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Economic Insight

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China’s CPI and PPI eased significantly in April

ABCI Research

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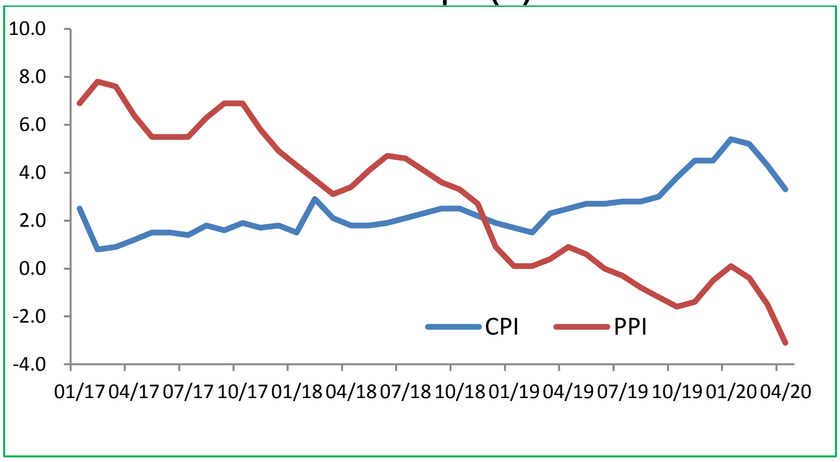
- China’s CPI slowed significantly to 3.3% in Apr from 4.3% in Mar, below the market expectation of 3.7%. The slower CPI in Apr was mainly driven by easing food prices and a slump in global crude oil and commodity prices
- PPI fell further to -3.1% in Apr from -1.5% in Mar, below the market expectation of -2.5%. The lower PPI in Apr was driven by slumping oil prices and other major raw materials
- Looking ahead, we expect overall inflation to continue to moderate, with the CPI easing and the PPI staying in deflation. Current and future inflation expectations provide favorable conditions to maintain a loosening monetary policy to offset the impact of COVID-19 on the economy. The rates for one-year LPR and five-year LPR are expected to be 3.45% and 4.45% for end-2020E. RRR would continue to trend down. RRR for large financial institutions would be 12.0% and the rate for medium and small financial institutions to be 9.0% for end-2020E, based on our estimates

China’s CPI slowed significantly to 3.3%[1] in Apr from 4.3% in Mar, below the market expectation of 3.7% (Exhibit 1). Overall food inflation fell back to 14.8% in Apr from 18.3% in Mar, driving up CPI by 2.98ppt. Non-food prices edged down to 0.4% from 0.7%, boosting CPI by 0.31ppt. On a MoM basis, CPI inflation edged up to -0.9% in Apr from -1.2% in Mar. In 4M20, consumer prices rose by 4.5%.

Exhibit 1: China’s CPI and PPI in April (%)



Source(s): NBS, ABCI Securities

The slower CPI in Apr was mainly driven by easing food prices and fallen global crude oil and commodity prices. For food, the pork prices rose by 96.9% in Apr (Mar: +116.4%) and drove up headline CPI by 2.34ppt. Notably, pork prices fell by 7.6% MoM in Apr as a result of increased pork supply and surging pork imports. Prices of beef and mutton rose by 20.5% and 11.5%, lifting CPI by 0.61ppt. Inflation in fruits and fresh vegetables retreated to -10.5% and -3.7% in Apr from -6.1% and -0.1% in Mar, dragging down CPI by 0.31 ppt. For non-food items, tourism prices rose 5.6%, healthcare prices rose 2.2%, and education services rose 2.2%; in contrast, transport and

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[1] All growth rates are YoY except specified otherwise

communications prices fell by 4.9%, mainly led by transportation-related fuel price, which was down by 20.5%. Meanwhile, residential prices fell by 0.3%.

PPI fell further to -3.1% in Apr from -1.5% in Mar, below the market expectation of -2.5%. Inflation in producer industries fell further to -4.5% in Apr from -2.4% in previous month, dragging down PPI by 3.31ppt. Inflation in consumer goods industries fell to 0.9% in Apr from 1.2% in Mar, boosting PPI by 0.23ppt. PPI was -1.3% MoM in Apr, down from the 1.0% decrease in the previous month. For 4M20, producer prices fell by 1.2%.

The lower PPI in Apr was driven by slumping prices for oil and other major raw materials. The oil and natural gas extraction prices, a PPI sub-item, dropped by 51.4% in Apr, while prices of oil, coal, and other fuel processing industries fell by 19.8%; meanwhile, chemical fiber manufacturing industry price dropped by 17.7%. The significant retreat in Apr PPI will hamper the earning expectations of industrial enterprises.

Looking ahead, we expect overall inflation to continue to moderate, with the CPI easing and the PPI staying in deflation. Current and future inflation expectations provide favorable conditions to maintain a loosening monetary policy to offset the impact of COVID-19 on the economy. The rates for one-year LPR and five-year LPR are expected to be 3.45% and 4.45% for end-2020E. RRR would continue to trend down, and we expect the rate for large financial institutions to be 12.0% and the one for medium and small financial institutions to be 9.0% for end-2020E.

China Economic Indicators

	2019										2020			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Real GDP (YoY %)	6.4	---	---	6.2	---	---	6.0	---	---	6.0	---	---	-6.8	---
Export Growth (USD,YoY %)	14.2	-2.7	1.1	-1.3	3.3	-1.0	-3.2	-0.9	-1.2	7.6	-17.2	-17.2	-6.6	3.5
Import Growth (USD, YoY %)	-7.6	4.0	-8.5	-7.3	-5.3	-5.6	-8.5	-6.4	0.3	16.3	-4.0	-4.0	-0.9	-14.2
Trade Balance (USD bn)	32.7	13.8	41.7	51.0	45.1	34.8	39.7	42.8	38.7	46.8	-7.1	-7.1	19.9	45.3
Retail Sales Growth (YoY %)	8.7	7.2	8.6	9.8	7.6	7.5	7.8	7.2	8.0	8.0	-20.5	-20.5	-15.8	---
Industrial Production (YoY %)	8.5	5.4	5.0	6.3	4.8	4.4	5.8	4.7	6.2	6.9	-13.5	-13.5	-1.1	---
PMI - Manufacturing (%)	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50.0	35.7	52.0	50.8
PMI – Non-manufacturing (%)	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5	54.1	29.6	52.3	53.2
FAI (YTD) (YoY %)	6.3	6.1	5.6	5.8	5.7	5.5	5.4	5.2	5.2	5.2	-24.5	-24.5	-16.1	---
CPI (YoY %)	2.3	2.5	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5	5.4	5.2	4.3	3.3
PPI (YoY %)	0.4	0.9	0.6	0.0	-0.3	-0.8	-1.2	-1.6	-1.4	-0.5	0.0	-0.5	-1.5	-3.1
M2 (YoY %)	8.6	8.5	8.5	8.5	8.1	8.2	8.4	8.4	8.2	8.7	8.4	8.8	10.1	11.1
New Lending (RMB bn)	1690	1020	1180	1660	1060	1210	1690	661	1390	1140	3340	906	2850	1700
Aggregate Financing (RMB bn)	2860	1360	1400	2267	1010	1980	2270	619	1750	2103	5062	855	5163	3090

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	24,221.99	-0.45	17.89
S&P 500	2,930.32	0.02	20.19
NASDAQ	9,192.34	0.78	36.02
MSCI US	2,806.17	0.04	20.96
Europe			
FTSE 100	5,939.73	0.06	20.36
DAX	10,824.99	-0.73	20.22
CAC40	4,490.22	-1.31	17.82
IBEX 35	6,672.20	-1.63	23.73
FTSE MIB	17,381.36	-0.33	21.53
Stoxx 600	339.70	-0.40	17.15
MSCI UK	1,686.87	0.04	20.61
MSCI France	130.45	-1.35	17.60
MSCI Germany	124.65	-0.75	19.30
MSCI Italy	45.69	-0.41	23.22
Asia			
NIKKEI 225	20,366.48	0.93	18.79
S&P/ASX 200	5,403.00	0.22	17.79
HSI	24,602.06	-0.10	10.23
HSCEI	9,990.48	-0.33	8.21
CSI300	3,960.18	-0.21	14.82
SSE Composite	2,894.80	-0.25	14.83
SZSE Composite	1,805.69	-0.19	51.16
MSCI China	82.29	1.21	14.10
MSCI Hong Kong	13,348.30	1.22	12.17
MSCI Japan	894.79	1.43	14.95

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)
Energy				
NYMEX WTI	USD/bbl.	24.47	-0.73	292,688
ICE Brent Oil	USD/bbl	29.87	-3.55	237,000
NYMEX Natural Gas	USD/MMBtu	1.83	0.44	243,106
China Qinhuangdao Port Thermal Coal [2]	USD/Metric Tonne	61.80	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,461.00	0.83	20,464
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,497.50	0.84	28,235
CMX Copper Active	USD/lb.	5,228.75	-0.38	7,901
LME Copper 3- mth Rolling Fwd.	USD/MT	5,257.00	-0.32	26,703
Precious Metals				
CMX Gold	USD/T. oz	1,702.30	-0.68	214,757
CMX Silver	USD/T. oz	15.71	-0.43	43,246
NYMEX Platinum	USD/T. oz	780.10	-1.17	7,907
Agricultural Products				
CBOT Corn	USD/bu	317.50	-0.55	112,750
CBOT Wheat	USD/bu	513.00	-1.72	44,771
NYB-ICE Sugar	USD/lb.	10.12	-1.65	57,143
CBOT Soybeans	USD/bu.	852.00	0.18	87,779

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
US Treasury (1 Yr)	0.0786	2.54
US Treasury (5Yr)	0.3496	1.58
US Treasury (10 Yr)	0.7034	1.87
Japan 10-Yr Gov. Bond	-0.0010	0.00
China 10-Yr Gov. Bond	2.6420	2.90
ECB Rate (Refinancing)	0.00	0.00
1-Month LIBOR	0.1980	-10.5
3 Month LIBOR	0.4346	-10.6
O/N SHIBOR	0.8030	-13.5
1-mth SHIBOR	1.3000	0.00
3-mth HIBOR	1.2186	-9.15
Corporate Bonds	(Moody's)	
Aaa	2.54	12.00
Baa	5.28	5.00

Note:

1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. The price is Coal 5500 kcal/kg FOB Spot Price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0817	1.2325	0.6468	107.55	0.9722	7.0938	7.7505	7.1923
Chg. WTD (%)	-0.20	-0.68	-0.98	-0.84	-0.09	-0.28	0.02	-0.22

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ 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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