

Flash Comment

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China: Manufacturing PMI recovers slightly in December

Overview: In light of the very poor data for industrial activity released recently in Asia (see [Flash Comment - Japan: Sharpest-ever drop in industrial activity](#)), the slight recovery in manufacturing PMI in December was a relief. Export orders improved after the near collapse in November and inventories are being cut aggressively. That said, the overall low level of the manufacturing PMI indicates continued weakness in industrial activity in the near term.

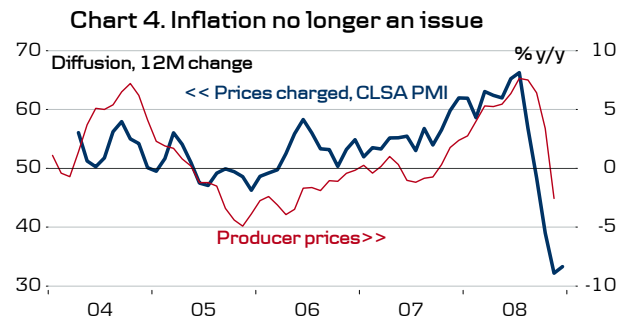
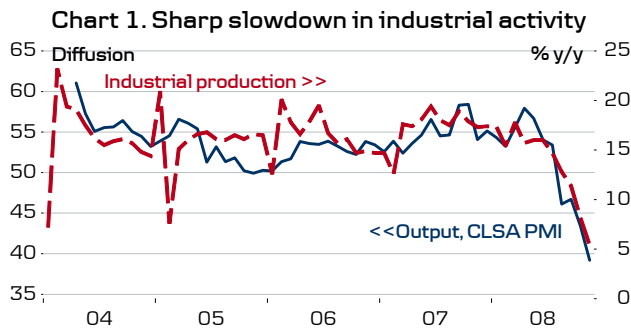
Details: The NTC-CLSA manufacturing PMI in December recovered slightly to 41.2 from 40.9 in the previous month driven mainly by an improvement in the new export orders component from 28.2 to 33.6 (see chart 2). Despite the improvement in the new export orders component, total new orders only increased slightly to 37.0 from 36.1 in the previous month, indicating that domestic orders have remained weak (see chart 3). However, the overall picture remains that domestic orders are stronger than foreign orders.

The current output component deteriorated further in December (from 39.2 to 38.6) as Chinese companies cut inventories. The finished good inventories component in December declined to 48.5 from 50.2 in the previous month. The reduction in inventories of purchased goods has been even more remarkable in recent months and this may explain some of surprising weakness in Chinese imports in recent months. The purchased goods inventory component declined to 41.6 from 42.1 in November. With inventories being cut and new orders not deteriorating as fast as previously, there are at least some tentative signs of stabilisation in today's numbers.

Outlook: Today's manufacturing PMI does not change our short-term outlook for the Chinese economy. Manufacturing activity has slowed sharply in Q4 08 and we will probably have to adjust downwards our forecast for GDP growth in Q4 08 and Q1 09. We now believe GDP growth is likely to have slowed to less than 7% y/y in Q4 and probably below 6% y/y in Q1 09. However, today's PMI gives some support to the view that the Chinese economy will not be freefalling.

Impact: There has been a significant reaction on the FX market. Spot CNY has strengthened by 0.1% to 6.8220 against USD while USD/CNY 12M NDF is largely unchanged at 6.99. The impact on the stock market has been very positive, with Chinese stocks leading Hong Kong's Hang Seng index up 4.2% today. Shanghai is closed for trading today.

See charts on next page.



Source: Ecwin

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