



## Economic Insight

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### China's CPI unchanged but PPI rebounded in December

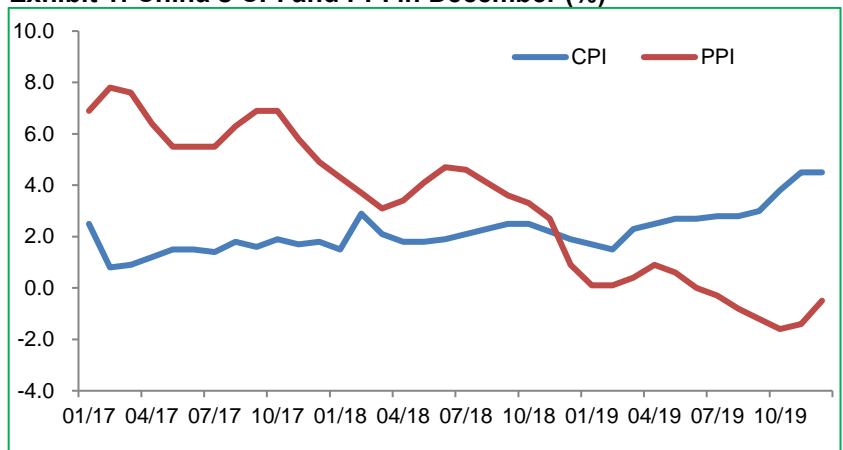
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- China's CPI remained high at 4.5% in December, supported by strong food prices, particularly the pork prices. PPI rebounded significantly to -0.5% in December from -1.4% in November due to low base effect and stronger energy prices
- For 2020E, CPI inflation is expected to climb to 3.5% from 2.9% in 2019 on higher food prices, especially for pork, as the latter's supply will continue to be tight on the African Swine Fever. Pork prices are likely to remain high in 1H and then ease in 2H for 2020 with supply recovery; therefore, CPI is likely to trend up in 1H and moderate in 2H.
- We forecast PPI inflation to advance to 0.5% in 2020E from -0.3% for 2019 because of the rebounding commodity prices and low base effect. Divergence between CPI and PPI will persist in 2020
- December inflation data suggest a stable inflationary pressure. We believe the macro policy will not be constrained by inflation in 2020 as the core CPI, which removes the more volatile food and energy prices, has remained low since the start of 2019. Current and future inflation expectations provide favorable conditions to maintain a neutral monetary policy with a loosening bias in support of economic growth. The rates for one-year LPR and five-year LPR are expected to be 3.80% and 4.70% for end-2020E. For end-2020E, we expect RRR for large financial institutions to be 12.0%; RRR for medium and small financial institutions would be 10.0%

China's CPI remained unchanged at 4.5%<sup>1</sup> in December, slightly below the market expectation of 4.7% (Exhibit 1). Overall food inflation fell back to 17.4% in December from 19.1% in November, driving up CPI by 3.43ppt. Non-food prices edged up to 1.3% from 1.0%, delivering a 1.07ppt boost to CPI. On a MoM basis, CPI inflation edged down to 0% in December from 0.4% in November. For 2019 as a whole, consumer prices rose 2.9%, compared with 2.1% in 2018.

Exhibit 1: China's CPI and PPI in December (%)



Source(s): NBS, ABCI Securities

<sup>1</sup> All growth rates are YoY except specified otherwise



Non-food inflation was still weak. The high CPI in December was mainly driven by strong food prices, particularly the pork prices, which rose by 97.0% and drove up headline CPI by 2.34ppt. Notably, pork prices fell by 5.6% MoM in December as a result of the release of pork reserves and surging pork imports. Prices of beef and mutton rose by 20.4% and 11.5%, lifting CPI by 0.60ppt. Inflation in fresh vegetables rebounded to 10.8% in December from 3.9% in November. In contrast, inflation in fruits slowed further to -8.0% from -6.8% during the same period. For non-food items, tourism prices rose 1.2%, healthcare prices rose 2.1%, education services rose 2.8%, and residential prices rose 0.5%; in contrast, transport and communications prices fell by 0.7%.

PPI rebounded to -0.5% in December from -1.4% in November, slightly below the market expectation of -0.4%. Inflation in producer industries edged up to -1.2% in December from -2.5% in previous month, dragging down PPI by 0.87ppt. Inflation in consumer goods industries fell to 1.3% in December from 1.6% in November, boosting PPI by 0.34ppt. PPI was flat MoM in December, up from the 0.1% decrease in the previous month. For 2019 as a whole, producer prices dropped by 0.3%, compared with the 3.5% increase in 2018.

The higher PPI in December was driven by low base effect and stronger energy prices. The oil and natural gas extraction prices, a PPI sub-item, rebounded to 5.8% in December from -11.2% in November, while decline in prices of oil, coal and other fuel processing industries narrowed -1.8% from -9.9% during the same period; meanwhile, ferrous metal mining industry price advanced to 8.8% in December from 8.3% in November. The significant rebound in December PPI will benefit the earning expectations of industrial enterprises.

For 2020E, CPI inflation is expected to rebound to 3.5% from 2.9% in 2019 due to the higher food prices, especially for pork, since the latter's supply is expected to remain tight on African Swine Fever. Pork prices are likely to remain high in 1H and then ease in 2H in 2020 on pork supply recovery; therefore, we expect CPI to trend up in 1H and moderate in 2H. We forecast PPI inflation to advance to 0.5% in 2020E from the -0.3% for 2019 due to rebounding commodity prices and low base effect. Divergence between CPI and PPI will persist in 2020.

December inflation data suggest a stable inflationary pressure. We believe the macro policy will not be constrained by inflation in 2020 as the core CPI, which removes the more volatile food and energy prices, has remained low since the start of 2019. Current and future inflation expectations provide favorable conditions to maintain a neutral monetary policy with a loosening bias in support of economic growth. The rates for one-year LPR and five-year LPR are expected to be 3.80% and 4.70% for end-2020E. For end-2020E, we expect RRR for large financial institutions to be 12.0%; RRR for medium and small financial institutions would be 10.0%.



China Economic Indicators

|                               | 2018 |      |      |       |      | 2019 |      |      |      |      |      |      |      |      |
|-------------------------------|------|------|------|-------|------|------|------|------|------|------|------|------|------|------|
|                               | Nov  | Dec  | Jan  | Feb   | Mar  | Apr  | May  | Jun  | Jul  | Aug  | Sep  | Oct  | Nov  | Dec  |
| Real GDP (YoY %)              | ---  | 6.4  | ---  | ---   | 6.4  | ---  | ---  | 6.2  | ---  | ---  | 6.0  | ---  | ---  | ---  |
| Export Growth (USD, YoY %)    | 5.4  | -4.4 | 9.1  | -20.7 | 14.2 | -2.7 | 1.1  | -1.3 | 3.3  | -1.0 | -3.2 | -0.9 | -1.2 | ---  |
| Import Growth (USD, YoY %)    | 3.0  | -7.6 | -1.5 | -5.2  | -7.6 | 4.0  | -8.5 | -7.3 | -5.3 | -5.6 | -8.5 | -6.4 | 0.3  | ---  |
| Trade Balance (USD bn)        | 44.8 | 57.1 | 39.2 | 4.1   | 32.7 | 13.8 | 41.7 | 51.0 | 45.1 | 34.8 | 39.7 | 42.8 | 38.7 | ---  |
| Retail Sales Growth (YoY %)   | 8.1  | 8.2  | 8.2  | 8.2   | 8.7  | 7.2  | 8.6  | 9.8  | 7.6  | 7.5  | 7.8  | 7.2  | 8.0  | ---  |
| Industrial Production (YoY %) | 5.4  | 5.7  | 5.3  | 5.3   | 8.5  | 5.4  | 5.0  | 6.3  | 4.8  | 4.4  | 5.8  | 4.7  | 6.2  | ---  |
| PMI - Manufacturing (%)       | 50.0 | 49.4 | 49.5 | 49.2  | 50.5 | 50.1 | 49.4 | 49.4 | 49.7 | 49.5 | 49.8 | 49.3 | 50.2 | 50.2 |
| PMI - Non-manufacturing (%)   | 53.4 | 53.8 | 54.7 | 54.3  | 54.8 | 54.3 | 54.3 | 54.2 | 53.7 | 53.8 | 53.7 | 52.8 | 54.4 | 53.5 |
| FAI (YTD) (YoY %)             | 5.9  | 5.9  | 6.1  | 6.1   | 6.3  | 6.1  | 5.6  | 5.8  | 5.7  | 5.5  | 5.4  | 5.2  | 5.2  | ---  |
| CPI (YoY %)                   | 2.2  | 1.9  | 1.7  | 1.5   | 2.3  | 2.5  | 2.7  | 2.7  | 2.8  | 2.8  | 3.0  | 3.8  | 4.5  | 4.5  |
| PPI (YoY %)                   | 2.7  | 0.9  | 0.1  | 0.1   | 0.4  | 0.9  | 0.6  | 0.0  | -0.3 | -0.8 | -1.2 | -1.6 | -1.4 | -0.5 |
| M2 (YoY %)                    | 8.0  | 8.1  | 8.4  | 8.0   | 8.6  | 8.5  | 8.5  | 8.5  | 8.1  | 8.2  | 8.4  | 8.4  | 8.2  | ---  |
| New Lending (RMB bn)          | 1250 | 1080 | 3230 | 886   | 1690 | 1020 | 1180 | 1660 | 1060 | 1210 | 1690 | 661  | 1390 | ---  |
| Aggregate Financing (RMB bn)  | 1519 | 1590 | 4640 | 703   | 2860 | 1360 | 1400 | 2267 | 1010 | 1980 | 2270 | 619  | 1750 | ---  |

World Economic/Financial Indicators

| Equity Indices |               |              |       | Global Commodities                               |                  |              |                     | Bond Yields & Key Rates |                           |                |       |
|----------------|---------------|--------------|-------|--|------------------|--------------|---------------------|-------------------------|---------------------------|----------------|-------|
|                | Closing price | Chg. WTD (%) | P/E   | Unit   | Price            | Chg. WTD (%) | Volume (5-Day avg.) |                         | Yield (%)                 | Chg. WTD (Bps) |       |
| <b>U.S.</b>    |               |              |       | <b>Energy</b>                                    |                  |              |                     | US Fed Fund Rate        |                           |                |       |
| DJIA           | 28,745.09     | 0.38         | 19.78 | NYMEX WTI  | USD/bbl.         | 60.02        | -5.38               | 777,066                 |                           | 1.75           | 0.00  |
| S&P 500        | 3,253.05      | 0.56         | 21.76 | ICE Brent Oil                                    | USD/bbl          | 65.44        | -4.61               | 374,466                 | US Prime Rate             | 4.75           | 0.00  |
| NASDAQ         | 9,129.24      | 1.20         | 34.49 | NYMEX Natural Gas                                | USD/MMBtu        | 2.12         | -0.52               | 173,896                 | US Discount Window        | 2.25           | 0.00  |
| MSCI US        | 3,100.21      | 0.60         | 22.37 | China Qinhuangdao Port Thermal Coal <sup>2</sup> | USD/Metric Tonne | 61.80        | N/A                 | N/A                     | US Treasury (1 Yr)        | 1.4884         | -0.02 |
| <b>Europe</b>  |               |              |       | <b>Basic Metals</b>                              |                  |              |                     | US Treasury (5Yr)       |                           |                |       |
| FTSE 100       | 7,574.93      | -0.62        | 18.32 | LME Aluminum Cash                                | USD/MT           | 1,768.25     | -1.35               | 22,942                  | US Treasury (10 Yr)       | 1.8685         | 8.75  |
| DAX            | 13,320.18     | 0.76         | 24.71 | LME Aluminum 3 -mth. Rolling Fwd.                | USD/MT           | 1,800.50     | -1.29               | 42,718                  | Japan 10-Yr Gov. Bond     | 0.0090         | 2.00  |
| CAC40          | 6,031.00      | -0.22        | 21.60 | CMX Copper Active                                | USD/lb.          | 6,157.00     | 0.77                | 10,524                  | China 10-Yr Gov. Bond     | 3.1410         | -2.10 |
| IBEX 35        | 9,591.40      | -0.57        | 15.59 | LME Copper 3- mth Rolling Fwd.                   | USD/MT           | 6,178.00     | 0.79                | 32,934                  | ECB Rate (Refinancing)    | 0.00           | 0.00  |
| FTSE MIB       | 23,832.02     | 0.55         | 14.36 | <b>Precious Metals</b>                           |                  |              |                     | 1-Month LIBOR           |                           |                |       |
| Stoxx 600      | 418.36        | 0.01         | 20.77 | CMX Gold   | USD/T. oz        | 1,546.50     | -0.38               | 503,106                 | 3 Month LIBOR             | 1.8780         | 0.41  |
| MSCI UK        | 2,166.95      | -0.60        | 18.49 | CMX Silver                                       | USD/T. oz        | 17.91        | -1.36               | 125,797                 | O/N SHIBOR                | 1.6900         | 52.80 |
| MSCI France    | 173.07        | -0.16        | 21.61 | NYMEX Platinum                                   | USD/T. oz        | 954.40       | -3.63               | 20,350                  | 1-mth SHIBOR              | 2.6090         | -23.3 |
| <b>Asia</b>    |               |              |       | <b>Agricultural Products</b>                     |                  |              |                     | 3-mth HIBOR             |                           |                |       |
| NIKKEI 225     | 23,739.87     | 0.35         | 18.89 | CBOT Corn  | USD/bu           | 384.75       | -0.45               | 114,222                 | Corporate Bonds (Moody's) |                |       |
| S&P/ASX 200    | 6,874.23      | 2.09         | 20.32 | CBOT Wheat                                       | USD/bu           | 555.25       | 0.14                | 46,937                  | Aaa                       | 3.02           | 8.00  |
| HSI            | 28,087.92     | 0.25         | 11.17 | NYB-ICE Sugar                                    | USD/lb.          | 13.47        | 1.20                | 78,023                  | Baa                       | 5.28           | 5.00  |
| HSCEI          | 11,079.79     | 0.17         | 8.95  | CBOT Soybeans                                    | USD/bu.          | 948.50       | 0.74                | 89,677                  |                           |                |       |
| CSI300         | 4,112.32      | 0.47         | 14.79 |  |                  |              |                     |                         |                           |                |       |
| SSE Composite  | 3,094.88      | 0.36         | 14.73 |  |                  |              |                     |                         |                           |                |       |
| SZSE Composite | 1,800.64      | 2.26         | 37.75 |  |                  |              |                     |                         |                           |                |       |
| MSCI China     | 86.67         | -0.54        | 14.76 |  |                  |              |                     |                         |                           |                |       |
| MSCI Hong Kong | 15,332.12     | -1.00        | 14.05 |  |                  |              |                     |                         |                           |                |       |
| MSCI Japan     | 1,026.38      | -1.08        | 15.57 |  |                  |              |                     |                         |                           |                |       |

Note:

1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. The price is Coal 5500 kcal/kg FOB Spot Price

Currency

|              | Euro/USD | GBP/USD | AUD/USD | USD/JPY | USD/CHF | USD/CNY | USD/HKD | USD/CNY NDF 12-mth Spot pr. |
|--------------|----------|---------|---------|---------|---------|---------|---------|-----------------------------|
| Spot Rate    | 1.1120   | 1.3115  | 0.6876  | 109.29  | 0.9735  | 6.9262  | 7.7751  | 6.9958                      |
| Chg. WTD (%) | -0.37    | 0.24    | -1.06   | -1.10   | -0.06   | 0.58    | 0.05    | 0.60                        |



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## Disclosures

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### Definition of equity rating

| Rating | Definition   |
|--------|--|
| Buy    | Stock return rate $\geq$ Market return rate (10%)                                  |
| Hold   | - Market return rate (-10%) $\leq$ Stock return rate $<$ Market return rate (+10%) |
| Sell   | Stock return $<$ - Market return (-10%)  |

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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