China: softer PMI to keep stimulus in place

The lower than expected manufacturing PMIs show new orders continuing to increase. By contrast, new export orders continued to shrink although at a slower rate. The government will keep the existing fiscal stimulus and monetary easing in place. The yuan exchange rate has become more like a political tool.

Official manufacturing PMI lower than expected

The China official manufacturing PMI was 50.1 in April, lower than last month's 50.5 (also the consensus expectation for April). Another measure of PMI, Caixin manufacturing PMI, confirms that Chinese manufacturing growth softened slightly to 50.2 in April from 50.8 previously.

We highlight that new orders from the official PMI report. These represent growth indomestic demand for industrial products and parts and were solid at 51.4, although softer than the 51.6 a month ago.

New export demand, however, shows foreign demand for Chinese made manufacturing products still shrinking at 49.7, although better than the 48.7 in March.

The two diverging orders signal that China is still facing external headwinds but fiscal stimulus and monetary easing have supported the domestic economy.

High-tech production PMI at 52.9

According to the Statistics Bureau, high-tech manufacturing PMI was 52.9, up for 4 straight months. Here new orders rose to 56.2, a 10-month high. The report didn't mention high-tech export orders and this could signal that high-tech parts and goods produced in China face external headwinds .

This may be due to the fact that the economic fundamentals of foreign economies are not fundamentally strong, but at least the US economy is growing solidly. In addition, political concerns mean that high-tech goods produced in China are not a preferred import for some foreign economies.

Fiscal stimulus and monetary easing will be in place

High-tech product headwinds remind us of uncertainties from external demand, which include:

- exports of 5G related parts and goods, especially to the west,
- when the trade deal between China and US will be signed, and
- how the two sides implement the trade deal.

These uncertainties make us strongly believe that the Chinese government will continue its fiscal stimulus to support industrial sectors through infrastructure stimulus, and will provide enough credits to smaller private firms to keep them running and so stabilise the job market.

Yuan is more like a political tool to

We have revised our USD/CNY and USD/CNH forecasts to reflect that yuan movements are now more a tool for politics. The "Two Sessions" have directed the yuan to be moving in a narrow range and when there were trade talks between China and US, the yuan has been more likely to depreciate than appreciate.

These changes in yuan movements mean that we revise our 2Q19 and 3Q19 forecasts for USD/CNY and USD/CNH to 6.75 and 6.80 and keep 6.75 by the end of 4Q19.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com