



Economic Insight

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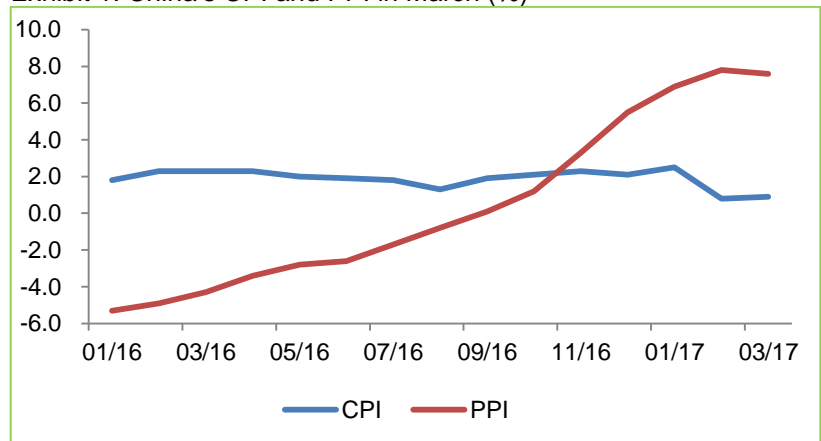
China's CPI and PPI continued to diverge in March

- China's CPI remained moderate at 0.9% in March, compared with 0.8% in February. PPI eased to 7.6% from 7.8%, though it stayed elevated.
- For the next few months, CPI is likely to move higher on the rising food prices and a low comparison base. We maintain our forecast that full-year CPI for 2017 would rise by 2.0% with higher labor costs and post-slump recovery of global commodity prices.
- PPI is likely to moderate in coming months with the low base effect fading away and commodity prices easing. The full-year PPI for 2017 would be contained at 4.0% due to weak aggregate demand.
- March inflation data suggest inflationary pressure remained mild and inflation will not be a concern in policy. We expect the PBOC to maintain a neutral monetary policy with a tightening bias in coming months, which would be favorable to the goal of lowering the overall leverage ratio in the economy.

China's CPI remained moderate and came in at 0.9%¹ in March, compared with 0.8% in February (Exhibit 1). Overall food prices declined 4.4% in March after falling by 4.3% in February, while non-food prices edged up to 2.3% from 2.2% in February. On a MoM basis, CPI fell by 0.3% in March, compared with the 0.2% decrease in February. Consumer prices rose by 1.4% in 1Q17.

PPI remained elevated but eased to 7.6% in March from 7.8% in February, consistent with the moderating price index in March manufacturing PMI. The MoM PPI continued to show slower pace as it eased further to 0.3% in March from 0.6% in February. Meanwhile, inflation in consumer goods industries remained mute at 0.7% YoY and 0.0% MoM in March, compared with 0.8% and 0.1% in February, which suggests inflation pressure transferred from PPI to CPI was limited.

Exhibit 1: China's CPI and PPI in March (%)



Source(s): NBS, ABCI Securities

ABCI Research

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¹ All growth rates are YoY except specified otherwise



Looking ahead, CPI is likely to move higher on the rising food prices and a low comparison base. We maintain our forecast that 2017 full-year CPI would rise by 2.0%, the same as in 2016, driven by rising labor costs and post-slump recovery of global commodity prices. Although PPI remained high in 1Q17 due to the rebound in commodity and material prices, we believe PPI inflation is likely to moderate in coming months with the low base effect fading away and commodity prices easing. The high-frequency data of producer goods prices released by NBS also confirmed the trend. The full-year PPI for 2017 would be contained at 4.0% due to the weak aggregate demand.

March inflation data suggest inflationary pressure remained mild and inflation is unlikely to be a concern in policy. We expect the PBOC to maintain a neutral monetary policy with a tightening bias in coming months, which would be favorable to the lowering of the overall leverage ratio in the economy. Meanwhile, we reassert that the PBOC would keep benchmark interest rates steady in 2017 while RRR would be slashed by 50 basis points twice given the mild inflation pressure and foreign exchange reduction.



China Economic Indicators

	2016											2017		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY %)	---	6.7	---	---	6.7	---	---	6.7	---	---	6.8	---	---	---
Export Growth (USD, YoY %)	(25.4)	11.5	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	---
Import Growth (USD, YoY %)	(13.8)	(7.6)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1	---
Trade Balance (USD bn)	32.6	29.9	45.6	50.0	48.1	52.3	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)	---
Retail Sales Growth (YoY %)	10.2	10.5	10.1	10.0	10.6	10.2	10.6	10.7	10.0	10.8	10.9	9.5	9.5	---
Industrial Production (YoY %)	5.4	6.8	6.0	6.0	6.2	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3	---
PMI - Manufacturing (%)	50.2	50.1	50.1	50.0	49.9	50.4	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8
PMI - Non-manufacturing (%)	53.8	53.5	53.1	53.7	53.9	53.5	53.7	53.7	51.2	50.9	51.9	54.6	54.2	55.1
FAI (YTD) (YoY %)	10.2	10.7	10.5	9.6	9.0	8.1	8.1	8.2	8.3	8.3	8.1	8.9	8.9	---
CPI (YoY %)	2.3	2.3	2.0	1.9	1.8	1.3	1.9	1.9	2.1	2.3	2.1	2.5	0.8	0.9
PPI (YoY %)	(4.3)	(3.4)	(2.8)	(2.6)	(1.7)	(0.8)	0.1	0.1	1.2	3.3	5.5	6.9	7.8	7.6
M2 (YoY %)	13.4	12.8	11.8	11.8	10.2	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1	---
New Lending (RMB bn)	727	1370	556	986	1380	464	949	1220	651	795	1040	2030	1170	---
Aggregate Financing (RMB bn)	825	2404	751	660	1629	488	1470	1720	896	1740	1630	3740	1150	---

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates					
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)		Yield (%)	Chg. WTD (Bps)			
U.S.				Energy				US Fed Fund Rate	1.00	0.00			
DJIA	20,651.30	(0.02)	19.04	NYMEX WTI	USD/bbl.	53.54	2.49	616,859	US Prime Rate	4.00	0.00		
S&P 500	2,353.78	(0.07)	21.71	ICE Brent Oil	USD/bbl	56.40	2.10	309,916	US Discount Window	1.50	0.00		
NASDAQ	5,866.77	(0.19)	110.8	NYMEX Natural Gas	USD/MMBtu	3.17	(2.79)	169,052	US Treasury (1 Yr)	0.7558	0.01		
MSCI US	2,242.58	(0.05)	22.17	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.8419	(7.77)		
Europe				Basic Metals				US Treasury (10 Yr)	2.3033	(7.89)			
FTSE 100	7,365.50	0.22	38.87	LME Aluminum Cash	USD/MT	1,905.25	(2.14)	8,067	Japan 10-Yr Gov. Bond	0.0310	(3.00)		
DAX	12,139.35	(0.70)	19.62	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,921.00	(2.09)	33,526	China 10-Yr Gov. Bond	3.3260	2.70		
CAC40	5,101.86	(0.65)	19.72	CMX Copper Active	USD/lb.	5,739.75	(1.13)	8,715	ECB Rate (Refinancing)	0.00	0.00		
IBEX 35	10,416.30	(1.07)	19.46	LME Copper 3- mth Rolling Fwd.	USD/MT	5,767.00	(1.15)	41,120	1-Month LIBOR	0.9883	(0.17)		
FTSE MIB	20,109.06	(0.94)	N/A	Precious Metals				3 Month LIBOR	1.1557	(0.19)			
Stoxx 600	381.18	(0.02)	26.43	CMX Gold	USD/T. oz	1,277.60	1.61	250,351	O/N SHIBOR	2.3885	(10.7)		
MSCI UK	2,145.48	0.21	39.67	CMX Silver	USD/T. oz	18.34	1.01	79,416	1-mth SHIBOR	4.0132	(10.5)		
MSCI France	145.32	(0.68)	19.40	NYMEX Platinum	USD/T. oz	970.10	0.78	15,981	3-mth HIBOR	0.9046	(1.71)		
MSCI Germany	152.90	(0.67)	19.77	Agricultural Products				Corporate Bonds (Moody's)					
MSCI Italy	56.05	(0.92)	N/A	CBOT Corn	USD/bu	373.50	1.70	128,961	Aaa	3.91	(2.00)		
Asia				CBOT Wheat	USD/bu	433.00	2.12	87,520	Baa	4.61	(1.00)		
NIKKEI 225	18,552.61	(0.60)	21.70	NYB-ICE Sugar	USD/lb.	16.76	0.12	68,732	Note:				
S&P/ASX 200	5,934.00	1.22	20.41	CBOT Soybeans	USD/bu.	944.00	0.21	110,792	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)				
HSI	24,174.59	(0.38)	13.47	2. The price is Coal 5500 kcal/kg FOB Spot Price									
HSCEI	10,165.93	(1.05)	8.56										
CSI300	3,509.09	(0.25)	16.17										
SSE Composite	3,274.19	(0.38)	19.03										
SZSE Composite	2,006.87	(1.06)	41.13										
MSCI China	66.59	(0.75)	14.68										
MSCI Hong Kong	13,657.86	(0.38)	14.05										
MSCI Japan	895.80	0.36	18.35										

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0616	1.2489	0.7493	109.70	1.0072	6.8956	7.7717	7.1010
Chg. WTD (%)	0.24	0.95	(0.09)	1.27	0.19	0.07	(0.04)	0.01



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 \leq 180 day volatility/180 day benchmark index volatility
High	1.5 \leq 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 \leq 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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