

China Macro Flash

CMI points to rapidly weakening external demand

March preliminary CICC Cyclical Momentum Index (CMI)

As production resumption progressing, March CICC Cyclical Momentum Index (CMI) gained by 2.8ppt to 84.1% after plunging in February. However, prelim March CMI still came in lower than the average of Jan-Feb CMI, partly dragged down by rapidly weakening external demand. CMI indicates that economic activities will likely still record notable contractions in March. The sequential improvement in CMI suggests that March mfg. PMI may register a MoM improvement, consistent with the rise in the production resumption rate in March from February (see Figure 1 for the trend of our CICC Daily Production Activity Tracker, or CICC PAT¹). However, despite the sequential improvement, the increase in production capacity started to rise more slowly from mid-March, after reaching 80%, due to continued "lockdown" of Hubei and weakening external demand from Mid-March (see Figure 1). Consequently, various high-frequency economic activity indicators may still see contraction on the YoY basis. (Please refer to Figure 2 for detailed contribution/moves of CMI sub-indices and individual parameters).

Among CMI sub-indices,

- ▶ **March industrial production growth may remain in the negative territory.** Industrial production sub-index in CICC CMI rose by 1.5ppt to 83.2% in March, but the rise was not enough to offset the significant decline of 4.4ppt in February. Although China has been pushing for production resumption since mid-February, the negative impact of COVID-19 outbreak on production still lingers. Our CICC PAT recorded an average of 77.9% of (offline) production activity in March MTD compared with full capacity. Meanwhile, the sub-index in PAT, IPP coal consumption index, is still hovering at around 70-80% of its normal level.
- ▶ **March consumption growth could continue to contract on YoY basis.** Domestic demand sub-index picked up by 9.9ppt to 77.7% in March, after slumping by 16.7ppt in February. Understandably, even with government's push for production resumption, the recovery of offline discretionary consumption will likely lag that of industrial production and investment. Containment measures were still in place in much of March, as cash flow of the real economy tightened visibly due to the national suspension of most business activities. As such, various types of consumption activities remained sluggish. For example, passenger car sales volume still fell by 47% YoY over March 1-15, vs. the 41% YoY decline in Jan-Feb.

(Continues on the next page)

¹ See China Macro Thematic Report, "Quantifying" the progress of nation-wide production resumption | Introducing the CICC Daily Production Activity Tracker (PAT), published on February 23, 2020.

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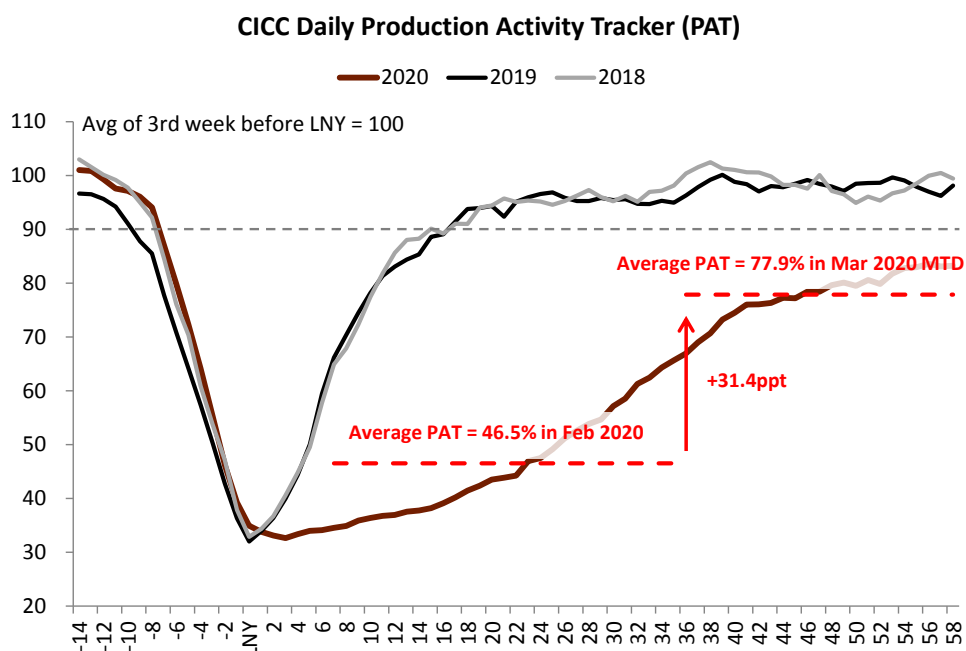
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- ▶ **Export growth for March may show signs of weakening external demand as a result of escalating overseas outbreak of COVID-19.** External demand sub-index in CMI fell by 4.2ppt to 89.0% in March. Flash March mfg. PMIs for Japan, US, and the Eurozone all retreated. Meanwhile, it is worth noting that services PMIs for these advanced economies declined much more sharply than mfg. PMIs, as containment measures dampened domestic economic activity immediately, while it would take longer for its negative impact on international trade to manifest. With more countries implementing strenuous quarantine measures, it is possible for China's external demand to face more downward pressure in 2-3Q.
- ▶ **Deflationary pressure will likely rise with contraction in commodity prices & still anemic demand.** Price sub-index in CMI fell by 2.5ppt to 92.2% in March. Food price inflation narrowed notably in March MTD. Meanwhile, global oil prices nearly halved in March MTD, and domestic industrial product prices remained sluggish. CPI may retreat notably, which PPI may fall further into the negative territory.

Despite sequential recovery of domestic activities in March, China's external demand will likely be hit by a second wave of severe disruption from the escalating COVID-19 outbreak overseas. We recently revised down our 2020 China growth forecast², against the backdrop of escalating global COVID-19 pandemic and early signs of financial market contagion. As we analyzed recently³, domestic and overseas COVID-19 outbreak combined may put a ~6ppt dent on China's 2020 GDP growth if a global recession hits, with a large portion of the negative impact coming from weaker external demand. Overseas economic activities have come to a standstill since March 10, with more countries imposing strict quarantine measures. We expect the short-term disruption in global economic activities to be of the scale never seen in modern history. The global slowdown in economic activity will likely depress China's external demand growth in the months to come.

Figure 1: Production resumption rate rose in March from February



Source: CQ Coal, Ministry of Transport, Baidu, G7, cities subway websites, Gaode map, CICC Research

² See China Macro Thematic Report, *Cutting growth forecast amidst escalating global COVID-19 pandemic*, published on March 23, 2020.

³ See China Macro Thematic Report, *Estimating the impact of COVID-19 on growth in China*, published on March 13, 2020.



Figure 2: Prelim March CMI gained by 2.8ppt to 84.1%, after plunging in February

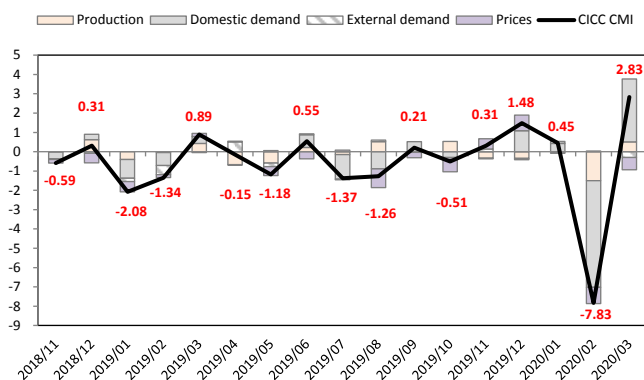
Prelim March CMI vs. final February CMI for sub-indices and components							
Sub-index		Subindex components		Frequency	Date of release	Data source	
Industrial production	↑	Industrial production	6 coastal IPP coal consumption, adjusted* Crude steel production volume	▲ Daily ▼ Every 10D	Same day Second 10D	CQ Coal MySteel	
Domestic demand	↑	Investment	Construction steel transaction volume 300-city land transaction volume	▲ Daily ▲ Weekly	Same day Second week	MySteel CICC real estate	
		Consumption-related	Passenger car sales volume, adjusted Box office revenue 30-city property transaction volume	▲ Weekly ▬ Daily ▲ Daily	1-2 weeks lag Second day Second day	CPCA China Movie Data Info Network Wind	
			Imports	China Import Dry Bulk Freight Index (CDFI) South Korean first 20-day exports Baltic Dry Index (BDIY)	▼ Daily ▲ Monthly ▲ Daily	Second day 21st of same month Second day	Wind Korea Customs Service Wind
				Advanced economies' PMI**	US manufacturing flash PMI Japan manufacturing flash PMI Eurozone manufacturing flash PMI	▼ Monthly ▼ Monthly ▼ Monthly	20-24th of same month 20-24th of same month 20-24th of same month
		External demand	↓	Exports freight rate	China Export Containerized Freight Index (CCFI)	▲ Weekly	Second week
Prices	↓	Energy	Brent crude oil	▼ Daily	Second day	IPE	
			Thermal coal	▼ Daily	Second day	Zhengzhou Commodity Exchange	
			Coking coal	▼ Weekly	Second week	Dalian Commodity Exchange	
		Metals	Rebar	▲ Daily	Second day	Shanghai Commodity Exchange	
			Iron ore	▲ Daily	Second day	Dalian Commodity Exchange	
			Copper	▼ Daily	Second day	Shanghai Commodity Exchange	
		Cement	Cement	▲ Weekly	Same week	Digital Cement	
		Fertilizers	Domestic potassium chloride	▲ Weekly	Same week	Sci99	
			Urea	▲ Weekly	Same week	Sci99	
		Chemical products	Polyethylene SBR	▲ Weekly ▼ Weekly	Same week Same week	Bailinfo Bailinfo	
Agricultural products	Agricultural product price index 200: Wholesale	▼ Daily	Second day	Ministry of Agriculture			

*: We use NBS thermal power production data to adjust for 6 major IPPs coal consumption.

**: Unit for all indicators is % YoY, except for PMI.

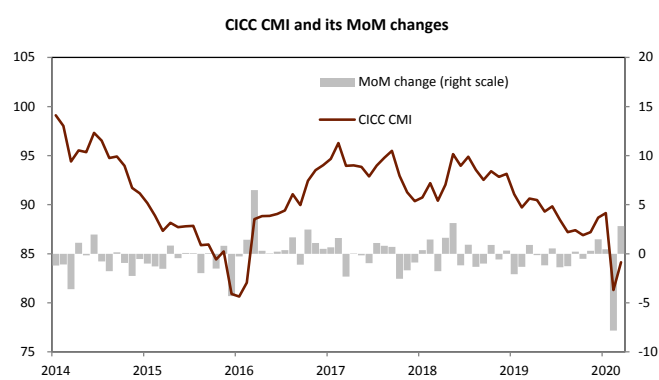
Source: Wind, CEIC, CICC Research

Figure 3: Contribution to headline changes from its components in recent months



Source: Wind, CEIC, CICC Research

Figure 4: Prelim March CMI gained after plunging in February, but still came in lower than the average of Jan-Feb



Source: Wind, CEIC, CICC Research



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