BNY MELLON
iFlow
MACRO MORNING BRIEFING

May 2, 2024

China PMIs, Asset Flows Show Sentiment Shift

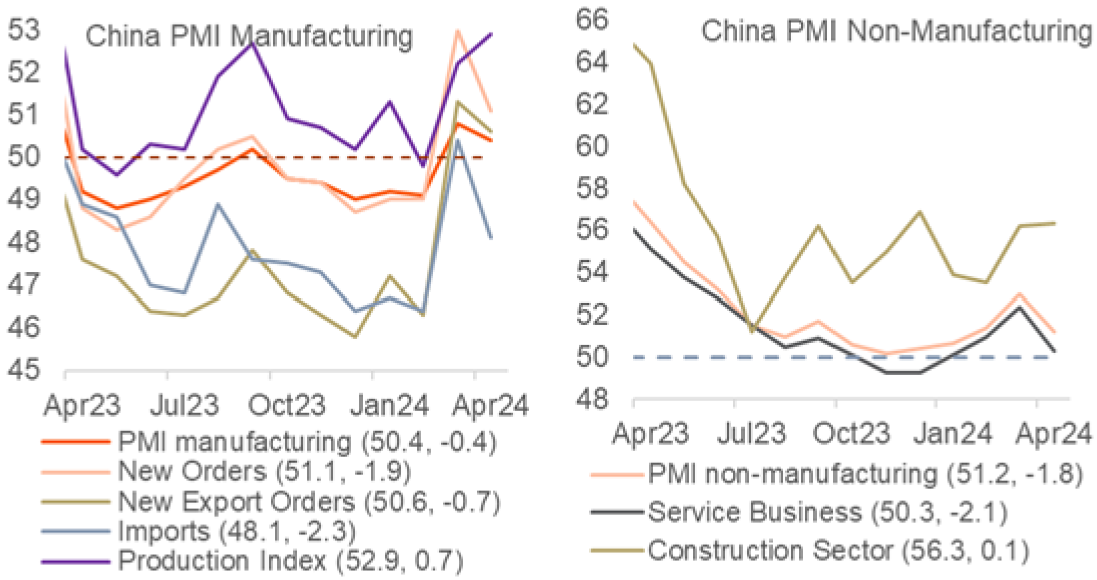
China's April manufacturing PMI eased slightly, to 50.4 from 50.8 in March. This is nonetheless the first back-to-back expansion readings (>50) since March of last year. Production activities rose to 52.9, the highest reading also since March 2023. The three key subcomponents we track closely diverged: New Orders and New Exports Orders expanded further to 51.1 and 50.6, respectively, but Imports unexpectedly fell into the contraction zone, at 48.1, after signaling a short-lived expansion in March. This pullback indicates that domestic consumption is still not on solid footing. Note that Imports in USD terms slowed to 1.5% year-to-date y/y from 3.5% in February and compared to -1.9% y/y in March. Also of note is rising input prices of raw materials, to 54.0 (+3.5), on accelerating commodity prices. The Producer Price Index edged higher, to 49.1 (+1.7), but remains in the contraction zone.

The non-manufacturing PMI slipped to 51.2 from 53.0. The services sub-index dropped sharply, to 50.3, reversing two months of gains and lowest since January. The construction business activities index was steady at 56.3, near the top of the range since H2 2023.

The weakest links in growth and sentiment remain domestic consumption and the housing sector. On a positive note, consumer confidence appears to have bottomed out after hitting 87 in November. The February reading of 89.1 was highest since March 2023.

The latest Politburo readout indicates that the government will step up support for the economy with prudent monetary and proactive fiscal policies, including interest rates and reserve requirement ratios. Other initiatives include equipment upgrades and a consumer product trade-in scheme to boost demand. There was also a pledge to study policies to address the issue of housing inventories, as well as coordinating the resolution of local debt risks with the aim of minimizing financial risk.

Exhibit #1: China Headline PMIs Still Signal Expansion



Source: BNY Mellon Markets, Bloomberg L.P.

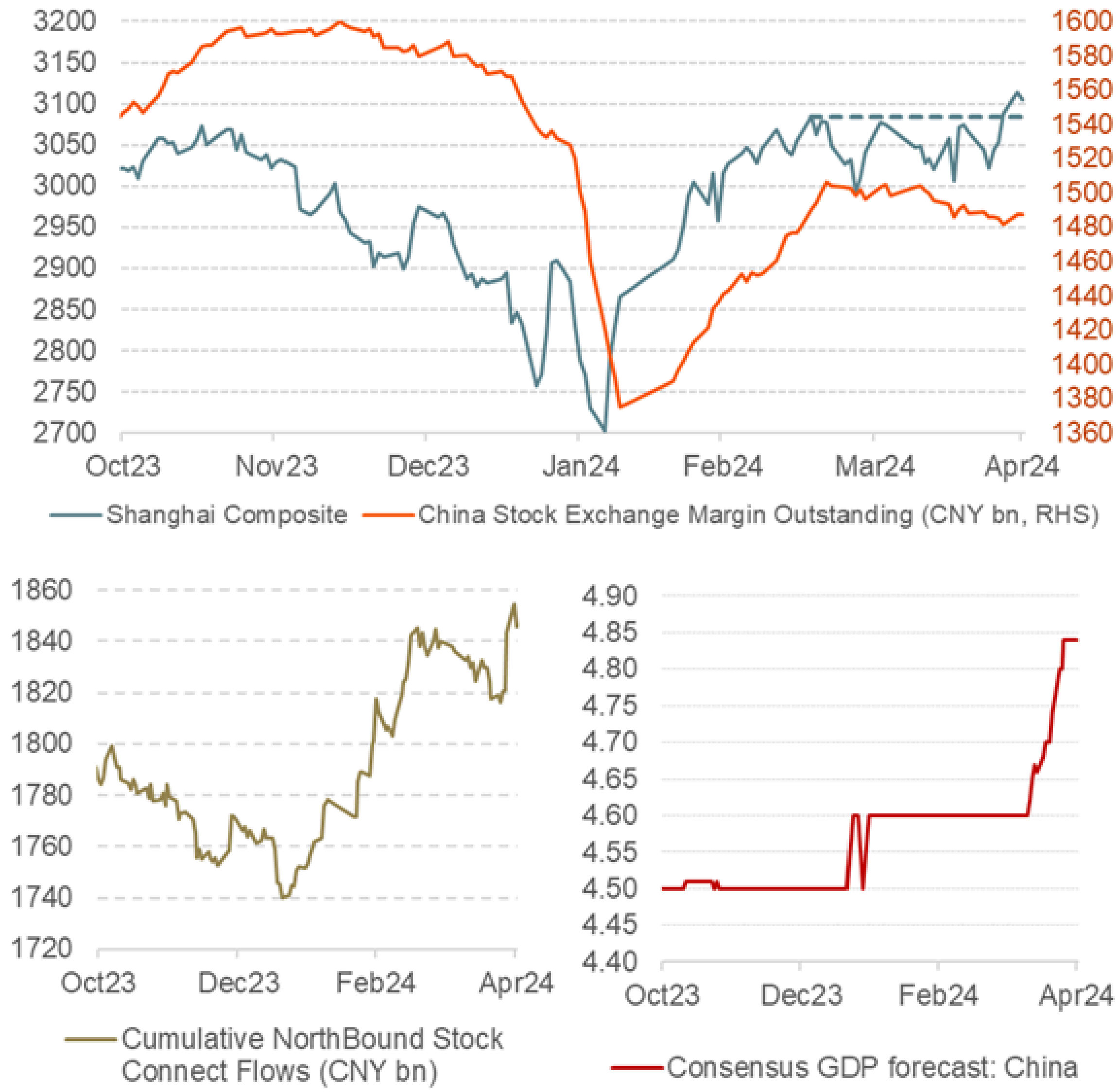
We think China's focus on growth, investment and a supportive monetary policy offers reasons to be optimistic on the recovery gaining momentum. Market confidence on the growth recovery may be reinforced by the rebound of asset prices.

The Shanghai Composite Index has posted three-consecutive monthly gains, the longest winning streak since a five-month or 12% rally between October 2020 and February 2021. As of the end of April, the Shanghai Composite had rebounded 11% from the January lows, 2% of that in April alone. The break above long-held resistance levels to make a new year-to-date high is technically significant and could spur further upside momentum.

Foreign investor sentiment, using Stock Connect Northbound flows as proxy, appears strong: net inflows of CNY 6bn in April brought year-to-date inflows to CNY 74bn, more than 1.5 times the CNY 44bn of net inflows in 2023. Sentiment among domestic investors appears similar, judging from stock exchange margin outstanding data.

Optimism on growth also shows in consensus forecasts. For example, the Bloomberg consensus for GDP in 2024 has risen to 4.84%, up from 4.5% at the beginning of the year.

Exhibit #2: China Equities & Consensus GDP Growth

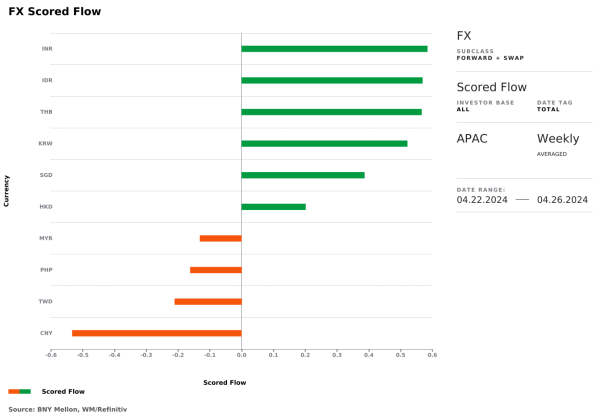


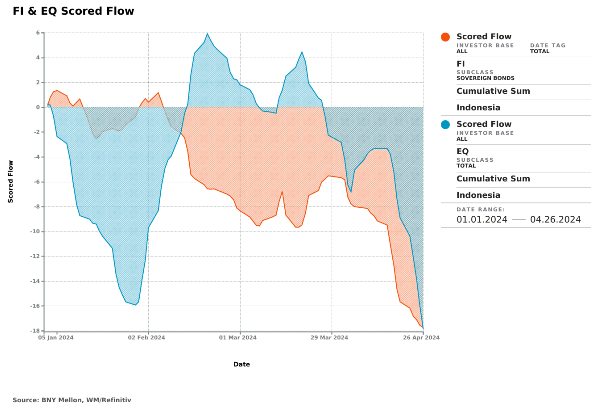
Source: BNY Mellon Markets, Bloomberg L.P.

Like the prior week, USD outflows per iFlow over the past week benefited FX globally – positive weekly average scored flows across G10, EMEA, LatAm and APAC aggregates. The USD outflow streak reached five consecutive weeks, with scored holdings falling back below -1. APAC FX flows were mixed: good demand in INR, IDR, THB and KRW, and outflows concentrated in CNY. In terms of positioning, IDR and SGD are overheld, the rest underheld, THB the most. TWD remains the only one in APAC underheld and unprofitable.

Among APAC assets otherwise, iFlow shows milder outflows from China equities and sovereign bonds over the past week. Most notable was accelerated selling of both Indonesia equities and sovereign bonds (see below), possibly in reaction to the surprise rate hike by the central bank. Elsewhere, iFlow shows investors further offloading Taiwan equities. For a change, South Korea equities posted weekly outflows after 12 straight weeks of buying.

Exhibit #3: APAC FX Flows Mixed; Indonesia Assets Suffer Outflows





Source: BNY Mellon Markets, Bloomberg L.P.

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