China: Trade war impact begins to bite

Both manufacturing and non-manufacturing PMI point to expectations of slower export-related activities, including logistics. Luckily, domestic services are still holding up well

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This is just the beginning of the downturn

Both manufacturing and non-manufacturing PMI point to concerns about the trade war impact on businesses. This is just the beginning of the trade war. If the 25% tariff on $16 billion worth of goods starts on 1 August, it will only get worse for exporters and related businesses. We believe that this would make the yuan even weaker. Our USDCNY forecast is at 7.0 by the end of 2018.

49.8 Export orders manufacturing PMI

below key 50-level

Both manufacturing and non-manufacturing PMI show trade war is starting to bite

Regarding manufacturing PMI, new export orders stayed at 49.8 in July, the same as June but imports fell to below 50 at 49.6 from June's 50.0. Although domestic orders are still holding up steadily at 52.3, the figure is still lower than last month's 53.2. The survey indicates that worries of an escalating trade war have fed through export manufacturers to domestic manufacturers via the supply chain.

The non-manufacturing PMI also fell, from 54.0 to 53.0, mainly reflecting the fall in demand for production-related services and logistics, which fell by 1.9 and 5.7 points, respectively to 55.8 and 52.8. The steep fall in logistic services implies that exports and imports could slow down in the midst of a trade war.

Luckily, the domestic consumption related manufacturing PMI rose 0.6 points to 52.4, which indicates domestic consumption is still strong, and has yet to feel the heat of the trade war.

-5.7 points

Logistic service PMI at 52.8%

Worse than expected