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Flash Comment

China PMI: it's getting worse…no wait, it's getting better

- Chinese **PMI data has sent conflicting signals** as the private Caixin manufacturing PMI points to a moderate recovery (in line with our expectations) whereas the official NBS manufacturing PMI has hit the lowest level in 2½ years (see Charts 1 and 2 below).
- The Caixin PMI manufacturing index beat expectations rising to 48.4 in January (consensus: 48.1) from 48.2 in December and the new orders sub-index rose to the highest level since June 2015. The official NBS PMI manufacturing, on the other hand, fell to 49.4 (consensus: 49.6) from 49.7 in December.
- Looking at other data, **we would be inclined to put more weight on the signal from the Caixin PMI**. Import data has pointed to a recovery recently (see Chart 3) and the big credit burst in 2015 is normally followed by higher activity (see Chart 4).
- **The Caixin index has always been more cyclical in nature with more swings relative to the official PMI.** This may be because the Caixin statistics capture better smaller- and medium-sized companies relative to the official NBS PMI that has higher weight on big state-owned enterprises (SOEs). Since the big overcapacity and struggles are in the big SOEs, this could explain the current deviation.
- Other details of the report show that the export order indices fell slightly in both statistics but are still off the lows from earlier in 2015. NBS also published service PMI, which mirrored the decline in the manufacturing sector, showing a decline to 53.5 in January from 54.4 in December. It comes after decent gains in late 2015, though, and is still higher than during the autumn.
- This is one of the rare cases where China is unlikely to be accused of fiddling with the data unless you can make a case that China would have an interest in showing a weakening picture.
- For policy makers, the data will send a mixed signal and is unlikely to change the assessment of a fragile economy with significant structural issues. **We continue to look for more interest rate cuts over the coming quarters** – mainly to ease the debt servicing burden of Chinese companies. Chinese policy makers may be reluctant to cut rates until they have seen a period of calmer waters for the Chinese currency following the significant pressure in early January.
- The market reaction to the PMI data has been muted. Chinese stocks are slightly lower while the S&P500 future is holding on to the strong gains from Friday. **Market sentiment on China is still too negative, in our view,** but probably still downbeat due to the policy mismanagement on the stock market and poor communication around the CNY policy.

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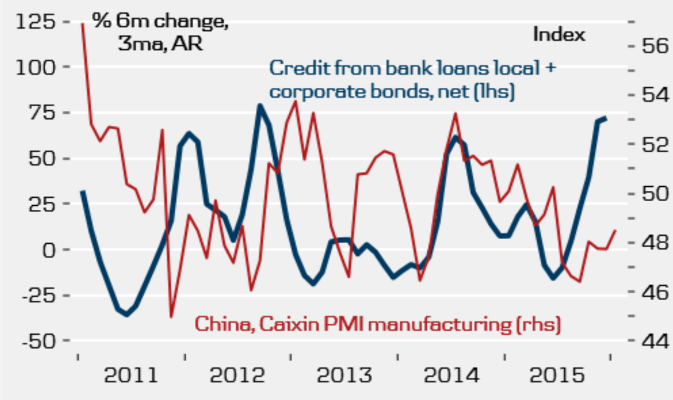
Chart 1: Chinese manufacturing is bottoming, according to Caixin PMI...

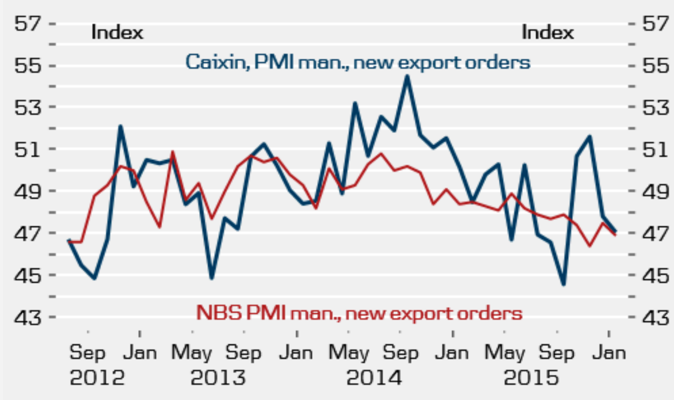
Source: Macrobond Financial, Bloomberg, Danske Bank Markets

Chart 2: ...but it's getting worse, according to the official PMI



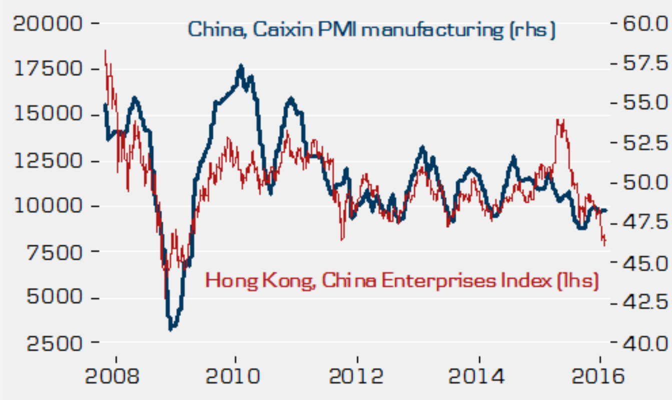
Source: Macrobond Financial, Bloomberg, Danske Bank Markets

Chart 3: Import data supports the Caixin case for moderate recovery



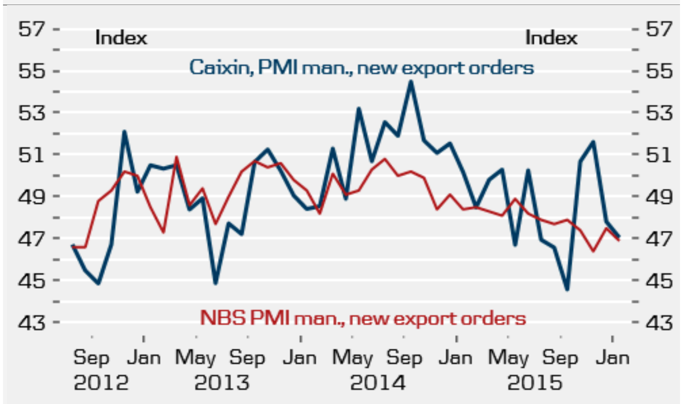
Source: Macrobond Financial, Bloomberg, Danske Bank Markets

Chart 4: Credit burst in H2 15 also supports case for improvement



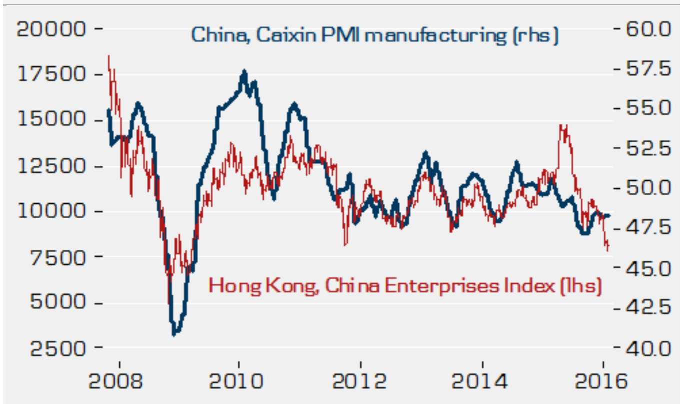
Source: Macrobond Financial, Bloomberg, Danske Bank Markets

Chart 5: Export order indices lower in both statistics



Source: Macrobond Financial, Bloomberg, Danske Bank Markets

Chart 6: Market sentiment is too negative on China



Source: Macrobond Financial, Bloomberg, Danske Bank Markets

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