

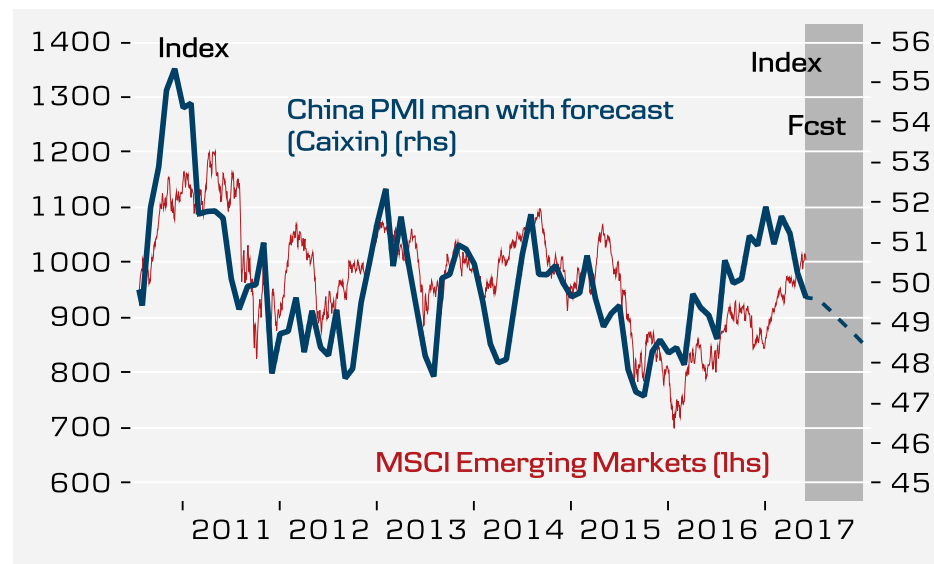
China Leading Indicators – downside risks confirmed

Chief Analyst, China
Allan von Mehren
+45 45 12 80 55
alvo@danskebank.dk

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Summary: More evidence of a slowdown unfolding

- Chinese leading indicators have pointed to a peak in the cycle since the beginning of the year [see *Why China's Growth is Strong Now - and Why it will Slow Down in 2017*, 5 January].
- The PMI data for May confirm our view of downside risks to the Chinese economy this year.
- Why slow down? Two main engines of recovery are turning lower.
 1. Slowing housing market.
 2. Fading boost from infrastructure.
- Recently, financial stress has pushed bond yields higher adding to the cumulative policy tightening, which is why we now see downside risks.
- There are also signs that the Chinese export engine is losing some steam - a sign the global manufacturing cycle is turning lower.
- China is moving from a reflationary force in 2016 to a deflationary force in 2017.



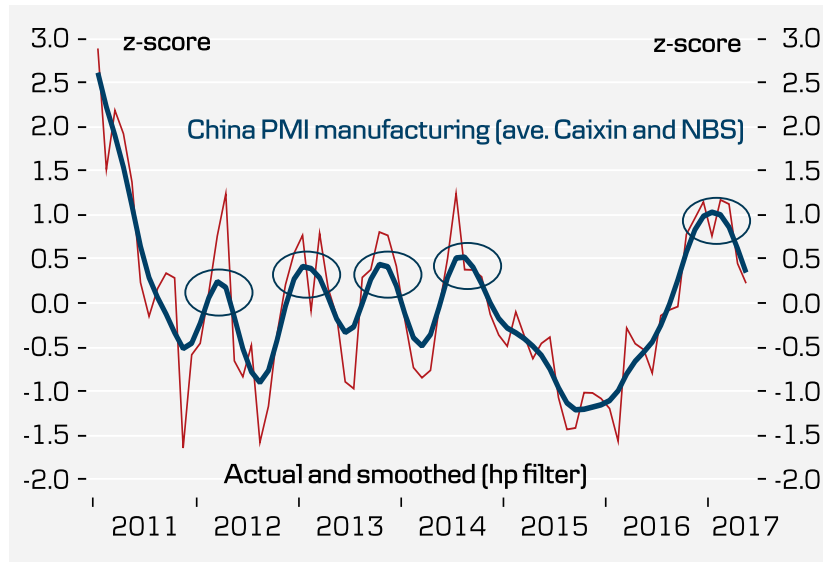
Source: Macrobond Financial, Markit, Danske Bank

Financial implications of slowdown

- While global equity markets - including emerging markets - are still strong, the decline in China points to increasing risks of correction.
- Fears of a hard landing may resurface in H2.
- Bullish for fixed income, as global cycle peaks and deflationary impact rises.
- Bearish for commodities as already seen in markets.

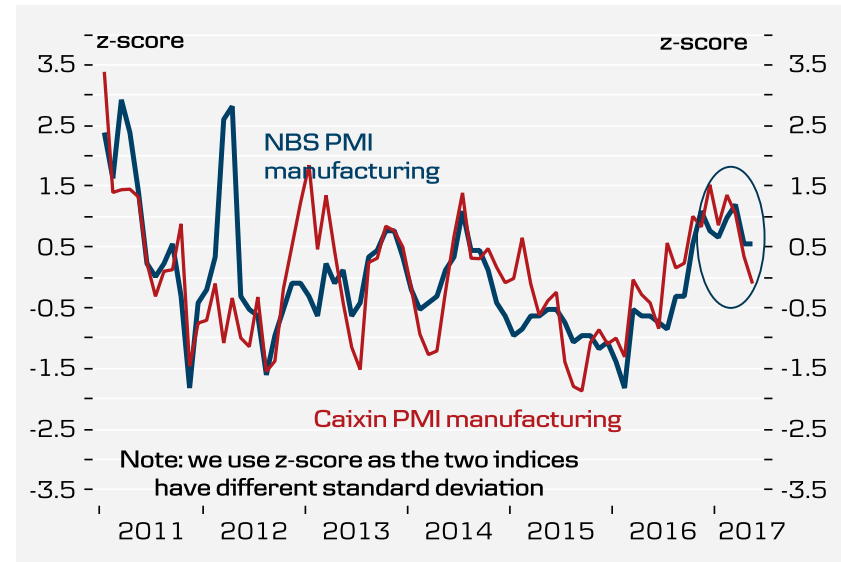
The cycle has turned – Caixin PMI points to downside risk

The Chinese cycle is turning lower again



Source: Macrobond Financial, Markit, Danske Bank

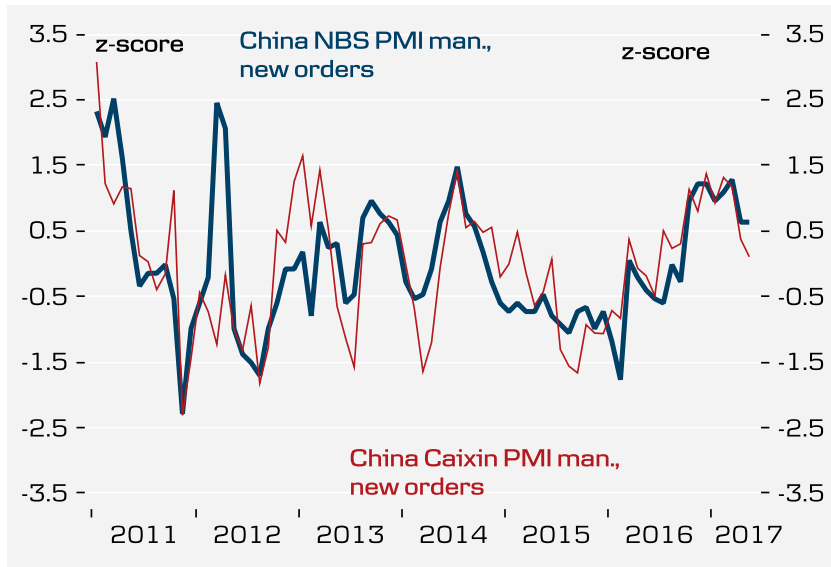
Both PMI indices trending lower – Caixin especially weak in May



Source: Macrobond Financial, Markit, Danske Bank

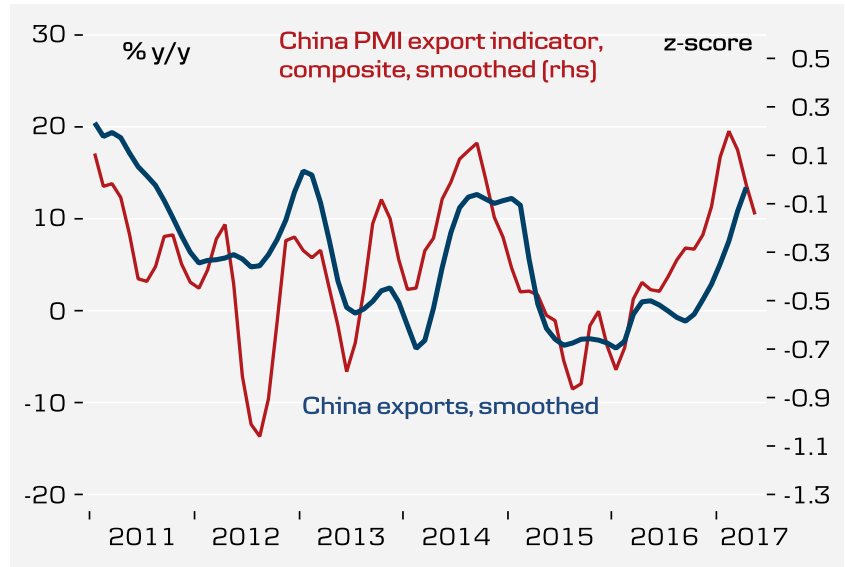
New orders weakening – export engine also losing steam

New orders confirm picture of weaker demand



Source: Macrobond Financial, Markit, Danske Bank

PMI export orders also peaking – fits well with the peak in US cycle seen in ISM data

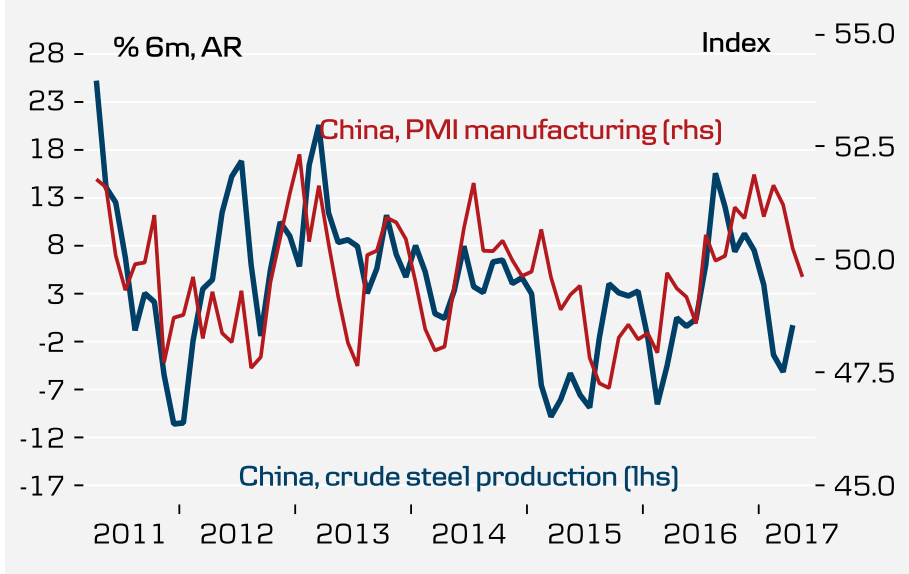
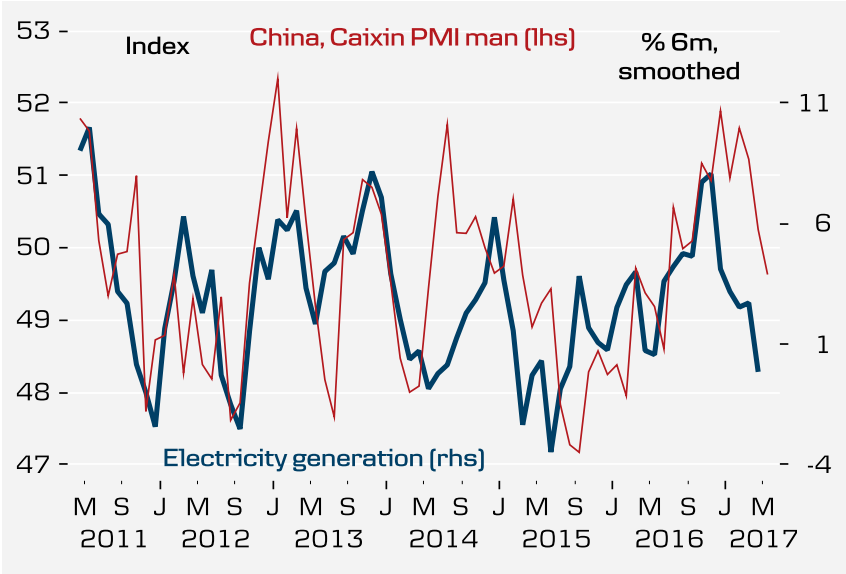


Source: Macrobond Financial, Markit, Danske Bank

Steel and electricity give clear warning signs – still point lower

Electricity generation points to more weakness

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

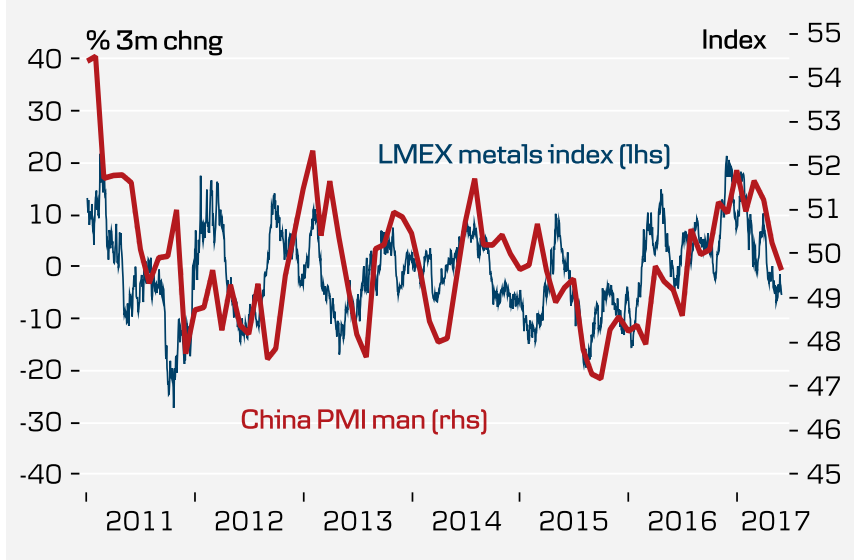


Source: Macrobond Financial, Markit, Danske Bank

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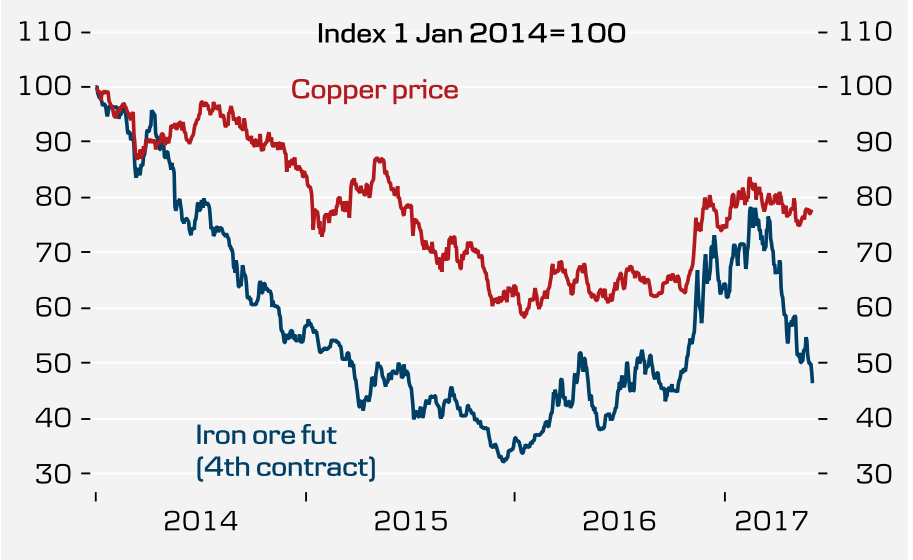
Commodity prices a good leading indicator

Metal prices a good leading indicator for PMI



Source: Macrobond Financial, Markit, Danske Bank

Collapse in iron ore prices confirms slowdown story

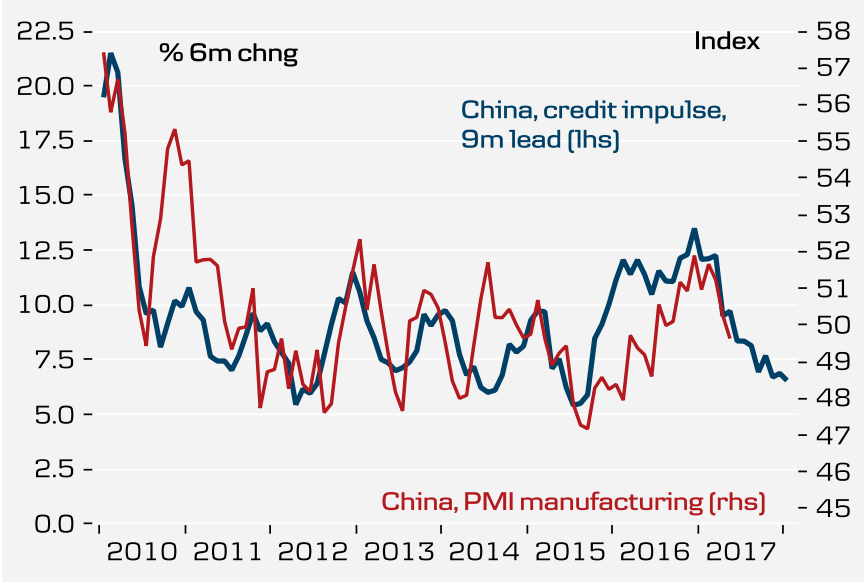


Source: Macrobond Financial, Markit, Danske Bank

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

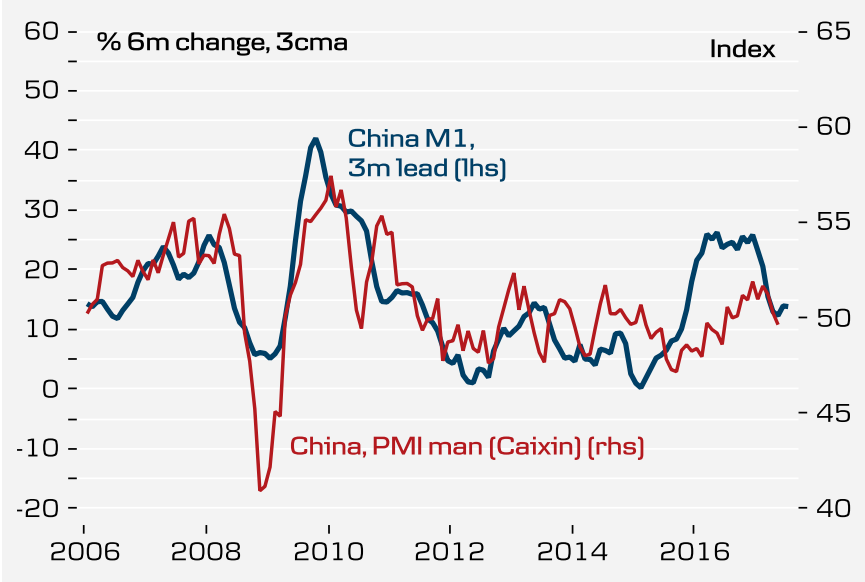
Credit impulse: tightening feeding through now

Credit impulse turned negative as policy tightening began in mid-2016 – points to more downside



Note: Credit impulse is calculated as the 6M change in the annual flow of total bank claims
Source: Macrobond Financial, Markit, Danske Bank

Money growth stabilised lately

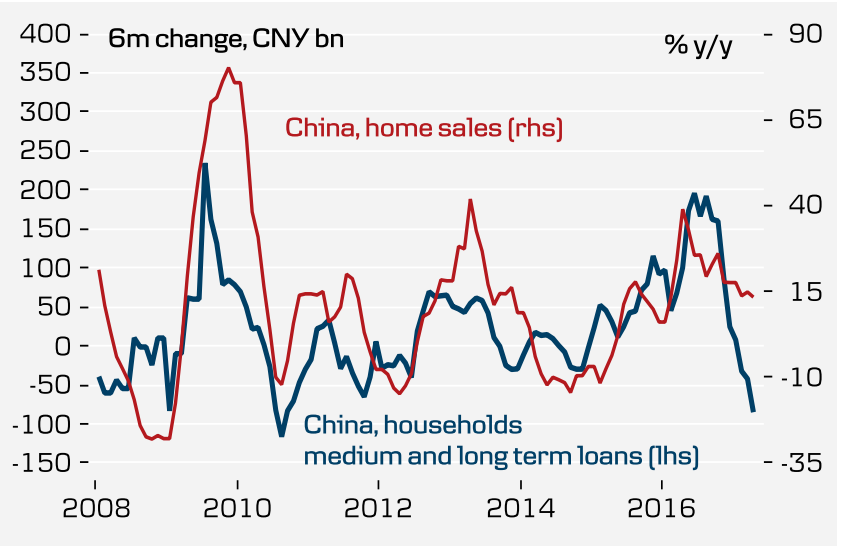
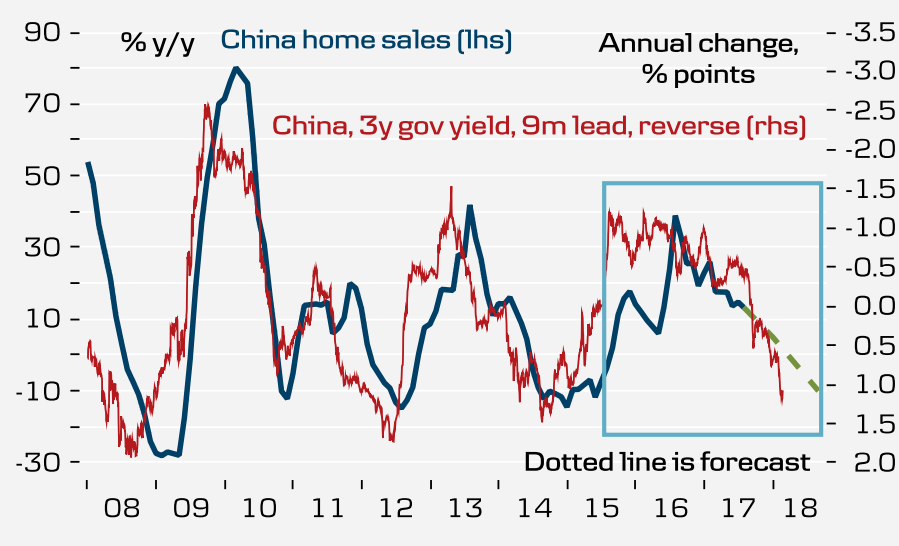


Source: Macrobond Financial, Markit, Danske Bank

Recent stress in bond markets adds to downside risk for housing

Yields have spiked higher lately adding to headwinds for home sales

Household loan data also point to a halt to home sales activity

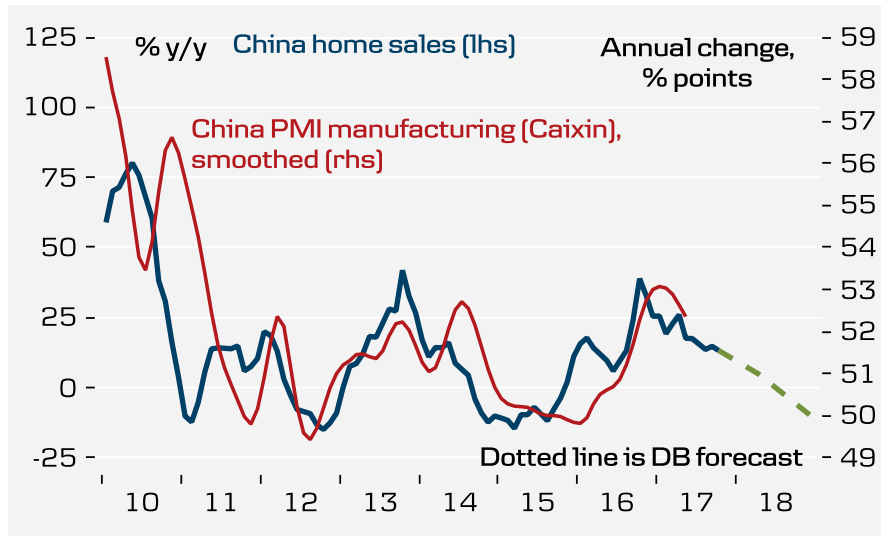


Source : Macrobond Financial, Danske Bank

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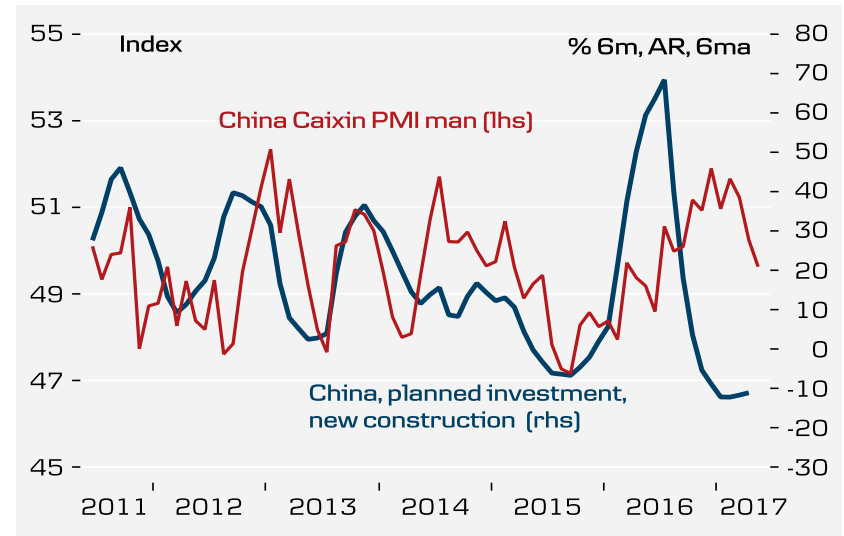
Infrastructure and housing set to slow in 2017

Slowdown in housing to have spillover to construction and manufacturing



Source: Macrobond Financial, Markit, Danske Bank

Planned investment growth has slowed significantly

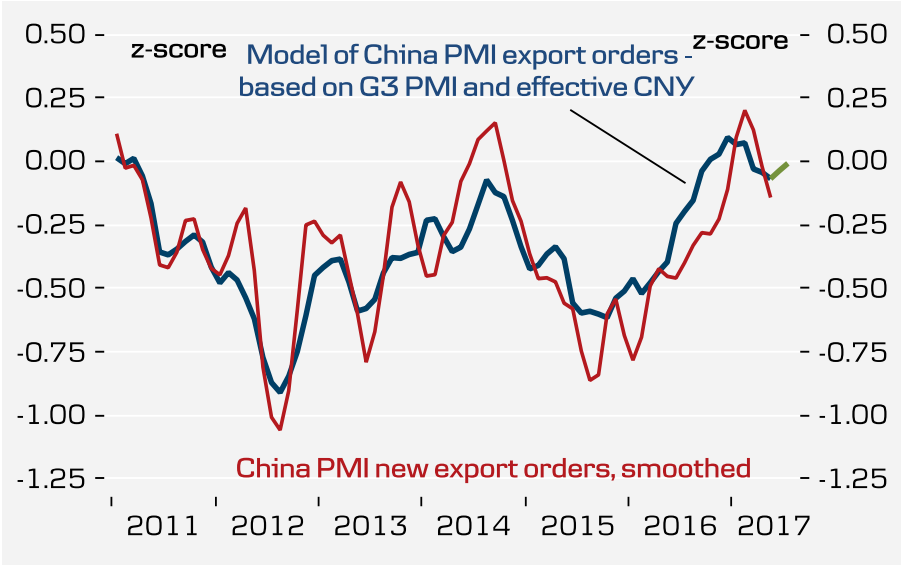


Source: Macrobond Financial, Markit, Danske Bank

Exports - another engine losing steam

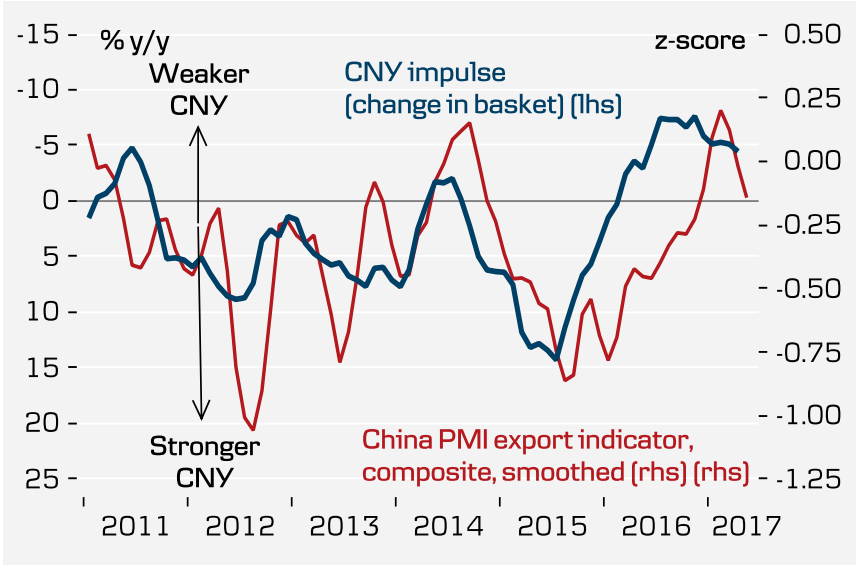
- PMI export orders indicate turn lower in export growth

Our China export model predicted the peak but overall holding up



Source: Macrobond Financial, Markit, Danske Bank

Weaker CNY has been a strong tailwind for exports but tailwind easing a bit



Source: Macrobond Financial, Markit, Danske Bank

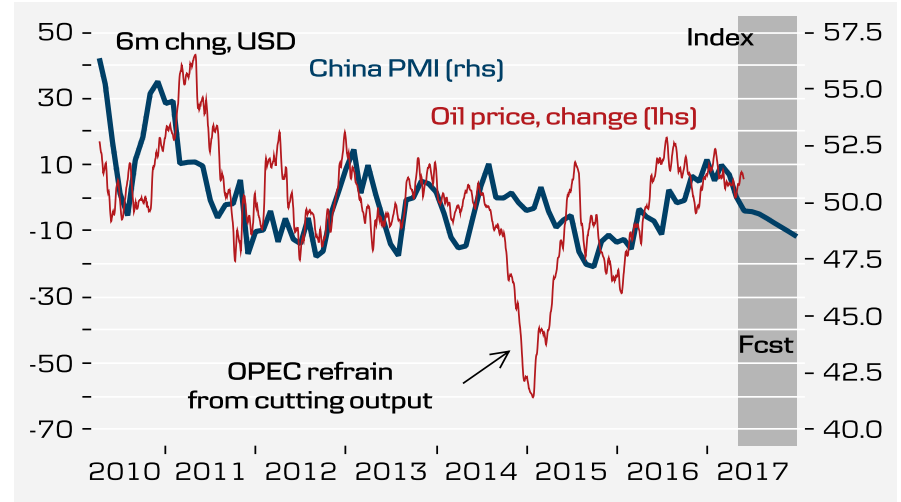
From reflationary to deflationary force

Chinese slowdown to weigh on the global business cycle



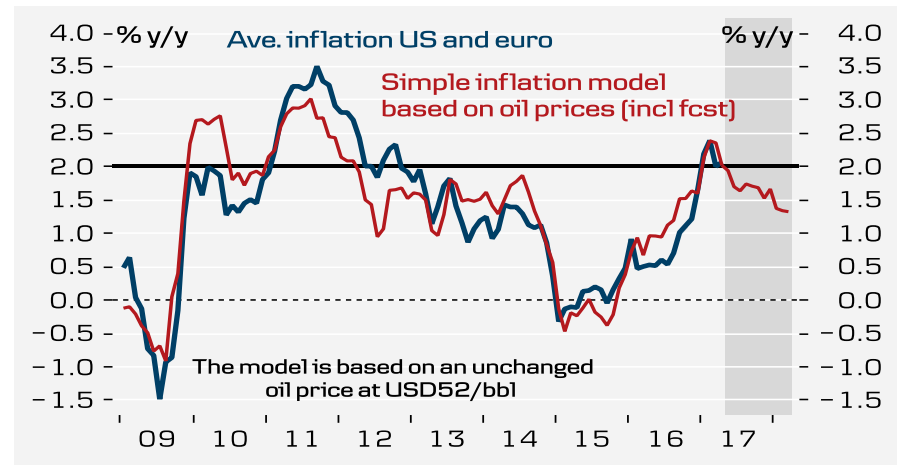
Source: Macrobond Financial, Markit, Danske Bank

Slowdown adds downward pressure to oil prices



Source: Macrobond Financial, Markit, Danske Bank

Oil prices a key driver for inflation



Source: Macrobond Financial, Markit, Danske Bank

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None.

Date of first publication

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