CIO Memo

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Asian PMIs suggest uneven recovery

Key take aways

- Purchasing manager indices (PMIs) in China and India have indicated a manufacturing-led recovery. But Southeast Asia's recovery has lagged behind.
- Markets have continued to move higher on the improving regional economic data and global cues.
- We are positive on Chinese equities, given the country's faster recovery and more reasonable valuations. We are neutral on Indian equities and cautious on Southeast Asia.

1. What happened?

Asian economies have released September PMIs in the past week. China's manufacturing PMI (official measure) rose to a six-month high of 51.5, compared to 51.0 in August. The September number was higher than the consensus forecast of 51.2. In particular, China's new export orders PMI sub-component rose above the 50 threshold (between expansion and contraction) for the first time this year at 50.8 in September, compared to 49.1 in August. China's non-manufacturing PMI rose to 55.9 in September (vs. 55.2 in August), the highest in more than five years.

India's services sector PMI, published today, rose sharply in September to 49.8 from 41.8 in August. This was the fifth straight month of increase, according to data analytics firm IHS Markit. This follows data released last week which showed India's PMI for manufacturing also rose to 56.8 in September – the highest in more than eight years. India's composite PMI rose to 54.6 in September from 46 in August.

Southeast Asian PMIs were less encouraging. Singapore's manufacturing PMI was at 50.3 in September (vs. 50.2 in August), its second month above 50. However, Indonesia's manufacturing PMI fell into contraction territory again in September at 47.2 (vs. 50.8 in August). Malaysia's manufacturing PMI was indicating contraction at 49.0 in September (vs. 50.0 in August). Thailand's manufacturing PMI reached 49.9 in September (vs. 49.7 in August).

2. How did markets react?

China's equity market has been closed during the "golden week" holidays. Hong Kong's Hang Seng Index has however risen 3.3% in its last three trading days, probably helped by the Chinese PMI data. India's Nifty continued to move higher (by +2.6%) after publication of manufacturing PMI last week and is also up today on the stronger services PMI print. India's 10-year bond yields have also risen slightly in a risk-on market reaction.

3. What does it mean for investors?

Asian PMIs for September suggest an uneven recovery in the region's different economies. China's manufacturing sector gained further strength, with its export sector receiving more overseas orders as developed markets continued to reopen. China's export sector has outperformed market expectations recently with September exports up 9.5% YoY, the fastest pace in more than a year. China's service sector recovery has also speeded up. September PMI services data added to evidence that transportation, hotels, dining/restaurant and telecommunication services recover quickly. During the ongoing "golden week" holidays in China (October 1-8), there have been an estimated half a billion Chinese travelling around domestically, further evidence of a service sector recovery.

In India, the two PMI readings further signal a pick up in economic activity after relaxation of lockdown curbs by the Indian government in the past two months. The recovery has been especially strong on the manufacturing side – statistically more tightly-linked to the economic cycle – as new business inflows and export orders have expanded. Indian services sector data, on the other hand, signalled gradual normalization of business services as the pace of contraction was moderate for new businesses. However, even as preliminary signs appear of economic data picking up again and coronavirus cases plateauing, the upcoming festive season poses the risk of a second wave and investors should exercise caution.

In Southeast Asia, due to the uptick in coronavirus infections and the re-imposition of social distancing measures, the economic recovery has been relatively slow, particularly in Indonesia and Malaysia.

Investment implications: Within Asian equity markets, we are positive on Chinese equities due to the country's faster economic recovery, its pro-growth fiscal policies and the relatively low valuations. We are neutral on Indian equities, as their near-term valuation is getting expensive, considering the country's uncertain coronavirus backdrop. Meanwhile, we are cautious on Southeast Asian equity markets. We would use a staggered approach to make any changes to holdings.

Glossary

The Hang Seng Index (HSI) includes the 50 largest companies traded on the Hong Kong stock exchange.

The NIFTY 50 Index is a benchmark Indian equity index representing the weighted average of 50 stocks over 12 sectors.

Purchasing manager indices (PMI) provide an indicator of the economic health of the manufacturing sector and are based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The composite PMI includes both manufacturing and services sectors. They can be published by public sector or private agencies (e.g. Caixin, Nikkei).

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