

Jan 10, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- China's December CPI inflation edged up 1.8 % YoY (+0.3% MoM and November's +1.7% YoY), beneath the consensus estimate of +1.9%. The rise of inflation in December was attributable to surging month-to-month increase in food prices due to cold weather.
- Producers' prices posted positive growth of 4.9% YoY (+0.8% MoM) in December, beating the market expectation of 4.8% but lowering than November's 5.8% due to the high-base effect. The upward trend of factory-gate prices was driven by stable economic recovery, a tight labor market and cuts on overcapacity.
- For 2017, the CPI inflation fluctuated between 0.8% and 2.5%, with year-end inflation reaching 1.6%, safely lower than the official target of 3.0% and 2016's 2.0%. The PPI rose 6.3% YoY in 2017, reversing the deflation of producer prices between 2012 and 2016. In sum, the stable trend of consumer prices and factory-gate prices indicates that China's economic momentum remains resilient, supported by strong domestic demand and healthy global demand.

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## China's inflation remained stable in 2017

China's December CPI inflation edged up 1.8 % YoY (+0.3% MoM and November's +1.7% YoY), beneath the consensus estimate of +1.9%. The rise of inflation in December was attributable to surging month-to-month increase in food prices due to cold weather. Producers' prices posted positive growth of 4.9% YoY (+0.8% MoM) in December, beating the market expectation of 4.8% but lowering than November's 5.8% due to the high-base effect. The upward trend of factory-gate prices was driven by stable economic recovery, a tight labor market and cuts on overcapacity. For 2017, the CPI inflation fluctuated between 0.8% and 2.5%, with year-end inflation reaching 1.6%, safely lower than the official target of 3.0% and 2016's 2.0%. The PPI rose 6.3% YoY in 2017, reversing the deflation of producer prices between 2012 and 2016. In sum, the stable trend of consumer prices and factory-gate prices indicates that China's economic momentum remains resilient, supported by strong domestic demand and healthy global demand.

### **December CPI rebounded slightly on rising food prices.**

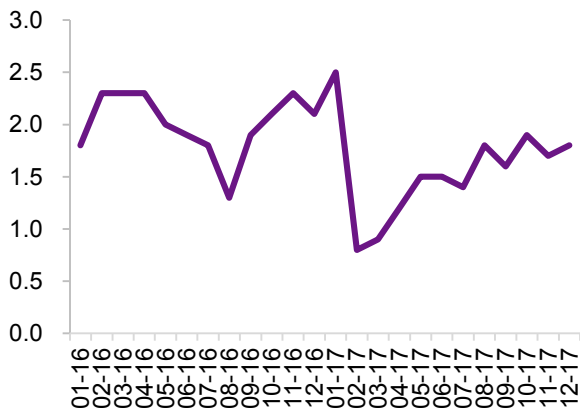
Contributing to the rise of CPI in December was the food CPI that dropped by 0.4% YoY, much lower than the drop of 1.1% in November. Due to cold weather in December, month-to-month increase food price surged to 1.1%, exceeding -0.5% in November. Within food categories, pork and vegetable prices rose 1.1% MoM and 1.0% MoM (November's -0.8% and -4.8%). Non-food CPI remained stable, posting a rise of 2.4% YoY in December, slightly lower than November's 2.5%. Non-food categories such as 'Transportation and Communication', 'Education, Culture and Recreation' and 'Health Care' remain as the major driver of non-food CPI. In general, China's overall macroeconomic recovery is on track and we believe CPI inflation would remain stable in 2018.

**China's factory prices surged MoM in December.** China's PPI, a gauge of factory-gate prices, increased by 4.9% YoY (+0.8% MoM) in December. Industries such as 'Extraction of Petroleum and Natural Gas' (+20.1% Dec YoY, +29.0% 2017 YoY), 'Manufacture and Processing of Ferrous Metals' (+18.5% YoY, +27.9% 2017 YoY), 'Manufacture of Non-metallic Mineral Products' (+12.4% YoY, +8.1% 2017 YoY), 'Processing of Petroleum, Coking, Processing of

Nucleus Fuel' (+12.3% YoY, +19.2% 2017 YoY), 'Mining of Non-Ferrous Metal Ores' (+11.9% YoY, +14.0% 2017 YoY), 'Manufacture of Paper and Paper Products' (+10.7% YoY, +9.5% 2017 YoY) and 'Manufacture and Processing of Non-Ferrous Metals' (+10.1% YoY, +15.9% 2017 YoY) posted double-digit rise in producer prices. In general, PPI has been expanding for 16 months in a row, signaling the rebound in commodity prices and improvement of the manufacturing environment. Meanwhile, we expect growth in China's fixed asset investment and industrial production to remain stable, which will sustain the growth of industrial goods prices. We believe factory-gate prices will remain uptrend in 2018.

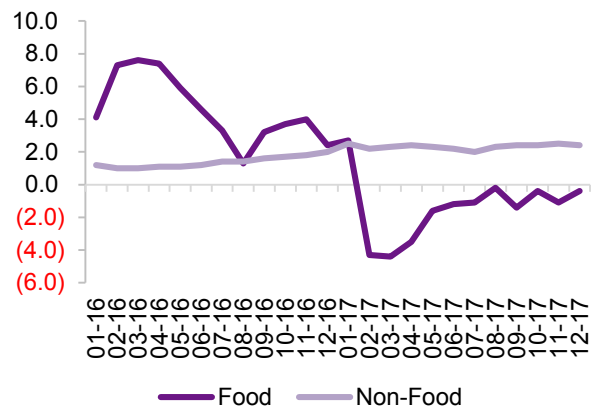
**Prudent monetary policy to maintain price level stability.** Prudent liquidity management will continue to be a priority of monetary policy in 2018. The stabilization of China's economy, reflected by the stable trend in CPI and PPI, have rendered aggressive easing less necessary and the direction of prudent monetary policy will stay unchanged. Amid healthy expansion of credits and stable food prices, China's inflation will remain stable in 2018.

**Fig.1: China CPI Inflation YoY%**



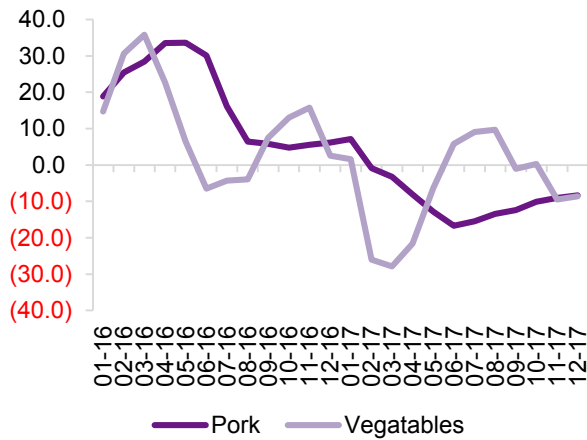
Source: Wind, Bloomberg and CEBI

**Fig.2: Food and Non-Food Inflation YoY%**



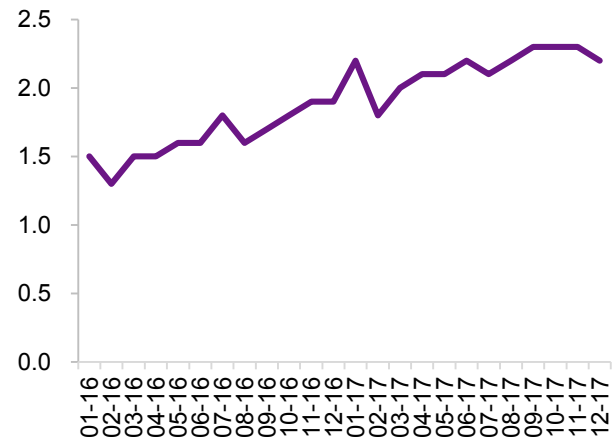
Source: Wind, Bloomberg and CEBI

**Fig.3: Price of Pork and Vegetables YoY%**



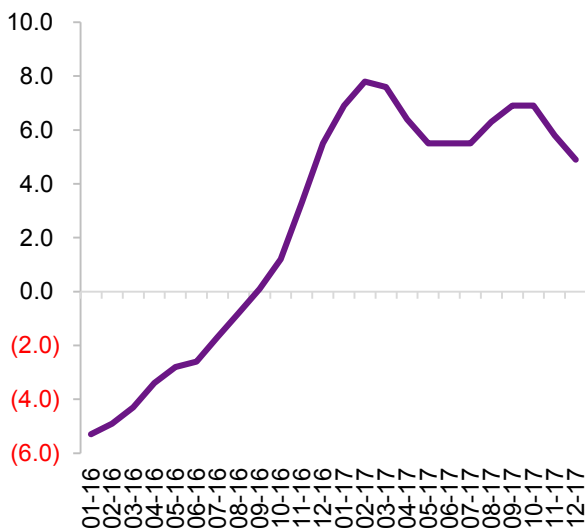
Source: Wind, Bloomberg and CEBI

**Fig.4: Core Inflation YoY%**



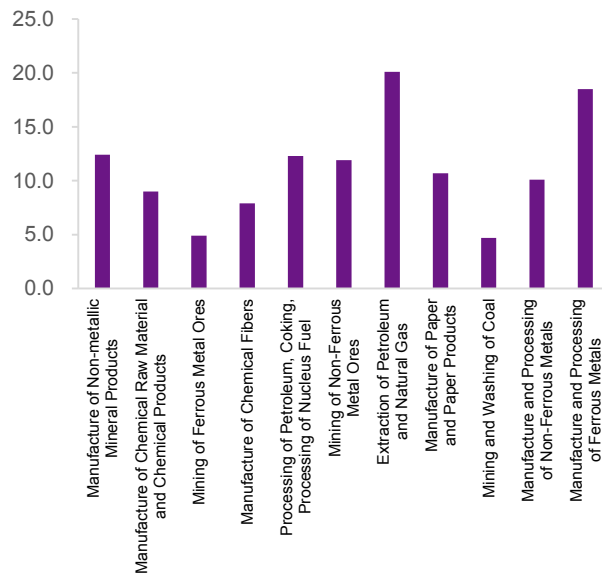
Source: Wind, Bloomberg and CEBI

**Fig.5: China PPI YoY%**



Source: Wind, Bloomberg and CEBI

**Fig.6: Producer Price Indices of Major Industries (December 2017) YoY%**



Source: Wind, Bloomberg and CEBI

## China Economic Indicators

	2015	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017
Real GDP	6.9	6.7	6.9	6.9	6.8	-	-
PMI							
Manufacturing (%)	49.7	51.4	51.8	51.7	52.4	51.6	51.6
Non-Manufacturing (%)	54.4	54.5	55.1	54.9	55.4	55.5	55.5
Exports (RMB YoY %)	(1.9)	(1.9)	14.4	15.4	9.0	-	-
Imports (RMB YoY %)	(13.2)	0.6	31.0	21.1	16.3	-	-
Trade Balance (RMB/bn)	3683.1	3345.2	445.9	832.3	800.7	-	-
Exports (USD YoY %)	(2.9)	(7.7)	7.8	9.1	6.9	-	-
Imports (USD YoY %)	(14.1)	(5.5)	24.0	14.5	14.5	-	-
Trade Balance (USD/bn)	593.9	509.7	64.3	120.8	117.2	-	-
CPI (YoY %)	1.4	2.0	1.4	1.4	1.6	1.8	1.6
PPI (YoY %)	(5.2)	(1.4)	7.4	5.8	6.2	5.9	6.3
FAI (YTD/ YOY %)	10.0	8.1	9.2	8.6	7.5	-	-
Real Estate Investment (YTD YoY %)	1.0	6.9	9.1	8.5	8.1	-	-
Industrial Production (YoY %)	6.1	6.0	6.8	6.9	6.3	-	-
Retail Sales (YoY%)	10.7	10.4	10.0	10.8	10.3	-	-
New Lending (RMB/bn)	11719.9	12645.9	4220.0	3750.0	3785.5	-	-
M2 (YoY %)	13.3	11.3	10.6	9.4	9.2	-	-
Aggregate Financing (RMB bn)	15408.6	17800.0	6938.5	4573.4	4502.7	-	-

	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17
Real GDP	6.8	-	-	6.9	-	-	6.9	-	-	6.8	-	-	-
PMI – Manufacturing %	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6
PMI- Non-manufacturing%	54.5	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5
Exports (RMB YoY %)	0.6	15.0	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	-
Imports (RMB YoY %)	10.8	25.7	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	-
Trade Balance (RMB/bn)	267.3	342.0	(69.0)	158.9	254.7	279.3	290.7	314.4	282.5	194.2	253.7	263.6	-
Export (USD YoY %)	(6.1)	7.0	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	-
Import (USD YoY %)	3.1	17.1	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	-
Trade Balance (USD/bn)	39.6	49.5	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	-
CPI (YoY %)	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8
PPI (YoY %)	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9
FAI (YTD/ YOY %)	8.1	-	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	-
Real Estate Investment (YTD/ YoY %)	6.9	-	8.9	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	-
Industrial Production (YoY %)	6.0	-	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	-
Retail Sales (YoY%)	10.9	-	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	-
New Lending (RMB/bn)	1040.0	2030.0	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	-
M2 (YoY %)	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	-
Aggregate Financing (RMB bn)	1630.0	3696.8	1090.2	2118.4	1387.8	1063.0	1771.8	1193.5	1487.4	1832.4	1035.0	1598.3	-

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	25,385.80	21.33	2.26
S&P 500	2,751.29	23.09	2.06
NASDAQ	7,163.58	40.00	2.24
<b>EUR</b>			
FTSE 100	7,731.02	23.07	1.08
DAX	13,385.59	19.69	3.99
CAC40S	5,523.94	18.98	4.45
STOXX EUR 600	400.11	21.43	3.03
<b>Asia</b>			
HSI	31,073.72	14.43	1.68
HSCEI	12,289.17	9.58	1.66
CSI300	4,207.81	17.17	2.35
SSE Composite	3,421.83	17.32	1.57
SZSE Composite	1,945.66	29.40	0.60
NIKKEI 225	23,788.20	20.45	4.41
KOSPI	2,499.75	13.07	0.54
TWSE	10,831.09	15.97	0.27
S&P/ASX 200	6,096.68	18.24	0.43
<b>MSCI Index</b>			
MSCI WORLD	2,161.78	22.09	2.16
MSCI DEVELOPED	528.02	21.24	2.18
MSCI EMERGING	1,205.14	16.56	2.31
MSCI US	2,618.93	23.48	2.08
MSCI UK	2,239.90	23.66	1.05
MSCI France	158.52	19.17	4.19
MSCI Germany	165.89	19.64	4.06
MSCI China	95.42	18.57	3.35
MSCI Hong Kong	16,298.45	13.74	1.53
MSCI Japan	1,120.43	16.86	3.50

\* As of 10/1/2018 closing for Asian markets, previous closing for others.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	63.55	3.12
ICE Brent Oil	USD/bbl	69.23	2.06
NYMEX NatGas	USD/MMBtu	2.99	-0.76
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,134.50	-5.22
CMX Cop.Active	USD/lb.	323.90	-0.57
LME Steel Rebar	USD/MT	567.00	1.43
LME Lead Cash	USD/MT	2,554.50	-0.93
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,314.47	0.03
Gold Futures	USD/KRW	1,314.90	-0.27
CMX Silverbn	USD/KRW	17.02	-0.51
NYMEX Platinum	USD/T. oz	962.12	1.69
<b>Agri. Products</b>			
CBOT Corn	USD/bu	348.75	-1.20
CBOT Wheat	USD/bu	432.00	-0.92
NYB-ICE Sugar	USD/lb.	14.73	-3.91
CBOT Soybeans	USD/bu.	959.25	-0.98

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.50	0.00
US Prime Rate	4.50	0.00
US Discount Window	2.00	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.28	0.01
US Treasury (1 Yr)	1.77	-0.03
US Treasury (5 Yr)	2.33	0.09
US Treasury (10 Yr)	2.56	0.11
US Treasury (30 Yr)	2.91	0.12
1-Month LIBOR	1.55	-0.01
3 Month LIBOR	1.71	0.01
Japan 1-Yr Gov. Bond	-0.13	0.02
Japan 10-Yr Gov. Bond	0.09	0.04
German 1-Yr Gov. Bond	-0.64	-0.03
German 10-Yr Gov. Bond	0.54	0.10
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.54	-0.27
China 5-Yr Gov. Bond	3.82	-0.02
China 10-Yr Gov. Bond	3.91	-0.01
O/N SHIBOR	2.64	0.08
1-mth SHIBOR	4.18	-0.44
HK Base rate	0.23	-0.21
O/N HIBOR	0.23	-0.21
1-mth HIBOR	0.94	-0.19
O/N CNH HIBOR	2.88	1.07
1-mth CNH HIBOR	4.21	0.19
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.50	0.05
Baa	4.23	0.06

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.34	0.19
Euro/USD	1.1949	-0.57
GBP/USD	1.3519	-0.43
AUD/USD	0.7836	0.03
USD/CAD	1.2446	-0.63
USD/JPY	111.85	-0.36
USD/CHF	0.9822	0.76
USD/CNY Midpoint	6.5207	0.44
USD/CNY	6.5160	0.20
<b>USD/CNY NDF</b>		
12-mth Spot pr.	6.6600	0.40
USD/CNH	6.5213	0.41
USD/HKD	7.8242	0.10
CNY/HKD	1.2008	-0.10
CNH/HKD	1.1999	-0.29
USD/KRW	1,071.85	0.69
USD/TWD	29.597	0.02
USD/SGD	1.3343	0.35
USD/INR	63.666	0.20

All data sources: Bloomberg, CEBI, NBS

## Disclosures

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