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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's consumer price index (CPI) accelerated on month-on-month basis (MoM) in January at 1.0% from December's 0.7% although general price level posted mild deflation of 0.3% YoY, which was below the consensus estimate of 0% YoY and December's +0.2%. January's CPI uptrend was mainly due to monthly increase in food price by 4.1%, surpassing 2.8% in December with which growing consumer demand for food during the upcoming Spring Festival, rising production costs and special weather conditions were the major factors to push up prices of food including meats, vegetables and fruits.

- The producer prices index (PPI) restored positive year-on-year growth by 0.3% in January along with MoM increase of 1%, staying in line with the consensus estimate but better than December's -0.4% YoY. Reversal of factory prices reflected the steady recovery in industrial activities amid economic rebound of China's economy.

- The rise of January's consumer and industrial prices signaled stable inflationary pressures, which creates favorable conditions to shore up economic growth. A continuously low inflation would ease the concern of ample liquidity to push up inflation, therefore supporting the flexible monetary policy in supporting economic recovery.

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China's MoM consumer inflation surging in January

China's consumer price index (CPI) accelerated on month-on-month basis (MoM) in January at 1.0% from December's 0.7% although general price level posted mild deflation of 0.3% YoY, which was below the consensus estimate of 0% YoY and December's +0.2%. January's CPI uptrend was mainly due to monthly increase in food price by 4.1%, surpassing 2.8% in December with which growing consumer demand for food during the upcoming Spring Festival, rising production costs and special weather conditions were the major factors to push up prices of food including meats, vegetables and fruits. For the factory prices of China, the producer prices index (PPI) restored positive year-on-year growth by 0.3% in January along with MoM increase of 1%, staying in line with the consensus estimate but better than December's -0.4% YoY. Reversal of factory prices reflected the steady recovery in industrial activities amid economic rebound of China's economy. In sum, even though China's growth momentum has shown a robust recovery trend, economic stagnation of global economy and uncertain China-US relationships remain to be the major growth headwinds. The rise of January's consumer and industrial prices signaled stable inflationary pressures, which creates favorable conditions for macroeconomic adjustments to shore up economic growth. A continuously low inflation would ease the concern of ample liquidity to push up inflation, therefore supporting the flexible monetary policy in supporting economic recovery. We are of the view that China's economy will grow at a medium-high growth rate in 2021 with more focus on boosting consumption and cultivating technological innovation, thus maintaining moderate consumer inflation and factory prices for China's economy in 2021.

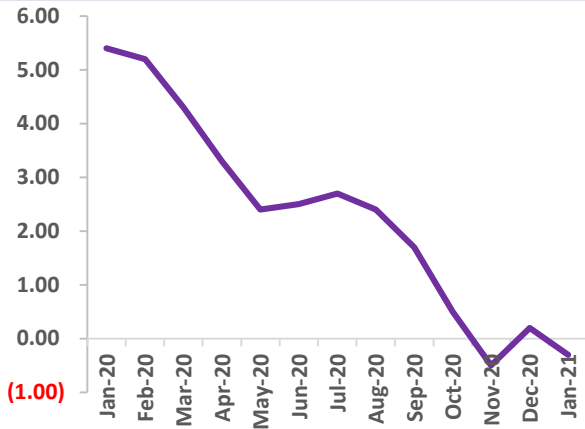
Stable CPI inflation remaining intact in January. Contributing to rise of CPI inflation in January was food inflation that accelerated to 1.6% YoY from December's 1.2% with which price of pork and vegetables rose at 5.6% and 19.0% on MoM basis. For non-food items, fuels for vehicles and tourism dropped by 13.4% and 8.6%, thus contributing to mild non-food deflation of 0.8% YoY. Looking forward, consumer inflation will embrace a stable uptrend on MoM

basis in coming months due to stabilized pork prices and easing of low-base effects. China's economy is on track to experience growth recovery with which CPI inflation would remain stable within the range between 1.0% and 2.0% during the first half of 2021.

China's factory prices turning positive growth in January. China's PPI, a gauge of factory-gate prices, demonstrated an accelerating trend by posting 0.3% YoY (+1.0% MoM) in January. The launch of vaccination in flattening the coronavirus infection curve pointed to the restoration of industrial activities, which supported stable rise in PPI. The acceleration of January's producer prices was mainly attributed to rising crude oil prices with which the producer price index of 'Extraction of Petroleum and Natural Gas' and 'Processing of Petroleum, Coking, Processing of Nucleus Fuel' posted a MoM rise of 8.2%, and 5.3% respectively. We are of the view that resumption of economic activities in major economies will prop up global demand for Chinese products. Along with stable growth of fixed asset investment and industrial production, China's factory-gate price inflation will continue in coming months.

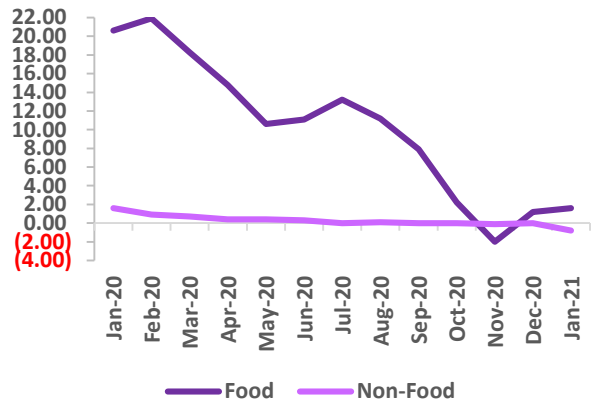
Prudent monetary stance maintaining price stability in 2021. Entering into 2021, China's demand for new yuan-denominated loans surged to new highs of RMB 3.58 trillion in January due to upcoming Spring Festival, staying higher than the consensus estimate of RMB 3.5tr and December's RMB1.26tr while January's aggregate financing reached RMB 5.17tr, staying above the consensus estimate of RMB 4.6 tr and December's RMB 1.72tr. Board credit growth indicator demonstrated decelerating momentum as M2 growth slowed to 9.4%, staying lower than the consensus estimate of 9.8% and December's 10.1%. In sum, the evolution of the pandemic and inflation risks prompt China's policy makers to remain cautious of enlarging the size of stimulus measures. As China is exposing to complicated global economic environment, the People Bank of China (PBOC) has stepped up efforts to strike a balance between rising credit risks and guiding funds into the real economy to support economic growth. We are of the view that the PBOC will continue to resume "normal" stance of monetary policy as China's recovery momentum is on track. With the aim to boost the stable development of the real economy, optimize the liquidity structure of commercial banks and financial markets, lower financing costs, and support small businesses, private enterprise and innovation, the PBOC will prioritize a prudent, neutral monetary policy, neither too tight nor too loose, and keep liquidity reasonably ample, thus maintaining price stability and healthy growth of China's economy in 2021.

Fig.1: China CPI Inflation (YoY %)



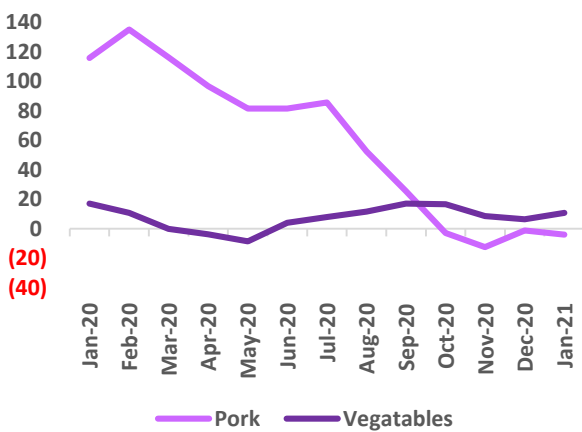
Source: Bloomberg

Fig.2: Food and Non-Food Inflation (YoY %)



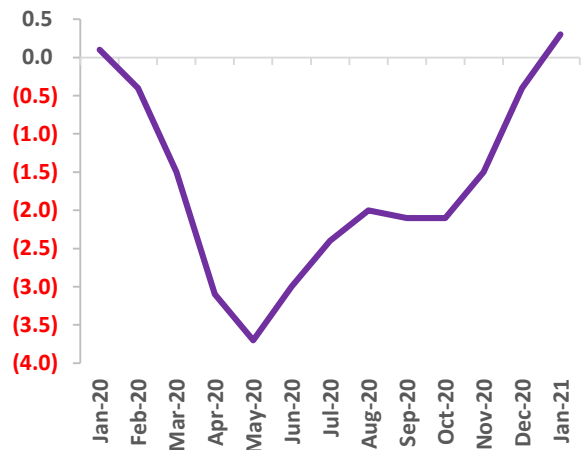
Source: Bloomberg

Fig.3: Price of Pork and Vegetables (YoY %)



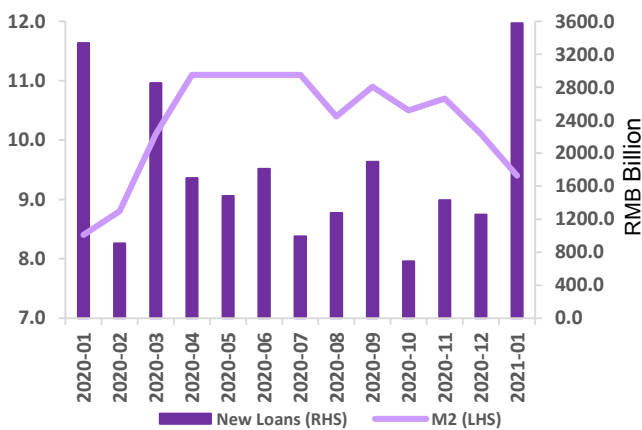
Source: Bloomberg

Fig.4: China PPI (YoY %)



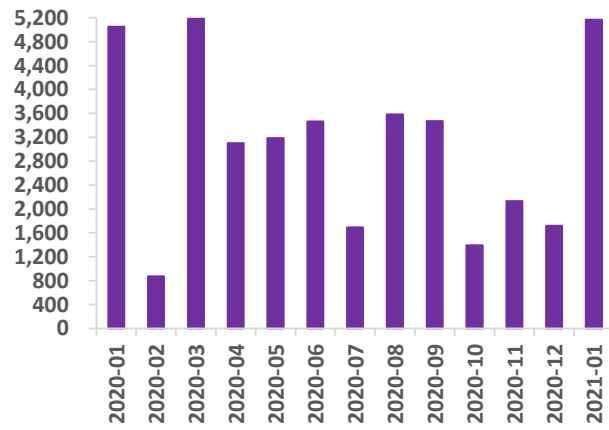
Source: Bloomberg

Fig.5: New Loans and M2 growth



Source: Bloomberg

Fig.6: Aggregate Social Financing (RMB bn)



Source: Bloomberg

China economic indicators

	2017	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020
Real GDP (YoY%)	6.9	6.6	6.0	(6.8)	3.2	4.9	6.5	2.3
PMI								
Manufacturing (%)	51.6	49.4	50.2	45.9	50.8	51.2	51.8	51.9
Non-Manufacturing (%)	55.5	53.2	53.5	45.3	53.7	55.1	56.1	55.7
Exports (RMB YoY %)	10.8	7.1	5.0	(11.7)	4.2	9.6	10.9	4.0
Imports (RMB YoY %)	18.9	12.9	1.7	(0.9)	(6.0)	4.0	(0.34)	(0.7)
Trade Balance (RMB/bn)	2851.9	2324.8	2912.0	94.0	1083.7	1108.6	1423.5	3709.6
Exports (USD YoY %)	7.9	9.9	0.5	(13.6)	(0.2)	8.4	16.7	3.6
Imports (USD YoY %)	16.1	15.8	(2.7)	(3.1)	(9.9)	3.0	5.0	(1.1)
Trade Balance (USD/bn)	419.6	350.9	421.1	12.4	153.8	157.1	211.7	535.0
CPI (YoY %)	1.6	2.1	2.9	4.9	2.7	2.3	0.1	2.5
PPI (YoY %)	6.3	3.5	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)
FAI (YTD/ YOY %)	7.2	5.9	5.4	(16.1)	(3.1)	0.8	2.9	2.9
Real Estate Investment (YTD YoY %)	7.0	9.5	9.9	(7.7)	1.9	5.6	7.0	7.0
Industrial Production (YoY %)	6.6	6.2	5.7	(8.4)	4.4	5.8	7.1	2.8
Retail Sales (YoY%)	10.2	9.0	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)
New Lending (RMB/bn)	13523.1	16166.3	16817.5	7096.6	4990.9	4166.7	3383.4	19637.7
M2 (YoY %)	8.2	8.1	8.7	10.1	11.1	10.9	10.1	10.1
Aggregate Financing (RMB bn)	19444.5	19258.4	25673.5	11111.0	9757.4	8751.6	5247.8	34863.6

	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21
Real GDP (YoY%)	-	-	(6.8)	-	-	3.2	-	-	4.9	-	-	6.5	-
PMI													
- Manufacturing %	50.0	35.7	52.0	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3
- Non-manufacturing%	54.1	29.6	52.3	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4
Exports (RMB YoY %)	(1.5)	(39.8)	(3.8)	7.7	1.2	4.0	10.0	11.2	8.2	7.2	14.5	10.9	-
Imports (RMB YoY %)	(11.3)	9.7	2.1	(10.4)	(12.7)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	-
Trade Balance (RMB/bn)	383.1	(427.8)	138.7	315.2	440.6	327.9	439.1	413.5	256.0	399.2	507.5	516.8	-
Export (USD YoY %)	(2.9)	(40.6)	(6.9)	3.1	(3.5)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	-
Import (USD YoY %)	(12.7)	7.7	(1.3)	(14.4)	(16.7)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	-
Trade Balance (USD/bn)	54.7	(62.1)	19.8	44.9	62.6	46.3	61.9	58.5	36.8	58.1	75.5	78.2	-
CPI (YoY %)	5.4	5.2	4.3	3.3	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)
PPI (YoY %)	0.1	(0.4)	(1.5)	(3.1)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3
FAI (YTD/ YOY %)	-	(24.5)	(16.1)	(10.3)	(6.3)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-
Real Estate Investment (YTD/ YoY %)	-	(16.3)	(7.7)	(3.3)	(0.3)	1.9	3.4	4.6	5.6	6.3	6.8	7.0	-
Industrial Production (YoY %)	-	(13.5)	(1.1)	3.9	4.4	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-
Retail Sales (YoY%)	-	(20.5)	(15.8)	(7.5)	(2.8)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	4.6	-
New Lending (RMB/bn)	3337.5	905.7	2853.4	1697.8	1482.1	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3580.0
M2 (YoY %)	8.4	8.8	10.1	11.1	11.1	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4
Aggregate Financing (RMB bn)	5053.5	873.7	5183.8	3102.7	3186.6	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1719.2	5170.0
Urban Unemployment Rate (%)	-	6.2	5.9	6.0	5.9	5.7	5.7	5.6	5.4	5.3	5.2	5.2	-
Urban Unemployment Rate in 31 major cities (%)	-	5.7	5.7	5.8	5.9	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	31,375.83	27.80	2.24
S&P 500	3,911.23	32.07	2.22
NASDAQ	14,007.70	69.27	2.90
EUR			
FTSE 100	6,531.56	294.15	0.23
DAX	14,011.80	59.19	1.28
CAC40S	5,691.54	61.63	2.31
STOXX EUR 600	410.42	56.25	1.11
Asia			
HSI	29,476.19	16.35	0.78
HSCEI	11,602.76	11.39	(0.05)
CSI300	5,686.25	21.53	3.37
SSE Composite	3,603.49	18.84	1.98
SZSE Composite	2,418.24	52.01	0.69
NIKKEI 225	29,505.93	33.61	4.03
KOSPI	3,084.67	30.44	(0.39)
TWSE	15,802.40	22.87	4.40
S&P/ASX 200	6,821.23	45.55	0.87
MSCI Index			
MSCI WORLD	2,798.55	34.78	2.44
MSCI DEVELOPED	676.70	33.20	2.38
MSCI EMERGING	1,409.14	25.82	2.02
MSCI US	3,832.33	32.23	2.33
MSCI UK	1,828.85	241.37	0.19
MSCI France	165.52	65.44	2.19
MSCI Germany	157.61	65.47	0.90
MSCI China	125.30	26.09	3.27
MSCI Hong Kong	16,464.16	31.12	1.44
MSCI Japan	1,180.79	28.36	4.29

* As of 09/02/2021 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	58.36	6.57
ICE Brent Oil	USD/bbl	61.09	6.32
NYMEX Natural	USD/MMBtu	2.84	(0.35)
Basic Metals			
LME Aluminum	USD/MT	2,049.75	3.94
CMX Copper	USD/lb.	372.00	5.55
LME Steel Rebar	USD/MT	598.00	3.19
LME Lead Cash	USD/MT	2,067.25	3.34
Precious Metals			
CMX Gold	USD/T. oz	1,841.97	(0.41)
Gold Futures	USD/T. oz	1,837.50	0.22
CMX Silver	USD/T. oz	27.68	(0.32)
NYMEX Platinum	USD/T. oz	1,180.96	6.45
Agricultural			
CBOT Corn	USD/bu	554.25	2.21
CBOT Wheat	USD/bu	649.50	0.74
NYB-ICE Sugar	USD/lb.	15.76	2.67
CBOT Soybeans	USD/bu.	1,401.75	3.47

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.03	(0.01)
US Treasury (1 Yr)	0.07	(0.01)
US Treasury (5 Yr)	0.47	0.03
US Treasury (10 Yr)	1.16	0.06
US Treasury (30 Yr)	1.95	0.08
1-Month LIBOR	0.12	0.01
3 Month LIBOR	0.20	0.00
Japan 1-Yr Gov. Bond	(0.11)	(0.01)
Japan 10-Yr Gov. Bond	0.07	0.02
German 1-Yr Gov. Bond	(0.64)	(0.01)
German 10-Yr Gov. Bond	(0.45)	0.04
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.69	0.07
China 5-Yr Gov. Bond	3.05	0.06
China 10-Yr Gov. Bond	3.24	0.05
O/N SHIBOR	1.77	(0.09)
1-mth SHIBOR	2.76	(0.01)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	(0.06)
1-mth HIBOR	0.15	(0.01)
O/N CNH HIBOR	3.08	0.74
1-mth CNH HIBOR	3.13	0.08
Corporate Bonds (Moody's)		
Aaa	2.61	0.08
Baa	3.33	0.05

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	90.44	(0.83)
Euro/USD	1.21	0.57
GBP/USD	1.38	0.69
AUD/USD	0.77	1.49
USD/CAD	1.27	(0.59)
USD/JPY	104.66	(0.31)
USD/CHF	0.89	(0.49)
USD/CNY Midpoint	6.45	(0.31)
USD/CNY	6.44	(0.34)
12-mth Spot pr.	6.60	(0.37)
USD/CNH	6.43	(0.57)
USD/HKD	7.75	0.00
CNY/HKD	1.20	0.35
CNH/HKD	1.21	0.58
USD/KRW	1,116.55	(0.08)
USD/TWD	28.18	0.00
USD/SGD	1.33	(0.35)
USD/INR	72.88	(0.13)

All data sources: Bloomberg

Disclosures

Analyst Certification

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