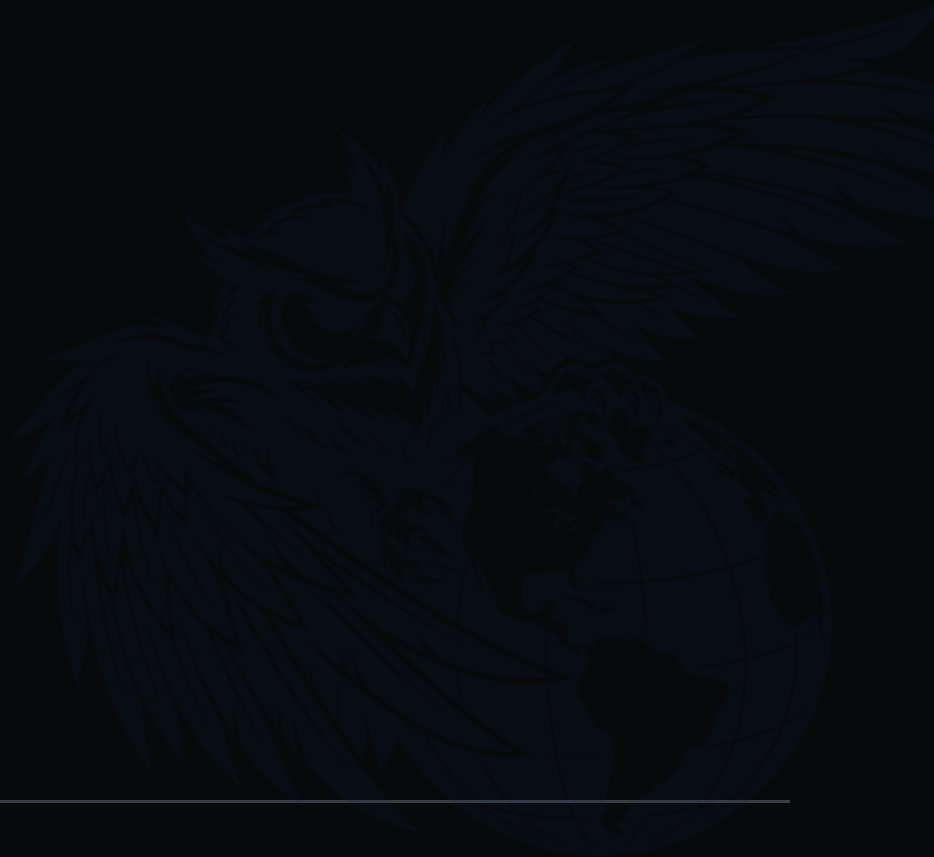

PUBLISHED MARKET RESEARCH

China's Factory Cycle at the APEC Table

A September turn built on output and AI hardware, tested by October data before Shenzhen

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China's official factory gauge returned to expansion in September on production, with new orders flat and export orders back only to the line. An AI hardware cycle is lifting export values and profits, which strengthens Beijing's hand at Shenzhen, but the price gauges point to pressure on downstream margins and we expect the October reading to slip back below expansion.

China's factory cycle turned up in September on output, not on orders. The export order gauge has recovered from deep contraction in 2025 but only to the threshold, while export values boom on AI hardware prices and product mix. Profits for the year to August are strong and margins are wider than a year ago, yet input price gauges are pulling further ahead of output prices, which points to pressure on downstream margins in the months ahead. The October reading lands after the national holiday and before the leaders meet in Shenzhen, inside a short truce whose rare-earth terms are not yet confirmed. We judge it more likely than not that the October headline falls back below expansion.

HEADLINE INDICATORS

50.1 OFFICIAL MANUFACTURING PMI, SEPTEMBER 2026	51.7 PRODUCTION SUB-INDEX, SEPTEMBER 2026	50.0 NEW EXPORT ORDERS SUB- INDEX, SEPTEMBER 2026
60.8 RAW MATERIAL PURCHASE PRICE INDEX, SEPTEMBER 2026	15.7 percent INDUSTRIAL PROFIT GROWTH ON A YEAR EARLIER, JANUARY TO AUGUST 2026	10 January 2027 END OF THE EXTENDED US- CHINA TRUCE

DOCUMENT CONTROL

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CENTRAL JUDGMENT

The September return to expansion is a supply-side turn, not a demand-led one. Production did the work while new orders were flat, small firms stayed below the line and employment kept shrinking. The strongest force in the cycle is an AI hardware boom that is lifting electronics profits and export values at once, which makes the factory base less fragile and Beijing's hand at Shenzhen stronger than the headline alone suggests. But that boom is narrow, export order breadth has only just reached the threshold, and input costs are outpacing factory-gate prices, so the October print remains exposed to the holiday effect. The trade truce has been extended, but only for a short window, and the status of the rare-earth suspension is the hinge for downstream manufacturers.

KEY JUDGMENTS

KJ-1	The September return to expansion was driven by production rather than by new orders, which were flat. The bureau's own September release and the Associated Press report carry the same production and new orders figures, and on the bureau's composite weights the production term accounts for the whole rise in the headline.	HIGH
KJ-2	Export orders have recovered from deep contraction only to the expansion line even as export values boom, so the export engine is running on price, AI hardware product mix and a low prior-year base more than on breadth of fresh orders. The bureau's gauge, which measures how many firms see orders rise rather than volume, was below the line in most months to August, while customs data as reported show chip export values soaring as volumes fell.	MODERATE
KJ-3	Rising input costs point to emerging pressure on midstream and downstream factory margins in the months ahead, though the profit data do not yet show a squeeze. The bureau's purchase price gauge pulled further ahead of its output price gauge in September and August profit growth ran far below the year-to-date pace, while margins for the year to August stayed above a year earlier.	MODERATE
KJ-4	The October headline is more likely than not to slip back below expansion, with a central estimate a little below the line. The bureau's own releases show the headline falling from September to October in most recent years despite seasonal adjustment, and September's gain was narrow and production-led.	MODERATE
KJ-5	China is likely to extend its suspension of the October 2025 rare-earth controls before they lapse, but the confirmation may come late and in narrow terms. Beijing has confirmed the wider truce extension, yet no public text we could find names the rare-earth suspension.	LOW

KEY STATISTICS

50.1 index Official manufacturing PMI for September, 2026-09-30²	51.7 index Production sub-index for September, 2026-09-30²	50.5 index New orders sub-index for September, 2026-09-30²	50.0 index New export orders sub-index for September, 2026-09-30²
60.8 index Purchase price index for major raw materials for September, 2026-09-30²	54.0 index Output price index for September, 2026-09-30²	48.4 index Manufacturing employment sub-index for September, 2026-09-30²	15.7 percent Industrial profit growth on a year earlier for January to August, 2026-09-29⁴
5.66 percent Industrial profit margin on operating revenue for January to August, 2026-09-29⁴	25 percent Export growth on a year earlier for August, 2026-09-08¹⁰		

Scope and method

METHOD

This paper reads the official purchasing managers' survey published by China's National Bureau of Statistics, including the bureau's full Chinese-language release for September and its October releases for recent years, the bureau's producer price and industrial profits releases, customs trade data as reported by wire services and the financial press, and public reporting on the US-China truce and the rare-earth export controls, all read on 8 and 9 October 2026. The bureau's survey indices are diffusion indices: they measure the share of firms reporting a rise against a fall on the month, not the level of volume, and are read here in that sense. Sources off the firm's list are labelled. Probabilities are the author's own judgment, anchored on the seasonal pattern of the series around the October holiday. No client-attributable material is used.

SECTION 01 • ASSESSMENT

The September turn is real but narrow

The headline crossed the line because factories produced more, not because buyers ordered more.

China's official manufacturing PMI rose to 50.1 in September 2026 from 49.8 in August, with the production index at 51.7, up 1.3 points, the new orders index at 50.5, down 0.1 point, and the employment index at 48.4, down 0.3 point, according to the bureau's release of 30 September 2026.²

The Associated Press reported the same headline, production and new orders readings on 30 September 2026, with production up from 50.4 and new orders down from 50.6.⁹

Reuters reported on 30 September 2026 that the reading matched the median forecast of 50.1 in its poll, tied the rebound in part to a global artificial intelligence boom, and said the official non-manufacturing PMI rose to 50.2 from 49.0 in August.¹¹

The bureau's August release, published on 1 September 2026, put the new orders index at 50.6, a rise of 2.1 points on July, and the headline PMI at 49.8, up 0.6 points.¹

ASSESSMENT • HIGH CONFIDENCE

September was a genuine but narrow turn led by production, with new orders flat after a strong August rebound. The bureau's own release and the Associated Press report carry the same figures, and on the bureau's composite weights the production term accounts for the whole rise in the headline.

SECTION 02 • ASSESSMENT

Exports carry the cycle on AI hardware, but order breadth lags

Customs values are booming on chips and servers while the survey's export order gauge has only just reached the line.

China's exports rose 25 percent on a year earlier in August 2026 and imports rose 28.2 percent, leaving a monthly surplus of USD 119.1 billion, up from USD 112.5 billion in July; exports to the

United States were USD 42.5 billion, up 34.4 percent, partly on a low base, according to the Associated Press on 8 September 2026.¹⁰

Caixin Global reported on 8 September 2026 that, on customs data for August 2026, the export value of integrated circuits rose 130 percent on a year earlier while export volume fell 8 percent, and the value of data processing equipment exports rose 76.5 percent despite double-digit declines in units shipped.¹³

The bureau's new export orders index read 47.8 in September 2025 and 45.9 in October 2025; in 2026 it read 47.8 in January, 45.0 in February, 49.1 in March, 50.3 in April, 48.6 in May, 50.1 in June, 49.6 in July, 50.1 in August and 50.0 in September, according to the bureau's release of 30 September 2026.²

Profits in computer, communication and other electronic equipment manufacturing rose 110 percent on a year earlier in January to August 2026, according to the bureau's industrial profits release of 29 September 2026.⁴

UNKNOWN: the official September customs figures, due in mid-October, were not published when this paper was written, and we found no official export price index for August; the volume decline for integrated circuits rests on one report off the firm's list.

ASSESSMENT • MODERATE CONFIDENCE

The export order gauge has recovered from deep contraction in breadth, but it was below the line in five of the eight months to August and at or just above it in the rest, which sits badly with genuine volume growth on the scale of the value gains. As a diffusion index it measures how many firms see orders rise, not volume, so the value boom points to price, AI hardware product mix and a low prior-year base doing much of the work. The bureau's series confirms both the low base and the recovery in breadth, while the price and mix evidence rests on customs value and volume data reported by a single source off our list.

SECTION 03 • ASSESSMENT

Costs outrun factory-gate prices, but profits have not cracked

The price gauges point to pressure ahead for downstream firms, while the profit data still show margins wider than a year ago.

China's producer price index rose 3.8 percent on a year earlier in August 2026 and 0.4 percent on the month, while the purchasing price index for industrial producers rose 5.8 percent on a year earlier, according to the bureau's release of 10 September 2026.³

The purchase price index for major raw materials rose to 60.8 in September 2026 from 56.6 in August and the output price index rose to 54.0 from 50.4, widening the gap between them to 6.8 points from 6.2 points, according to the bureau's release of 30 September 2026.²

Profits of industrial enterprises above designated size rose 15.7 percent on a year earlier in January to August 2026, with manufacturing up 17.4 percent and mining up 35.1 percent, the profit margin on operating revenue at 5.66 percent, up 0.44 point, and profits in August alone up 4.2 percent, according to the bureau's release of 29 September 2026.⁴

ASSESSMENT • MODERATE CONFIDENCE

Factory margins are not yet squeezed in the profit data, but the widening gap between purchase and output price gauges, together with August profit growth far below the year-to-date pace, points to emerging pressure on midstream and downstream margins in the coming months. The bureau's profit release shows margins above a year earlier with gains concentrated in mining and electronics, while its own price gauges show input costs pulling further ahead of output prices.

SECTION 04 • ASSESSMENT

Small firms and jobs lag the large-firm recovery

Large firms are expanding while smaller ones and payrolls are not.

In August 2026, the PMI for large enterprises was 50.6, medium enterprises 49.4 and small enterprises 47.9, and the employment sub-index was 48.7, according to the bureau's release of 1 September 2026.¹

In September 2026, the PMI for large enterprises held at 50.6, medium enterprises rose to 49.7 and small enterprises rose 1.0 point to 48.9, according to the bureau's release of 30 September 2026.²

The Associated Press reported on 30 September 2026 that domestic demand and investment remained sluggish, partly because of the property sector, and that officials had announced new subsidies for homebuyers' mortgage interest the day before the release.⁹

ASSESSMENT • MODERATE CONFIDENCE

The recovery is concentrated in large and export-facing firms, and the domestic base that absorbs shocks remains weak. Smaller firms and employment have stayed below the line through the turn, and wire reporting describes soft domestic demand.

SECTION 05 • ASSESSMENT

The holiday month usually pulls the headline down

The October survey has given back ground in most recent years, even after seasonal adjustment.

The official manufacturing PMI fell 0.9 point to 49.2 in October 2022, fell 0.7 point to 49.5 in October 2023 and fell 0.8 point to 49.0 in October 2025, according to the bureau's releases for those months.^{5,6,8}

The official manufacturing PMI rose 0.3 point to 50.1 in October 2024, with the production index at 52.0, according to the bureau's release for that month.⁷

The bureau's September 2026 release presents the manufacturing PMI and its sub-indices as seasonally adjusted series.²

The bureau attributed the October 2025 fall in part to demand pulled forward before the National Day holiday, according to its release for that month.⁸

ASSESSMENT • MODERATE CONFIDENCE

The holiday drag survives the bureau's seasonal adjustment in most recent years, so a narrow production-led September gain is more likely than not to give back ground in October, with a central estimate a little below the line rather than at it. The bureau's own releases show an October fall in most recent years, with the one exception coming in a year of fresh policy support.

SECTION 06 • ASSESSMENT

The truce window and the rare-earth hinge

The leaders meet inside a truce that was extended, but only briefly.

US Treasury Secretary Scott Bessent said on 23 September 2026 that the US-China trade truce due to expire on 10 November 2026 would be extended by two months to 10 January 2027, according to Reuters on 24 September 2026.¹²

China's Ministry of Commerce said on 28 September 2026 that the truce would be extended from 10 November 2026 to 10 January 2027, according to FXStreet on 28 September 2026.¹⁴

China's suspension of its October 2025 rare-earth export controls was scheduled to lapse on 10 November 2026, while the April 2025 licensing on seven medium and heavy rare earths was never suspended, according to Tech Times on 2 October 2026.¹⁵

The APEC Economic Leaders' Meeting is scheduled for 18 to 19 November 2026 in Shenzhen, according to a Shenzhen district government notice updated on 6 January 2026.¹⁶

UNKNOWN: we found no official text, by 9 October 2026, confirming that the suspension of the October 2025 rare-earth controls is extended with the wider truce; the Ministry of Commerce statement as reported does not name it.

ASSESSMENT • LOW CONFIDENCE

Beijing is likely to keep the rare-earth suspension running alongside the wider truce, but the legal confirmation may come late, close to the deadline, and in narrow terms. A lapse ahead of the Shenzhen meeting would undercut a truce both sides confirmed days earlier, but the rare-earth element rests on inference and on sources off the firm's list.

SECTION 07 • DECISION

Decision

Decision	Owner	Trigger	Pre-authorized action
Hold or add buffer stock of rare-earth magnets and components	Procurement lead	No official text extending the rare-earth suspension by early November	Release pre-approved safety-stock orders with non-Chinese and Chinese suppliers
Reprice China-sourced input contracts	Category manager	October purchase price gauge stays well above the output price gauge	Open price-review clauses with suppliers exposed to raw material pass-through
Re-rate China factory demand outlook	Risk committee	October headline and export orders both below expansion	Shift the China demand view to the Deterioration case and cut forecast volumes

SECTION 08 • OUTLOOK

Outlook

Baseline. The October holiday and flat orders pull the headline back just below expansion, export values stay strong on AI hardware prices, product mix and base effects, and Beijing confirms the rare-earth suspension in line with the wider truce before it lapses. The Shenzhen meeting passes without a new trade package but without escalation.

Deterioration. Export orders slip back into contraction, input costs keep rising faster than factory-gate prices and begin to show in downstream profits, and the rare-earth suspension lapses or is renewed only selectively. Trade talks stall before Shenzhen and downstream manufacturers face licensing delays on magnets and alloys.

Stabilization. Holiday effects are mild, new orders and export orders rise together as the AI hardware cycle broadens, and the stimulus aimed at households begins to lift domestic demand. Beijing extends the rare-earth suspension in full and the leaders use Shenzhen to frame a larger deal before the truce runs out.

Claim C-1. China's official manufacturing PMI for October 2026 is at or above 50.0. Probability 0.38. Resolves on 2026-10-31 from China National Bureau of Statistics: YES if the official manufacturing PMI for October 2026 is 50.0 or higher, as first published, whatever the method; NO otherwise. Horizon 30 days. The headline fell from September to October in most recent years in the bureau's own releases, and September's gain was narrow and production-led. The AI hardware cycle and the truce extension keep a hold at the line well within reach.

Claim C-2. China's official new export orders sub-index for October 2026 is at or above 50.0. Probability 0.35. Resolves on 2026-10-31 from China National Bureau of Statistics: YES if the new export orders index of the official manufacturing PMI for October 2026 is 50.0 or higher, as first published, whatever the method; NO otherwise. Horizon 30 days. The export orders gauge sat below the line in most months this year, eased in September and fell sharply in October last year. Strong customs values reflect price and product mix more than breadth of new orders.

Claim C-3. China's official manufacturing PMI for October 2026, as first published. Point and interval: lo 49.0, central 49.6, hi 50.3, unit index points, level 80. Resolves on 2026-10-31 from China National Bureau of Statistics: the value is the headline official manufacturing PMI for October 2026, in index points, as first published, whatever the method. Horizon 30 days. The central estimate applies the typical October fall in the bureau's recent releases to the September reading. The interval spans the recent October moves of the series in both directions.

Claim C-4. China's Ministry of Commerce or General Administration of Customs publishes, on or before 10 November 2026, an announcement extending beyond 10 November 2026 the suspension of MOFCOM and GACC Announcements 55, 56, 57 and 58 of 2025 and MOFCOM Announcements 61 and 62 of 2025. Probability 0.75. Resolves on 2026-11-10 from Reuters: YES if Reuters reports, by 10 November 2026, that the Ministry of Commerce or the General Administration of Customs has published such an announcement; NO otherwise. Horizon 30 days. Beijing has confirmed the wider truce extension to January, and letting the rare-earth suspension lapse first would undercut it before the Shenzhen meeting. The legal text has not yet been seen and the earlier suspension came only days before its deadline, which keeps the probability well short of certain.

Indicators.

- The official October PMI on 31 October, especially new orders, export orders and the purchase and output price gauges
- China's September customs release in mid-October, including quantities for integrated circuits and data processing equipment
- Industrial profits for September from the statistics bureau, for the first sign of downstream margin pressure
- Any Ministry of Commerce announcement naming the rare-earth suspension before 10 November
- Producer prices for September from the statistics bureau
- Pre-summit trade council or ministerial meetings ahead of Shenzhen

SECTION 09 • SCORECARD

Scorecard

- CLM-2026-262: Advanced, not yet resolved, and on the evidence to 9 October 2026 set to resolve NO: both sides extended the wider truce to 10 January 2027 by 28 September 2026, but we found no announcement naming the rare-earth suspension; Claim C-4 carries the question to 10 November.^{12,14}
- CLM-2026-263: Advanced: reporting on 2 October 2026 states the April 2025 licensing on seven rare earths was never suspended, consistent with the claim.¹⁵
- CLM-2026-024: Advanced: the truce extension renews the suspensions without changing the licensing architecture, consistent with tactical de-escalation.^{12,15}

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