

# China: Manufacturing PMI will shock the market on Monday

China's manufacturing PMI has plunged to a level worse than that reached during the global financial crisis. This is enough to shock the market, especially the USDCNY



**35.7** Mfg PMI  
Previous 50.0

Worse than expected

## Manufacturing PMI at 35.7

The official manufacturing PMI in February was 35.7, worse than the lowest reached previously during the global financial crisis during 2008-2009 when the PMI was in the range of 38.8 - 45.3, and it is the worst in history since the data has been compiled.

Sub-indices show weakness not only in production, which was an astonishingly weak 27.8 but also

in orders. Export orders were 28.7 and new orders, which represent domestic orders, were 29.3. Covid-19 has not only stopped production but has also broken the supply chain of production, which explains the very low PMI, export orders and new export orders.

Non-manufacturing was if anything even worse, with the official PMI index dropping to 29.6, and the composite index coming in at 28.9. Altogether, an eye-watering set of weak numbers.

## **The broken supply chain will still be broken**

In the press release, the government reported that bigger factories' resumption of work reached 85.6% as of 25th February. This isn't as positive as it sounds.

Even if China's factory production can recover in March, it will still face the risk of a low level of export orders. This is because the supply chain will continue to be broken, this time in South Korea, Japan, Europe, and the US, where Covid-19 has begun to spread.

Exports will, therefore, continue to be weak in 1Q20 and even into 2Q20.

## **This data will shock the market on Monday**

The worst China manufacturing PMI in history will shock the market on Monday.

USDCNY could go to 7.05 or even higher to reflect the yuan's weakness due to Covid-19, from Friday's close of 6.9920.

We may revise our GDP forecast downward for 1Q20 if other activity data reflect a similar weakness as even fiscal stimulus cannot defy gravity. Our existing GDP forecast is 5% year on year for 1Q20.