PANTHEON CHINA+ DATA WRAP 1 NOV 24

In one line: China's Caixin manufacturing PMI rebounds as stimulus effect kicks in; Korean exports momentum wanes in October

- China: Caixin manufacturing PMI rose to 50.3 in October from 49.3 in September. Consensus was 49.7.
- Korea: Export growth decelerated to 4.6% y/y in October from 7.5% in

September. Consensus was 7.0%

- Korea: Manufacturing PMI was 48.3 in October, unchanged from September. Bloomberg reports no consensus.

China's Caixin manufacturing PMi rebounds as stimulus starts to take effect

China's Caixin manufacturing PMI surged by 1.0 point to 50.3 in October, following a dive in September from 50.4 in August. The rapid improvement in the PMI was largely led by the surge in new orders (+1.0pp) and, to a lesser extent, production (+0.4pp), partially offset by a fall in employment (-0.3pp). The sudden pickup in demand likely reflects the impact of stimulus finally coming through. With the substantial debt issuance since August and the depletion of fiscal deposits in September, funds raised are slowly being allocated to local projects, thanks to the State Council's push for local governments to prioritise growth over debt reduction. The production sub-index was up by 1.6pp to 51.8 in October, and the new orders index surged by 3.2pp to 50.7. The sharp rise in demand was largely domestically led, as the export new order index rose by only 1.1pp to 49.5, signalling a retraction in export demand. Survey participants reported stronger intermediate goods production and sales in October, but noted subdued demand for consumer goods. The overall stabilisation in demand is also reflected in manufacturers restocking inventories of inputs and finished goods, with their respective sub-indices achieving above-50 readings.

On cost pressures, manufacturers are raising their product prices for the first time in four months, with the output price index increasing to 50.1 from 48.7 a month ago. Input prices are also rising at a faster rate (50.1 vs. 47.6 in September). With demand rising modestly, firms are passing on increases in input costs to customers, suggesting that deflationary pressure in China is showing initial signs of thawing. Looking ahead, manufacturers appear to be adopting a more sanguine outlook, with the future output index rebounding to 54.8 in October from 51.6 previously. Admittedly, firms remain cautious about hiring, as the employment index fell steeply to 47.6. Reports indicate that firms are not replacing job leavers, leading to an increase in backlogs of work.

In comparison with the NBS

manufacturing survey released yesterday, most metrics echo each other. The fact that the Caixin measure appears more upbeat partly reflects differences in the sample. Caixin is more focused on light and export industries, while the NBS leans towards SOEs. Perhaps the SOE-dominated upstream industries, which appear to be more mired in overcapacity issues, have underperformed relative to light industries – as indicated in the latest profit data set – which may explain the variation in optimism between the two surveys.

Overall, with 9 out of 13 categories showing above-50 readings in October, coupled with a favourable NBS PMI outturn yesterday, it seems China's manufacturing activity has passed its local trough in September. Whether this momentum can be sustained depends on the magnitude of future stimulus. It is important to note that the pickup in activity is due to more effective implementation of existing stimulus, which we hope will help achieve the lower bound (4.8%) of the "around 5%" GDP target for this year. Any additional stimulus roll-out will provide a solid foundation for growth next year. The upcoming announcement of a detailed fiscal stimulus plan on 8th November, when the NPCSC session concludes, will be a key event to watch. However, investors should note that the wild card in China's stimulus plan remains the outcome of the US election on 4th November. Although the reason for the postponement of the NPCSC meeting to early November is unknown, we think it is largely due to political uncertainty in the US. Should the election outcome favour the Republicans, China may adopt a more forceful stance in its fiscal stimulus announcement.

Korea's export momentum wanes in October amid despite semiconductor boost

Korea's export growth slowed to

4.6% y/y in October from 7.5% in September, falling well short of market expectations of 7.0%. Imports also eased, from 2.2% to 1.7%. With exports slowing more than imports in October, this resulted in the trade surplus narrowing to $3.167B. Note that there were 22 working days in October this year, one more than in the same month last year. On a work-day adjusted basis, WDA export growth turned negative for the first time since September 2023, at -0.3% y/y compared to 12.9% in the previous month. On a seasonally adjusted basis, monthly exports and imports both fell at a rate of -1.5% m/m SA. The ultra-weak October outturn was due in part to the high base from last year, as well as weaker demand from some traditional markets. The good news is that October exports were still strongly supported by semiconductor-related shipments. Digging beneath the headlines and examining exports by destination, the drop in WDA export growth was primarily led by slower growth from

ASEAN (-9.0% in October vs 5.7% in September), the US (-1.5% vs 8.7%), and China (5.7% vs 11.7%). These three key partners contributed -1.7pp, -0.3pp, and 1.1pp, respectively, to overall growth in October, a stark contrast to the combined total of 5.1pp in September. Shipments to the rest of the world also slowed sharply, dropping to -4.9% from 25.0%, contributing -1.5pp compared to +6.9pp a month ago. The slowdown in shipments to the US and China was partially distorted by base effects, though growth momentum is also easing, with China's monthly export growth at -0.7% m/m SA and the US at -5.2%. ASEAN was the exception, with seasonally adjusted monthly growth picking up by 1.0%. Exports to the EU, less affected by base effects, slowed dramatically to 0.6% in October from a double-digit rate of 10.4% in the prior month. On an unadjusted sequential basis, EU export growth fell by 13.1% m/m SA, showing clear slowing momentum to this region. Within ASEAN, shipments to Vietnam eased to 3.1% from 6.5%, contributing 0.3pp to overall headline growth.

By commodities, the drop in export growth in October was driven by oil products, partly due to base effects. WDA shipments of petroleum products plummeted by 37.9% y/y in October, compared to -13.5% previously, detracting 3.6pp from overall growth. Semiconductor-related export growth (including SSDs and MCPs) remained robust, though it slowed to 42.5% from

57.4%, contributing 8.7pp. Indeed, October exports were held up by semiconductors; excluding chips, exports fell by 6.8% y/y on a WDA basis. Car-related exports eased to 0.8% from 7.0%, shaving 0.7pp off headline exports. Exports of displays, home appliances, mobiles, and computers fell by 14.9% in October, detracting 1.4pp.

In summary, while there are clear signs of weakening external demand, October's export data was also somewhat distorted by base effects. Import growth momentum remains weak, suggesting subdued domestic demand. On monetary policy, the BoK reduced the Base Rate by 25bp to 3.25% in its October meeting following the Fed’s easing. We expect further BoK easing in the coming quarters in response to subdued domestic and external demand. We reiterate our forecast for rates to remain at 3.25% until year-end, with two additional 25bp cuts in H1 2025, bringing rates down to 2.75% by the end of 2025.

Korea's manufacturing sector sees mixed signals as PMI holds steady in October

Korea's manufacturing PMI steadied at 48.3 in October, following a sharp fall of 3.6 points in September from 51.9 in August. The outturn signals the same rate of shrinkage in manufacturing activity as last month. Though it's still too early to say the worst is behind us, digging below the headline shows emerging signs of stabilisation in activity. Notably, the steadiness of the PMI in October was driven by another sharp fall in output, fully offset by the rise in new orders and employment. In contrast, September's plunge was due to outright declines across all PMI components, especially in new orders, followed by production.

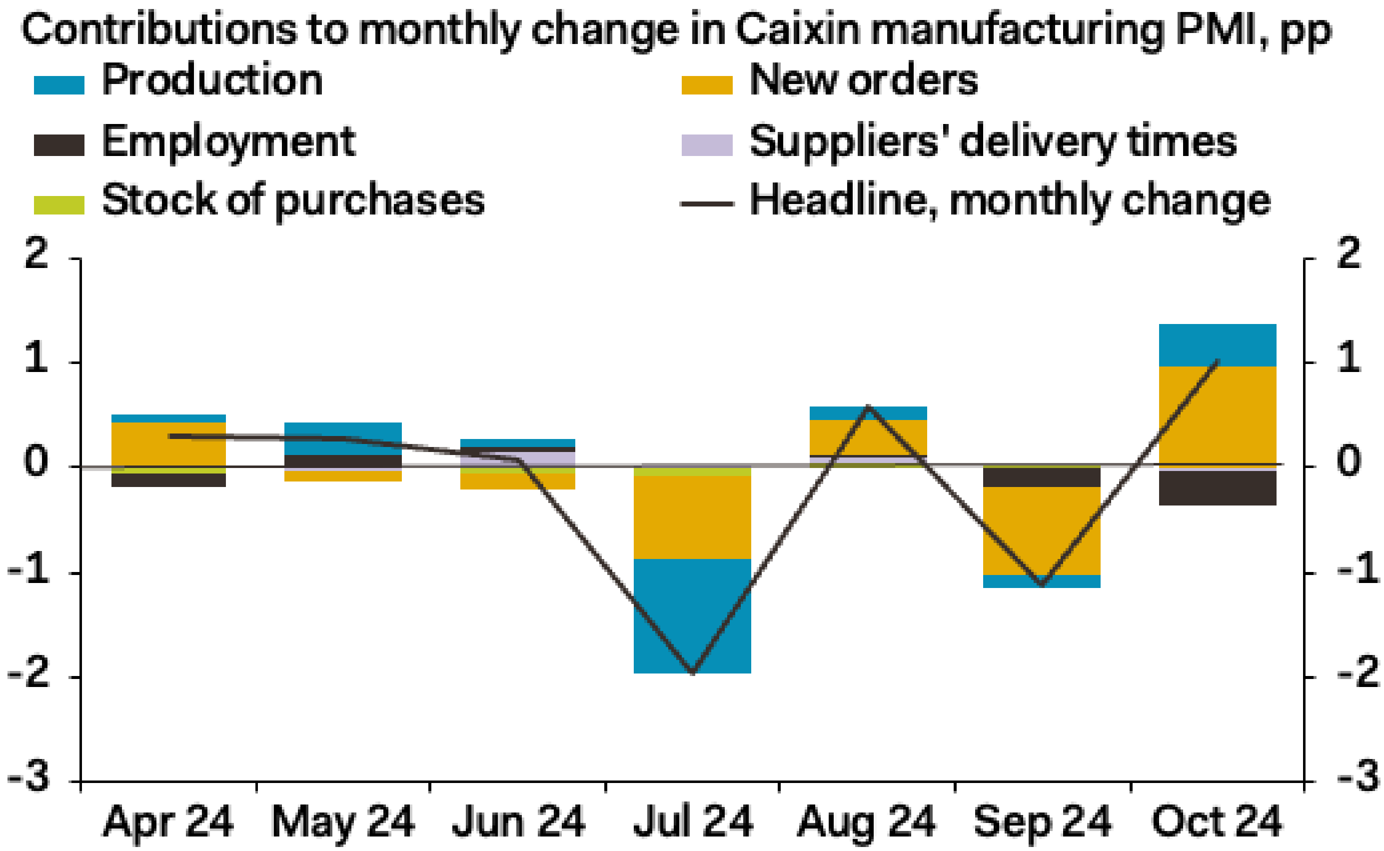
Output is now falling at its fastest pace in 16 months, with the sub-index at just 47.1. However, this could be accentuated by the lagging effects of the rapid deceleration in new orders from September. In any case, the subdued surveyed output aligns with the latest industrial production figures, which also fell at a faster rate than anticipated. Survey participants reported that output was constrained by destocking of finished goods, indicated by three consecutive months of sub-50 readings in its sub-index (49.1). The supply chain was further disrupted by the recent typhoon in Vietnam, resulting in lengthened delivery times.

Overall demand is contracting at a slightly slower pace, with new orders at 46.5 versus 46.3 a month ago. Within this, the deterioration in external demand appears to have stabilised in October, with the new export order index at 49.0, up by 0.2pp from last month. The modest improvement in demand conditions in October seems led by slightly better sub-50 readings in external demand. As export new orders typically lead hard data by a couple of months, it is unsurprising to see this improvement challenging to reconcile with today's poor export report, which shows a 0.3% y/y decline in WDA exports.

An interesting development is the improvement in the employment sub-index, which rose above 50, at 50.1 from 48.9 in the prior month. Employers will only expand their workforce if they foresee higher future demand. Manufacturers indeed appear more optimistic, with the future output index rising to 52.3 from

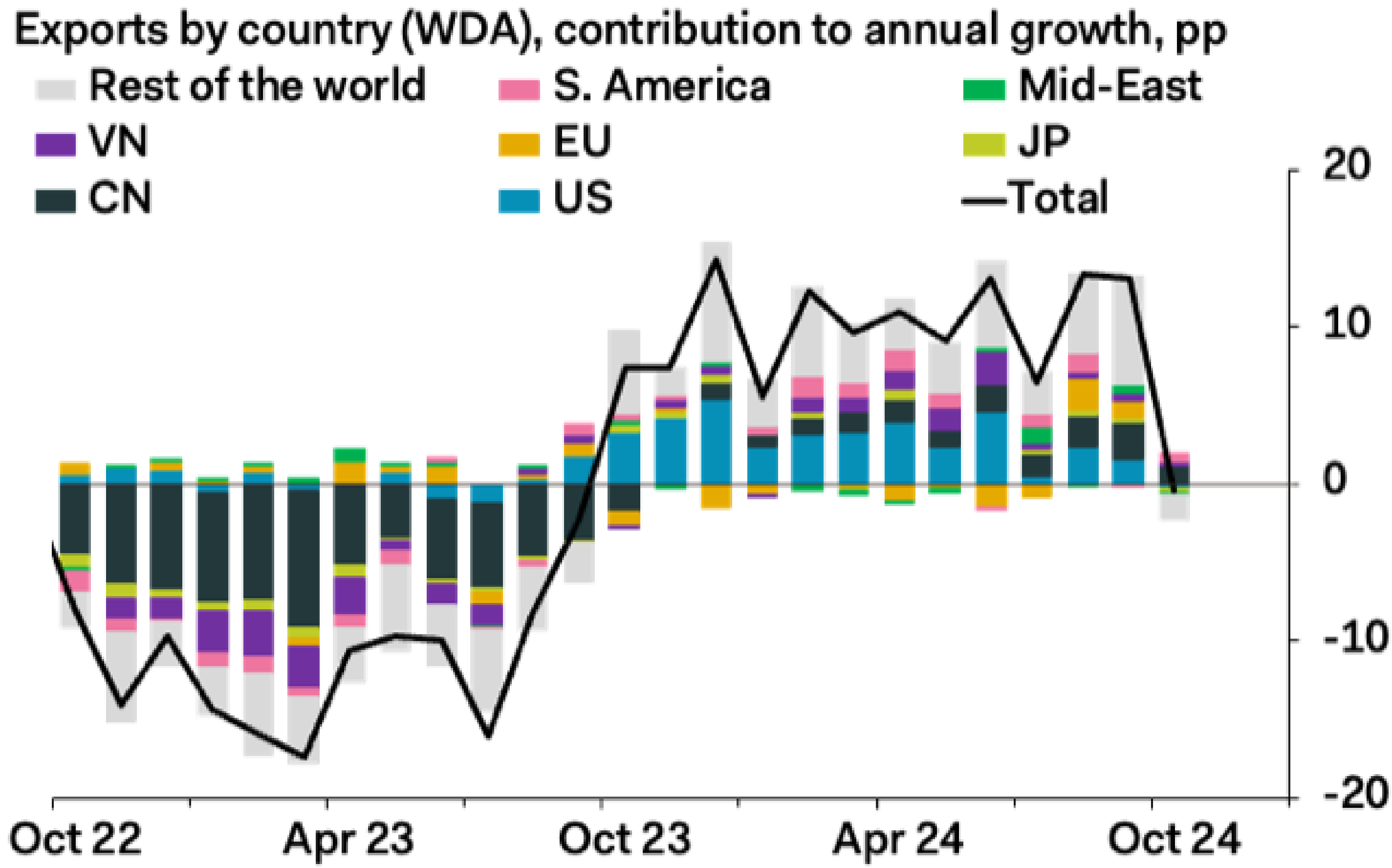
51.9, though still well below the long-run average of 56.5.

In a nutshell, Korea’s manufacturing activity remains beset by weak domestic demand and the gradual global slowdown. Although there are tentative signs of stabilisation in activity, it is still too early to call the trough. The latest soft data outturn suggests further subdued readings in upcoming hard data for October, including industrial production and retail sales, which came in below market expectations last month. However, the leading new orders index points to a potential stabilisation in export growth over the next couple of months. On monetary policy, the BoK reduced the Base Rate by 25bp to 3.25% in its October meeting, and we expect further easing in the coming quarters due to subdued domestic and external demand. We reiterate our forecast for rates to remain at 3.25% until year-end, with two additional 25bp cuts in H1 2025, taking rates down to 2.75% by end-2025.



Contributions to monthly change in Caixin manufacturing PMI, pp
Production
New orders
Employment
Suppliers' delivery times
Stock of purchases
Headline, monthly change
2
1
0
-1
-2
-3
Apr 24
May 24
Jun 24
Jul 24
Aug 24
Sep 24
Oct 24

Contributions to monthly change in Korea manufacturing PMI, pp
Output
New orders
Employment
Suppliers' delivery times
Stock of purchases
Headline, monthly change
3
2
1
0
-1
-2
-3
-4
Apr 24
May 24
Jun 24
Jul 24
Aug 24
Sep 24
Oct 24


Exports by country (WDA), contribution to annual growth, pp
Rest of the world
S. America
Mid-East
VN
EU
JP
CN
US
—Total
20
10
0
-10
-20
Oct 22
Apr 23
Oct 23
Apr 24
Oct 24