

## First Macro Capital

May 6, 2018

### ALERT: MIXED SIGNAL FROM THE EAST

Last month we were cautious on the tariff noise that was escalating throughout March. We are always reminded to let the leading economic indicators tell us what is really happening with businesses instead of guessing. This can save a lot of sleepless nights wondering what will be.

The HSBC China Manufacturing PMI edged up slightly by 0.1 in April to 51.1 from 51.0 in March, highlighting continued economic expansion in China, the world's second largest economy. It is a key country to monitor because the United States is a key importer of China goods. Which China in turns imports a number of components from other countries like Korea, Japan and Germany to manufacture the finished good for the United States and other countries. Though it was a mix bag of positives and negatives from the survey.

*“According to panellists, output was raised in line with higher new order inflows. Indeed, latest data showed that **total new business rose** at the start of the second quarter, albeit at the **slowest pace for seven months**. Data indicated that **weaker demand in international markets had partly weighed on overall growth, with new export sales declining for the first time since November 2016** (though only marginally). (Markit)*

The South Korean PMI declined for the third consecutive month in April to 48.4. It will be interesting to watch over the next couple of months to see how the recent meeting between the two Koreas impacts the manufacturing mood in South Korea. We would suspect it will be positive, as evidence by the recent housing speculation boom at the Chinese border city of Dandong, to North Korea.



Source: ITPM, Markit Economics, First Macro Capital

*“In the border city of Dandong, in the north east region of China, some prices have even doubled, according to state-run outlet Global Times. Other properties have seen a rise from 3,000 yuan (\$US471) to 5,000 yuan (\$US785) per square meter, and some areas are reportedly increasing at a rate of 300 yuan (\$US47) a day. (Business Insider)*

In Japan, its PMI finished up 0.7 to 53.8 in April up from 53.1 (March). This uptick was primarily driven by *“The rate of growth in output was solid overall and the **fastest since January**. According to anecdotal evidence, **production line activity was raised in line with greater sales** and rising backlogs of work. The gain in new business was equally solid and faster than the previous survey period. Panellists attributed the **improvement in demand to new product launches**.”*

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The markets continued their volatility through April, yet business in Japan's and China's Manufacturing sectors continue to remain in expansion mode. South Korea has not gotten out of its contraction phase, but we will let the data show us the way on the recent **positive geopolitical events impact order sentiments for manufacturing in its next report.**

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