



Economic Insight

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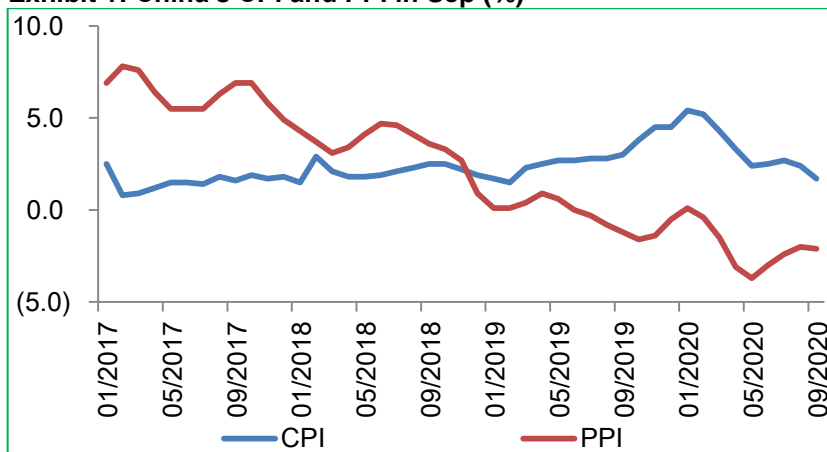
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China's CPI and PPI eased in Sep

- China's CPI slowed substantially to 1.7% in Sep from 2.4% in Aug, below the market expectation of 1.9%, mainly driven by easing food prices and energy prices
- PPI slowed to -2.1% in Sep from -2.0% in Aug, below the market expectation of -1.8%. The easing PPI in Sep was driven by lower prices in global energy and other raw materials
- Overall, Sep inflation data suggest a mild inflationary pressure as the core CPI, which removes the more volatile food and energy prices, remained low, suggesting a sluggish recovery pace in domestic demand
- Looking ahead, we expect overall CPI inflation to moderate due to the high base for pork prices. The decline in PPI is likely to narrow as the global and Chinese economies recover. In the 2020 World Economic Outlook released by IMF in Oct, global growth was projected at -4.4% for 2020, compared to the -5.2% forecast in June. Monetary policy will stay with flexible with precise guidance. Sufficient liquidity will be maintained and new financing will be mostly directed to manufacturing enterprises and medium, small and micro enterprises

China's CPI slowed to 1.7%¹ in Sep from 2.4% in Aug, below the market expectation of 1.9% (Exhibit 1). Overall food inflation eased to 7.9% from 11.2% in Aug, driving up CPI by 1.69ppt. Non-food prices edged down to 0.0% from 0.1% in Aug. The core CPI inflation, excluding food and energy, remained low at 0.5%. On a MoM basis, CPI inflation edged down to 0.2% in Sept from 0.4% in Aug. In 9M20, consumer prices rose by 3.3% YoY.

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



Source(s): NBS, ABCI Securities

The lower CPI in Sep was mainly driven by easing food prices and energy prices. For food, pork prices rose by 25.5% in Sep (Aug: 52.6%) and drove up the headline CPI by 1.00ppt. Notably, pork prices declined by 1.6% MoM, thanks to the higher pork supply

¹ All growth rates are YoY except specified otherwise



supported by the continuous recovery of live pigs. Prices of beef and mutton climbed 9.0% and 5.4% (Aug: 14.4% and 9.7%), lifting CPI by 0.39ppt. Prices of chicken and duck fell by 9.1% and 4.7%, compared with the decrease of 1.6% and 0.9% in Aug. Fresh vegetable prices gained 17.2% in Sep, while those of fruits and eggs slid 6.9% and 15.8%. For non-food items, healthcare prices rose 1.5%, and education services went up by 2.0%; in contrast, transport and communications prices dipped 3.6%, mainly led by the 14.7% decline in transportation-related fuel price resulted from the high base last year. Meanwhile, tourism prices and residential prices fell by 1.8% and 0.8%.

PPI slowed to -2.1% in Sep from -2.0% in Aug, below the market expectation of -1.8%. Inflation in producer industries edged up to -2.8% in Sep from -3.0% in Aug, dragging down PPI by 2.05ppt. Inflation in consumer goods industries eased significantly to -0.1% from 0.6% in August, dragging down PPI by 0.02ppt. PPI was up 0.1% MoM in Sep, compared with the 0.3% gain in Aug. For 9M20, producer prices retreated by 2.0% YoY.

The easing of PPI in Sep was driven by lower prices in global energy and other raw materials. Oil and natural gas extraction prices, a PPI sub-item, tumbled by 26.2% in Sep, while prices of oil, coal, and other fuel processing industries slid 16.9%. Prices of chemical fiber manufacturing industry fell by 15.6% in Sep; meanwhile, prices of the ferrous and non-ferrous mining industries climbed 9.4% and 6.2%.

Overall, Sep inflation data suggest a mild inflationary pressure as the core CPI, which removes the more volatile food and energy prices, remained low, suggesting a sluggish pace of recovery in domestic demand. Looking ahead, we expect overall CPI inflation to moderate on the high base for pork prices. The decline in PPI is likely to narrow as the global and Chinese economies recover. Based on the 2020 World Economic Outlook released by IMF in Oct, global growth was projected at -4.4% in 2020, a less severe contraction than the -5.2% forecast in June. Current and future inflation expectations will not pose significant constraints on monetary policy, which will remain flexible with precise guidance. Sufficient liquidity will be maintained and new financing will be mainly directed to manufacturing enterprises and medium, small and micro enterprises.



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Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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