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Snap

## China: Fiscal stimulus has arrived

The higher than consensus official manufacturing PMI implies that the government's push for infrastructure investment has come into effect.

### PMIs are upbeat

China's manufacturing and non-manufacturing PMIs both beat consensus.

The Manufacturing PMI rose to 51.3 from the previous' 51.2. The main reason behind this better outlook is the government's push for fiscal stimulus on infrastructure projects that boost production activity and have pushed up raw material prices.

Non-manufacturing activity was pushed up by tourism, reflected in air transportation, and banking activity, which is a result of more relaxed asset management policies.

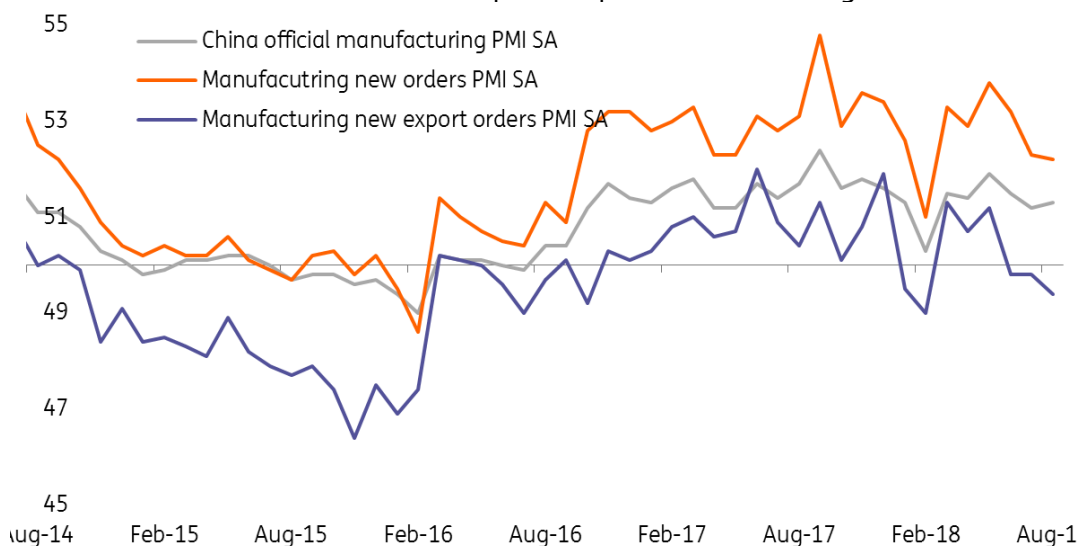
### The future - even faster PMIs

We expect even faster PMIs in the coming few months.

Fiscal stimulus and monetary easing will facilitate faster production activity from infrastructure investment projects and their financing. We expect new orders will continue to stay above 52.0, and new export orders continue to lie below 50 due to the trade war.

Real estate activity could offset some of this growth, as more cities tighten purchase and mortgage policies. Having said that, we do not expect the housing market to derail the whole economy. Tightening measures on housing will be flexible, not aggressive.

### New orders would continue to surpass export orders during trade war



Source: ING, Bloomberg

As a result, GDP growth in 3Q18 will still hold up. We are forecasting 6.5%YoY and 6.3%YoY in 3Q and 4Q, respectively from 6.75% in 1H18. Depending on the speed of fiscal stimulus and its scale to offset the looming tariffs on up to \$200 billion of Chinese exports, GDP growth in 4Q18 could surprise on the upside.

Yuan weakening would continue as trade tensions escalate again. We retain our forecast of

USDCNY at 7.0 by end of 2018.

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