the hard data that the Chinese economy has bottomed out and has started to recover moderately. We expect GDP growth to improve from 7.4% y/y in Q3 to 7.8% y/y in Q4 and 8.3% y/y in Q1 13. Policy wise, the implication is that we are unlikely to see further substantial monetary and fiscal easing although we cannot complete rule out the possibility of a cut in the reserve requirement for commercial banks at some stage next year.

Flash HSBC manufacturing PMI

	December	November
Total	50.9	50.5
-Output	50.5	51.3
-New orders	52.7	50.8
-Export orders	49.3	52.1
-Inventory	49.7	48.8
-Output prices	51.3	49.9

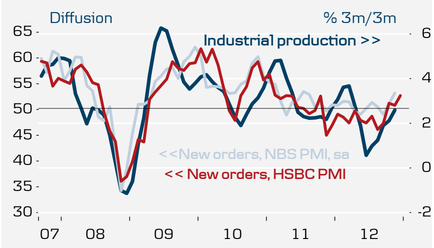
Source: Markit

China appears to have bottomed out



Source: Reuters EcoWin, Danske Bank Markets

New orders improved markedly in December



Source: Reuters EcoWin, Danske Bank Markets

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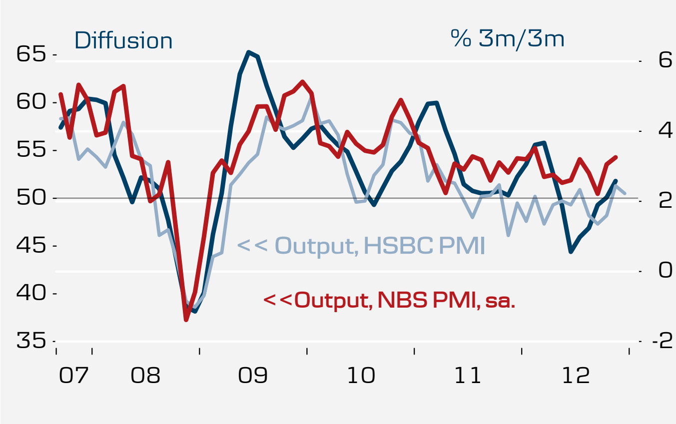
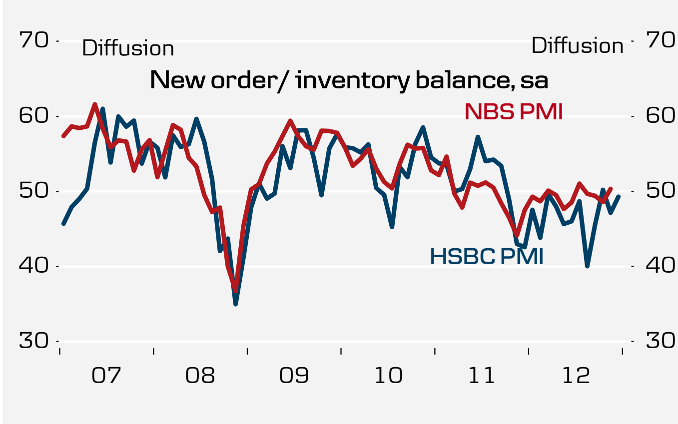
Current output declined slightly in December



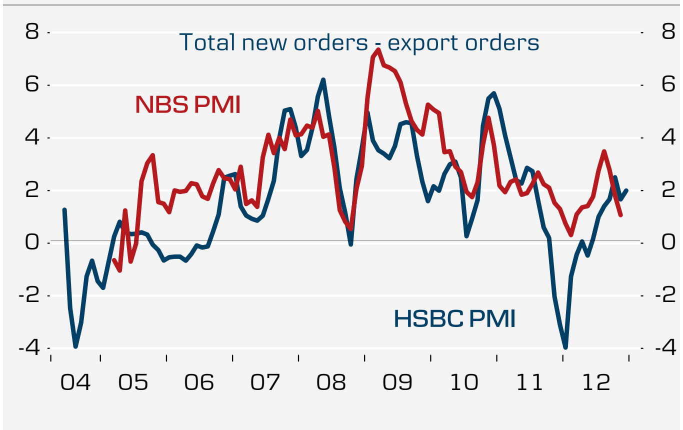
Source: Reuters EcoWin, Markit, Danske Bank Markets

New order-inventory balance improved slightly in December



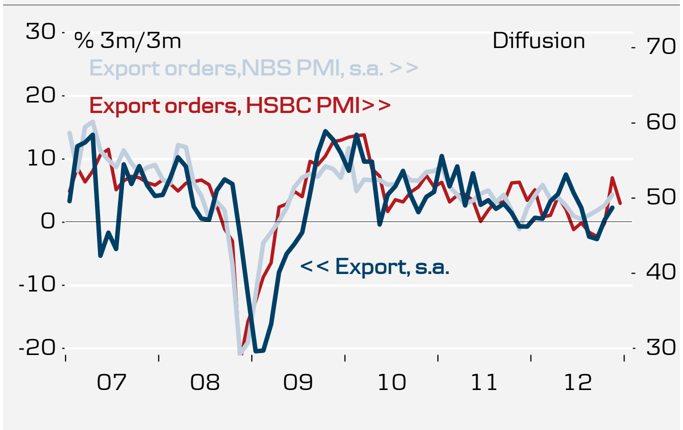
Source: Reuters EcoWin, Markit, Danske Bank Markets

Recovery driven by domestic demand



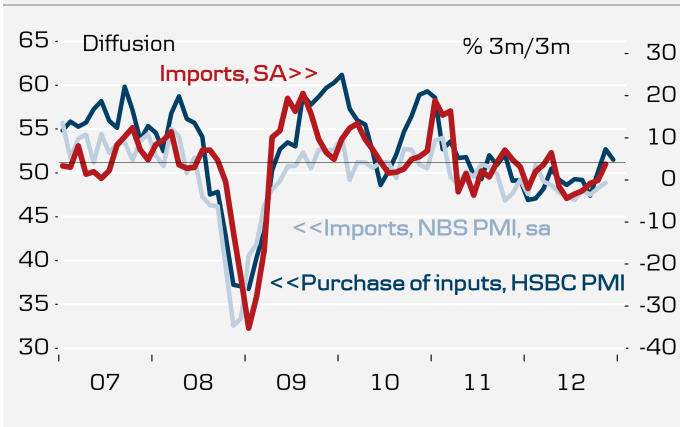
Source: Reuters EcoWin, Markit, Danske Bank Markets

Export orders decline slightly but still suggest moderate improvement in export growth



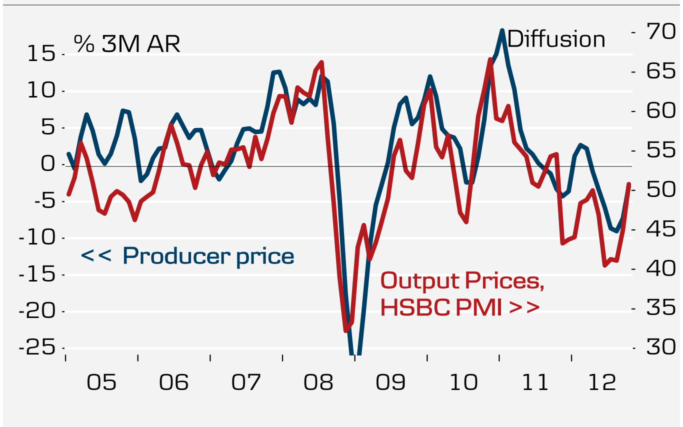
Source: Reuters EcoWin, Markit, Danske Bank Markets

Purchase of inputs suggests China's import growth poised to pick up in coming months



Source: Reuters EcoWin, Markit, Danske Bank Markets

Inflationary pressure remains subdued



Source: Reuters EcoWin, Markit, Danske Bank Markets

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