



Economic Insight

Analyst: Andy Yao Shaohua, PhD

Tel: 852-2147 8863

Email: yaoshaohua@abci.com.hk

China's CPI quickened but PPI eased in August

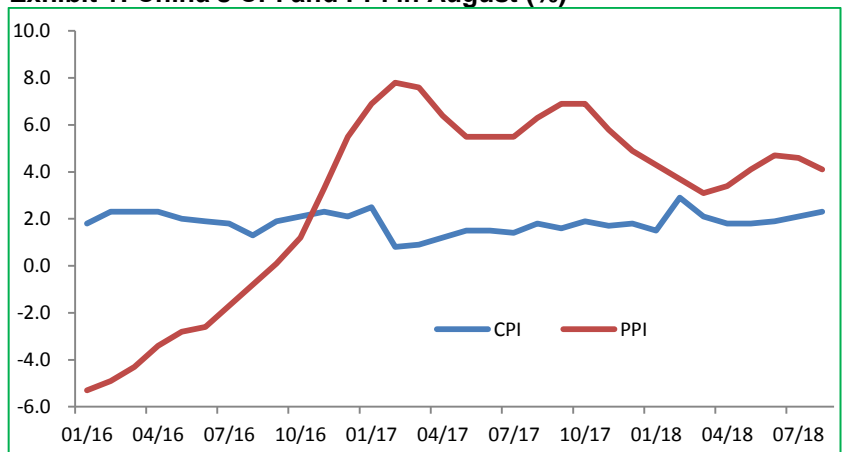
ABCI Research

September 11, 2018

- China's CPI rebounded to 2.3% in Aug from 2.1% in July as food prices advanced on hot and rainy weather and outbreak of swine fever, while non-food prices rose on the back of higher oil prices, tourism, and property rent
- PPI eased to 4.1% in Aug from 4.6% in July due to high-base effect
- Looking ahead, we believe fresh fruit, fresh vegetables and property rent would not be a sustainable driver of CPI. With the impact of Shandong floods receding, the price rise of fresh fruits and vegetables has been easing in Sep. Due to the tightening of the property regulations; substantial rise in property rent is unlikely in our view. The swine fever outbreak and geopolitical development in the Middle East, however, may drive up CPI. The spread of swine fever is expected to push up pork prices while US sanctions on Iran are likely to lead to inflate oil prices
- Overall, with China's economic growth slowing and aggregate demand softening, CPI inflationary pressure has been mild during the year. Downtrend in PPI is clear, mostly due to the high-base effect. Current and future inflation expectations provide favorable conditions to maintain a neutral monetary policy with a loosening bias in support of economic growth

China's CPI rebounded to 2.3%¹ in Aug from 2.1% in July, as food prices advanced on hot and rainy weather and the outbreak of swine fever, while non-food prices rose on the back of higher oil prices, tourism and property rent (Exhibit 1). Overall food prices increased by 1.7% for the month after rising by 0.5% in July, driving up CPI by 0.33 ppt. Non-food prices edged up to 2.5% from 2.4%, delivering a 1.98ppt boost to CPI. On a MoM basis, CPI rose 0.7% in Aug, compared with 0.3% increase in July. For 8M18, consumer prices rose 2.0%, same as that in 7M18.

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



Source(s): NBS, ABCI Securities

¹ All growth rates are YoY except specified otherwise



In terms of food items, the prices of eggs, fresh vegetables and fresh fruit rose 10.3%, 4.3%, and 5.5%, respectively, in Aug, elevating CPI by 0.25ppt. Prices of beef, mutton and poultry rose 3.3%, 13.3% and 5.5%, lifting CPI by 0.13ppt. Pork prices fell 4.9%, dragging down CPI by 0.12 ppt. notably, pork prices rose 6.5% MoM in Aug as a result of the swine fever outbreak. For non-food terms, petrol and diesel prices rose 19.8% and 22%, tourism prices rose 5.6%, healthcare prices rose 4.3%, education services rose 2.8%, and residential prices rose 2.5%.

PPI eased to 4.1% in Aug from 4.6% in July due to the high-base effect. Inflation in producer industries slowed to 5.2% from 6.0% in previous month, elevating PPI by 3.91ppt. Inflation in consumer goods industries was muted at 0.7%, up from 0.6% in July, boosting PPI by 0.18ppt. Meanwhile, PPI increased by 0.4% MoM in Aug, higher than the 0.1% gain in the previous month. For 8M18, producer prices rose 4.0%, same as that in 7M18.

Among major PPI sectors, growth in oil and gas extraction was 39.6% in Aug, down 2.5ppt from the previous month. Oil, coal and other fuel-processing industries rose 22.7%, down 1.9ppt compared to growth last month. Similarly, ferrous metal smelting and calendaring industry rose 9.5%, down 2.8ppt. Coal mining and washing industry rose 5.7%, down 1.3ppt. Non-ferrous metal smelting and calendaring processing industry rose 1.2%, down 3.8ppt. The five sectors dragged PPI down by 0.46 ppt. In contrast, chemical fiber manufacturing sector rose 6.9%, up 1.3 ppt from the previous month.

We believe fresh fruit, fresh vegetables and property rent would not be a sustainable driver of CPI inflation. With the impact of Shandong floods receding, price rise of fresh fruits and vegetables has been easing in Sep. Also, substantial rise in property rent is unlikely with the tightening of property regulations. Swine fever outbreak, which will push up pork prices, and geopolitical tension in the Middle East, which may lead to a spike in oil prices, will likely support CPI.

Overall, with China's economic growth slowing and aggregate demand softening, CPI inflationary pressure has been limited so far this year. Downtrend in PPI is clear due to the high-base effect. Current and future inflation expectations provide favorable conditions to maintain a neutral monetary policy with a loosening bias in support of economic growth.



China Economic Indicators

	2017						2018							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Real GDP (YoY %)	---	---	6.8	---	---	6.8	---	---	6.8	---	---	6.7	---	---
Export Growth (USD, YoY %)	7.2	5.5	8.1	6.9	12.3	10.9	11.1	44.5	-2.7	12.9	12.6	11.3	12.2	9.8
Import Growth (USD, YoY %)	11.0-	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4	21.5	26.0	14.1	27.3	27.0
Trade Balance (USD bn)	46.7	42.0	28.5	38.2	40.2	54.7	20.3	33.7	-5.0	28.8	24.9	41.6	28.1	27.9
Retail Sales Growth (YoY %)	10.4	10.1	10.3	10.0	10.2	9.4	9.7	9.7	10.1	9.4	8.5	9.0	8.8	---
Industrial Production (YoY %)	6.4	6.0	6.6	6.2	6.1	6.2	7.2	7.2	6.0	7.0	6.8	6.0	6.0	---
PMI - Manufacturing (%)	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3
PMI - Non-manufacturing (%)	54.5	53.4	55.4	54.3	54.8	55.0	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2
FAI (YTD) (YoY %)	8.3	7.8	7.5	7.3	7.2	7.2	7.9	7.9	7.5	7.0	6.1	6.0	5.5	---
CPI (YoY %)	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3
PPI (YoY %)	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1
M2 (YoY %)	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	---
New Lending (RMB bn)	826	1090	1270	663	1120	584	2900	839	1120	1180	1150	1840	1450	---
Aggregate Financing (RMB bn)	1220	1480	1820	1040	1600	1140	3060	1170	1330	1560	761	1180	1040	---

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				
DJIA	25,857.07	(0.23)	18.36	NYMEX WTI	USD/bbl.	67.74	(0.01)	612,796		2.00	0.00	
S&P 500	2,877.13	0.19	20.83	ICE Brent Oil	USD/bbl	77.86	1.34	265,179	US Prime Rate			
NASDAQ	7,924.16	0.27	44.75	NYMEX Natural Gas	USD/MMBtu	2.81	1.30	153,919	US Discount Window			
MSCI US	2,742.23	0.21	21.20	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)			
Europe				Basic Metals				US Treasury (5Yr)				
FTSE 100	7,263.20	(0.20)	16.15	LME Aluminum Cash	USD/MT	2,057.25	1.29	12,427	US Treasury (10 Yr)			
DAX	12,008.42	0.41	13.84	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,095.00	1.21	48,198	Japan 10-Yr Gov. Bond			
CAC40	5,282.53	0.58	16.73	CMX Copper Active	USD/lb.	5,896.50	(0.39)	11,066	China 10-Yr Gov. Bond			
IBEX 35	9,288.80	1.28	13.63	LME Copper 3- mth Rolling Fwd.	USD/MT	5,910.00	(0.39)	41,008	ECB Rate (Refinancing)			
FTSE MIB	20,937.71	2.40	12.14	Precious Metals				1-Month LIBOR				
Stoxx 600	375.73	0.52	16.99	CMX Gold	USD/T. oz	1,202.30	0.16	283,257	3 Month LIBOR			
MSCI UK	2,103.03	0.03	16.45	CMX Silver	USD/T. oz	14.26	0.64	83,401	O/N SHIBOR			
MSCI France	153.41	0.36	17.13	NYMEX Platinum	USD/T. oz	792.70	1.58	23,099	1-mth SHIBOR			
MSCI Germany	146.73	0.18	14.79	Agricultural Products				3-mth HIBOR				
MSCI Italy	57.06	2.35	11.82	CBOT Corn	USD/bu	367.25	0.07	142,983	Corporate Bonds (Moody's)			
Asia				CBOT Wheat	USD/bu	527.50	3.18	72,565	Aaa			
NIKKEI 225	22,664.69	1.60	16.35	NYB-ICE Sugar	USD/lb.	11.20	1.73	97,416	Baa			
S&P/ASX 200	6,179.68	0.58	16.98	CBOT Soybeans	USD/bu.	847.75	0.44	81,414				
HSI	26,447.96	(1.95)	10.05									
HSCEI	10,344.10	(2.04)	7.77									
CSI300	3,224.21	(1.63)	11.96									
SSE Composite	2,664.80	(1.39)	12.54									
SZSE Composite	1,409.34	(1.68)	22.50									
MSCI China	76.35	(1.88)	12.17									
MSCI Hong Kong	14,362.74	(1.51)	9.89									
MSCI Japan	1,004.51	0.18	13.21									

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	1.1637	1.3072	0.7124	111.52	0.9736	6.8580	7.8496	6.9575
Chg. WTD (%)	0.73	1.18	0.24	(0.48)	(0.45)	(0.21)	0.00	(0.09)



Disclosures

Analyst Certification

I, Yao Shaohua, Andy, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or My associates have no financial interests in relation to any listed company (ies) covered in this report, and I and/or My associates do not serve as officer(s) of any listed company (ies) covered in this report.

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 2005 (HSI total return index 2005-17 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.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2018 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183