

# China Economy

## Inflation beat expectation amid supply shock

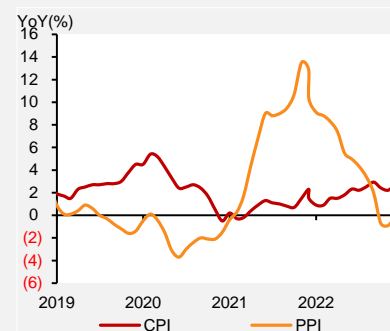
China's inflation beat expectations in March as the Russia-Ukraine conflict and domestic epidemic caused supply chain pressure for grain and energy products. Core CPI remained weak as domestic demand was hit by the epidemic and housing market stress. China needs further monetary easing to boost its growth. It is possible to see further easing of liquidity and credit supply in 2Q22.

- CPI picked up with rising grain & energy prices, but core CPI remained weak.** Consumer price index (CPI) rose 1.5% YoY in March after rising 0.9% YoY in February. From the MoM perspective, prices of flour, edible oil, gasoline and liquefied petroleum gas respectively rose 1.7%, 0.6%, 7.2% and 6.9% in March, as the Russia-Ukraine conflict pushed up grain & energy prices. But meat prices experienced sharp MoM declines as supply continued to exceed demand. In March, core CPI declined 0.1% MoM as the epidemic severely hurt the demand for some services. Specifically, prices of air tickets, movie & show tickets, vehicle rental fees and travel service prices fell by 10%, 7.6%, 3.5% and 2.6% MoM.
- PPI further slowed, but beat expectations with strong MoM growth.** The YoY growth of producer price index (PPI) slowed from 8.8% in February to 8.3% in March due to base effect. But the MoM growth rose from 0.5% to 1.1% as the Russia-Ukraine conflict pushed up energy & metal prices. In March, prices of oil & gas mining, petroleum & other energy products, non-ferrous metals and coal mining respectively increased 14.1%, 7.9%, 2.7% and 2.5% MoM.
- CPI may mildly pick up while PPI would further slow down.** With a rebalance of supply and demand, food prices should moderately rebound in the second half year. Service prices may slightly rise as demand resumes from the epidemic shock. The CPI growth should mildly pick up. But the PPI growth would further slow down due to base effect as well as a possible decline of commodity prices in 2H22. We believe most commodity prices may noticeably decline in 2H22 as the US Fed further tightens policy and supply gradually resumes.
- China needs further policy easing to boost growth.** The higher-than-expected inflation in March was mainly due to supply chain pressure and the final demand remained weak in China. China needs further policy easing to boost growth. It is possible to see further easing of liquidity and credit supply in 2Q22.
- Implications for the stock market.** Chinese policymakers pay more attention to energy and grain supply security after the Russia-Ukraine conflict. China has planned to noticeably increase its coal output this year to restrain energy costs. Meanwhile, China would increase fixed investment in oil & gas mining, pipelines and photovoltaic & wind power generation. China will also increase investment in agricultural technology especially in seed technology, which will benefit related leading companies. To alleviate supply chain pressure caused by the epidemic, the Chinese government has vowed to maintain orderly operation of transportation network and logistics system. The moderate easing of monetary policy will boost the market sentiment especially for sectors including property, infrastructure investment and financials.

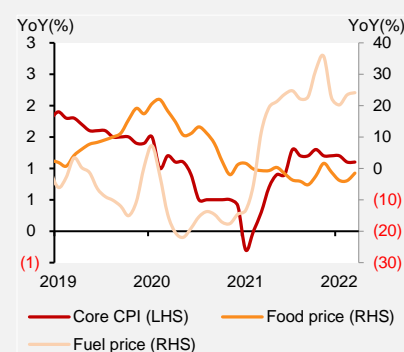
**Bingnan YE, Ph.D**

(852) 6989 5170

yebingnan@cmbi.com.hk

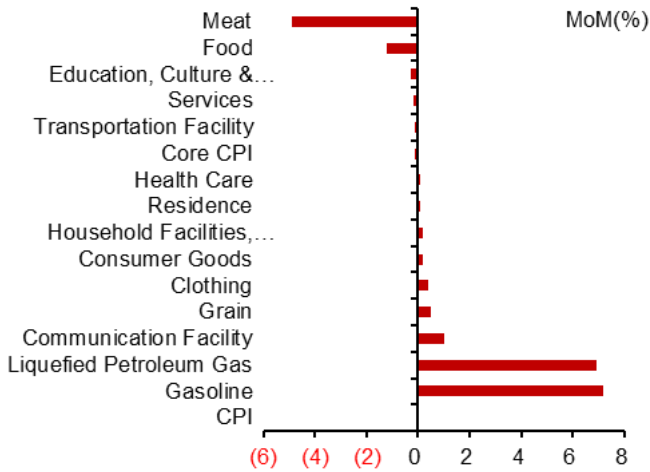


Source: Wind, CMBIGM



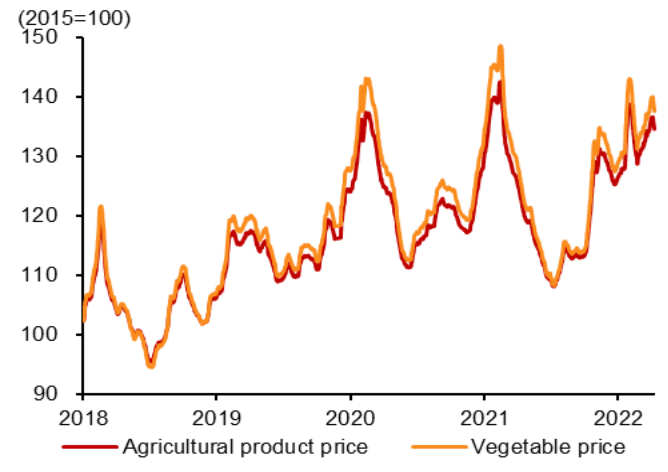
Source: Wind, CMBIGM

**Figure 1: MoM Changes of CPI by Items in March**



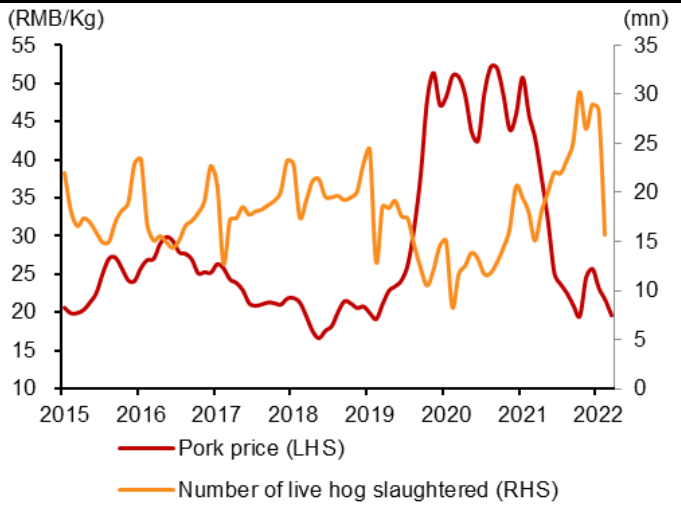
Source: Wind, CMBIGM

**Figure 2: Agricultural Product Price**



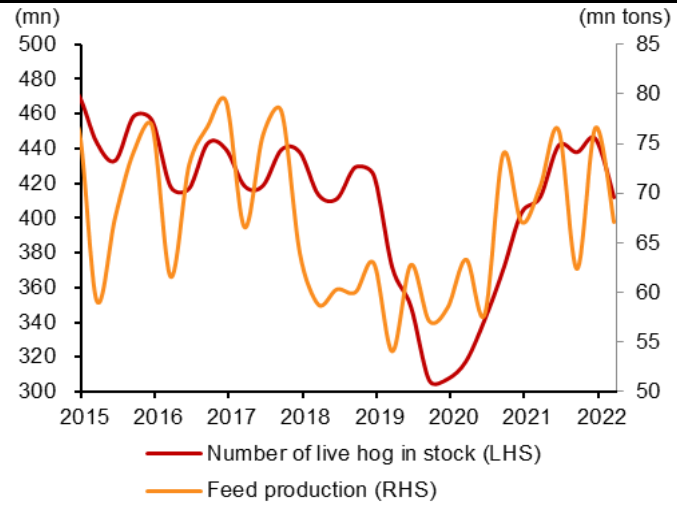
Source: Wind, CMBIGM

**Figure 3: Pork Price and Production**



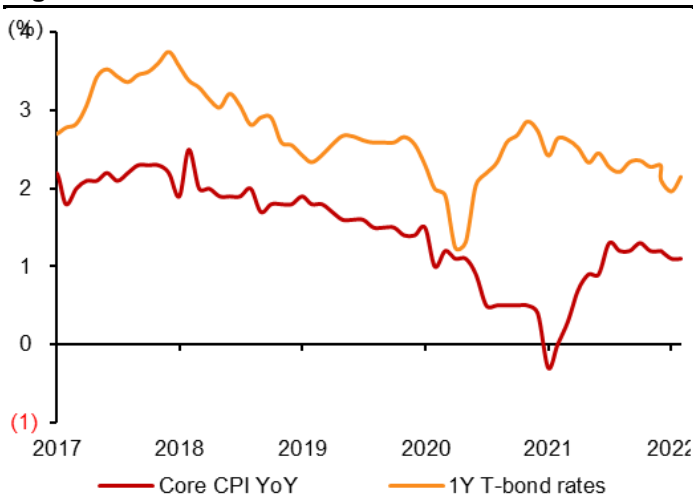
Source: Wind, CMBIGM

**Figure 4: Live Hog Stock and Feed Production**



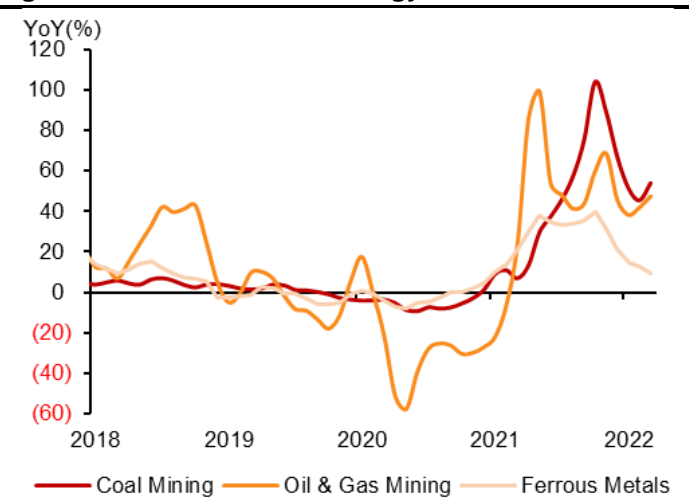
Source: Wind, CMBIGM

**Figure 5: Core CPI Growth and 1Y T-bond Rates**



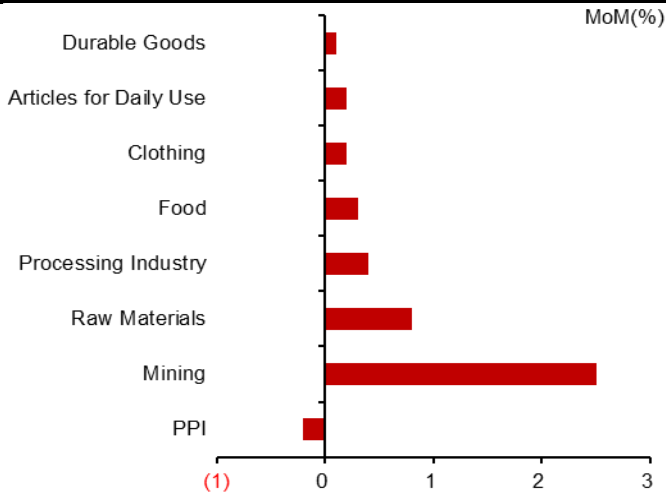
Source: Wind, CMBIGM

**Figure 6: Growth of PPI in Energy and Steel**



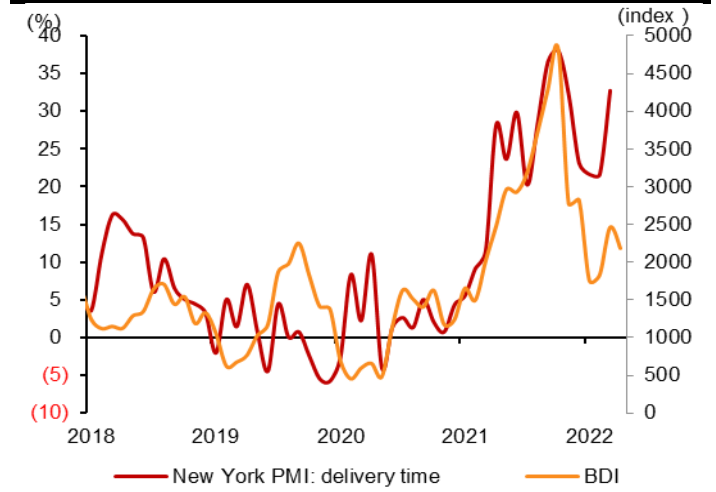
Source: Wind, CMBIGM

**Figure 7: MoM Change of PPI by Products**



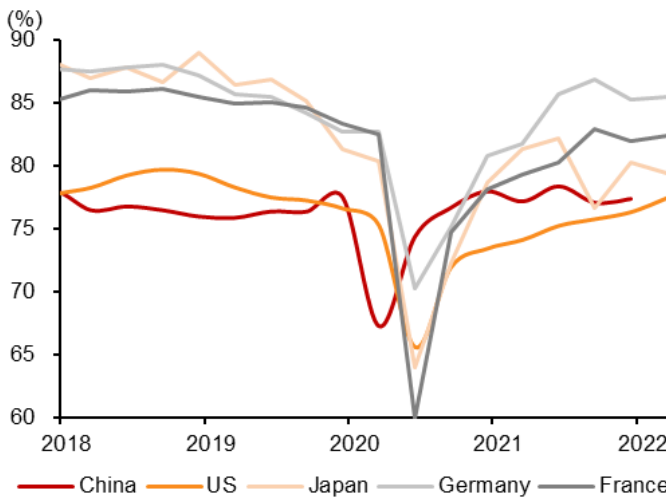
Source: Wind, CMBIGM

**Figure 8: Global Supply Chain Pressure**



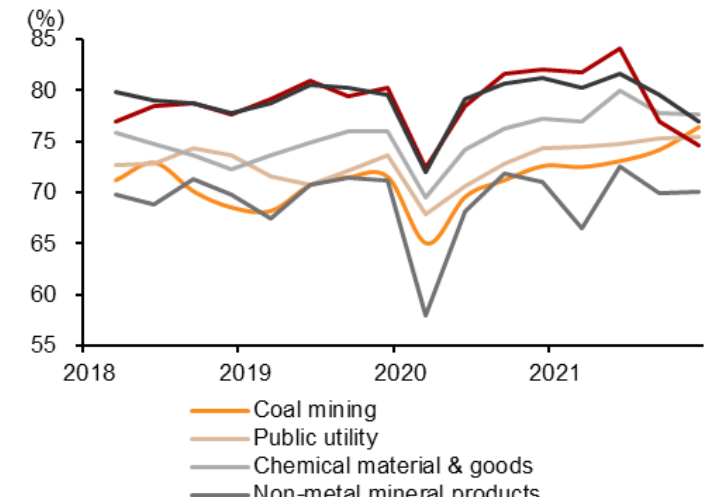
Source: Wind, CMBIGM

**Figure 9: Manufacturing Capacity Utilisation Rate(CUR)**



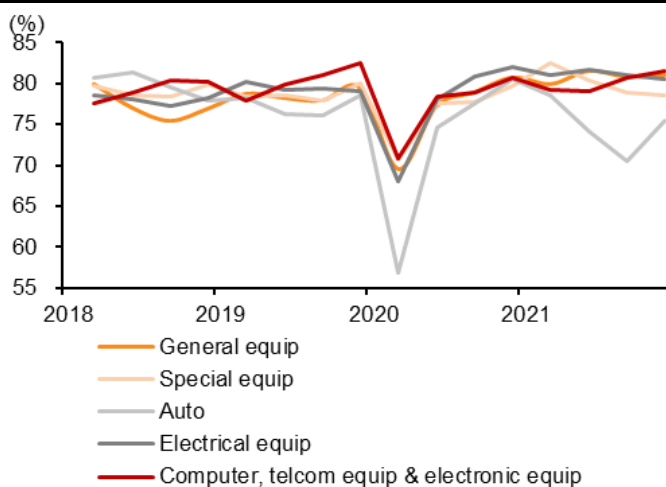
Source: Wind, CMBIGM

**Figure 10: CUR for China's Mineral Products**



Source: Wind, CMBIGM

**Figure 11: CUR for China's Equipment Industries**



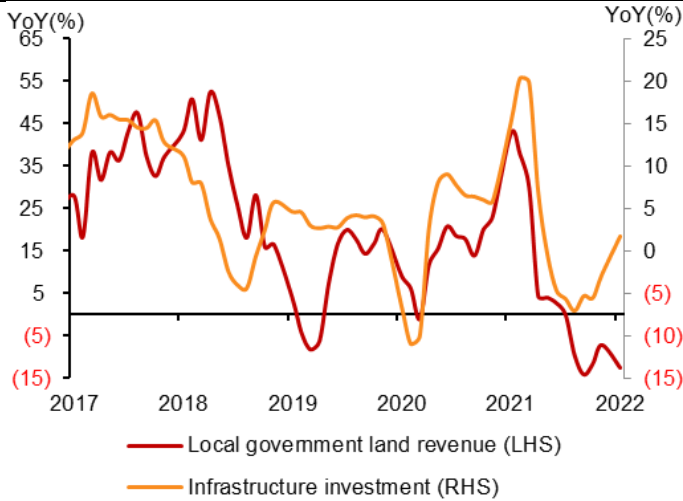
Source: Wind, CMBIGM

**Figure 12: Liquidity Easing & Credit Expansion**



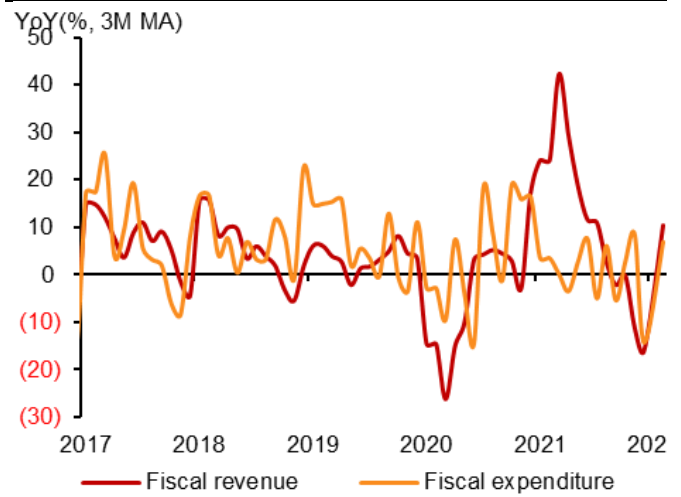
Source: Wind, CMBIGM

**Figure 13: Land Revenue and Infrastructure Investment**



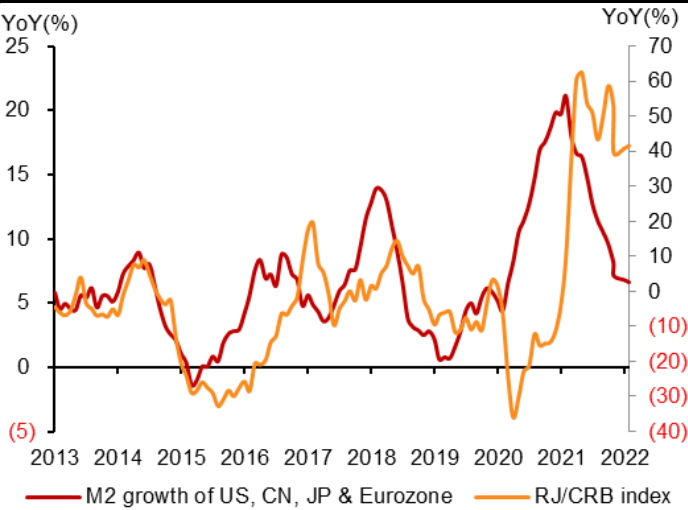
Source: Wind, CMBIGM

**Figure 14: Fiscal Revenue and Expenditure**



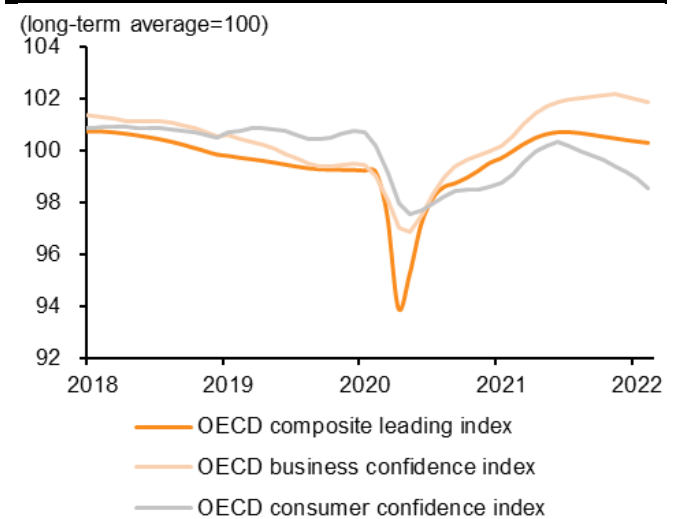
Source: Bloomberg, CMBIGM

**Figure 15: Global Money Supply and Commodity Price**



Source: Bloomberg, CMBIGM

**Figure 16: Leading Indicators for Global Economy**



Source: Wind, CMBIGM

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBIGMG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBIGMG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBIGMG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBIGMG at +65 6350 4400 for matters arising from, or in connection with the report.