

Analyst Express

8M10 PMI Data Comment: Economic growth stabilized

- ❖ Event: according to announcement of China Federation of Logistics & Purchasing (CFLP) on 1 Sep 2010, the 8M10 PMI of China was 51.7%, 0.5 ppt higher than the month before. This marked the 18th consecutive month that PMI stays above 50%. The 8M10 HSBC PMI index came in at 51.9%, an increase of 2.5 ppts MoM (7M10 HSBC PMI at 49.4%).
- ❖ Economic growth stabilized. Due to seasonal factors, the 8M10 manufacturing PMI index of China was 0.5 ppt higher than it was in Jul 2010. In history, the Aug PMI was 0.72 ppt higher on average than it was in Jul during 2005-2009. Except in Aug 2008 the PMI kept flat MoM, Aug PMI has been higher than they were in the preceding Jul. PMI returned to the positive growth after posting three consecutive months of MoM decrease, reflecting the economic slowdown has eased. The drastic increase of HSBC PMI reflected that the SMEs productions are rapidly recovering. By the sub-indices, the number of growing sub-indices increased. Indices such as the new order, productions, supplier delivery, export order, purchasing price and outstanding business reversed the previous declining trend with an increase, and among them, the indices of new order, purchasing price, outstanding business and export order registered impressive MoM growth. The employment index fell down but was still higher than the critical value; the raw materials inventory, finished goods inventory and procurement volume indices continued to decline.
- ❖ As indicated by the changes in the new order and the inventory indices, industrial production will stabilize. The indices of new order, export order and outstanding business grew 2.2ppts, 1.0ppt and 1.4ppts MoM, respectively, in Aug 2010, beating their historical average growth. The improvement of order indices is a reflection of the improving demand, especially the notable rebound of domestic demand. Besides, export will also keep relatively rapid growth. Of the inventory indices, the indices of finished goods inventory and raw materials inventory remained below 50% in Aug 2010, dropping 3ppts and 0.5ppts MoM, respectively. The MoM decrease of the inventory indices exceeded their historical average (-1.12ppts and -0.34ppt), reflecting that the de-stocking of enterprises is still under way. As indicated by the meaningful decrease of the finished goods inventory over the past two months, the orders will likely continue picking up in the future.
- ❖ Remarkable increase of the purchasing price reflects that the raw materials prices will trend up. The purchasing price index reached 60.5 with a remarkable increase of 10.1ppts or 20% MoM, far exceeding the historical rise.
- ❖ Changes in the market supply-demand situations result in the improvement of business climate indices for the steel, non-ferrous metals and equipment sectors. As leading indicators of the macro economy, the rise of these business climate indices indicates that the economic deterioration will slow down in the future. The recovering business climate in the steel sector is mainly due to the reduction of market supply as a result of the energy conservation and emission reduction policies. Additionally, PMI indices of the textiles, apparel, shoes & caps, timber processing & manufacturing and health care manufacturing sectors dropped significantly, largely due to the notable increase of raw materials purchasing prices.

Principal Market Indices

Index	Close	Change %		
		1-d	5-d	YTD
CSI 300	2884.04	-0.66	1.4	-19
S&P/CITIC300	2442.85	-0.77	1.5	-18
S&P/CITIC 50	2015.27	-0.35	0.2	-25
Shanghai Composite	2622.88	-0.60	1.0	-20
Hang Seng Index	20623.83	0.43	-0.1	-6
H-share index	11498.94	0.84	0.0	-10
Red Chip	4014.26	0.60	1.5	-1
Nikkei 225	8927.02	1.17	0.9	-15
Dow Jones	10269.47	2.54	2.1	-2
S&P 500	1080.29	2.95	2.4	-3
Nasdaq	2176.84	2.97	1.7	-4
DAX	6083.90	2.68	3.1	2
CAC	3623.84	3.81	5.0	-8
FTSE 100	5366.41	2.70	4.1	-1
BDI	2741.00	1.03	-4.2	-9

Major mercantile futures

Futures	Close (USD)	Change %		
		1-d	5-d	YTD
NYME Oil	73.91	2.77	1.9	-7
NYME Gold	1246.80	-0.18	0.6	14
LME Copper	7598.25	2.23	6.6	3
LME Aluminum	2086.75	2.33	3.7	-5
LME Zinc	2133.00	3.29	7.1	-17
Spot silver	19.36	0.04	2.4	15
Corn futures	446.75	1.71	6.4	3
Soybean futures	1005.50	-0.45	0.7	-5
Wheat futures	708.75	3.35	4.2	25
Cotton futures	87.41	1.40	3.0	14
Rough rice futures	11.34	-0.04	-1.7	-26
Sugar futures	20.49	3.75	2.3	-11

Major foreign exchanges

FX	Close	Change %		
		1-D	5-D	YTD
USD index	82.45	-0.90	-1.0	6
USD-RMB	6.81	-0.01	0.2	0
USD-JPY	84.46	0.42	-0.1	-9
EUR-USD	1.28	0.84	1.0	-11
GBP-USD	1.55	0.73	-0.1	-4

Major stock index futures in China

Futures	Chg%	Basis	Position	Chn in position
IF1005	-0.76	6.16	27086	768
IF1006	-0.78	16.56	2898	324
IF1009	-0.61	50.76	3223	29
IF1012	-0.74	77.16	824	74

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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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