

Resilience Amid Disruptions

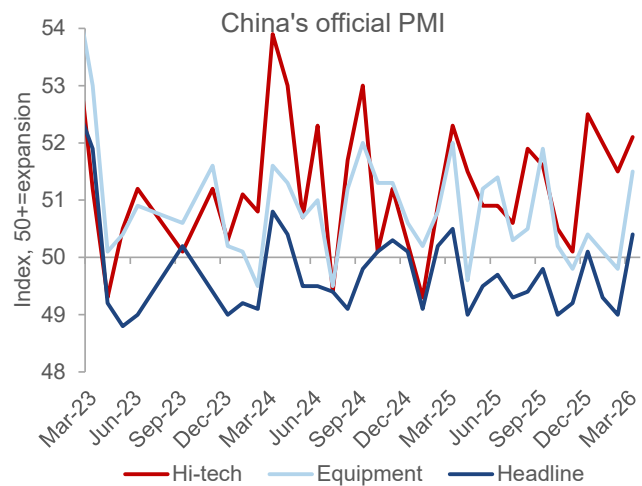
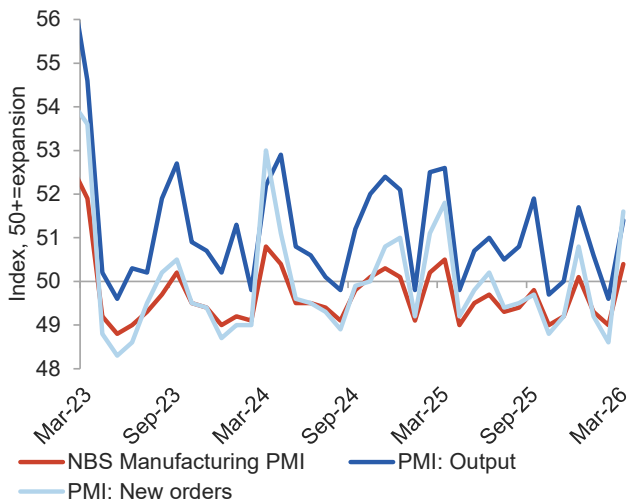
China's official manufacturing PMI beat market expectations, reflecting relatively supported sentiment despite escalated Middle East tensions. This improvement was relatively demand-driven, with the new export orders index reaching its highest level since last April's "Liberation Day." That said, disruptions in the Strait of Hormuz did drive up input costs for Chinese manufactures, despite the government's efforts to cap retail fuel prices.

China's **official manufacturing PMI beat market expectations**, reflecting relatively supported sentiment amid supply disruptions in the Strate of Hormuz. The index rose to a 12-month high of 50.4 in March, versus 49.0 in February. That being said, the reading remained slightly below the level typically seen in March, which is usually 50.5 or above, as factories resume operations after the extended Lunar New Year holiday and business activity returns to normal.

The improvement was broad-based and demand-driven, with the new orders index climbing to 51.6 and exceeding the production index for the first time in two years (Fig. 1). Trade-related PMI indicators point to an easing in external headwinds, with the new export orders index reaching its highest level since last April's "Liberation Day." Sector-wise, high-tech and equipment manufacturing were the main drivers of the headline recovery (Fig. 2), in line with the growth pattern seen in industrial profits for the first two months.

Fig 1 New orders rose above production for the first time in 2 yrs

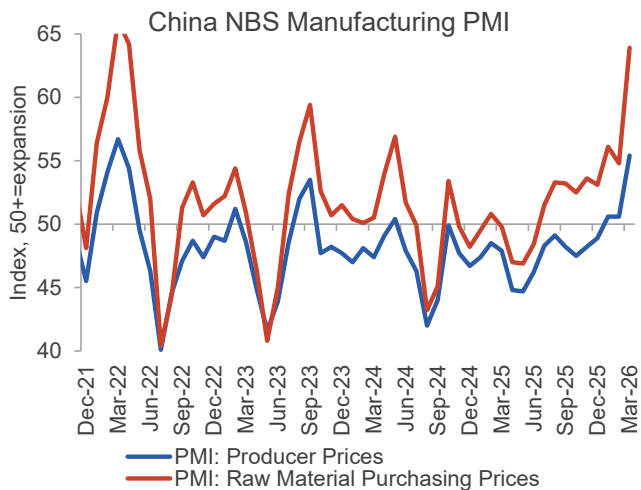
Fig 2 Hi-tech and equipment manufacturing drove the recovery



Source: CEIC, Wind, Mizuho

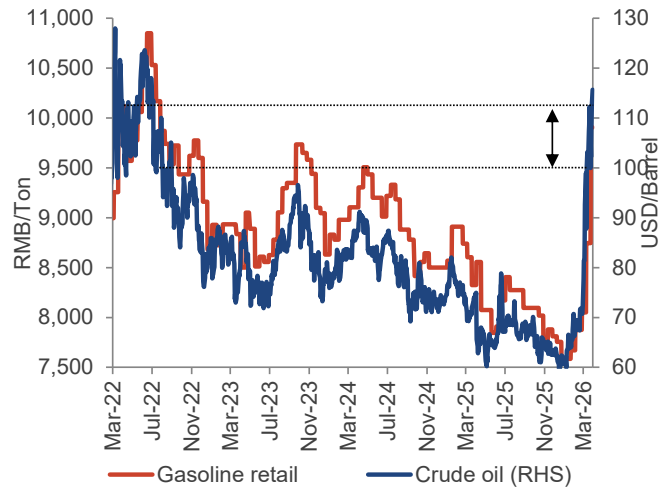
However, not all signals were positive. **Disruptions in the Strait of Hormuz appear to have driven up manufacturers' input costs sharply**, with the raw material purchase price index surging to 63.9 in March, close to a four-year high (Fig. 3). Note that China has already moved to curb domestic fuel price increases against the backdrop of elevated global oil prices. The hike in retail fuel prices on 24 March was roughly 47% lower than what would have resulted from the current pricing formula (Fig. 4).

Fig 3 Raw material purchasing prices rose to a four-year high



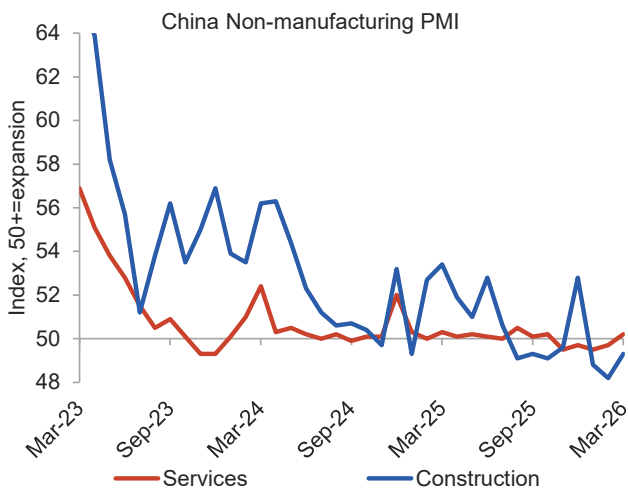
Source: CEIC, Wind, Mizuho

Fig 4 China moved to cap the increase in retail fuel prices



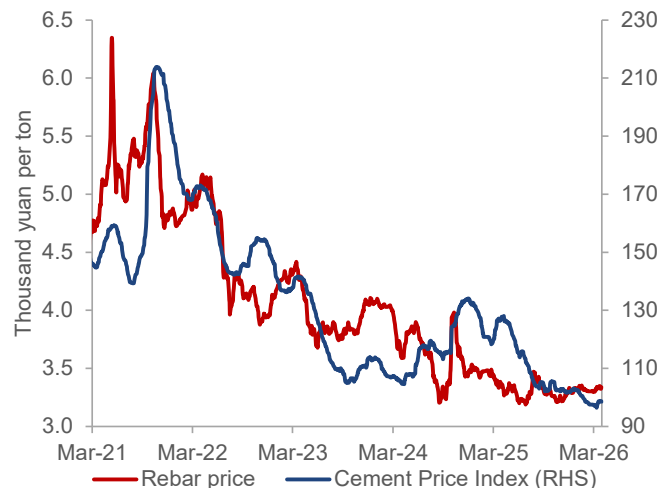
Elsewhere, **the non-manufacturing PMI returned to expansion territory**, rising to 50.1 in March from 49.5 in February. The pickup was led mainly by a recovery in services, where the PMI rose to a five-month high of 50.2 despite the fading boost from holiday-related demand (Fig. 5). By contrast, **construction activity remained subdued**, with the PMI staying in contraction territory at 49.3 in March. Cement prices, an important proxy for construction demand, also remained near decade lows (Fig. 6).

Fig 5 Construction activity remains subdued



Source: CEIC, Wind, Mizuho

Fig 6 Cement prices near decade lows



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