THEME

China | Growth recovery continues

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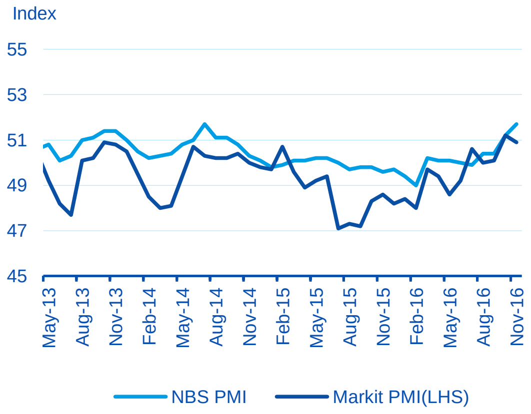
China manufacturing sector maintains its momentum in November despite the recent tightening measures on the property market and the exchange rate market volatility. The NBS manufacturing PMI came out at 51.7 in November (Consensus: 51; prior: 51.2), reaching its historical high since July 2012. Meanwhile, Caixin manufacturing PMI marginally decreased to 50.9 (Consensus: 51; prior: 51.2), remaining in the expansionary region. Put together, November PMI outturns indicate manufacturing activities continue to expand over past several months, underpinned by firms' piling-up of their inventory level. However, a number of growth headwinds loom large in the way ahead, including the correction of the property sector, tepid private investment, escalating tension with important trade partners, etc, which are set to weigh on final demand and make the ongoing recovery grind to a halt. On balance, we maintain our growth forecast at 6.6% for 2016 and 5.8% for 2017.

The increase of the official manufacturing PMI is broad-based by categories: The improvement in production index and new order index are significant, both reaching the highest level of this year. In addition, the employment and raw material stock indexes also increased although they still remained below the watershed of 50. Moreover, both export order index and import index accelerated from the below the watershed level to above 50, pointing to the recovery of the external environment. Input price index rocketed to the historical high, led by the significant increasing of PPI recently. (Figure 2)

Additional monetary easing could be postponed to next year: The PMI outturns indicate the resilience of the economy, which not only helps to alloy investors' concerns of an imminent hard-landing of China but also give the authorities more room to contain financial risks and push forward necessary structural reforms. On the policy front, we expect the PBoC to postpone further monetary easing to the next year barring radical changes of the external environment.

Figure 1

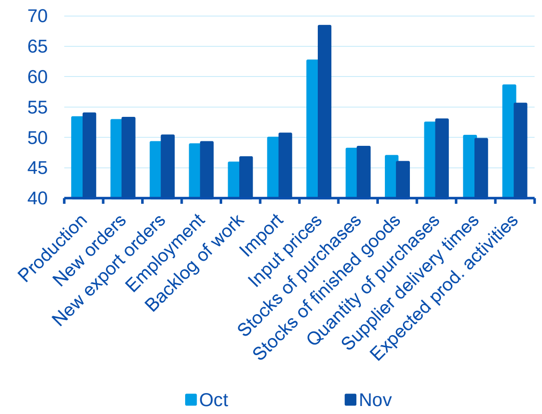
Both NBS PMI and Caixin PMI continue the expansionary momentum



Source: BBVA Research

Figure 2

Subcomponents of the NBS PMI



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