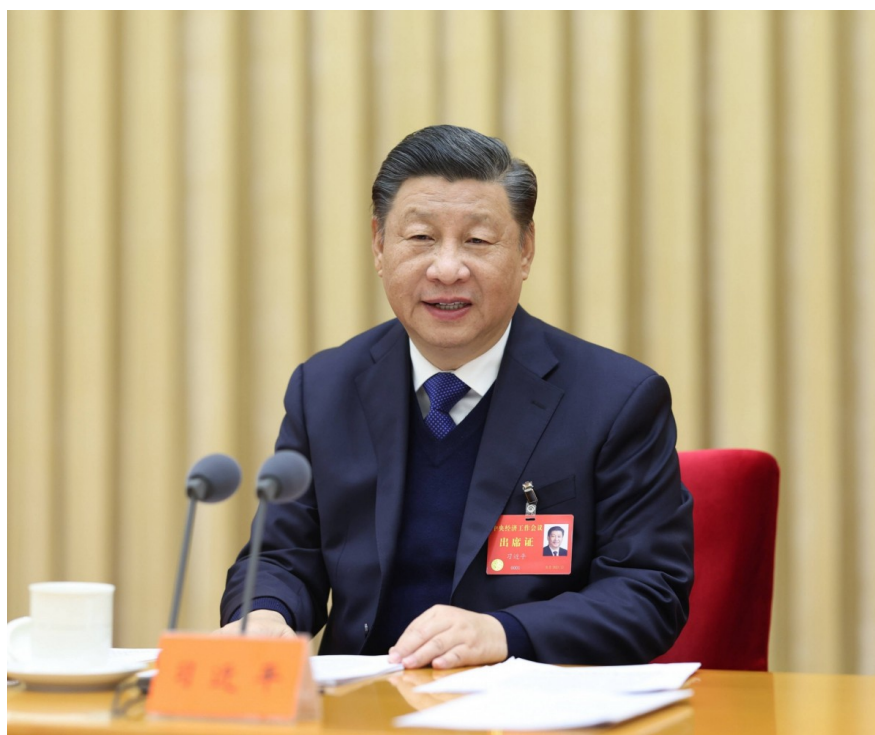


China PMI rose following Xi's stability policies

The Caixin manufacturing PMI confirmed the expansion of activity shown by the official PMI a few days back. This follows a turn in policy direction from aggressive reform to stabilisation. We shall see more growth from various industries in 2022 with a highlight being green objectives



China's Xi Jinping at the Central Economic Work Conference in December 2021

Growing faster and greener

Today's Caixin manufacturing PMI, which rose to 50.9 from 49.9, matches the production expansion in December indicated by the official PMI. This implies that both smaller companies, which are captured by Caixin's survey, and larger companies, which are captured by the official PMI survey, enjoyed stronger momentum.

December was the month that China's policy direction started to change from aggressive reform (including on tech and real estate companies) to stabilisation judging by the tone set by

President Xi Jinping in the annual Central Economic Work Conference ([here is our note on this Conference](#)).

Since then, various policies to support SMEs have been implemented. The first was an interest rate cut for some loans for SMEs. Then a general 5 bp cut in the 1Y Loan Prime Rate. We expect that there will be more preferential policies for SMEs, especially when it comes to going green as the cost of upgrades for sustainability has been high.

Demand should go up in 2022

We expect that domestic demand for manufacturing should go up in 2022. Within China, Covid cases have been contained in Xi'an, and there have been only around 100-200 daily cases, which is not particularly worrying.

The Chinese New Year begins on 1st February this year. We expect retail sales and transport spending to increase from last year's holiday period. Real estate developers have restarted sales and construction is back to normal levels. This should provide some support for both manufacturing and non-manufacturing activity.

Export demand should also increase slightly. Although Omicron is a concern, we see that retail and job markets in the West have picked up. This should provide some support for growth for China's exporters, but there is lingering uncertainty stemming from the difficult relationship between China and the US.

All in all, it seems that the PMI is pointing us towards a more stable economy in 2022.