

China Economy

Mild inflation amid supply shock & weak demand

Inflation risk in China was much lower than in advanced economies as demand was weak and supply capacity was abundant in most sectors in the country. Only a few sectors depending on imports for supply like oil & gas saw high prices. China's price control and high inventory in grain sector lowered food inflation pressure. The weak consumer demand and property development investment restrained the growth of core CPI and capital goods prices in the country. China's plan to increase coal output capacity may lower energy inflation in future. As economy gradually resumes, service inflation may face some upside pressure but it should be mild as supply and demand both recover. Pork inflation may rise due to supply capacity reduction, but it should be in a gradual manner. As the inflation risk is manageable, China can maintain its easing policy in next several months to support its economic recovery.

- Grain & fuel prices jumped, but core CPI remained weak.** Consumer price index (CPI) rose 2.1% YoY in May, the same as April. The Russian-Ukraine war pushed up grain, oil & gas prices as the CPI in grain, fuel for vehicles and public utility respectively rose 3.2%, 27.1% and 4.1% YoY in May.
- PPI further slowed amid base effect and weak capex demand.** The YoY growth of producer price index (PPI) slowed from 8% in April to 6.4% in May. Global oil & gas prices rebounded in May as EU tried to include Russia's energy sector into the sanction list. The PPI in oil & gas mining rose 1.3% MoM, that in chemical fiber grew 0.8% MoM and the PPI in chemical material & product climbed 0.6% MoM in May. But coal prices declined 1.1% MoM in May after rising 2.5% MoM in April as China increased coal output amid concerns about energy security. Meanwhile, producer prices of non-ferrous metals, steel products and non-metal mineral products respectively dropped 1.3%, 0.5% and 0.5% MoM as fixed investment remained weak especially in the property sector.
- CPI growth may remain around 2% with some fluctuations and PPI growth should gradually slow.** Consumer demand and supply chain may resume slowly amid a gradual reopening in China. Food and fuel inflation is expected to remain high while core CPI should remain low amid weak consumer confidence. PPI growth may gradually slow down because of base effect, gradual resumption of supply chain and weakening of capex especially in the property sector.
- China will maintain easing monetary policy this year as consumer inflation and economic growth remain low.** As consumer inflation and economic growth remain low, China will maintain easing monetary policy this year. It is possible to see further cut in RRR or LPR in 2H22 especially if the recovery of housing market is below expectations. The central bank may also ease liquidity and urge banks to expand their credit supply to real sector.
- Implications for the Chinese stock market.** The inflation figure in May is slightly positive for the market. Weak consumer inflation and capital goods prices indicate low economic growth and point to easing monetary policy in the short term.

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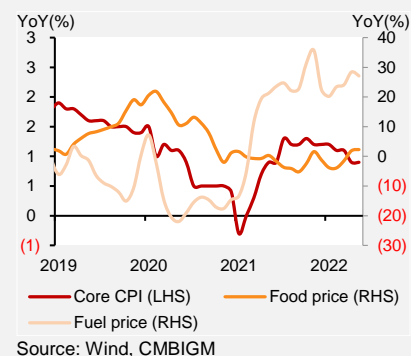
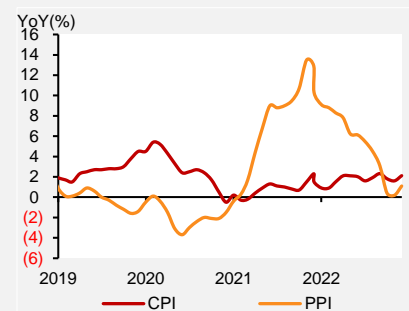
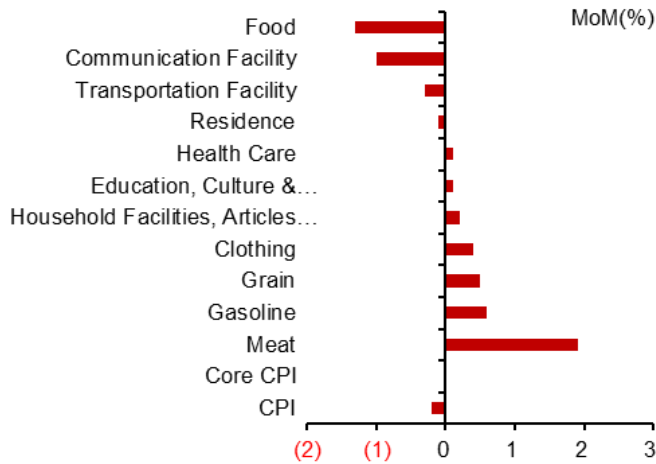
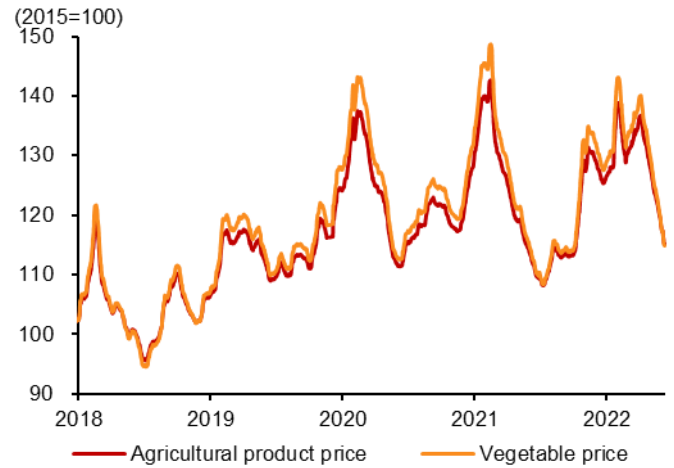


Figure 1: MoM changes of CPI by items in March



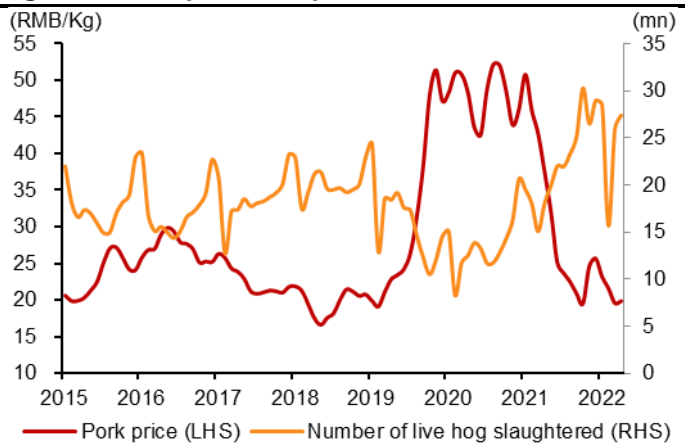
Source: Wind, CMBIGM

Figure 2: Agricultural product price



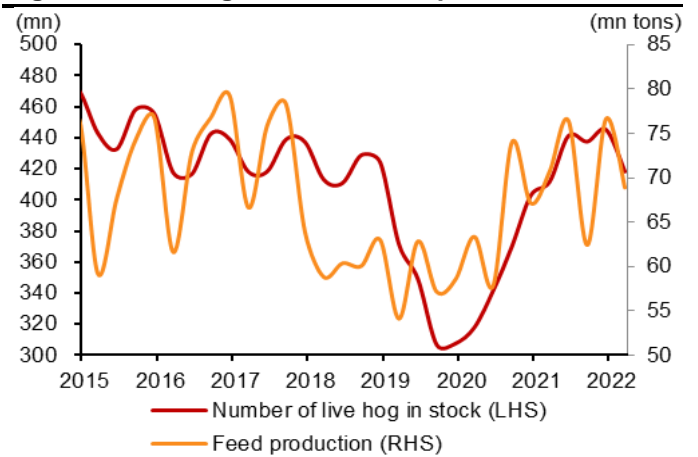
Source: Wind, CMBIGM

Figure 3: Pork price and production



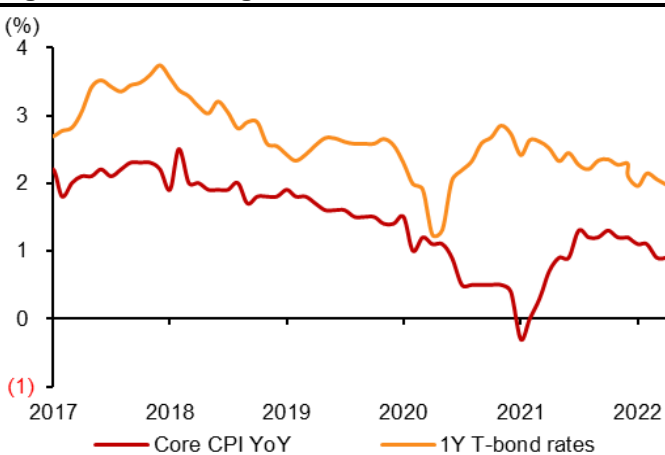
Source: Wind, CMBIGM

Figure 4: Live hog stock and feed production



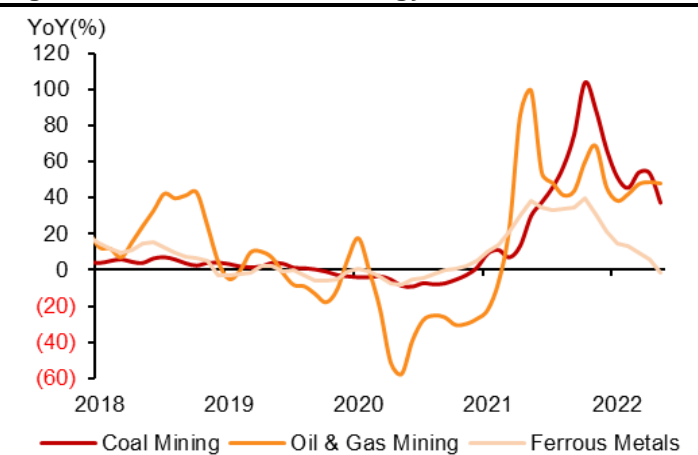
Source: Wind, CMBIGM

Figure 5: Core CPI growth and 1Y T-bond rates



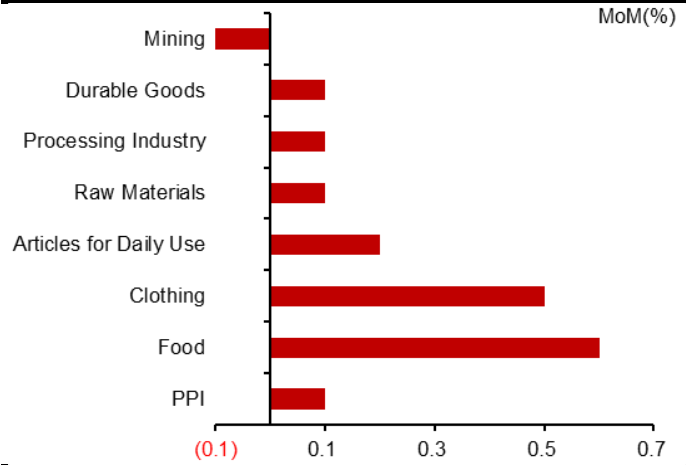
Source: Wind, CMBIGM

Figure 6: Growth of PPI in energy and steel



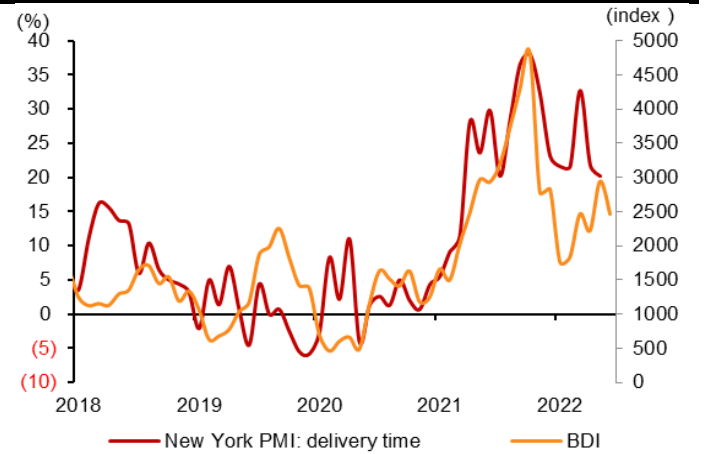
Source: Wind, CMBIGM

Figure 7: MoM Change of PPI by products



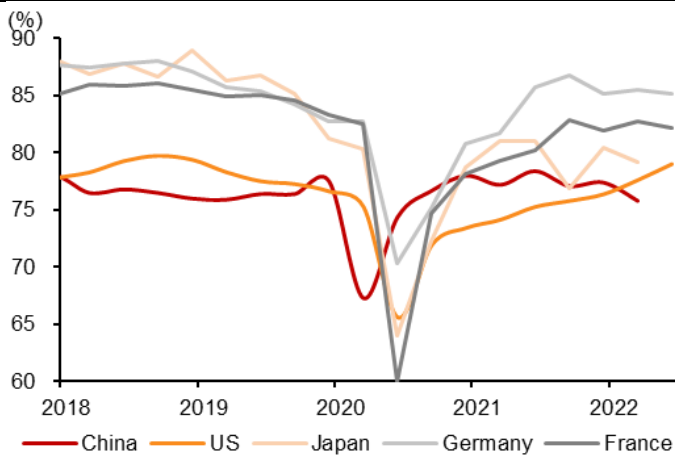
Source: Wind, CMBIGM

Figure 8: Global supply chain pressure



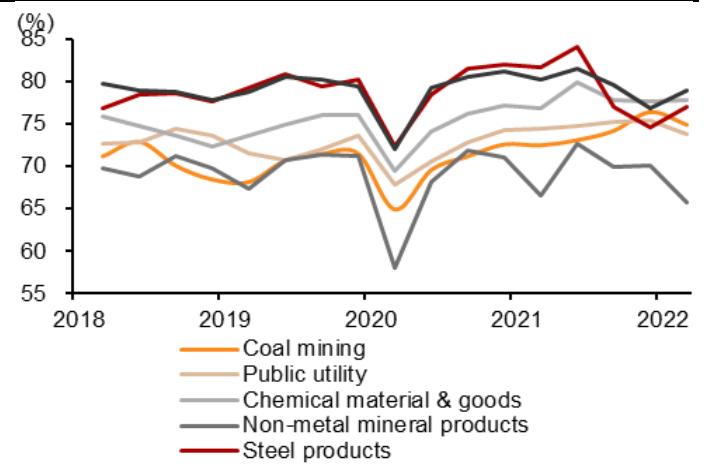
Source: Wind, CMBIGM

Figure 9: Manufacturing capacity utilisation rate



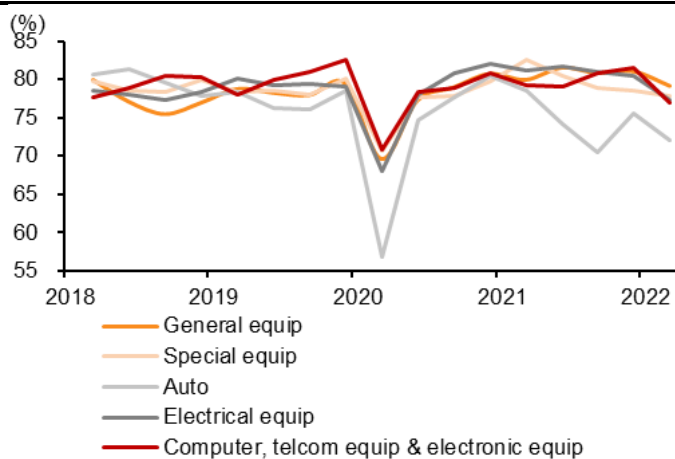
Source: Wind, CMBIGM

Figure 10: Capacity utilisation rate



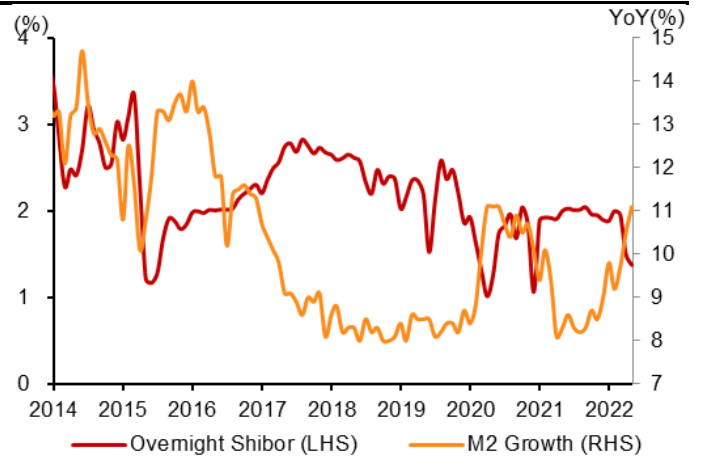
Source: Wind, CMBIGM

Figure 11: CUR for China's equipment industries



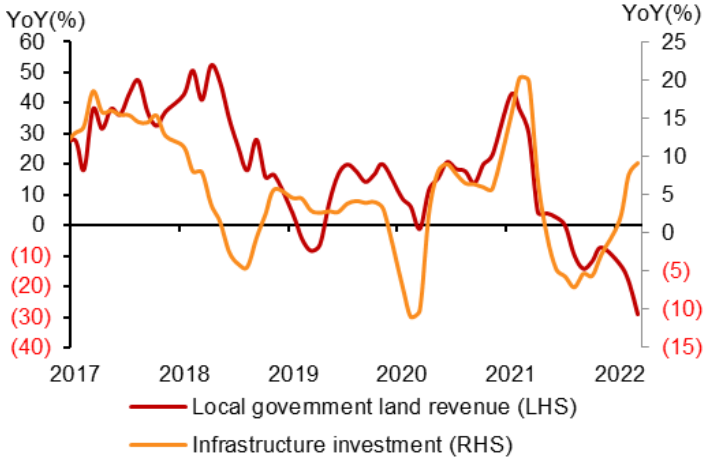
Source: Wind, CMBIGM

Figure 12: Liquidity easing & credit expansion



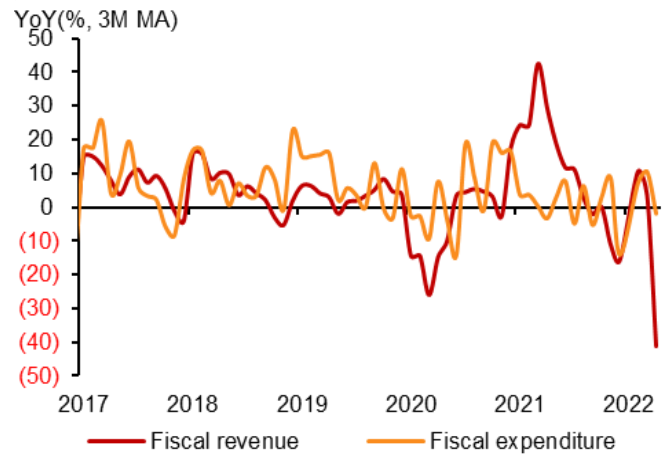
Source: Wind, CMBIGM

Figure 13: Land revenue and infrastructure investment



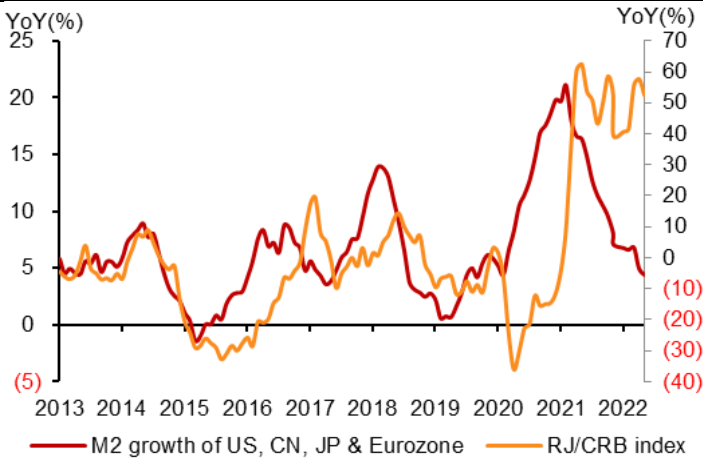
Source: Wind, CMBIGM

Figure 14: Fiscal revenue and expenditure



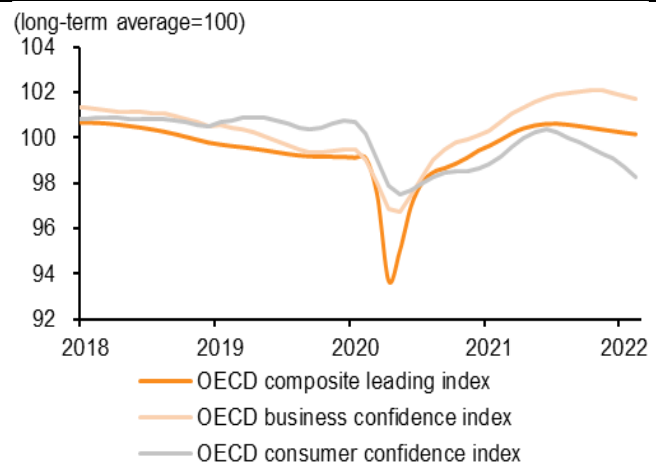
Source: Bloomberg, CMBIGM

Figure 15: Global money supply and commodity price



Source: Bloomberg, CMBIGM

Figure 16: Leading indicators for global economy



Source: Wind, CMBIGM

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