

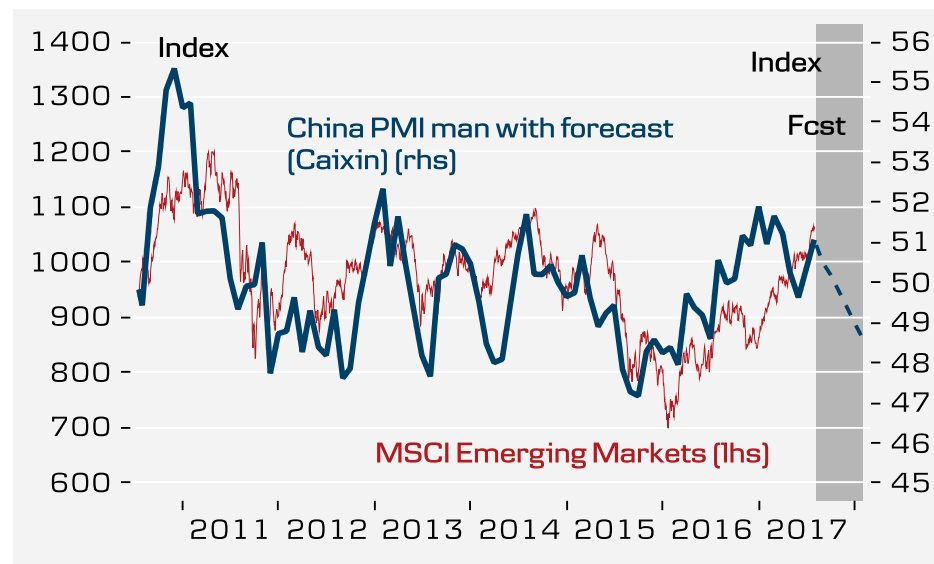
China leading indicators – Summer rebound – but still slowdown ahead

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Summary: July PMI and commodities point to rebound

- The latest round of PMI data for July as well as rising commodity prices point to a **mid-year rebound in Chinese activity**.
- This is a bit at odds with most of the leading indicators we follow. We believe that this will prove to be **a mini cycle within the bigger cycle of a moderate slowdown** as financial tightening should slow growth eventually. However, the data does point to reduced downside risks.
- The strength in Chinese activity is due partly to still **strong exports, but construction and housing have also remained robust** despite tightening measures. A lift to infrastructure projects ahead of the 19th National Congress of the Communist Party this autumn may also be behind the rebound.
- **Most leading indicators point to a moderation of activity.** Credit growth has declined significantly and output indicators such as electricity generation and steel output are also weaker. Exports to China from commodity exporters such as Chile and Australia are also weaker.



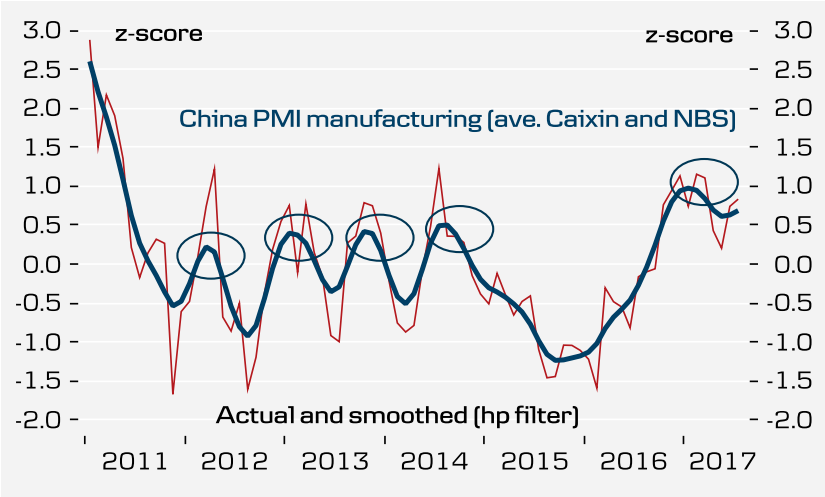
Source: Macrobond Financial, Markit, Danske Bank

Financial implications

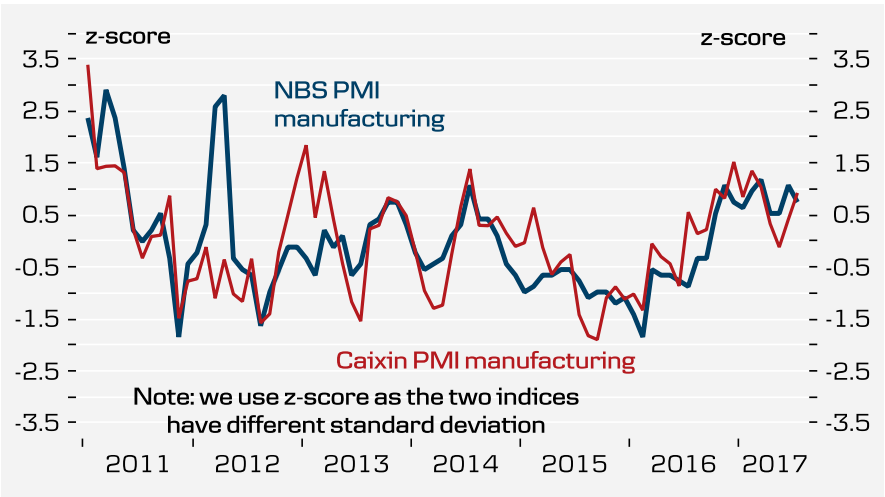
- **Equities:** the current strength is supportive for Chinese stocks and global risk. We expect the support to fade but not be a significant drag.
- **Bonds:** softer growth ahead points to disinflationary pressures and support for bonds.
- **Commodities:** current increase in metals is likely to prove temporary as growth slows again.
- **EM:** currently strong support. To fade somewhat but search for carry in EM to remain strong.

Cycle still peaked in Q1 but PMIs point to short-term rebound

Our combined PMI is still lower than in Q1 but has rebounded a bit from the spring weakness



Both the public and Caixin PMI manufacturing at fairly robust levels for now

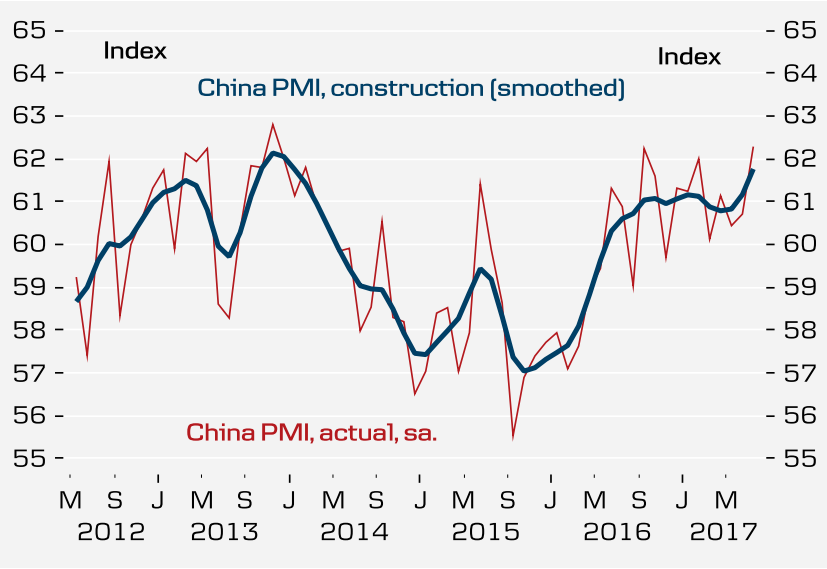
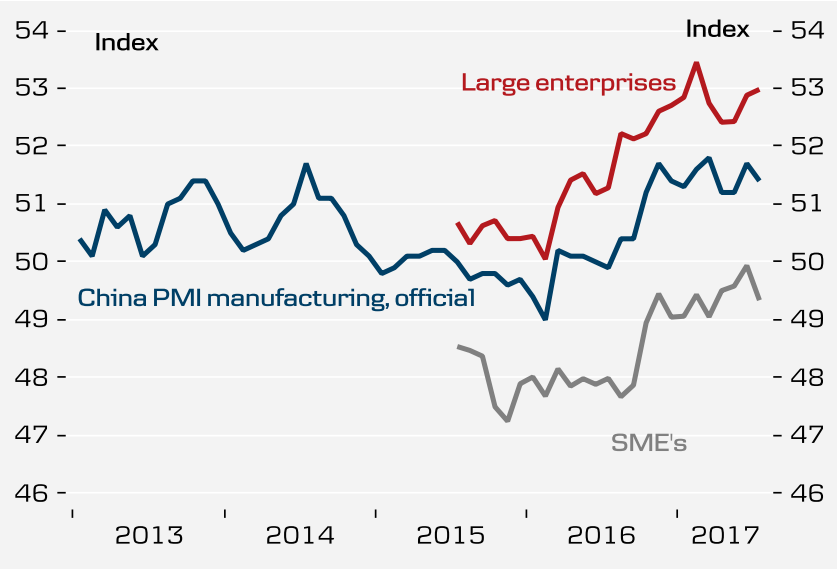


Source (both charts): Macrobond Financial, Markit, Danske Bank

Large enterprises and construction pulling rebound lately

Large enterprises rebounded in recent months whereas small and medium enterprises (SME) are weaker. Suggests 'old industries' pulling

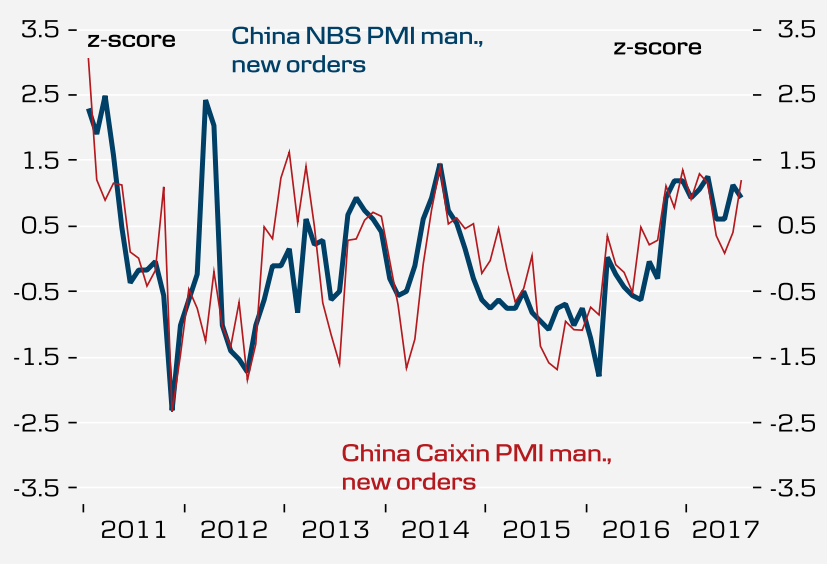
Construction sector re-accelerating despite tightening measures over the past year



Source (both charts): Macrobond Financial, Danske Bank

Export sector also seems to have turned higher in recent months

New orders show same picture as overall PMI



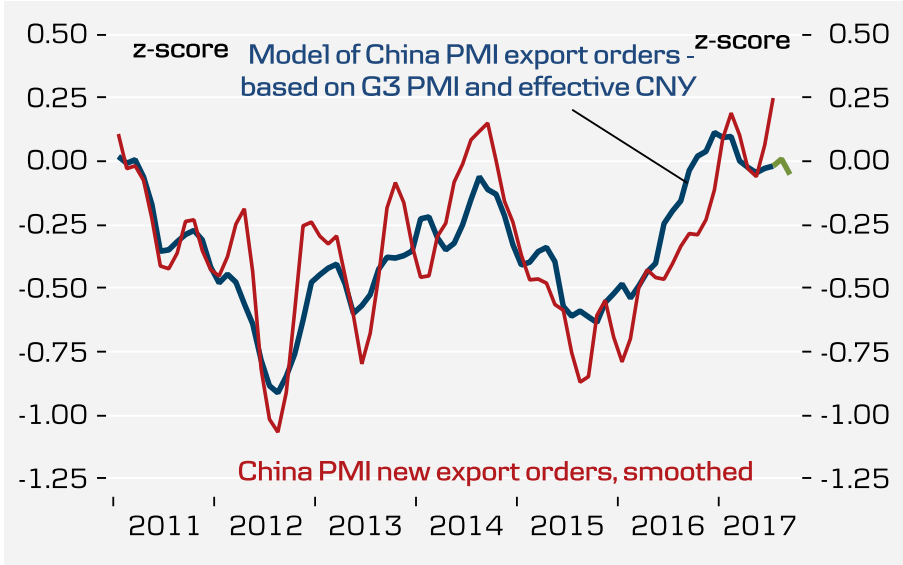
Source (both charts): Macrobond Financial, Markit, Danske Bank

PMI export orders rebounded in June

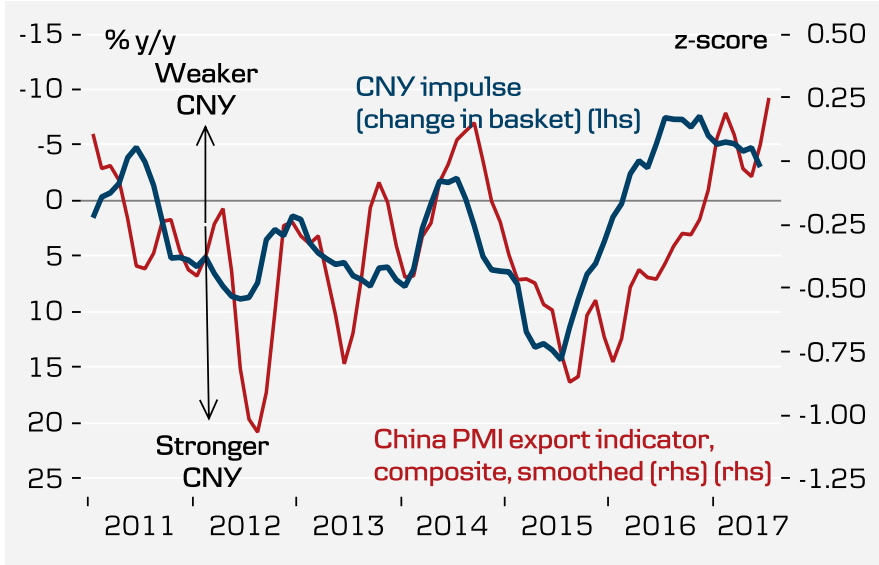


Export model – support from demand and weaker currency

Model still points to robust exports



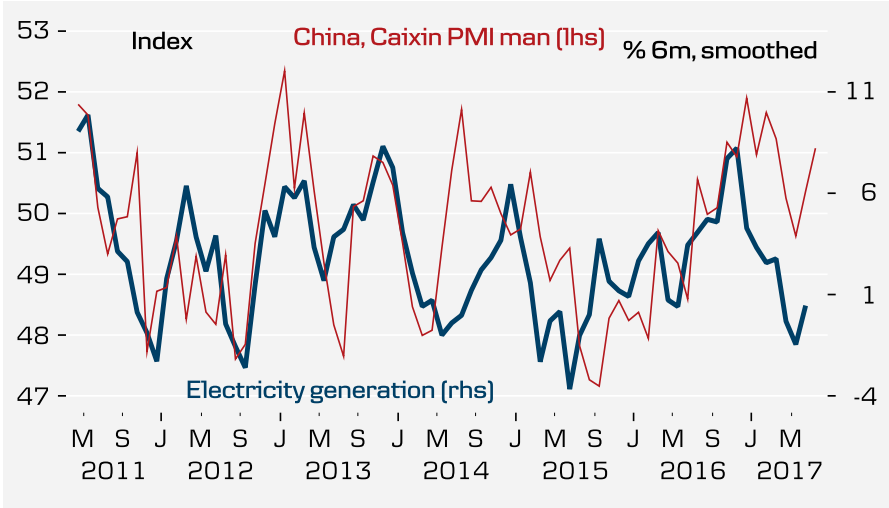
CNY depreciation still a tailwind for exporters



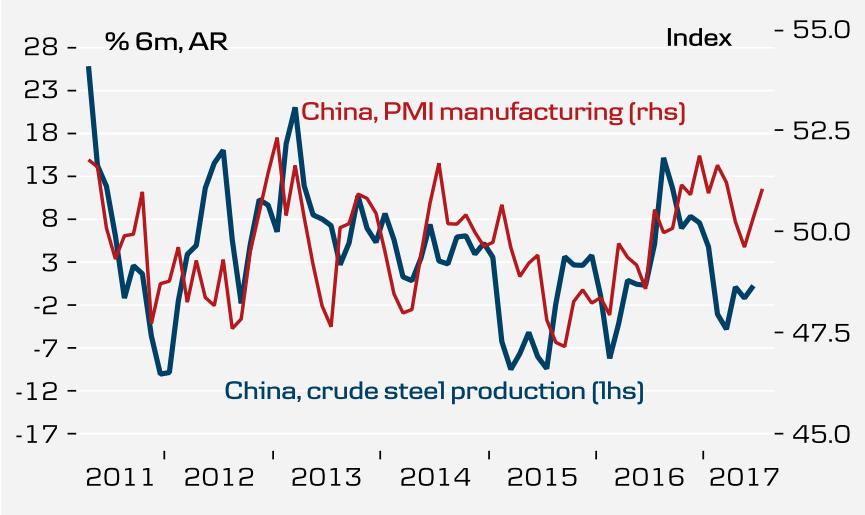
Source (both charts): Macrobond Financial, Markit, Danske Bank

Steel and electricity still point to more subdued activity

Electricity generation weakest since mid-2015



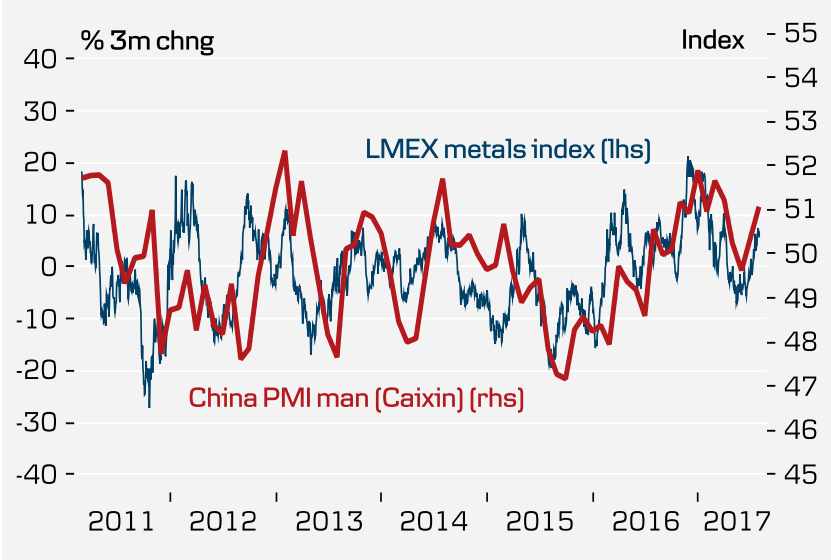
Steel production also lower – gave an early heads up for weakness ahead in PMI



Source (both charts): Macrobond Financial, Markit, Danske Bank

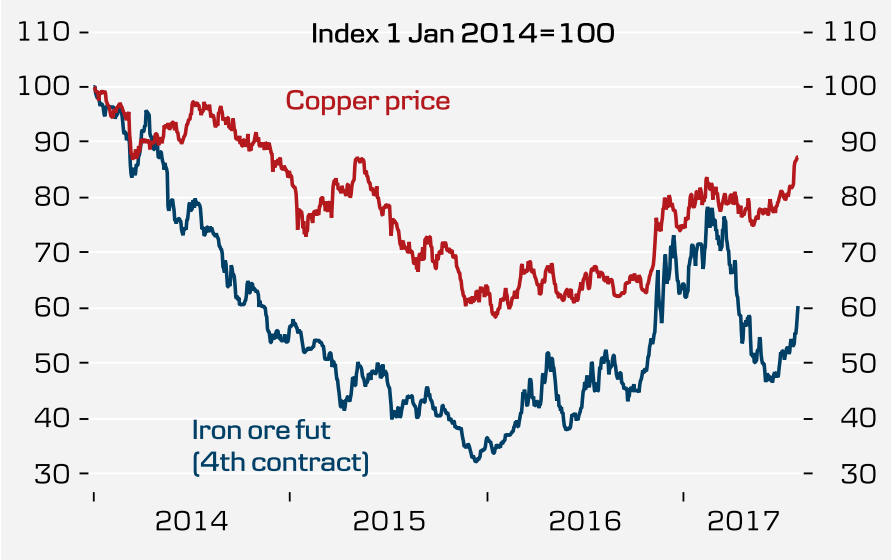
But turn higher in commodity prices underpin latest PMI signal

The turn higher in commodity prices gives support to the PMI signal of rebound



Source (both charts): Macrobond Financial, Markit, Danske Bank

Copper prices and iron ore pushing higher

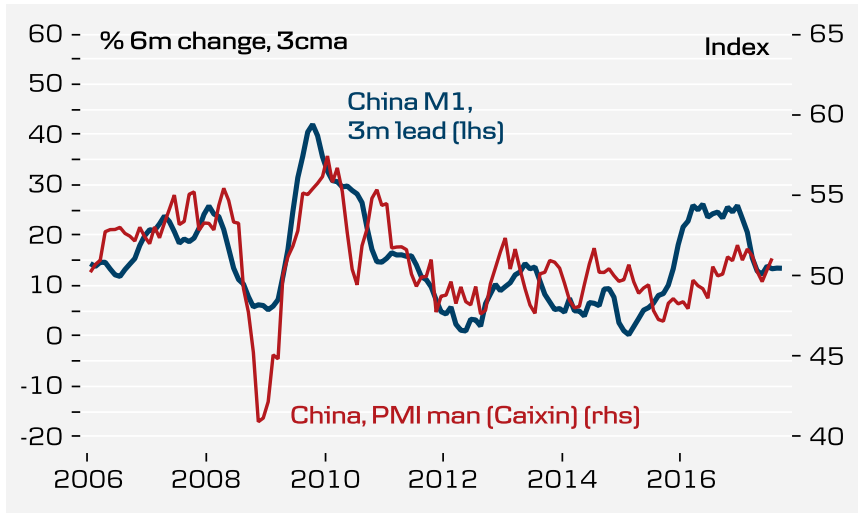
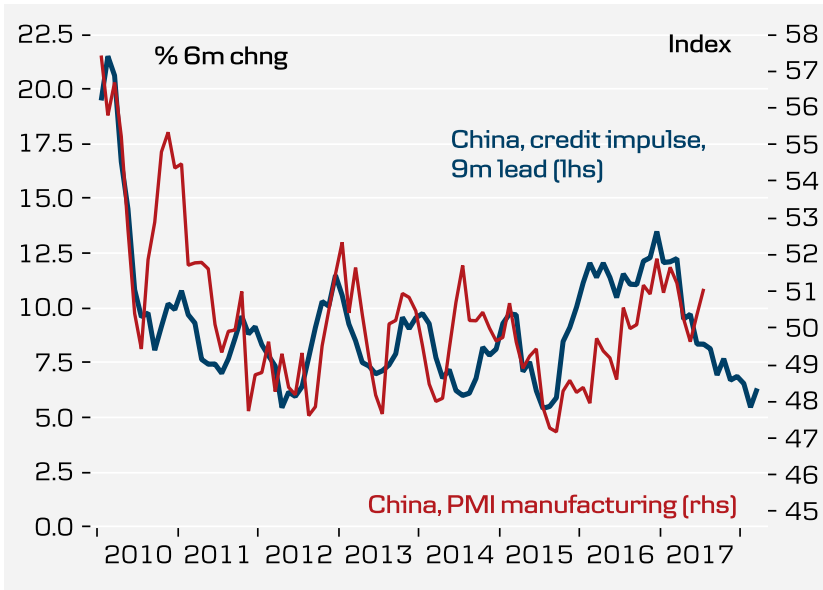


Note: ss China consumes around 50% of global metals, metal prices tend to be a good indicator for Chinese demand

Credit impulse: financial tightening still points to slowdown ahead

The credit impulse has continued to weaken – not least due to the crackdown on shadow finance this year

Money growth stabilised lately

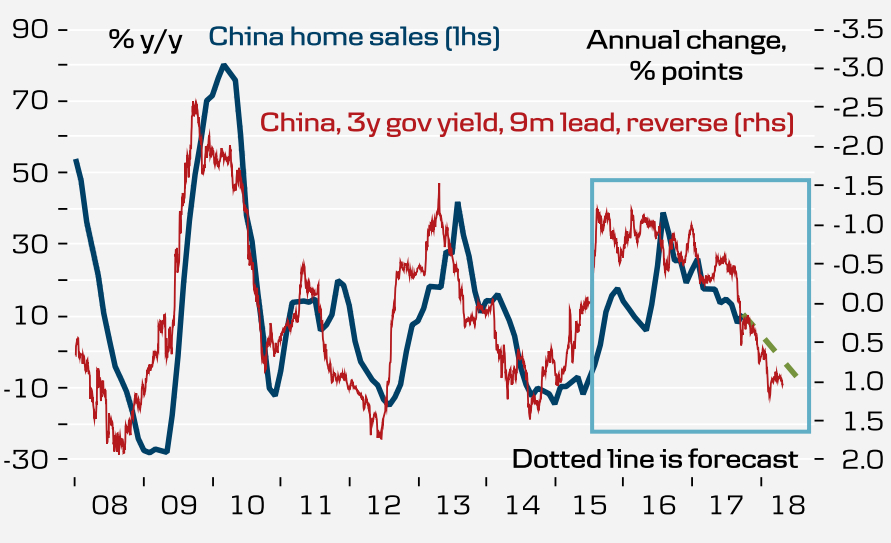


Source (both charts): Macrobond Financial, Markit, Danske Bank

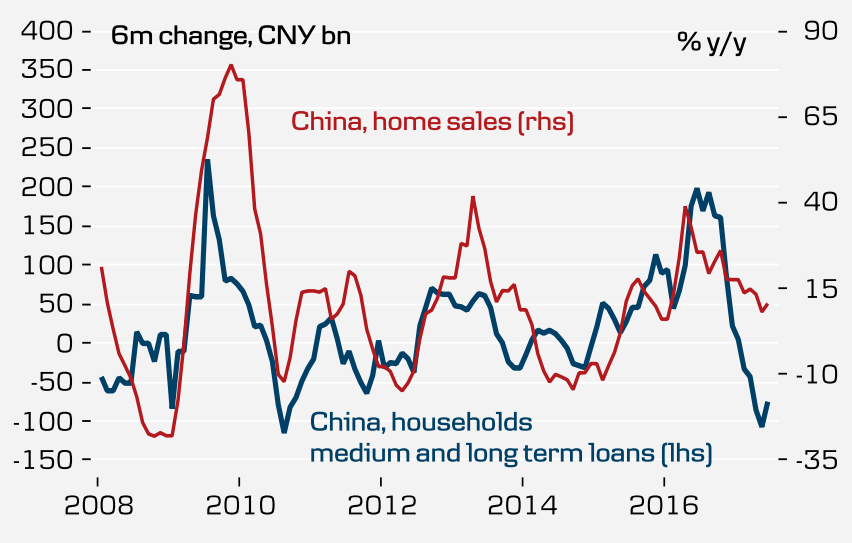
Note: credit impulse is calculated as the 6M change in the annual flow of total bank claims

Home sales to soften as higher rates take off the steam

Home sales still rising around 10% y/y. However, tightening should feed through next 12 months



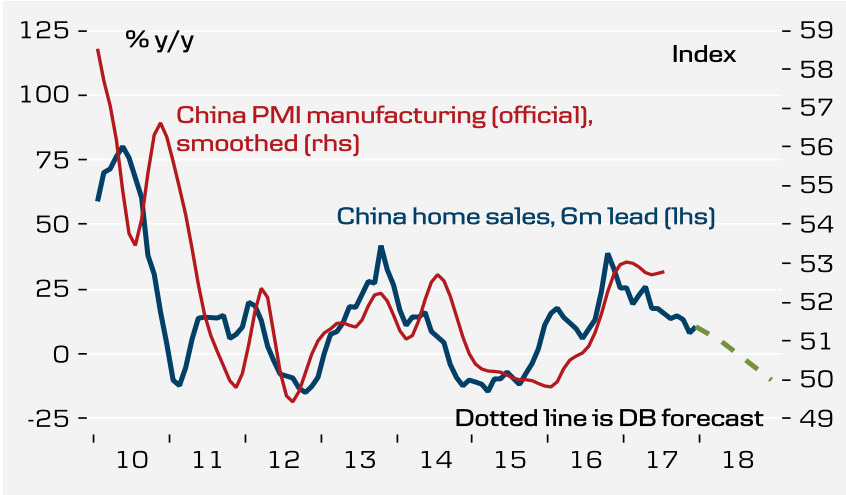
Household loan data also points to weaker home sales activity



Source (both charts): Macrobond Financial, Danske Bank

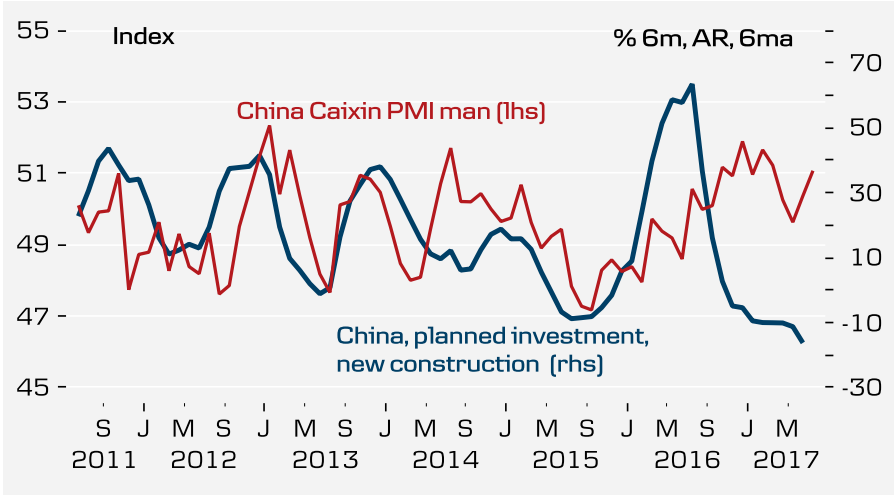
Infrastructure and housing set to slow

Slowdown in housing to have spill-over effect on construction and manufacturing

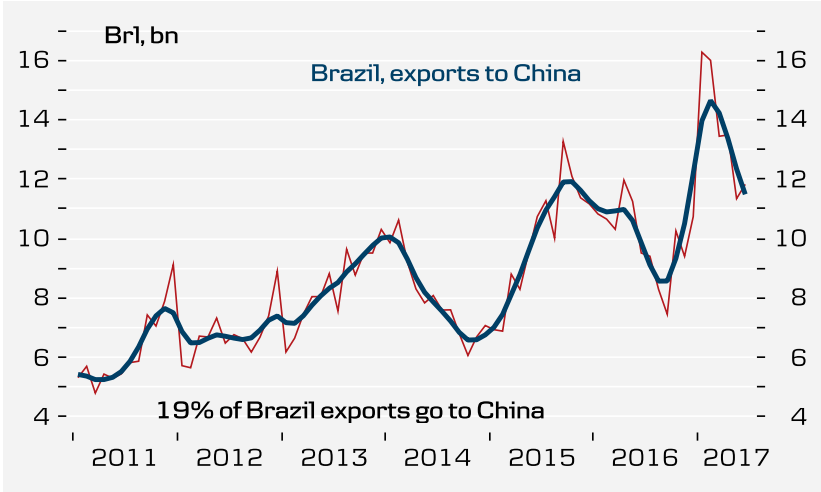


Source (both charts): Macrobond Financial, Markit, Danske Bank

Planned investment growth has slowed significantly - still not evident in activity



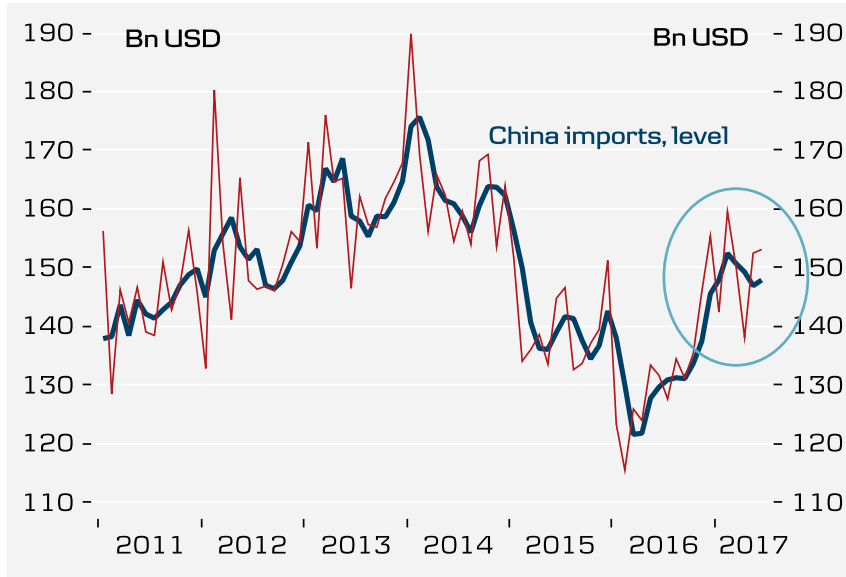
Big China exporters point to softer China demand in early 2017...



Source (all charts): Macrobond Financial, Danske Bank

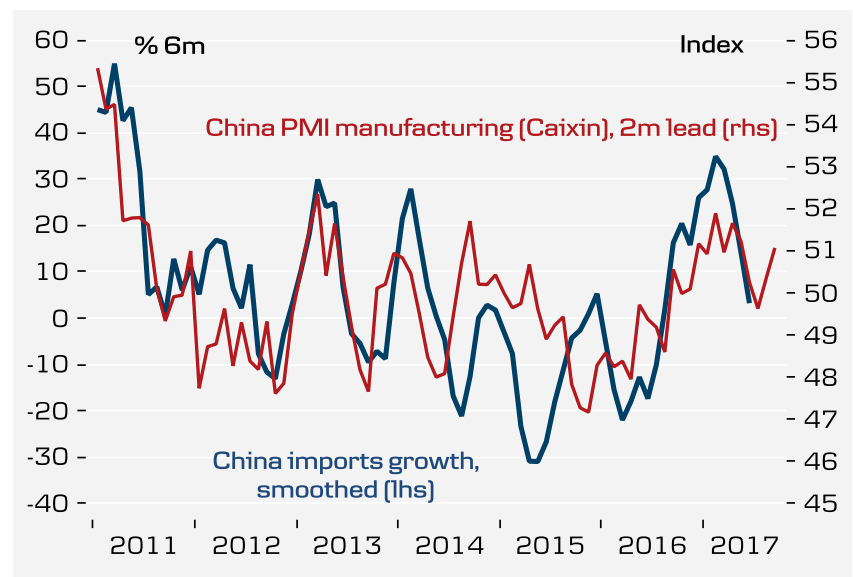
... in line with slower China imports

The level of imports shot higher in 2016 but eased in early 2017



Source (both charts): Macrobond Financial, Markit Danske Bank

Decent correlation between imports and PMI – but PMI leads by a couple of months



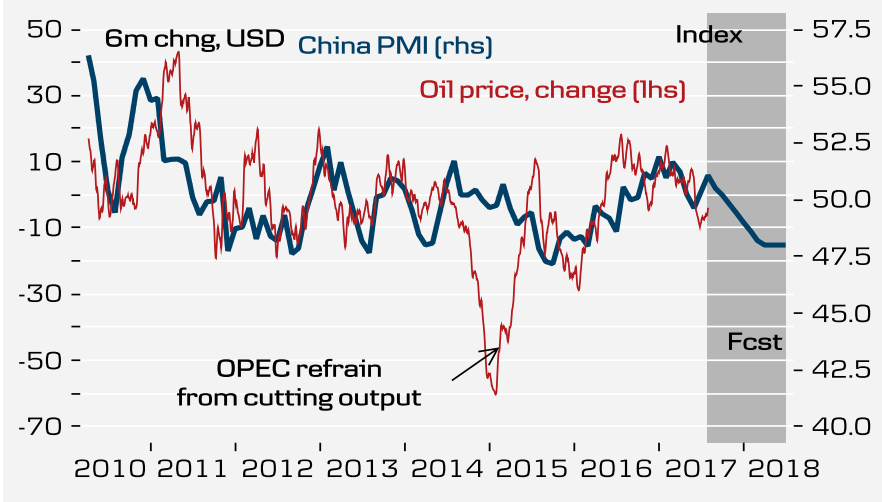
From reflationary to deflationary force

Chinese slowdown set to weigh on the global business cycle

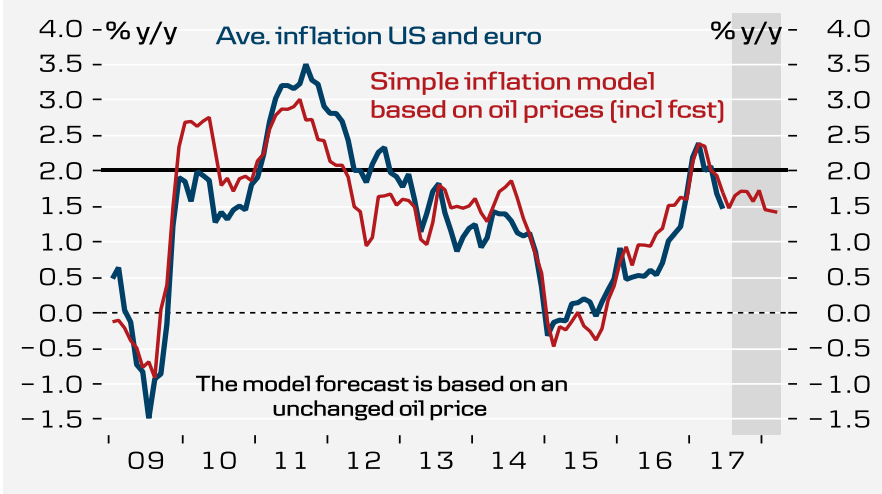


Source (all charts): Macrobond Financial, Markit, Danske Bank

Slowdown adds downward pressure on oil prices



Oil prices a key driver for inflation



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None.

Date of first publication

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