

Analyst Express

Comment on the PMI Data of Jan 2012: Stabilization of the economy lacks a rock-solid foundation

- ❖ Event: CFLP announced on 1 Feb 2012 that China's Jan PMI data came in at 50.5% (up 0.2ppt from Dec 2011) and its Jan HSBC PMI data was 48.8% (up 0.1ppt MoM).
- ❖ Stabilization of the economy lacks a solid foundation. In our view, the long Chinese New Year holiday has shortened the actual sampling period of the PMI questionnaire. The expansion momentum, as indicated in the current data, is primarily driven by the preparation of stocks in the consumption sector and the concentrated purchase of raw materials in some sectors before the holiday, which drove up the new orders acquired by enterprises. The order backlog index was at a noticeably low level, implying that enterprises are still in the process of de-stocking; and the import & export order index continued plunging on the gloomy foreign demand. The HSBC PMI data (taking SMEs as the main samples) came in at 48.8%. Albeit a slight rise compared to the last month, it remained below 50%, showing that the growth momentum of SMEs is still inadequate. In view of the unoptimistic prospect of foreign demand and real estate investment, we are of the opinion that stabilization of the macro economy still lacks a rock-solid foundation.
- ❖ Producers of the consumer goods enjoyed a relatively better climate due to the holidays. By sectors, PMI data for the consumer goods sectors (such as tobacco, beverage, food processing) was higher than 50%; and that for the raw materials and midstream sectors (such as metal products, timber processing, ferrous metals) was lower than 50%. This indicates that expansion of the consumption sectors remains the main thrust for the stabilization of productions. As some of the raw materials and midstream sectors are still hovering below the "critical point", demand has not improved markedly.
- ❖ Prospect of the foreign demand remains austere. In Jan 2012, the new export order index came in at 46.9%, down 1.7ppts compared to the month before; and the import index was 46.9%, down 2.2ppts compared to the month before. The new export order index for 10 sectors (including the pharmaceutical manufacturing sector, the general equipments manufacturing sector and the metal products sector) was lower than 50%. The import index for the consumer goods sector, the intermediate goods sector and the production-use manufactured goods sector was lower than 50%, although that for the raw materials and energy business was higher than 50%. Due to the possibility of continued spread of the European debt crisis, IMF cut its projected global economic growth rate to 3.3% recently. We expect the export growth rate of China to ease markedly during the year.
- ❖ Active de-stocking of enterprises quickened. The finished goods inventory index was 48%, slipping 2.6ppts from the month before. By sectors, eight sectors including the non-metal mineral products sector, the ferrous metal smelting, rolling & processing sector and the oil processing & coking sector

Principal Market Indices

Index	Close	Change %		
		1-d	5-d	YTD
CSI 300	2428.99	-1.43	0.3	4
S&P/CITIC300	2041.04	-1.35	0.4	3
S&P/CITIC 50	1797.77	-1.27	0.3	4
Shanghai Composite	2268.08	-1.07	0.1	3
Hang Seng Index	20333.37	-0.28	2.0	11
H-share index	11253.80	-0.40	1.0	13
Red Chip	3916.15	0.07	1.1	7
Nikkei 225	8809.79	0.08	2.0	5
Dow Jones	12716.46	0.66	0.7	3
S&P 500	1324.09	0.89	0.7	5
Nasdaq	2848.27	1.22	2.2	9
DAX	6616.64	2.44	3.1	13
CAC	3367.46	2.09	1.2	8
FTSE 100	5790.72	1.92	0.9	4
BDI	662.00	-2.65	-25.9	-62

Major mercantile futures

Futures	Close (USD)	Change %		
		1-d	5-d	YTD
NYME Oil	97.61	-0.88	-2.8	-2
NYME Gold	1749.50	0.52	5.7	14
LME Copper	8425.75	1.43	0.8	14
LME Aluminum	2234.50	1.20	1.2	13
LME Zinc	2131.00	1.19	5.0	16
Spot silver	33.69	1.55	10.1	22
Corn futures	642.00	0.47	5.9	1
Soybean futures	1215.25	1.36	1.5	2
Wheat futures	674.25	1.24	11.3	4
Cotton futures	93.39	0.15	-4.9	2
Rough rice futures	13.74	-1.86	-5.4	-5
Sugar	23.59	-0.21	-4.1	0

Major foreign exchanges

FX	Close	Change %		
		1-D	5-D	YTD
USD index	78.84	-0.57	-1.5	-2
USD-RMB	6.31	-0.05	-0.2	0
USD-JPY	76.27	-0.03	-1.1	-2
EUR-USD	1.32	0.87	1.7	2
GBP-USD	1.59	0.62	2.3	3

Major stock index futures in China

Futures	Chg%	Basis	Position	Chn in position
IF1202	-1.17	10.81	38637	-252
IF1203	-1.27	22.81	10512	572
IF1206	-1.36	42.41	3280	85
IF1209	-1.27	64.21	369	2

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Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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