

China Leading Indicators

– More signs of (moderate) slowdown

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Summary: leading economic indicators (LEI) point to slowdown

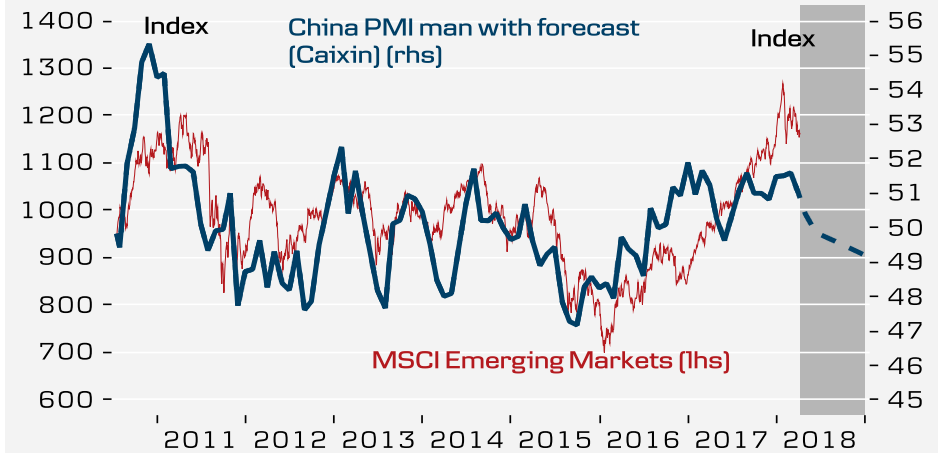
Growth outlook

- All our three favourite leading indicators point to a **moderate slowdown ahead**.
 - Home sales growth has declined (p.3).
 - Commodity price inflation has weakened (p.4).
 - The credit impulse continues to be weak (p.5).
- **Our export model** is also lower due to a stronger CNY and a moderate decline in G3 PMI.
- We are still looking for a moderate slowdown this year.

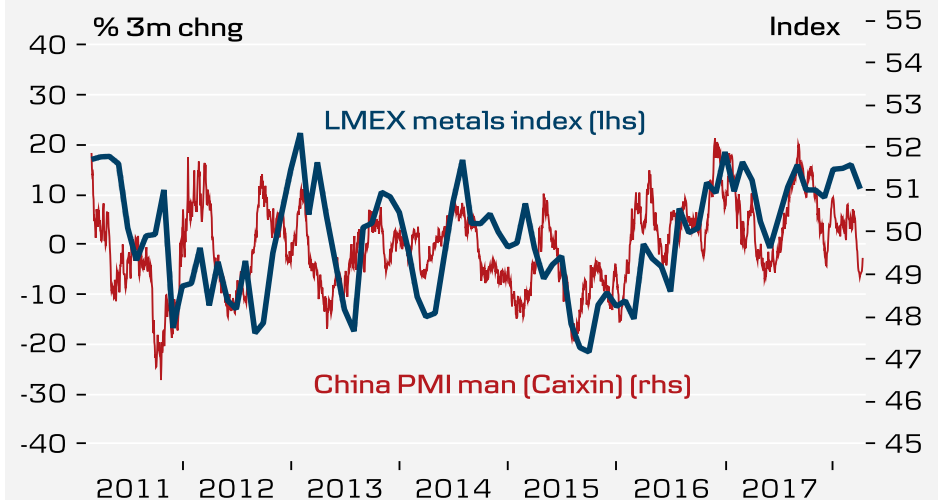
Financial implications

- **Equities:** Weaker PMI points to less support for the global cycle and thus equities.
- **Emerging markets:** Softer activity in China is normally a headwind for emerging market equities (see top right chart).
- **Global bonds:** A weaker China cycle would lead to disinflationary pressures and put downward pressure on bond yields - all else being equal.
- **Commodities:** Weaker Chinese construction is set to dampen commodity demand, especially for industrial metals.

Slowdown in China set to cause some headwinds for emerging markets



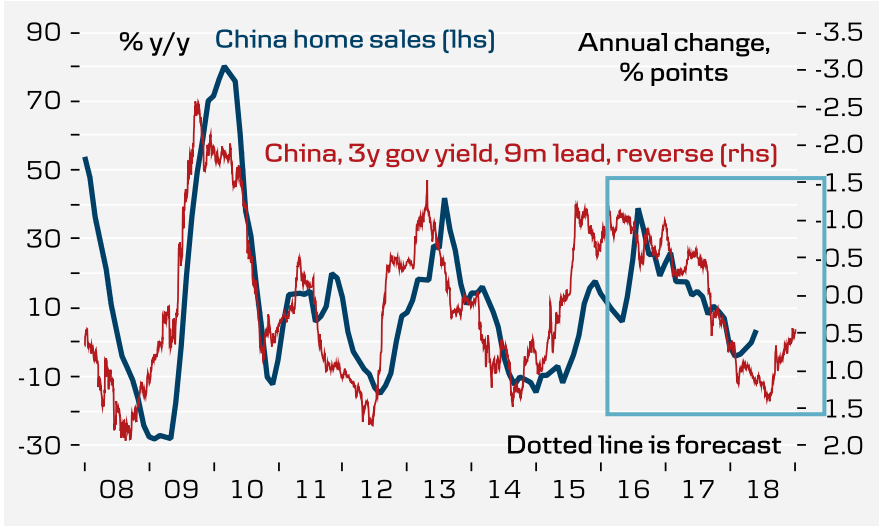
Source: Macrobond Financial, Markit, Danske Bank



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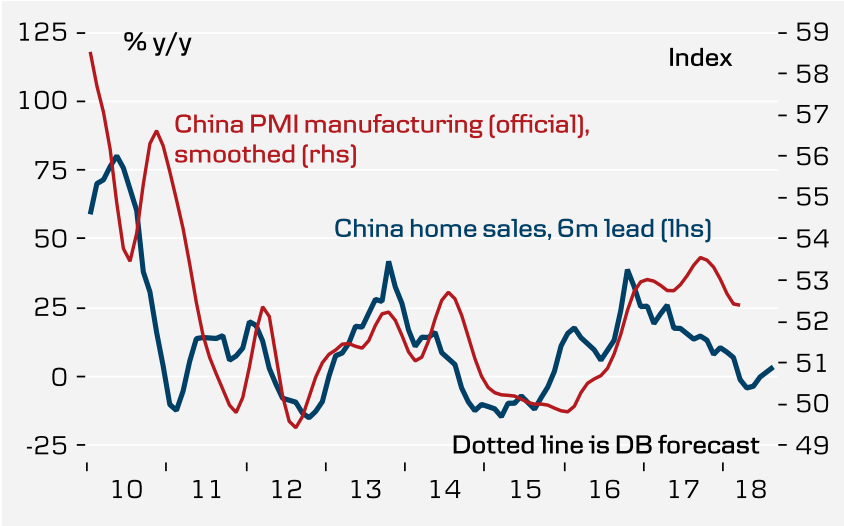
#1 LEI - home sales: decline set to weigh on activity in 2018

Home sales growth has come down and could fall a bit further. However, the headwind from bond yields is moderating and there are no signs of a hard landing.



Source: Macrobond Financial, Danske Bank

A weaker housing market tends to weigh on the economy.

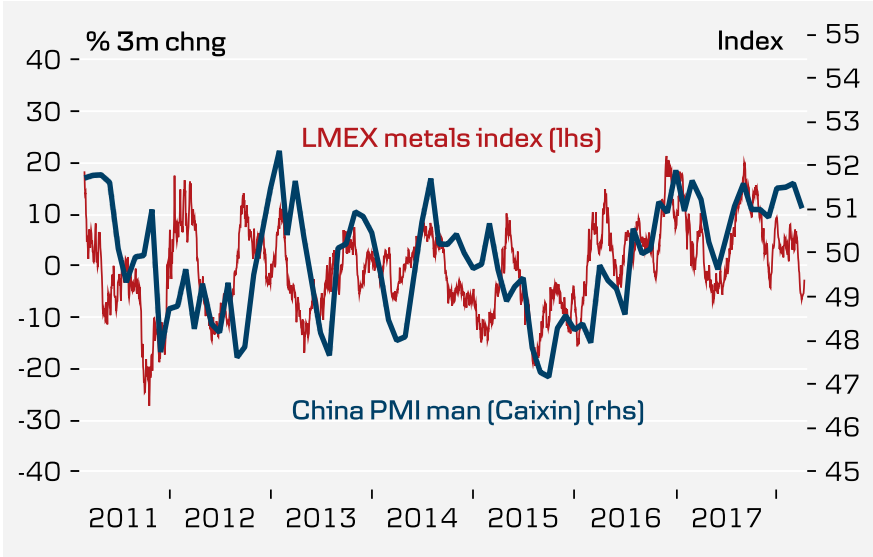


Source: Macrobond Financial, Danske Bank

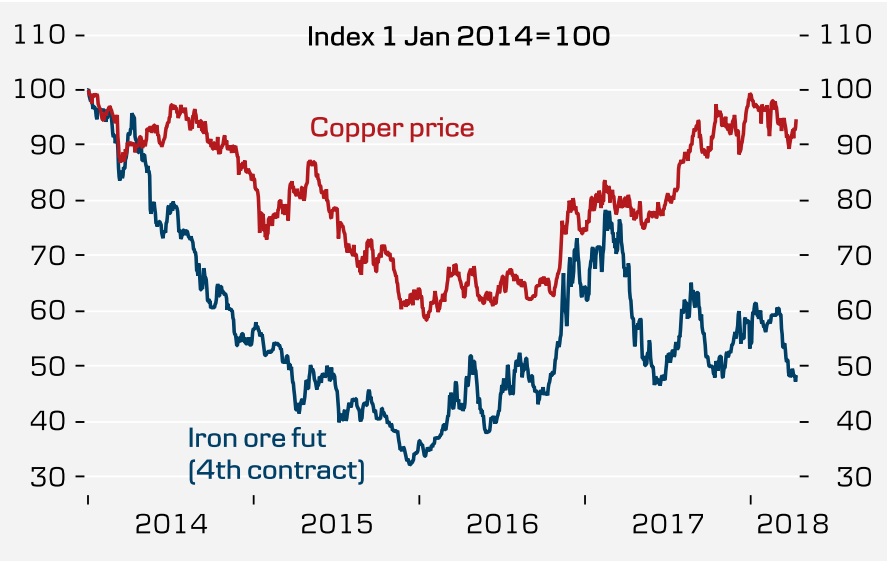
#2 LEI - commodity prices: weaker momentum

A good real time indicator for China is metal markets. **The loss of momentum lately points to lower PMI.** The industrial sector faces headwinds from weaker construction and some moderation in exports growth.

Copper prices have stopped rising, while iron ore prices have pushed lower. This is a sign of fading Chinese demand, as China consumes 50% of global metals.



Source: Macrobond Financial, Markit, Danske Bank

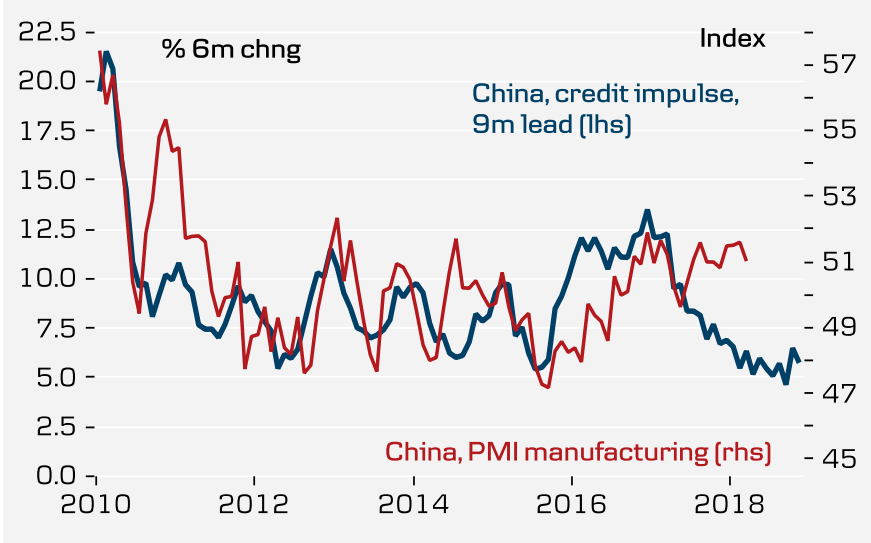


Source: Macrobond Financial, Markit, Danske Bank

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

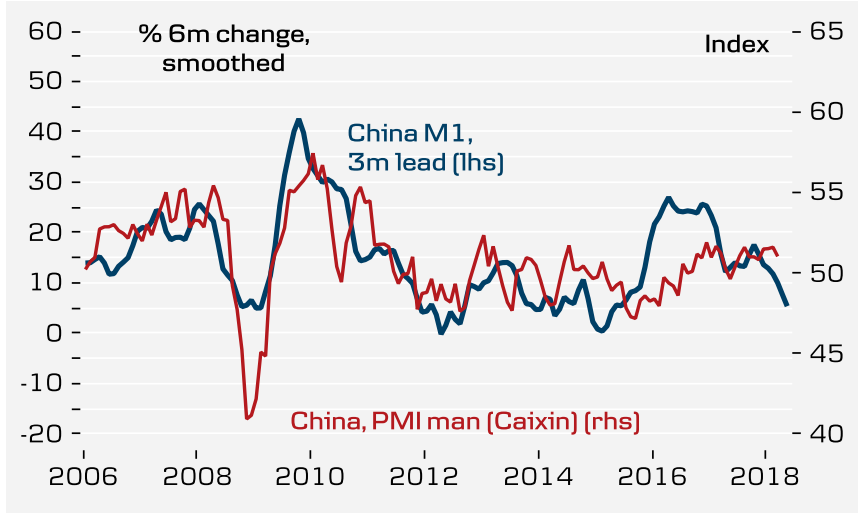
#3 LEI - credit impulse: negative signal continues

The **credit impulse is still weak**. The crackdown on shadow finance has pushed down the overall growth in credit. So far, activity has held up well despite the weaker credit growth but we expect to see some slowing soon.



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

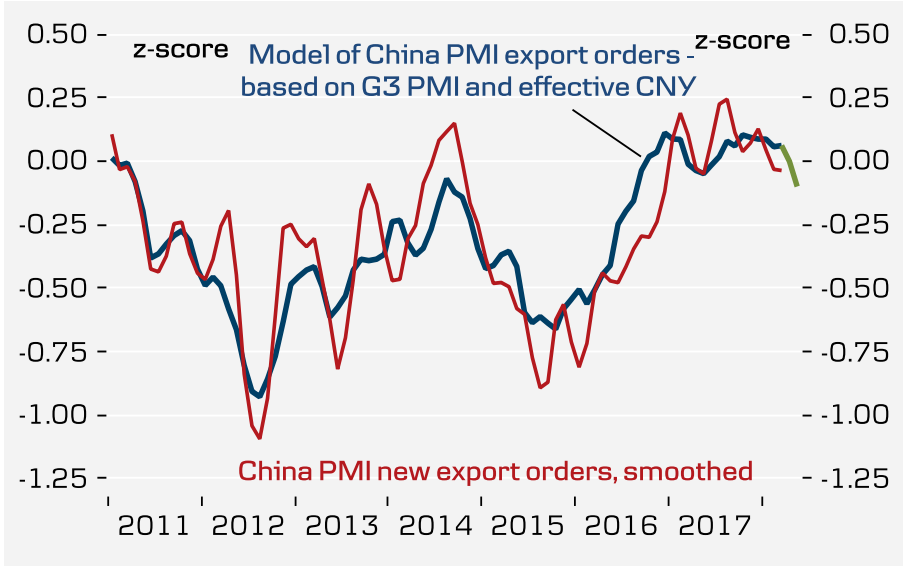
Money growth has also weakened in recent months, underpinning the signs of lower growth ahead.



Source: Macrobond Financial, Markit, Danske Bank

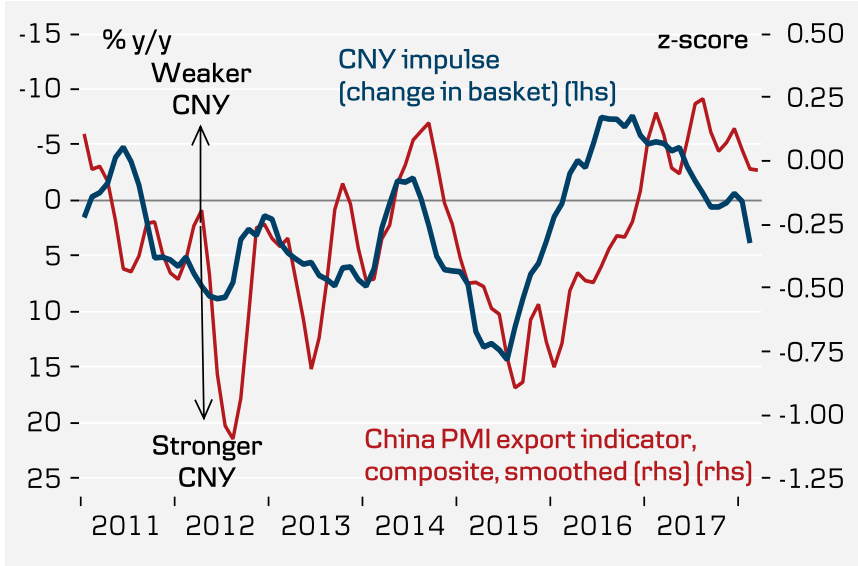
#4 LEI - export model: weakening signal

Our export model has pulled lower lately - due to a stronger CNY and lower G3 PMI.



Note: G3 here is US, Euro area and Japan
 Source: Macrobond Financial, Markit, Danske Bank

The CNY impulse has turned into a headwind following the recent appreciation of the CNY basket.



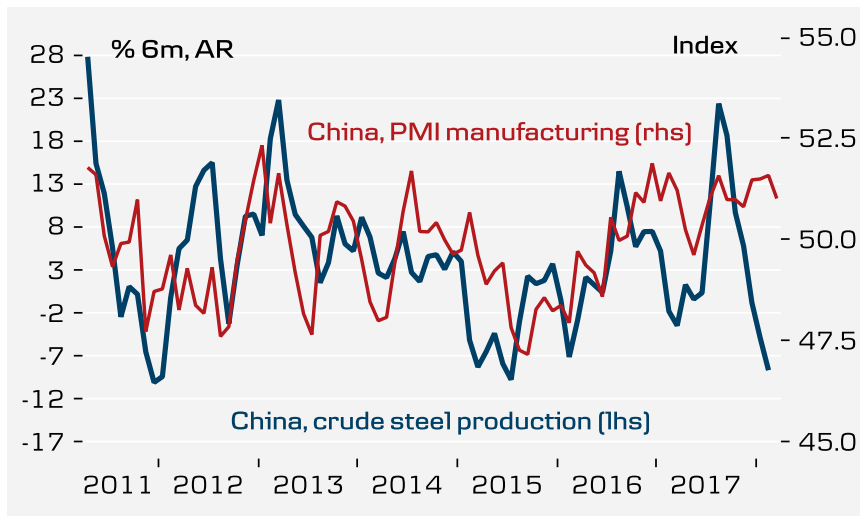
Source: Macrobond Financial, Markit, Danske Bank

Other output indicators

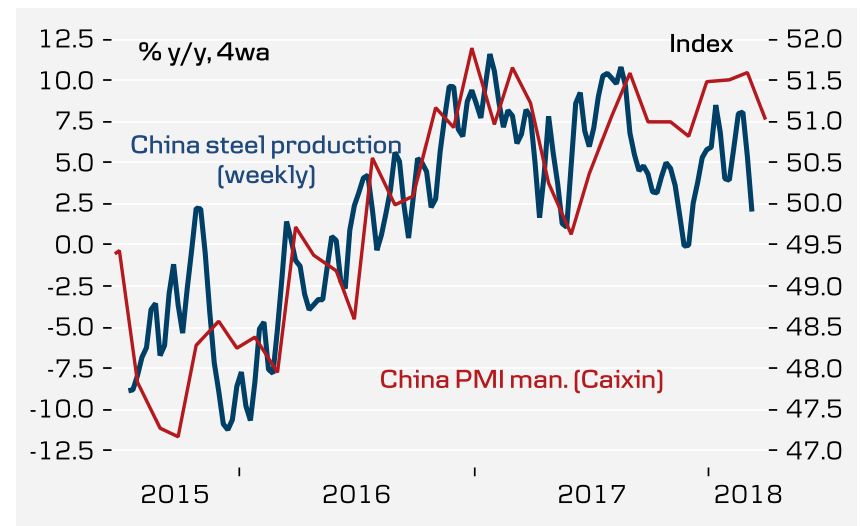
Anti-pollution measures gave hit to steel production

As expected, the antipollution measures over the winter have led to a sharp decline in industrial production growth. The measures in the north-east of China include a 50% cut in steel output, a 30% cut in aluminium production and a halt to construction. So far, the impact on PMI has been very moderate. Steel production should rebound soon as the winter curbs stop.

The weekly steel production numbers do not look as weak but still point to a lower PMI manufacturing.



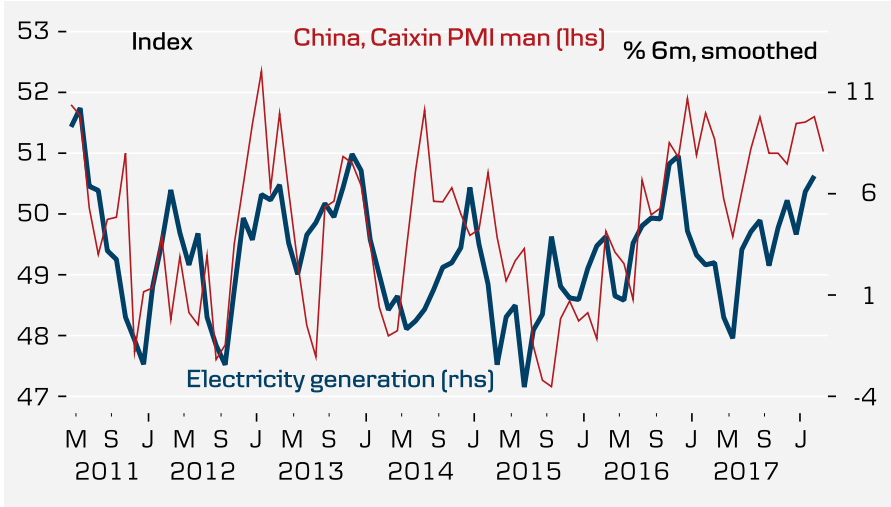
Source : Macrobond FinanciaI, Markit, Danske Bank



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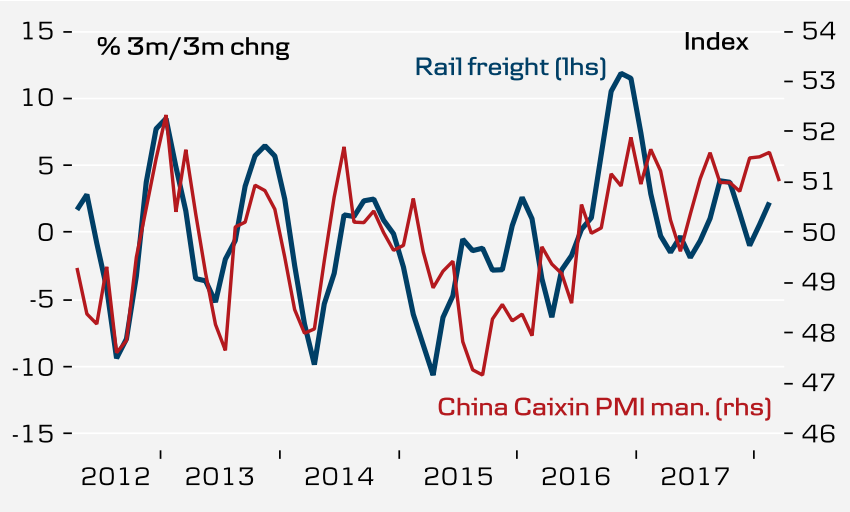
Mixed signals from electricity and freight

Electricity generation still shows strength.



Source: Macrobond Financial, Markit, Danske Bank

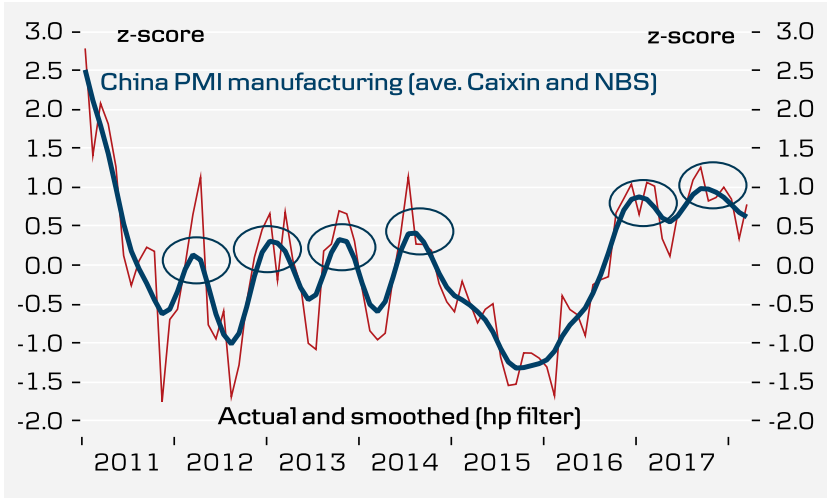
Rail freight is another good cross-check for activity. It also shows signs of moderate slowing but no big decrease.



Source: Macrobond Financial, Markit, Danske Bank

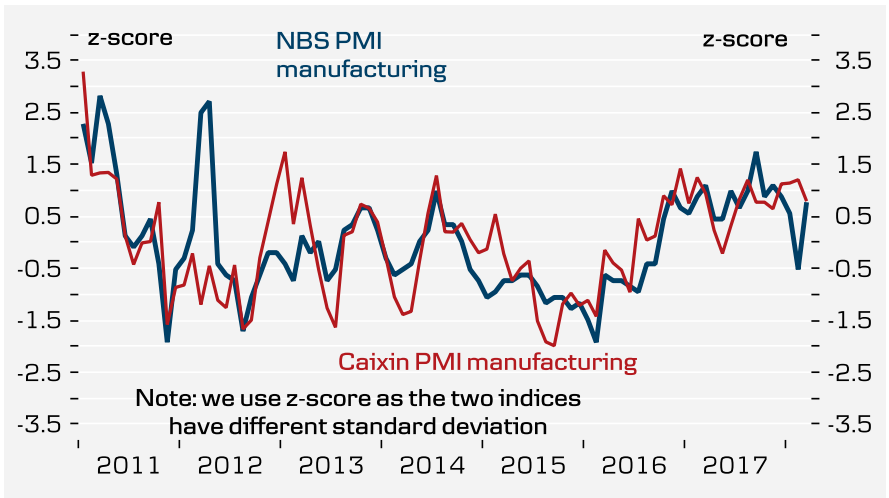
Both PMIs still high – but look toppish

Our combined PMI indicator looks **toppish** again but is still at a decent level.



Source: Macrobond Financial, Markit, Danske Bank

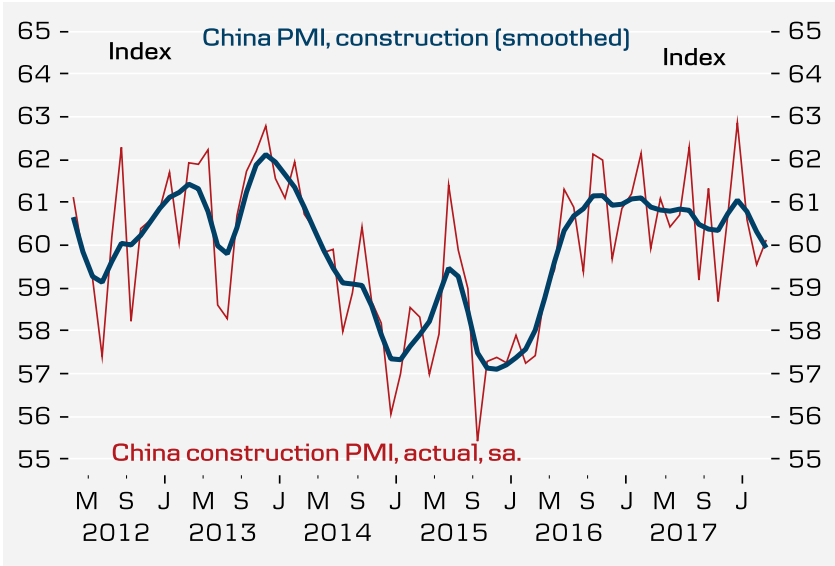
The **private Caixin index is levelling off**. The official NBS PMI has been very volatile lately.



Source: Macrobond Financial, Markit, Danske Bank

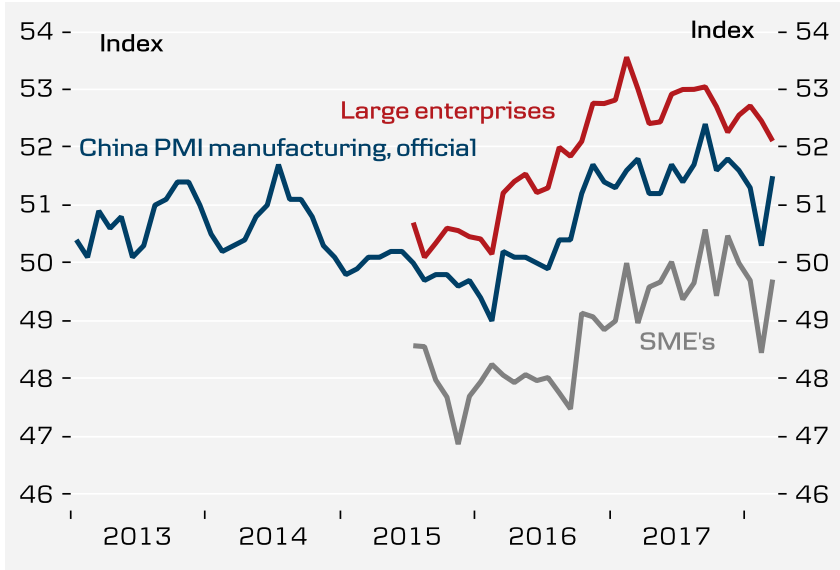
Construction sector has clearly peaked according to PMI

Construction PMI is trending slightly lower – in line with signs of softer construction activity.



Source: Macrobond Financial, Danske Bank

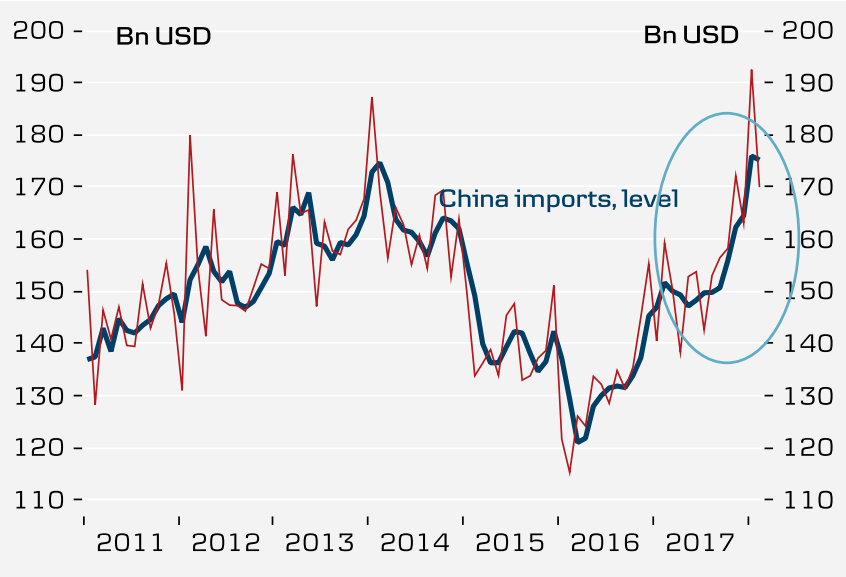
The official PMI manufacturing has details on size of companies. It shows a gradual decline for large enterprises. The index for SMEs has been very volatile lately – maybe it reflects distortions around Chinese New Year.



Source: Macrobond Financial, Danske Bank

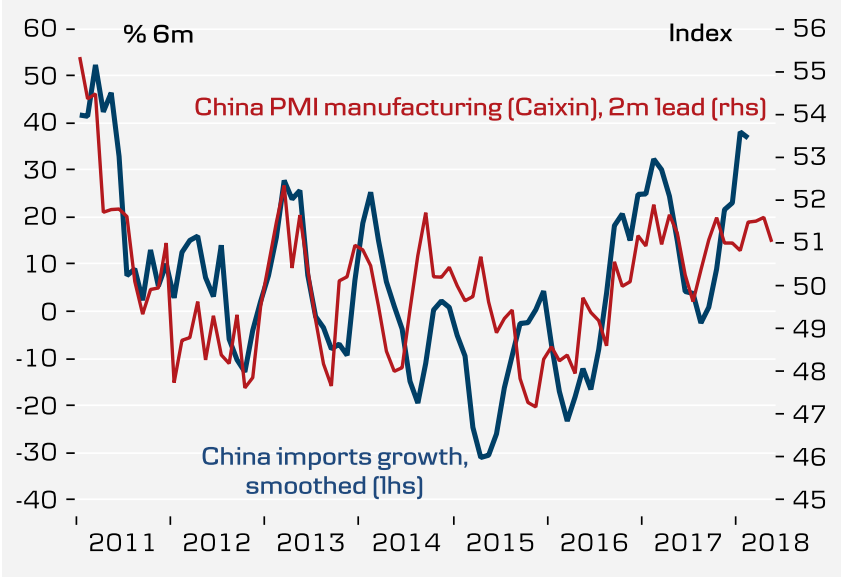
Import growth lags a bit but confirms autumn strength

Import *level* shot higher in late 2017. It is quite volatile but the trend has been strong.



Source: Macrobond Financial, Markit Danske Bank

Decent correlation with PMI – but PMI leads by a couple of months. Hence, imports tend to be more a cross-check than a forward-looking indicator. This points to a fall in imports in coming months.

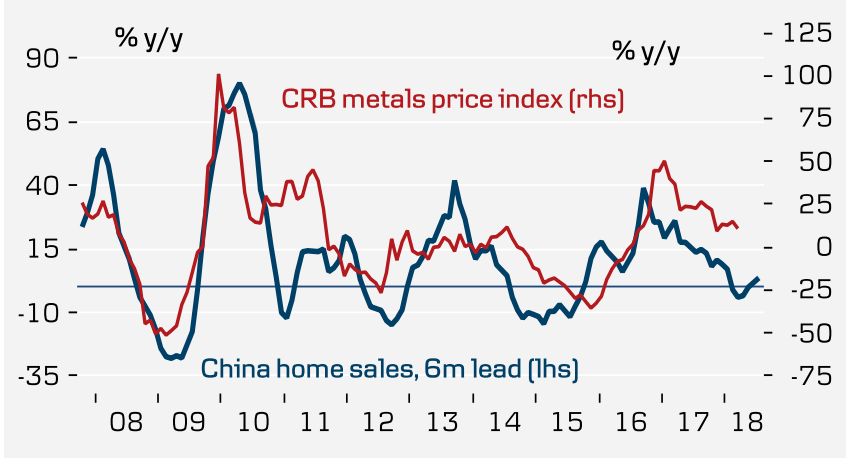


Source: Macrobond Financial, Markit Danske Bank

China's global inflation impulse

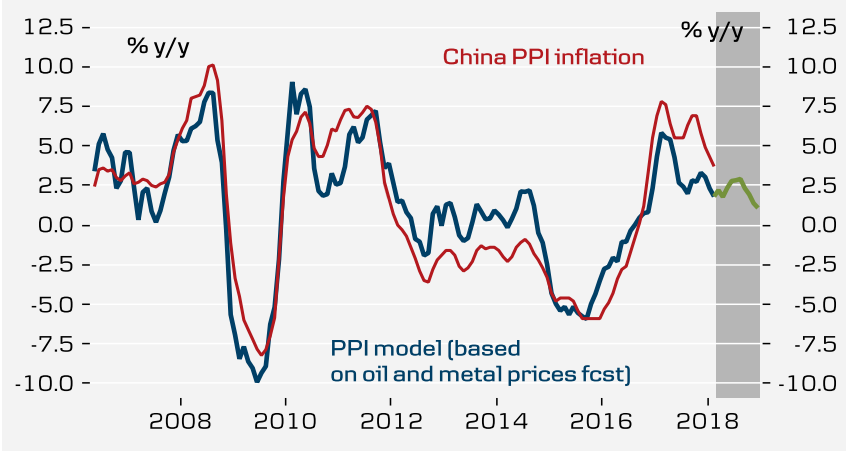
China's reflationary force has started to fade

Slower housing tends to feed into metal prices



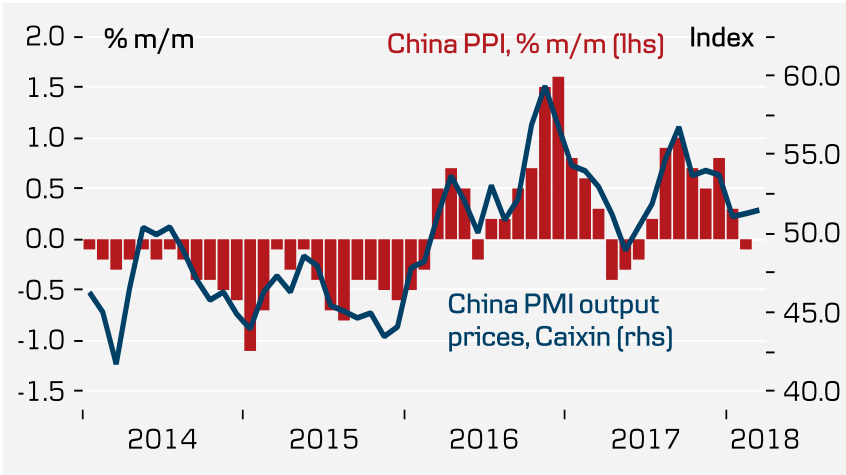
Source: Macrobond Financial, Markit, Danske Bank

PPI inflation set to move slightly lower from here



Source: Macrobond Financial, Markit, Danske Bank

PMI output confirms lower PPI momentum



Source: Macrobond Financial, Markit, Danske Bank

M1 growth also points to lower inflation pressure



Source: Macrobond Financial, Markit, Danske Bank

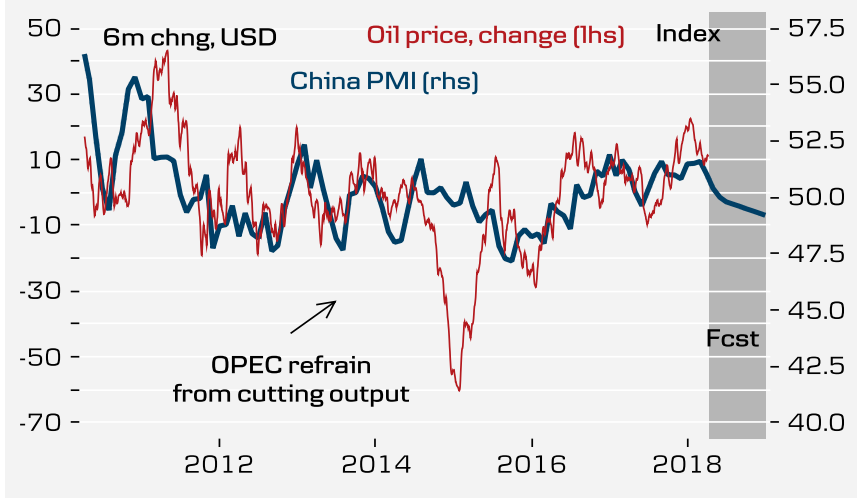
China slowdown set to weigh on global cycle and cap inflation

China slowdown set to weigh on global business cycle



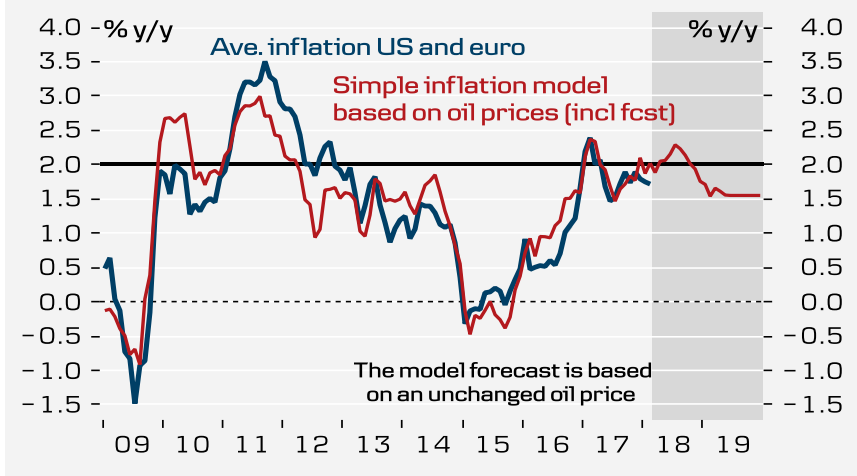
Source: Macrobond Financial, Markit, Danske Bank

Slowdown exerts downward pressure on oil prices...



Source: Macrobond Financial, Markit, Danske Bank

...and oil prices are a key driver for inflation



Source: Macrobond Financial, Markit, Danske Bank

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None.

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