**April 11, 2024**

# Rebound In China PMIs May Have Legs

China’s March manufacturing PMI rose 1.7 points to 50.8 – the first reading signaling expansion (>50) since March 2023. The improvement in sentiment was broad-based. The three key subcomponents we track all soared above the 50 neutral reading – New Orders to 53.0 (+4.0), New Export Orders to 51.3 (+5.0), Imports to 50.4 (+4.0) – and reached their strongest levels since Q1 2023. If the past relationship between PMI subcomponents and trade data were to hold, both exports and imports could have more upside in the near term.

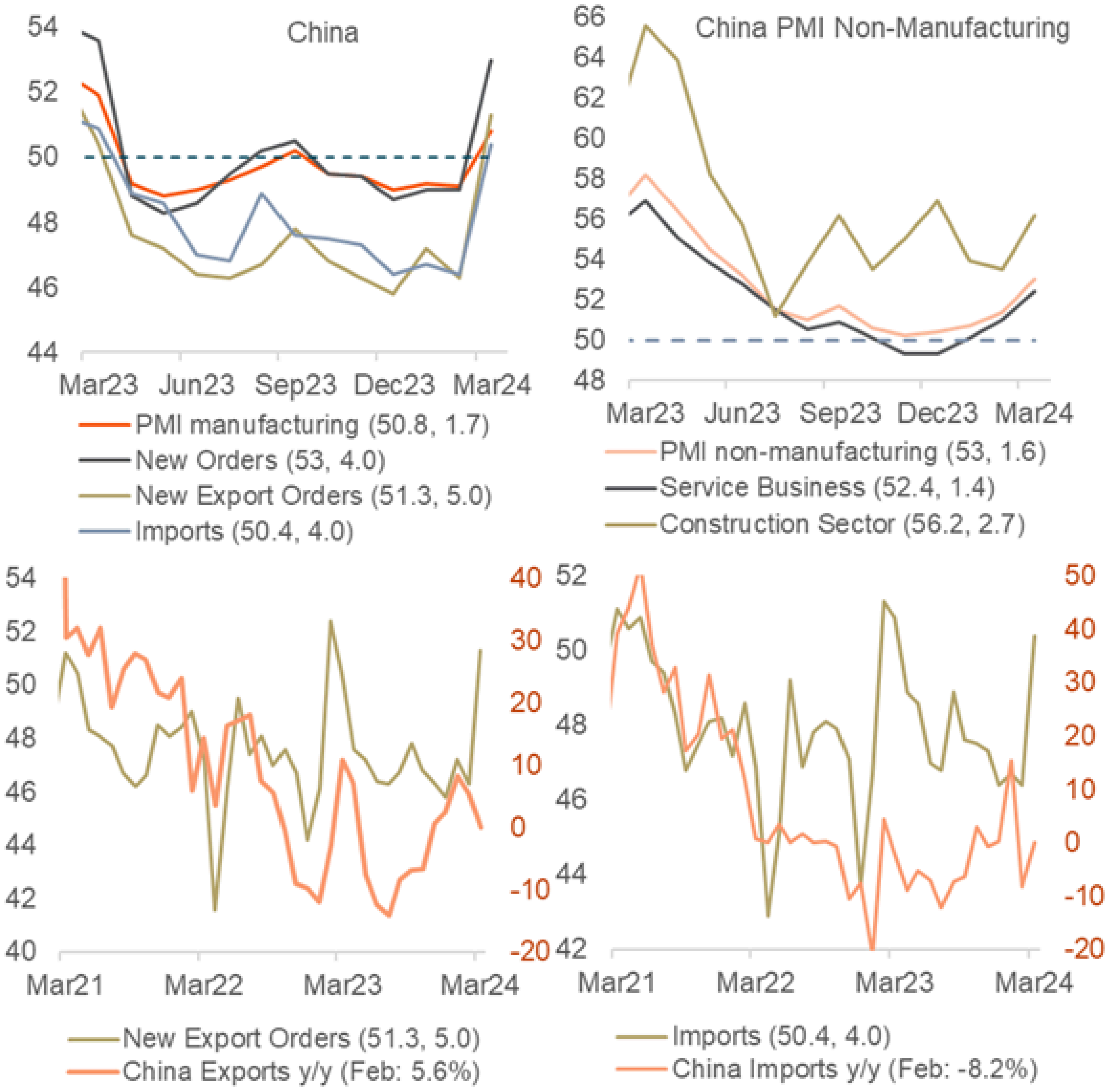
China's March non-manufacturing PMI rose 1.6 points to 53.0. The services business activities index was up 1.4 points to 52.4. The construction business activities index climbed to 56.2, putting it near the top of the 51.2-56.9 range prevailing since H2 2023.

Notwithstanding global challenges and rising tensions around geopolitics and trade, we see China's recovery becoming sustainable, in contrast to the short-lived COVID reopening-related optimism observed in Q1 2023. The growth recovery this time around will be supported by aggressive stimulus measures from the government, including the new tech-related industrialization program (equipment upgrades part of it) and deepened capital market reforms, ranging from corporate governance to risk control. Note that People's Bank of China on Sunday established a one-year special relending facility worth CNY 500bn at 1.75% to support science-technology innovation. Judging from the PBoC's Q1 2024 quarterly report, more easing measures can be expected, as well. With typically slower-to-work cross-cyclical adjustments omitted, the PBoC will instead focus on counter-cyclical adjustments, which can have a more immediate impact in the near term. Further reductions in banks' reserve requirement ration (RRR) can’t be ruled out, either; the 50bp broad-based cut in January brought average weighted RRR for financial institutions to around 7%.

March PMIs for other APAC economies were mixed. India's (+2.2 to 59.1) and Indonesia's (+1.5 to 54.2) signaled further recoveries. Malaysia's, by contrast, sank 1.1 points to 48.4.

Thailand's manufacturing PMI, which had been sluggish since Q4 2023, posted an encouraging rebound to 49.1, gaining some distance from the 45.1 low hit last December.

**Exhibit #1: Rebound In China PMIs Points To Further Growth Recovery**



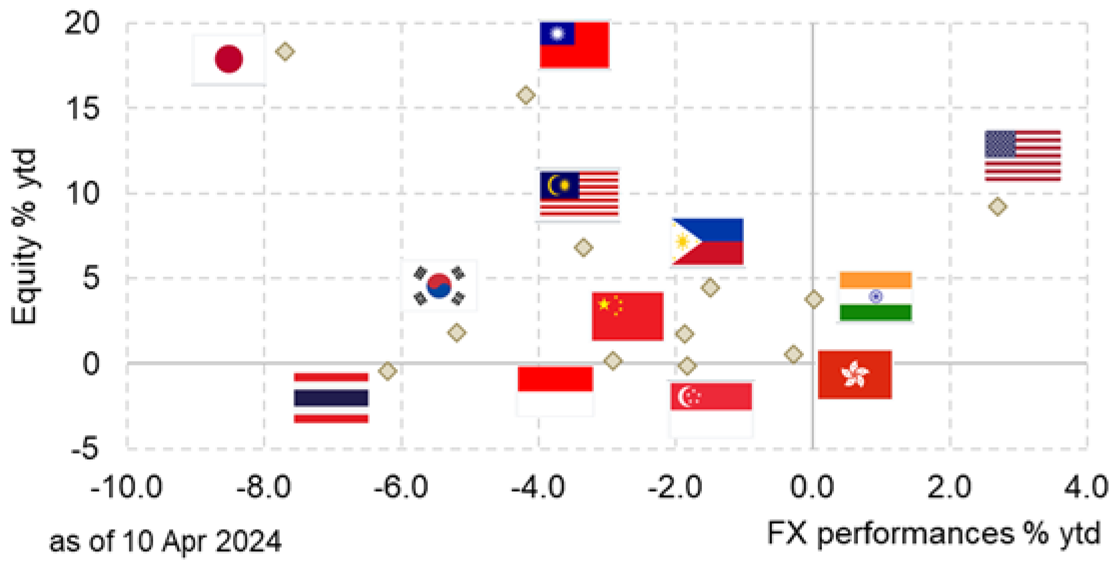

Source: BNY Mellon Markets, Bloomberg L.P.

The recovery of business sentiment and confidence in China, a rebound in exports – tech and semiconductors in particular – and the momentum of foreign portfolio inflows are all supportive for regional currencies. To this point, though, their performance has been underwhelming. Despite steady to positive performances in regional equities, the Asia dollar index is down 2.4% year-to-date, of which THB has lost the most (-5.8%), followed by KRW (-4.9%) and TWD (-4%). Contributors to the weakness in APAC FX include a stronger US dollar, that in large part owing to the market reappraising the Federal Reserve's policy path; continued weakness in the yen despite the Bank of Japan signaling a policy pivot; and the surge in oil prices, with WTI crude up 6% in March alone and, around $85 at this writing, up

18% year-to-date. Another factor inhibiting gains for APAC FX is the lower yields they offer, especially in comparison to the carry offered by EMEA and LatAm counterparts.

We are nonetheless positive on APAC currencies overall. We see room for upside surprises considering what we view as excessive pessimism towards China's macro conditions currently, as well as underweight positioning as per iFlow (more on this below the chart).

**Exhibit #2: APAC FX & Equities Performance**

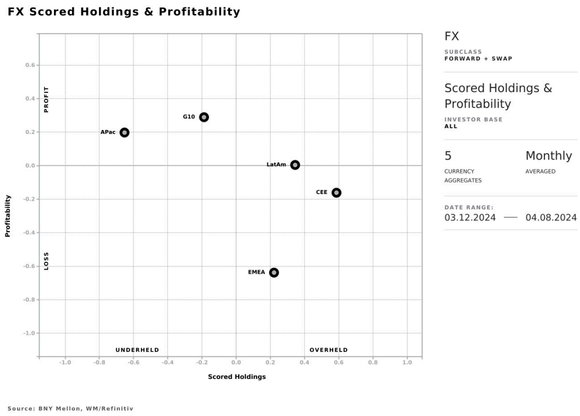


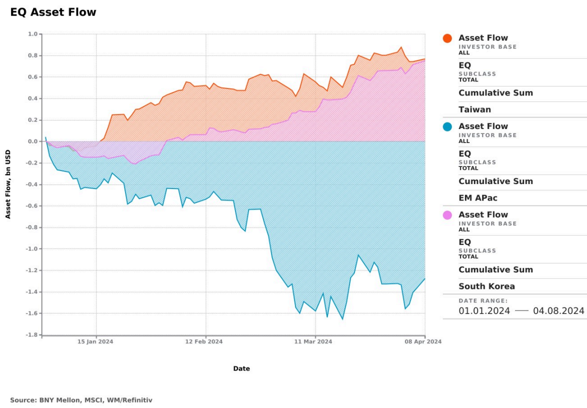

Source: BNY Mellon Markets, Bloomberg L.P.

APAC FX flows were relatively muted over the past week due to regional holidays. The standout: CNY inflows and narrowing of underheld conditions. Alongside accelerated selling in China corporate bonds and equities, the CNY buying may have been related to unwinding hedges. APAC FX remains the most underheld currency aggregate – only IDR and SGD are overheld – followed by G10. The LatAm, CEE and EMEA aggregates are overheld.

Among APAC equities, just South Korea's posted inflows; only four other iFlow-covered countries posted buying on a weekly average basis: Switzerland, Japan, Hungary and Poland. Inflow momentum in South Korea equities comes despite a flattening-out of demand for Taiwan equities, as iFlow shows. Indeed, tech-related optimism has led to a divergence dynamic: outflows from EM APAC, primarily China, in favour of South Korea and Taiwan.

**Exhibit #3: APAC FX Scored Holdings & Equities Dynamic**




Source: BNY Mellon Markets, Bloomberg L.P.

## Disclaimer & Disclosures

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