Chinese manufacturing PMI set to nosedive

China’s manufacturing PMI due to be released tomorrow is expected to drop substantially. What's more concerning is the impact this will have on global supply chains

Workers produce protective masks at a factory.

Source: Shutterstock

Manufacturing PMI to dive

Chinese manufacturing PMI for February is due to be released tomorrow, and we forecast a reading of 46, while the market is slightly more pessimistic than us and is expecting the reading to come in at 45. The last time we saw something around this level was during the 2008-2009 global financial crisis.

Throughout most of February, most factories were not in operation, but copper refineries were busy churning out production. For example, 83.4% of non-ferrous metal production companies resumed operation around 19 February and almost 90.5% resumed by 27 February, according to China Nonferrous Metals Industry Association.

But things could be worse. Without the state-owned-enterprises continuous metal production, manufacturing PMI could be much worse.

Expect a pick up in March

As more factories resume operation, we expect manufacturing PMI to pick up above 50 in March, but this does not mean that we are optimistic about industrial production.

PMI is a comparison between two months, so February should be the worst month for manufacturing, But even if factories resume work in March, they cannot operate at full capacity as some factory workers are still stranded in their hometowns because the central government has imposed a limited capacity of mass transportation to 50% to avoid people infecting each other on public transport.

In our view, we will need to wait until April to see factories in China operating at normal capacity. And after that, we expect China to speed up its 5G infrastructure production.

Supply chain is still broken

As there are more cases of coronavirus around the world, supply chains are likely to remain disrupted even if China's factories go back to full production.

As more and more people are placed into quarantine, factory production in those locations is likely to halt. Production could be upstream or downstream, especially if the products are electronics related. This means the production of goods that rely on global supply chains are likely to remain disrupted.

It is impossible to know when global supply chains will fully recover, but it seems incredibly unlikely this will happen in April given the outbreak in various locations in the rest of the world only started towards the end of February.

Expect the yuan to weaken

USD/CNY may drop to around 7.01 after the release of the manufacturing PMI numbers and could even weaken to 7.03 if the data is worse than market expectations.

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