



China: August PMI rebounds modestly, reconfirming a soft landing scenario

China's Manufacturing Purchasing Managers Index (PMI) rebounded to 50.9% in August following consecutive slips for four months (from 53.4% in March to 50.7% in July). While the outturn is slightly below expectations (Consensus: 51.0%; BBVA: 51.4%), it should nevertheless bolster confidence in the sustainability of China's growth momentum in the midst of concerns of a global economic downturn.

We continue to believe that growth is slowing in line with a soft landing scenario, although there are now modest downside risks to our full-year projections of 9.4% and 9.1% for 2011 and 2012 given global uncertainties. On policy front, the authorities continue to tighten liquidity to tame inflation, which reached 6.5% y/y in July, most recently through a broadening of the application of required reserve ratios (RRR). Our baseline incorporates one more rate hike before the end of the year, although that will be contingent on the strength of incoming data, including next week's important release of inflation data and other activity indicators.

- China's PMI ticked up for the first time in four months, to 50.9% from 50.7% in July (Chart 1) (BBVA: 51.4%; consensus: 51.0%). The rebound reflects steady industrial production and may also be due to seasonal effects. The outturn is consistent with the newly released August private-sector (HSBC) PMI which, though below the +50 expansion threshold, rose to 49.9% in August from 49.3% in July.
- By category, the subcomponent of new orders (with a weight of 30%) remained flat at 51.1% in August. New export orders declined, from 50.4% in July to 48.3% in August, perhaps reflecting declining external demand. At the same time, however, the production subcomponent (with a weight of 25%) recovered to 52.3% in August from 52.1% of previous month, suggesting that rising domestic demand may be taking up slack from the external sector. Purchase prices also rebounded, from 56.3% to 57.2%, showing that the inflation pressures remain present (Chart 2).

Stephen Schwartz
stephen.schwartz@bbva.com.hk
+852 2582 3218

Zhigang Li
zhigang.li@bbva.com.hk
+852 2582 3162

Chart 1: A modest up-tick in August PMI

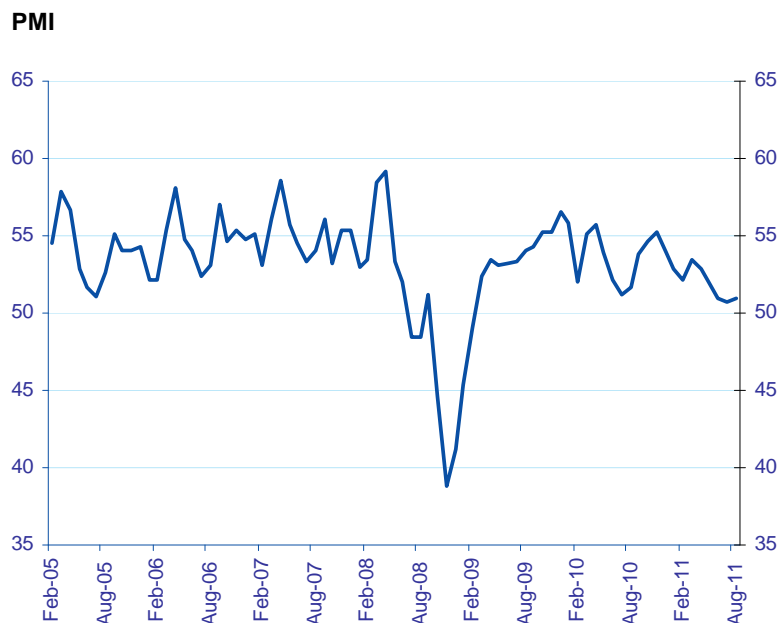
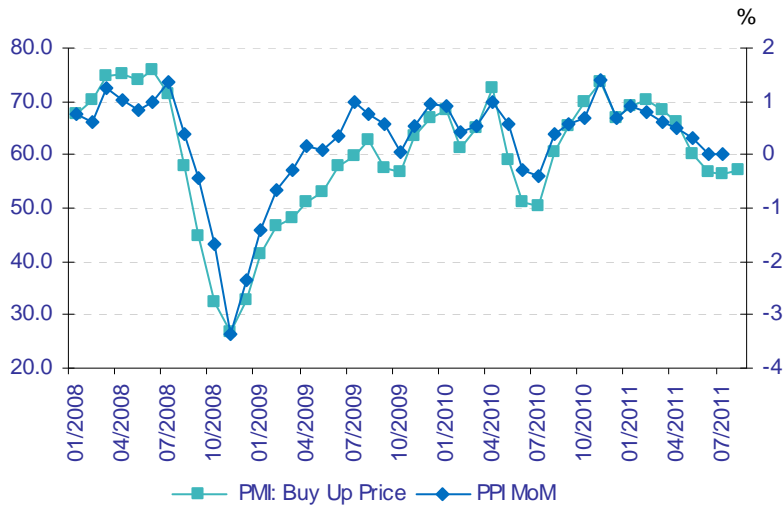


Chart 2: August PMI purchase prices signal inflation pressures



Regards

BBVA Research Emerging Markets Team



BBVA will continue to provide up-to-date reports by emails, but you can also register directly on our website for our latest reports & presentations. If you wish to be excluded from this mailing list, please write to us on research.emergingmarkets@bbva.com.hk

Before you print this message please consider if it is really necessary. Antes de imprimir este mensaje, por favor comprueba que es necesario hacerlo.

La presente comunicación y sus anexos quedan sujetos a confidencialidad en los términos establecidos en la normativa aplicable, dirigiéndose exclusivamente al destinatario mencionado en el encabezamiento. Son de exclusivo uso interno y queda prohibida su divulgación, copia, cesión, entrega, remisión o envío a terceros ajenos al Grupo BBVA sin consentimiento previo y escrito del remitente. Si ha recibido este mensaje por error, debe saber que su lectura, uso o copia están prohibidos y le rogamos que lo comunique inmediatamente mediante reenvío a la dirección electrónica del remitente, eliminándolo a continuación.