China: is it true that manufacturing has recovered?

China's manufacturing PMI has moved back above 50, reflecting that manufacturing activity has improved from contraction to expansion. Is this the full picture?

50.2

Nov Mfg PMI

Up from 49.3

Better than expected

Domestic orders are the main support of growth

Official manufacturing PMI jumped to 50.2 in November, after 6 consecutive months below 50.

New domestic orders (51.3) are the main support for growth, which is in contrast to new export orders which remain in contraction (48.8).

We expected some improvement in domestic new orders, but the data has surprised us by coming earlier than our expectations. One of the major pushed of new orders is that infrastructure investment has moved from the investment stage to the production stage. This will continue to give support to new orders in the coming year.

This view is also supported by the rise in prices of steel and cement, which are used in infrastructure projects.

New export orders are still the pain point

New export orders continued in contraction (48.8). There has been some improvement from the previous month (47.0) but export orders have now been in contraction for 18 months consecutively.

Tariffs have pushed down selling prices from factories since May (with the exception of October, which was the month of new smartphone release).

We expect that new export orders will continue to be affected by the tariffs imposed as well as the uncertainty of upcoming tariffs.

The report card reflects our analysis

We have expressed several times that infrastructure investment will move from the investment stage to the production stage. The opposing force from tariffs will persist. The data confirms our view. And therefore we don't need to change our forecasts for the time being.

We expect China's GDP will reach 6.2% in 2019 with USDCNY at 7.0 by the end of 2019.

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