

January 3, 2023

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Amid Covid-induced lockdowns disrupting economic activities, China's manufacturing activities demonstrated deepened contraction in December as the newly released PMI reached 47.0, staying below the consensus estimate of 47.8 and November's 48.0. Non-manufacturing PMI, which covered activities in construction and service sectors, declined sharply to 41.6, against the consensus estimate of 45.0 and November's 46.7.
- The latest PMI indicated that the pandemic takes toll on factory output, business operations and services. Complicated situations of Covid waves deteriorate economic conditions, thus leading to further drop of industrial activities and consumption.
- China's abrupt switch from the 'zero-Covid' policy may trigger short-term surging infections that could cause temporary labor shortages and enhance supply chain disruptions. The Chinese manufacturers and service providers will face more operational challenges in coming months. China's policymakers will prioritize countercyclical monetary and fiscal support for businesses that are hit hard by the Covid epidemic, thus cushioning China's economy against downside risks and stabilizing growth momentum.

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China's PMI demonstrating continued contraction in December

Amid Covid-induced lockdowns disrupting economic activities, China's manufacturing activities demonstrated deepened contraction in December as the newly released manufacturing Purchasing Managers' Index (PMI) reached 47.0, staying below the consensus estimate of 47.8 and November's 48.0. The reading extended the contraction of factory activity for a third straight month, with sub-indexes for output, new orders and employment all contracting. Non-manufacturing PMI, which covered activities in construction and service sectors, declined sharply to 41.6, against the consensus estimate of 45.0 and November's 46.7. In sum, the latest PMI indicated that the pandemic takes toll on factory output, business operations and services. Complicated situations of Covid waves deteriorate economic conditions, thus leading to further drop of industrial activities and consumption. Looking forward, China has entered a new phase to combat the pandemic as the government relaxed rigorous policy of lockdowns and mass testing. China's abrupt switch from the 'zero-Covid' policy may trigger short-term surging infections that could cause temporary labor shortages and enhance supply chain disruptions. We are of the view that the Chinese manufacturers and service providers will face more operational challenges in coming months and policy supports in China remain as a balancing act in supporting the economy while coping with changes in health situation. China's policymakers will prioritize countercyclical monetary and fiscal support for businesses that are hit hard by the Covid epidemic, thus cushioning China's economy against downside risks and stabilizing growth momentum.

Enterprises embraced deepening growth contraction.

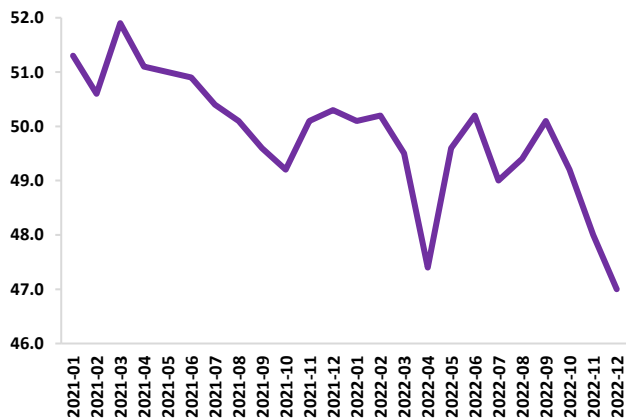
Manufacturing activities in large enterprises contracted for the second straight month in December as the PMI dropped to 48.3 from November's 49.1. The PMI of medium-sized enterprises edged down further to 46.4 in December from November's 48.1 while factory activity of small-sized enterprises faced deeper drop to 44.7 in December from November's 45.6, demonstrating that contracting

momentum of manufacturing activities accelerated in varying degree. In sum, manufacturing activities were buffeted by production disruptions due to Covid lockdowns alongside weak domestic consumption, contraction of new export new orders due to rising global recession risks as well as logistic chaos during the period of lockdowns. Looking forward, China will strengthen accommodative policies to support manufacturing enterprises and enhance logistics resilience so as to increase new orders of goods, thus reviving the growth of manufacturing sector.

Unfavorable domestic and external environment extended downtrend of China's industrial activities. The production index and new orders index remained below 50 at 44.6 and 43.9 respectively in December against November's 47.8 and 46.4, demonstrating that production and consumption activities were weak as Covid lockdowns, weak domestic demand for goods and services and continued global supply chain chaos undermined new orders and production of Chinese products. Looking forward, manufacturers are ramping up their inventories in anticipation of pent-up demand for new orders amid reopening of China's economy. The pick-up pace of restoring production and consumption will lead to growing strengths of industrial activities driven by government's stimulus measures on private consumption and new investment projects. We expect aggregate demand will recover in coming months on improvement of pandemic conditions, thus reversing falling trend of industrial production.

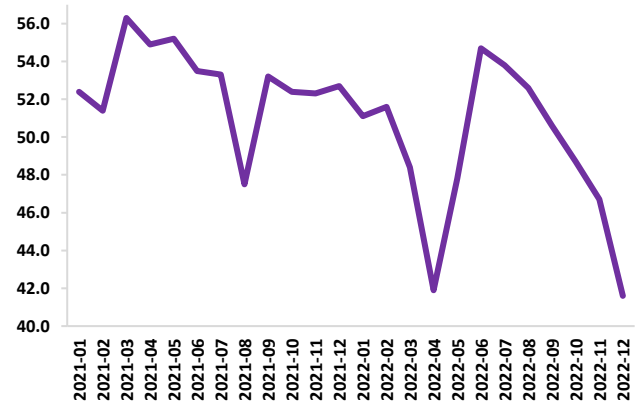
External trade bracing for widened contraction amid rising global recession risks. The new export orders and imports indexes dropped further to 44.2 and 43.7 respectively in December from November's 46.7 and 47.1, reflecting that the intensification of economic, health and geopolitical headwinds has disrupted supply chains and operation of enterprises as well as lowered consumer expenditures, thus trimming global trading activities. Weakening external demand on the back of growing global recession fears amid rising interest rates, inflation and Russia-Ukraine military crisis may further slow global demand for Chinese products, thus hurting China's massive manufacturing sector and hampering the economic recovery. We are of the view that China's policymakers will step up efforts to promote the integration of domestic and foreign trade as well as make use of cross-border e-commerce to boost trading activities, thus ensuring 'soft landing' of external trade sector in 2023.

Fig. 1: China's manufacturing PMI



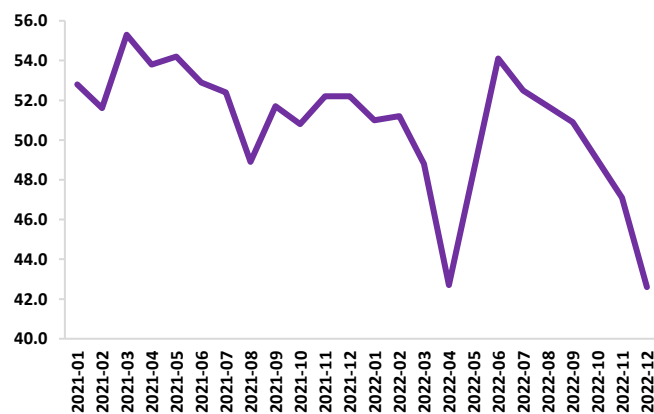
Source: National Bureau of Statistics of China

Fig. 2: China's non-manufacturing PMI



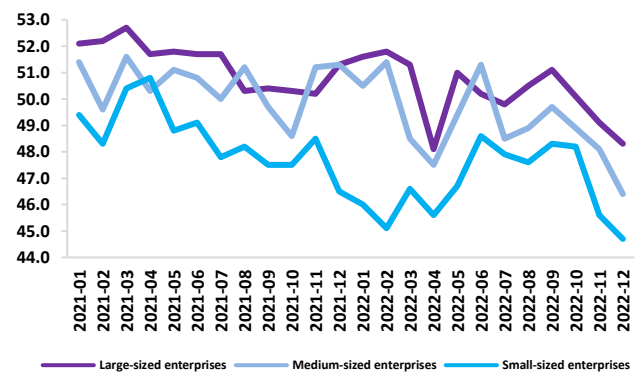
Source: National Bureau of Statistics of China

Fig. 3: China's composite PMI Output Index



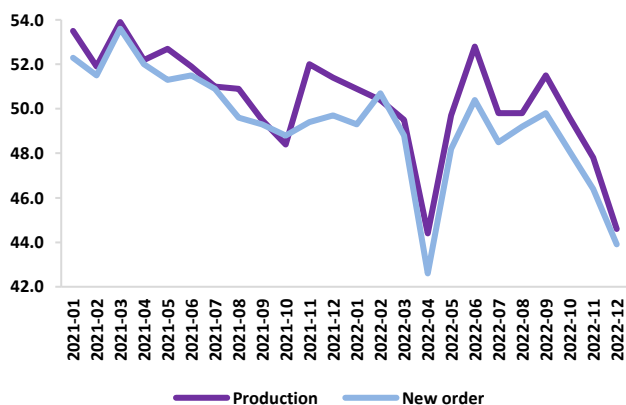
Source: National Bureau of Statistics of China

Fig. 4: China's manufacturing PMI – Small, Medium and Large sized enterprises



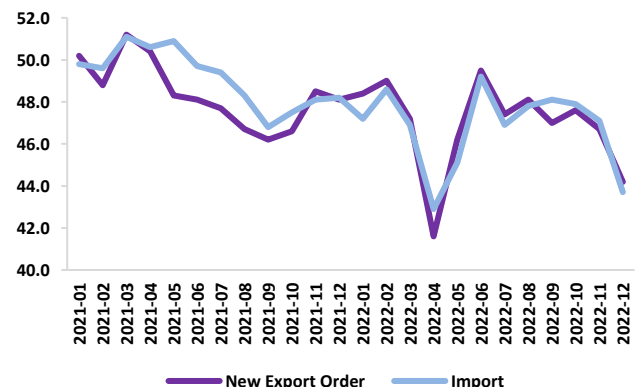
Source: National Bureau of Statistics of China

Fig. 5: China's manufacturing PMI - Production and New Order



Source: National Bureau of Statistics of China

Fig. 6: China's manufacturing PMI - New Export order and Import



Source: National Bureau of Statistics of China

China economic indicators

	2019	2020	2021	1Q2022	2Q2022	3Q2022	4Q2022	2022
Real GDP (YoY%)	6.0	2.2	8.4	4.8	0.4	3.9	-	-
PMI Manufacturing (%)	50.2	51.9	50.3	49.9	49.1	49.5	48.1	47.0
PMI Non-Manufacturing (%)	53.5	55.7	52.7	50.4	48.1	52.3	45.7	41.6
Exports (RMB YoY %)	5.0	4.0	21.0	13.2	12.6	15.4	-	-
Imports (RMB YoY %)	1.7	(0.2)	21.5	8.5	1.5	5.4	-	-
Trade Balance (RMB/bn)	2912.0	3634.2	4330.0	981.2	1453.7	1796.5	-	-
Exports (USD YoY %)	0.5	3.6	29.6	15.5	12.4	10.3	-	-
Imports (USD YoY %)	(2.7)	(0.6)	30.0	10.6	1.3	0.7	-	-
Trade Balance (USD/bn)	421.1	524.0	670.4	154.2	224.2	266.1	-	-
CPI (YoY %)	2.9	2.5	0.9	1.1	2.2	2.7	-	-
PPI (YoY %)	(0.3)	(1.8)	8.1	8.7	6.8	2.5	-	-
FAI (YTD/ YOY %)	5.4	2.9	4.9	9.2	4.2	5.7	-	-
Real Estate Investment (YTD YoY %)	9.9	7.0	4.4	0.7	(9.0)	(20.7)	-	-
Industrial Production (YoY %)	5.7	2.8	9.6	6.5	0.6	4.8	-	-
Retail Sales (YoY%)	8.0	(3.9)	12.5	3.3	(4.6)	3.5	-	-
New Lending (RMB/bn)	16815.7	19632.9	19945.1	8338.9	5340.1	4407.0	-	-
M2 (YoY %)	8.7	10.1	9.0	9.7	11.4	12.1	-	-
Aggregate Financing (RMB bn)	25673.5	34791.8	31351.0	12049.2	8971.5	6766.4	-	-

	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22	Sept 22	Oct 22	Nov 22	Dec 22
Real GDP (YoY%)	4.0	-	-	4.8	-	-	0.4	-	-	3.9	-	-	-
PMI - Manufacturing %	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0
PMI - Non-manufacturing%	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6	50.6	48.7	46.7	41.6
Exports (RMB YoY %)	17.3	20.8	3.9	12.6	1.5	14.6	21.2	24.1	12.1	10.6	7.0	0.7	-
Imports (RMB YoY %)	16.0	18.0	9.6	(0.9)	(1.8)	2.3	3.9	6.9	4.3	5.1	6.8	(1.1)	-
Trade Balance (RMB/bn)	596.7	524.2	174.9	282.0	313.4	496.4	643.9	686.7	540.5	569.4	587.2	490.2	-
Export (USD YoY %)	20.9	24.0	6.1	14.3	3.5	16.2	17.1	18.2	7.5	5.7	(0.2)	(8.9)	-
Import (USD YoY %)	19.5	21.0	11.8	0.7	0.2	3.5	0.1	1.8	0.1	0.3	(0.7)	(10.6)	-
Trade Balance (USD/bn)	93.2	82.2	27.5	44.5	49.3	77.8	97.1	101.9	80.1	84.1	85.3	69.3	-
CPI (YoY %)	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	-
PPI (YoY %)	10.3	9.1	8.8	8.3	8.0	6.4	6.1	4.2	2.3	0.9	(1.3)	(1.3)	-
FAI (YTD/ YOY %)	4.9	-	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8	5.3	-
Real Estate Investment (YTD/ YoY %)	4.4	-	3.7	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)	(8.0)	(8.8)	(9.8)	-
Industrial Production (YoY %)	4.3	-	7.5	5.0	(2.9)	0.7	3.9	3.8	4.2	6.3	5.0	2.2	-
Retail Sales (YoY%)	1.7	-	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4	2.5	(0.5)	(5.9)	-
New Lending (RMB/bn)	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1254.2	2473.8	615.2	1210.0	-
M2 (YoY %)	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	12.1	11.8	12.4	-
Aggregate Financing (RMB bn)	2368.3	6177.0	1218.4	4653.8	936.8	2840.6	5194.1	762.8	2462.3	3541.3	907.9	1987.4	-
Urban Unemployment Rate (%)	5.1	5.3	5.5	5.8	6.1	5.9	5.5	5.4	5.3	5.5	5.5	5.7	-
Urban Unemployment Rate in 31 major cities (%)	5.1	5.1	-	6.0	6.7	6.9	5.8	5.6	5.4	5.8	6.0	6.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	33,147.25	18.73	0.36
S&P 500	3,839.50	18.52	0.45
NASDAQ	10,466.48	43.45	(0.09)
EUR			
FTSE 100	7,451.74	14.03	(0.61)
DAX	13,923.59	12.88	0.07
CAC40S	6,473.76	13.38	(0.68)
STOXX EUR 600	424.89	14.56	(0.55)
Asia			
HSI	19,781.41	7.16	3.24
HSCEI	6,704.94	6.18	3.15
CSI300	3,871.63	14.23	1.13
SSE Composite	3,089.26	13.91	1.43
SZSE Composite	1,975.61	36.40	1.31
NIKKEI 225	26,094.50	17.65	(0.54)
KOSPI	2,225.67	10.50	(4.60)
TWSE	14,137.69	10.28	(0.94)
S&P/ASX 200	7,038.69	14.23	(1.07)
MSCI Index			
MSCI WORLD	2,602.69	16.66	(0.10)
MSCI DEVELOPED	605.38	15.68	(0.07)
MSCI EMERGING	956.38	10.70	0.17
MSCI US	3,640.19	18.90	0.43
MSCI UK	2,143.91	13.82	(0.57)
MSCI France	184.29	15.50	(0.69)
MSCI Germany	137.89	11.96	0.17
MSCI China	64.47	11.13	1.27
MSCI Hong Kong	13,480.40	19.19	0.14
MSCI Japan	1,150.39	13.51	(0.62)

* As of 2022/12/30 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	4.50	0.00
US Prime Rate	7.50	0.00
US Discount Window	4.50	0.00
ECB Rate (Refinancing)	2.50	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	3.9764	0.3391
US Treasury (1 Yr)	4.6868	0.0606
US Treasury (5 Yr)	4.0039	0.1469
US Treasury (10 Yr)	3.8748	0.1276
US Treasury (30 Yr)	3.9630	0.1395
1-Month LIBOR	4.3916	0.0047
3 Month LIBOR	4.7673	0.0383
Japan 1-Yr Gov. Bond	0.018	0.077
Japan 10-Yr Gov. Bond	0.422	0.037
German 1-Yr Gov. Bond	2.600	0.016
German 10-Yr Gov. Bond	2.571	0.168
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	2.233	(0.069)
China 5-Yr Gov. Bond	2.625	(0.001)
China 10-Yr Gov. Bond	2.839	(0.028)
O/N SHIBOR	1.957	1.372
1-mth SHIBOR	2.346	0.059
HK Base rate	4.75	0.00
O/N HIBOR	3.2342	1.9686
1-mth HIBOR	4.3464	(0.3018)
O/N CNH HIBOR	1.1036	(0.0498)
1-mth CNH HIBOR	2.1789	0.1967
Corporate Bonds (Moody's)		
Aaa	4.70	0.17
Baa	5.87	0.19

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	80.26	3.57
ICE Brent Oil	USD/bbl	85.91	6.09
NYMEX Natural	USD/MMBtu	4.48	(10.48)
Basic Metals			
LME Aluminum	USD/MT	2,349.51	(0.58)
CMX Copper	USD/lb.	381.05	1.42
LME Steel Rebar	USD/MT	690.00	6.15
LME Lead Cash	USD/MT	2,336.50	3.74
Precious Metals			
CMX Gold	USD/T. oz	1,824.02	0.51
Gold Futures	USD/T. oz	1,826.20	1.72
CMX Silver	USD/T. oz	23.95	1.09
NYMEX Platinum	USD/T. oz	1,074.29	7.22
Agricultural			
CBOT Corn	USD/bu	678.50	2.73
CBOT Wheat	USD/bu	792.00	3.90
NYB-ICE Sugar	USD/lb.	20.04	(4.07)
CBOT Soybeans	USD/bu.	1,524.00	3.53

All data sources: Bloomberg

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	103.52	(0.87)
Euro/USD	1.0705	0.83
GBP/USD	1.2083	0.25
AUD/USD	0.6813	1.37
USD/CAD	1.3554	(0.33)
USD/JPY	131.12	(1.35)
USD/CHF	0.9245	(0.93)
USD/CNY Midpoint	6.9646	(0.23)
USD/CNY	6.8986	(1.31)
USD/CNY NDF-12-mth	6.7635	(1.13)
USD/CNH	6.9220	(1.16)
USD/HKD	7.8016	(0.04)
CNY/HKD	1.1300	1.19
CNH/HKD	1.1277	1.19
USD/KRW	1,273.50	0.36
USD/TWD	30.72	(0.01)
USD/SGD	1.3395	(0.85)
USD/INR	82.74	(0.16)

Disclosures

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