PM Datanote: Caixin Mfg PMI, China, Oct

In one line: China's Caixin manufacturing PMI rebounds as stimulus effect kicks in

- China: Caixin manufacturing PMI rose to 50.3 in October from 49.3 in September. Consensus was 49.7.

China's Caixin manufacturing PMI surged by 1.0 point to 50.3 in October, following a dive in

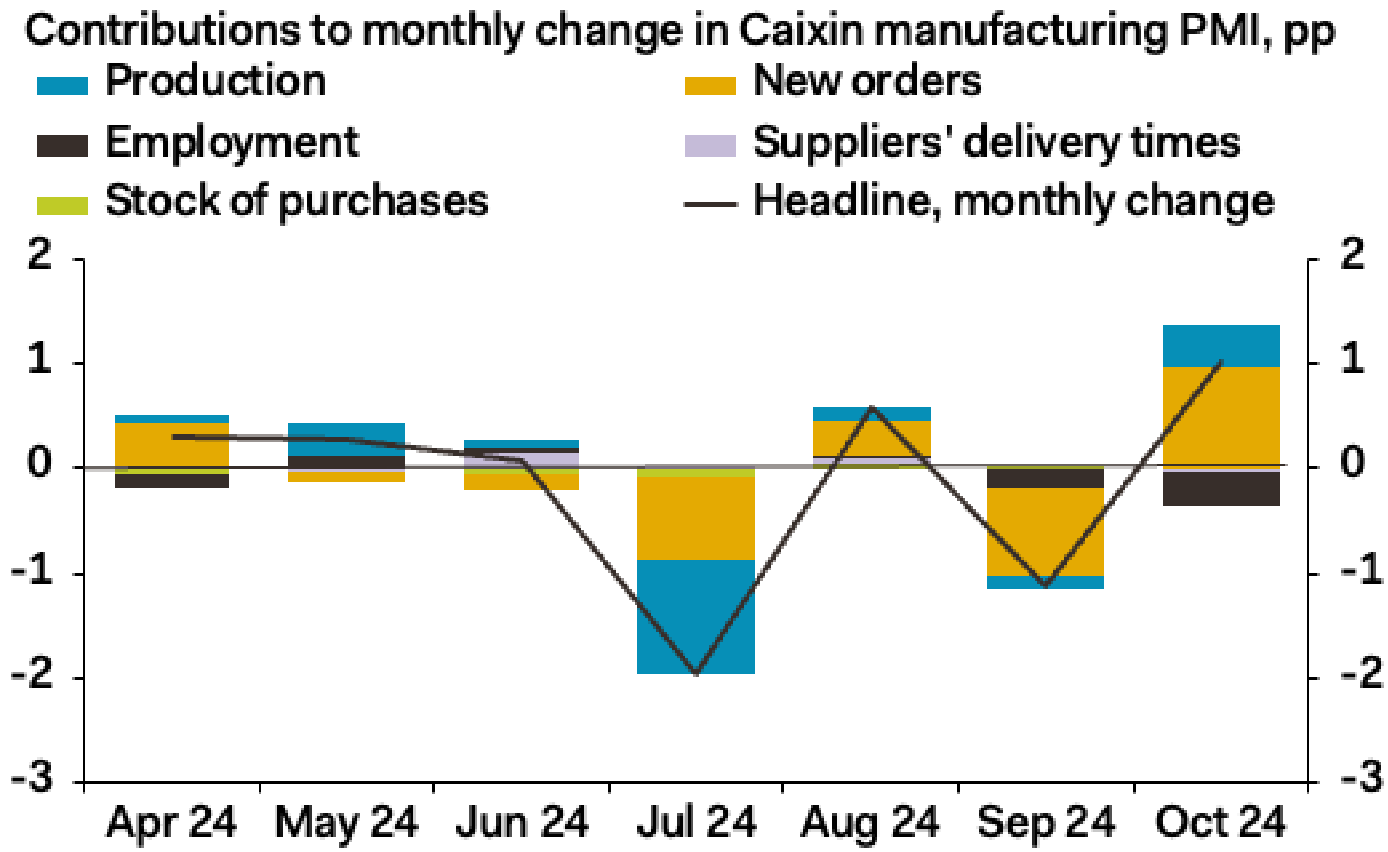
September from 50.4 in August. The rapid improvement in the PMI was largely led by the surge in new orders (+1.0pp) and, to a lesser extent, production (+0.4pp), partially offset by a fall in employment (-0.3pp). The sudden pickup in demand likely reflects the impact of stimulus finally coming through. 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.


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