

China: a positive note from PMI

China's manufacturing PMI and non-manufacturing PMI returned to above-50 in March. That improvement could be brief as these are month-on-month comparisons for survey respondents. But for the time being the data provide some strength to the yuan



Workers produce protective masks at a factory.

Source: Shutterstock

52

China manufacturing PMI

March 2020

Better than expected

China PMI back to above 50

China's manufacturing PMI was 52 and its non-manufacturing PMI was 52.3 in March, after an abrupt fall in February to 35.7 and 29.6, respectively.

For manufacturing, the good news is that production and new orders rose above 50 but export

orders and imports were still below 50. This reflects that domestic demand has recovered faster than external demand (spread of pandemic overseas), which has been affected by the coronavirus for most of March.

It is noteworthy that for the non-manufacturing PMI, only the sub-indices of business activity and business expectations were above 50. All the other sub-indices, e.g. new orders, prices, and employment were in contraction, indicating that companies do not want to hire before they can confirm a solid return of business activity.

50 could be brief

The PMI survey asks respondents their views on a monthly comparison so the next set of PMI survey results could point to a fall in activity again in April when compared to March.

Partial lockdowns are expected to continue in some areas, and even if there are fewer lockdowns, there will still be rules on social distancing, which will continue to dampen retail and catering businesses. Global demand is also likely to remain very soft, which will affect export orders for China.

Factories in some economies, including China, need to follow social distancing, so production capacity is unlikely to be much better in April compared to March.

China's factories can begin to return to normal capacity when there is an obvious decline of new infection cases to a low single-digits per day. Then, the rules of social distancing and partial lockdowns can be eased. This relaxation may not happen overnight though.

It is worth highlighting that the technology war and the trade war can also return once the US gets on top of its own Covid-19 problems.

"It is worth highlighting that the technology war and the trade war can come back anytime after the US gets on top of its own Covid-19 issues"

Stimulus and pre-emptive measures are in place

Both fiscal and monetary policy measures are market-friendly as they help the Chinese economy to surf the tide.

Fiscal stimulus is the cushion to help stabilise the jobs market and also provide new engines of growth. We estimate that the fiscal stimulus this year will be at least 6.5% of nominal GDP.

The central bank has [cut the policy rate](#) pre-emptively to avoid a credit crunch in China without putting weakening pressure on the yuan. But this does not mean a strong yuan trend is developing as coronavirus developments keep the yuan volatile.

USDCNY could reach 7.25 by the end of 2Q20.