

June 9, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's consumer price index (CPI) edged up on year-on-year basis in May at 1.3% from April's 0.9%, staying below the consensus estimate of 1.6%. May's CPI uptrend was mainly driven by continued increase in domestic labor costs and energy prices.
- China's producer price index (PPI) accelerated by 0.9% YoY in May from April's 6.8%, exceeding the consensus estimate of 8.5%. May's factory gate prices rose at their fastest pace since 2008 due to rally in international commodity prices.
- In sum, the recent pickup in consumer and producer prices signaled surging inflationary pressures, which create risks for macroeconomic adjustments to slow economic momentum.
- Looking forward, pent-up demand for services will strengthen the recovery of consumer and factory prices in coming months. We are of the view that the People Bank of China (PBOC) will maintain prudent monetary policy with flexibility to ensure proper growth of economic activities and financial market stability, thus providing the support needed for China's continued economic recovery in 2021.

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China's consumer inflation picking up in May

China's consumer price index (CPI) edged up on year-on-year basis in May at 1.3% from April's 0.9%, staying below the consensus estimate of 1.6%. May's CPI uptrend was mainly driven by continued increase in domestic labor costs and energy prices. China's producer price index (PPI) accelerated by 0.9% YoY in May from April's 6.8%, exceeding the consensus estimate of 8.5%. May's factory gate prices rose at their fastest pace since 2008 due to the worldwide reopening of economic activities which caused rally in international commodity prices and surging industrial prices in China. In sum, the recent pickup in consumer and producer prices signaled surging inflationary pressures, which create risks for macroeconomic adjustments to slow economic momentum. A continuously rising inflation would raise the concern of loosening monetary stance to push up inflation, therefore enhancing downside economic risks. Looking forward, pent-up demand for services will strengthen the recovery of consumer and factory prices in coming months. China's policymakers aim to stick to the principle of seeking economic recovery amidst stability, appropriately balancing the relationship between maintaining steady economic development and managing inflation expectations. We are of the view that the People Bank of China (PBOC) will maintain prudent monetary policy with flexibility to ensure proper growth of economic activities and financial market stability, thus providing the support needed for China's continued economic recovery in 2021.

China's May consumer inflation climbing on accelerated food and non-food prices. The pandemic-driven stimulus measures spark a rise in global inflation. The continued uptrend of China's general price level in May was mainly attributed to a year-on-year increase in food and non-food price level by 0.3% and 1.6% from April's -0.7% and 1.3%. General food prices rose on surging demand for food products in Labor day holidays while the rally in energy prices and recovering service prices raised the price level of 'Fuels for Vehicle', and 'Communication Facilities' by 21.3% YoY and 6.5% YoY in May, reflecting that continued pickup in economic momentum boosted spending appetites of consumers and demand for fuels. For the first

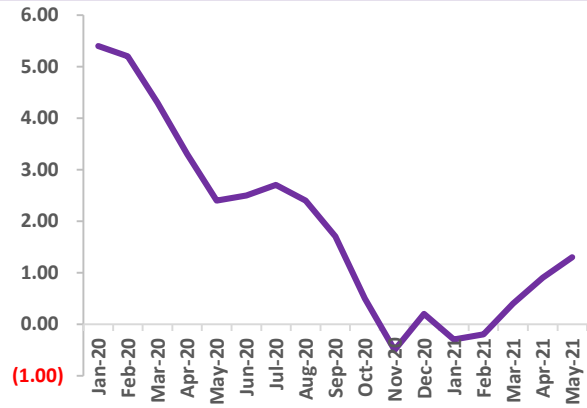
five months of 2021, China's CPI reached 0.4% YoY. Looking forward, pent-up demand for services will strengthen the recovery of consumer prices in coming months with which rising labor costs and energy prices as well as low-base effect will likely add to inflation. Price surges have spread to mid-stream products, and will continue to affect mid-stream and downstream merchandise, driving an increase in costs for the whole society. Although consumer price level points to upside, China's inflation stayed at mild range with which economic fundamentals such as supply outstripping demand, relatively restrained macropolicy support, recovering pork supply and a limited pass-through effect from PPI to CPI will ensure stable pricing pressures in 2021.

China's May factory gate prices rising at their fastest pace on commodity prices boom. China's factory gate prices rose the most since 2008 in May, as producers passed on rising raw material prices. The rally in international commodity prices and disruption of worldwide supply chain worsen supply-side constraints, thus propping up factory-gate prices in China with which the PPI of 'Extraction of Petroleum and Natural Gas', 'Mining of Ferrous Metal Ores', 'Manufacture and Processing of Ferrous Metals', 'Processing of Petroleum, Coking, Processing of Nucleus Fuel' and 'Manufacture and Processing of Non-Ferrous Metals', posted a YoY rise of 99.1%, 48%, 38.1%, 34.3% and 30.4% respectively. We are of the view that commodity prices continue to rise throughout the global economy as depleted inventories have led to massive inventory restocking as businesses reopen. Shipping bottlenecks have pushed up general industrial prices while low interest rates have resulted in a boom in economic activities of developed economies, adding to demand for commodities. All of these factors have resulted in rising commodity prices, which have increased producer prices in China. Looking forward, China's manufacturing activities will maintain proper expansion as factories enhances production capacity to keep up with recovery of global demand. Along with uptrend of commodity prices as well as robust growth of fixed asset investment and industrial production, China's industrial prices will maintain acceleration in coming months.

Prudent liquidity management becoming the key to smooth inflationary pressures. The evolution of the pandemic and inflation risks prompt China's policymakers to remain cautious of enlarging the size of stimulus measures. As China is exposing to complicated global economic environment and prolonged health risks, the 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 pursue prudent liquidity management as China's recovery momentum is on track. Given the need to maintain economic momentum, the PBOC would inject liquidity into the interbank market through reverse repo and medium-term lending facility (MLF), instead of employing radical interest rate and RRR cuts. The PBOC will prioritize a prudent and neutral

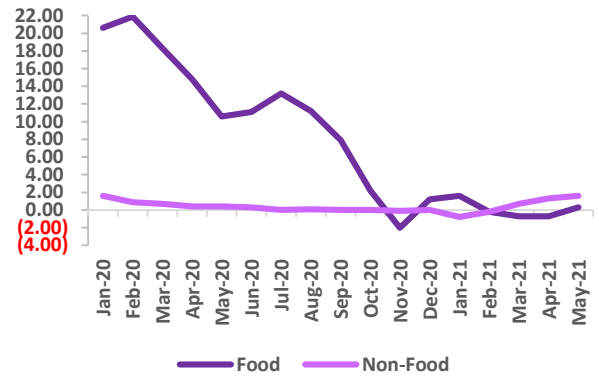
monetary policy, neither too tight nor too loose, and keep liquidity reasonably ample, thus maintaining price stability and accommodating capital demand for the rest of 2021.

Fig.1: China CPI Inflation (YoY %)



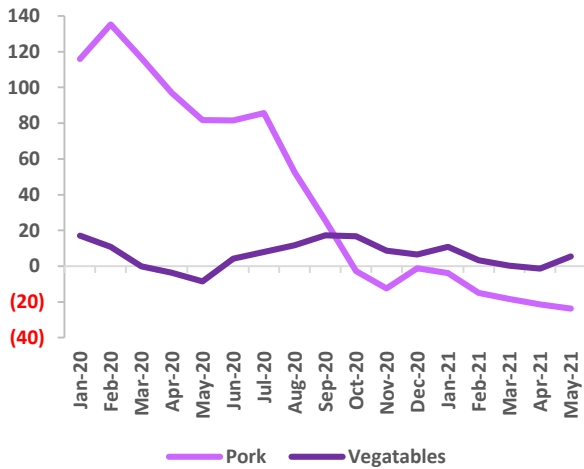
Source: Bloomberg

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



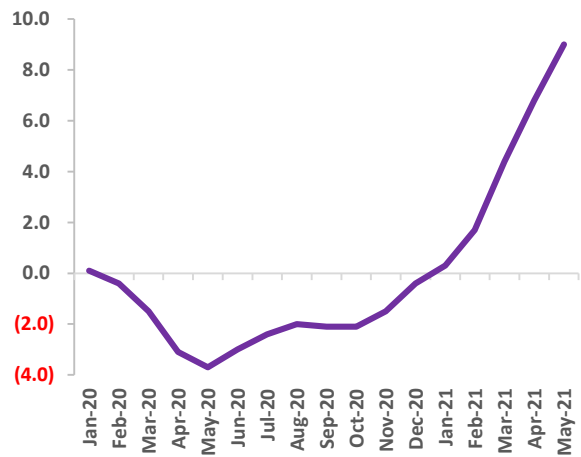
Source: Bloomberg

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



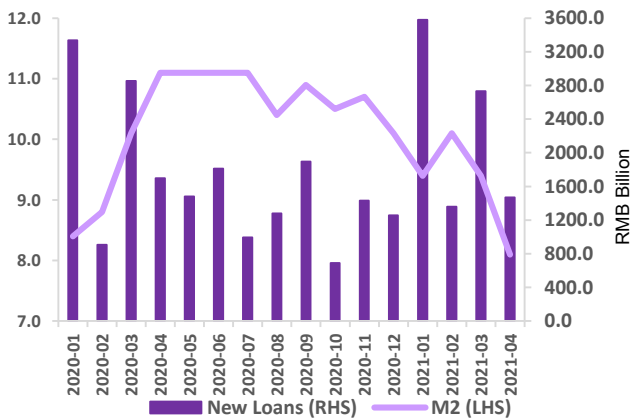
Source: Bloomberg

Fig.4: China PPI (YoY %)



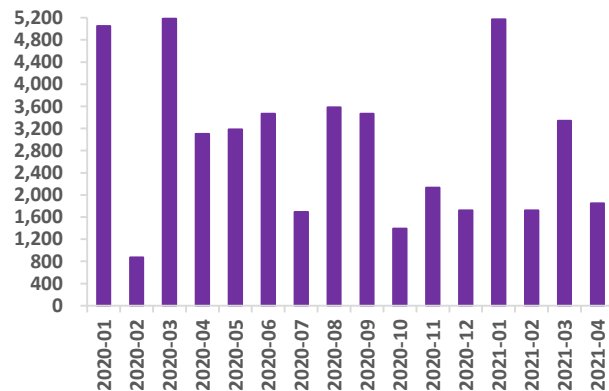
Source: Bloomberg

Fig.5: New Loans and M2 growth



Source: Bloomberg

Fig.6: Aggregate Social Financing (RMB bn)



Source: Bloomberg

China economic indicators

	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021
Real GDP (YoY%)	6.6	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3
PMI								
Manufacturing (%)	49.4	50.2	45.9	50.8	51.2	51.8	51.9	51.3
Non-Manufacturing (%)	53.2	53.5	45.3	53.7	55.1	56.1	55.7	53.4
Exports (RMB YoY %)	7.1	5.0	(11.7)	4.2	9.8	10.9	4.0	38.7
Imports (RMB YoY %)	12.9	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	19.3
Trade Balance (RMB/bn)	2324.7	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	750.9
Exports (USD YoY %)	9.9	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9
Imports (USD YoY %)	15.8	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.2
Trade Balance (USD/bn)	350.9	421.1	12.7	151.7	153.7	209.3	526.9	115.1
CPI (YoY %)	2.1	2.9	4.9	2.7	2.3	0.1	2.5	0.0
PPI (YoY %)	3.5	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1
FAI (YTD/ YOY %)	5.9	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6
Real Estate Investment (YTD YoY %)	9.5	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6
Industrial Production (YoY %)	6.2	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5
Retail Sales (YoY%)	9.0	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9
New Lending (RMB/bn)	16166.3	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9
M2 (YoY %)	8.1	8.7	10.1	11.1	10.9	10.1	10.1	9.4
Aggregate Financing (RMB bn)	19258.4	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10266.2

	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21
Real GDP (YoY%)	-	3.2	-	-	4.9	-	-	6.5	-	-	18.3	-	-
PMI													
- Manufacturing %	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0
- Non-manufacturing%	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2
Exports (RMB YoY %)	1.2	4.0	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.4	20.7	22.2	18.1
Imports (RMB YoY %)	(12.7)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	18.9	10.6	27.8	32.2	39.5
Trade Balance (RMB/bn)	435.7	317.4	429.1	405.0	248.0	395.7	502.8	509.2	420.7	243.7	86.4	276.5	296.0
Export (USD YoY %)	(3.5)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.8	30.6	32.3	27.9
Import (USD YoY %)	(16.7)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	27.3	17.6	38.2	43.1	51.1
Trade Balance (USD/bn)	61.9	44.8	60.5	57.3	35.6	57.5	74.8	77.0	64.2	37.3	13.5	42.9	45.5
CPI (YoY %)	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3
PPI (YoY %)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0
FAI (YTD/ YOY %)	(6.3)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	-
Real Estate Investment (YTD/ YoY %)	(0.3)	1.9	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	-
Industrial Production (YoY %)	4.4	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	-
Retail Sales (YoY%)	(2.8)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	-
New Lending (RMB/bn)	1482.1	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	-
M2 (YoY %)	11.1	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	-
Aggregate Financing (RMB bn)	3186.6	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5175.8	1723.9	3366.5	1850.7	-
Urban Unemployment Rate (%)	5.9	5.7	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	-
Urban Unemployment Rate in 31 major cities (%)	5.9	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,599.82	26.10	0.07
S&P 500	4,227.26	29.87	0.60
NASDAQ	13,924.91	88.48	1.37
EUR			
FTSE 100	7,095.09	50.87	0.21
DAX	15,640.60	33.52	0.47
CAC40S	6,551.01	46.89	0.95
STOXX EUR 600	454.01	38.32	0.87
Asia			
HSI	28,742.63	13.65	(1.89)
HSCEI	10,704.75	14.38	(2.26)
CSI300	5,236.45	17.66	(1.01)
SSE Composite	3,591.40	16.18	(0.16)
SZSE Composite	2,396.54	36.26	(0.18)
NIKKEI 225	28,860.80	20.26	(0.29)
KOSPI	3,216.18	20.55	(0.25)
TWSE	16,966.22	17.85	(1.16)
S&P/ASX 200	7,270.20	52.63	0.73
MSCI Index			
MSCI WORLD	3,001.83	29.92	0.66
MSCI DEVELOPED	716.96	27.31	0.45
MSCI EMERGING	1,377.43	17.26	(0.96)
MSCI US	4,099.11	29.95	0.66
MSCI UK	1,991.99	48.89	0.15
MSCI France	187.75	54.05	0.79
MSCI Germany	171.01	33.92	0.80
MSCI China	108.51	13.80	(3.29)
MSCI Hong Kong	16,976.78	45.95	(1.96)
MSCI Japan	1,202.60	20.33	1.77

* As of 2021/06/09 closing for Asian markets, 2021/06/08 closing for other markets.

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)	(0.01)	(0.00)
US Treasury (1 Yr)	0.04	0.000
US Treasury (5 Yr)	0.77	(0.03)
US Treasury (10 Yr)	1.53	(0.07)
US Treasury (30 Yr)	2.22	(0.07)
1-Month LIBOR	0.0813	(0.005)
3 Month LIBOR	0.1231	(0.008)
Japan 1-Yr Gov. Bond	(0.11)	0.001
Japan 10-Yr Gov. Bond	0.07	(0.01)
German 1-Yr Gov. Bond	(0.64)	(0.01)
German 10-Yr Gov. Bond	(0.24)	(0.04)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.42	0.07
China 5-Yr Gov. Bond	2.98	0.05
China 10-Yr Gov. Bond	3.13	0.036
O/N SHIBOR	2.19	0.15
1-mth SHIBOR	2.39	(0.01)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.0015
1-mth HIBOR	0.09	0.005
O/N CNH HIBOR	1.50	0.43
1-mth CNH HIBOR	2.43	(0.003)
Corporate Bonds (Moody's)		
Aaa	2.91	0.01
Baa	3.55	(0.02)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	70.43	2.32
ICE Brent Oil	USD/bbl	72.60	1.75
NYMEX Natural	USD/MMBtu	3.12	1.50
Basic Metals			
LME Aluminum	USD/MT	2,453.50	0.14
CMX Copper	USD/lb.	455.60	(2.10)
LME Steel Rebar	USD/MT	715.00	(5.30)
LME Lead Cash	USD/MT	2,171.00	(2.20)
Precious Metals			
CMX Gold	USD/T. oz	1,891.13	(0.26)
Gold Futures	USD/T. oz	1,893.80	(0.84)
CMX Silver	USD/T. oz	27.59	(0.72)
NYMEX Platinum	USD/T. oz	1,159.13	(2.14)
Agricultural			
CBOT Corn	USD/bu	600.25	4.80
CBOT Wheat	USD/bu	679.00	(1.24)
NYB-ICE Sugar	USD/lb.	17.59	(0.51)
CBOT Soybeans	USD/bu.	1,445.75	2.26

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	90.00	0.10
Euro/USD	1.2188	0.11
GBP/USD	1.4183	0.41
AUD/USD	0.7749	0.35
USD/CAD	1.2089	0.07
USD/JPY	109.43	(0.38)
USD/CHF	0.8963	(0.63)
USD/CNY Midpoint	6.3956	0.29
USD/CNY	6.3924	0.18
USD/CNY NDF-12-mth	6.5544	0.17
USD/CNH	6.3914	0.05
USD/HKD	7.7591	(0.01)
CNY/HKD	1.2139	(0.18)
CNH/HKD	1.2140	(0.06)
USD/KRW	1,115.20	0.18
USD/TWD	27.76	0.17
USD/SGD	1.32	(0.05)
USD/INR	72.95	(0.19)

All data sources: Bloomberg

Disclosures

Analyst Certification

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