

China inflation in Jan 2020

A myriad of factors pushing inflation up

According to inflation figures released by the NBS this morning, China's CPI and PPI growth in Jan 2020 read 5.4%/0.1%, vs. CMBIS estimate 5.3%/-0.1% and up 0.9ppt/0.6ppt from the previous month. Core CPI (excluding food & energy) rose 1.5% YoY.

The peak of CPI is largely attributable to staggered CNY and the outbreak of 2019-nCoV. Pork price will continue to rise because of suspensions of logistics, delay of new facility constructions and difficulties in disease prevention in cold weather. PPI growth exceeded expectation primarily driven by oil prices. With the retreat of crude oil price and commodity prices since later Jan, we forecast PPI may turn negative again in upcoming months.

- **CPI hike attributable to both CNY effect and 2019-nCoV outbreak.** The peak of CPI YoY growth was due to a myriad of factors, including CNY, staggered CNY from 2019, coronavirus, and etc. As we plot MoM CPI growth within a +/-2-month window around the month in which CNY kicks in ("Month 0"), we find that the hike of MoM growth in "Month 0" this year seemed more abrupt than those in previous years. This indicated that aside from the CNY effect, the outbreak of 2019-nCoV also explains part of the CPI hike in Jan. Nonetheless, our monthly forecast predicts that Jan is the peak of CPI for the entire year when temporary factors wane in the future.
- **Food items contributed to 4.52ppt of CPI growth in Jan. Pork price growth regained momentum** primarily as a result of CNY demand boost. Sow balance in Jan 2020 has not been announced yet. We tend to be cautious regarding hog breeding due to difficulties of disease prevention in cold seasons and the coronavirus outbreak, which delayed construction of new breeding facilities and caused logistics disruption. We maintain our view that pork prices could stay high till mid-2020.
- **Price of non-food items also accelerated**, represented by transportation, travel services, education and etc. However, we suspect sustainability of such acceleration because the coronavirus outbreak had reduced demand significantly and may weigh on service prices in the coming month.
- **PPI growth turned positive, but may dip to negative territory again.** PPI increased 0.1%/0% YoY/MoM in Jan, respectively. YoY growth exceeded our expectation, primarily thanks to price increase in crude oil and related industries. However, Brent started to retreat and commodity prices were weighed on by the coronavirus outbreak since late Jan and is likely to drag PPI growth back to negative territory in the upcoming months. Annual PPI growth forecast maintained at 0.2%.

Data Summary

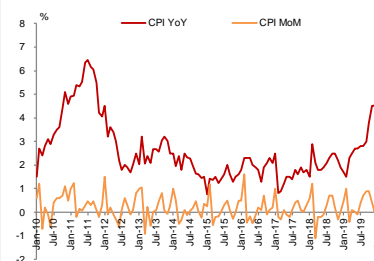
	Oct-19	Nov-19	Dec-19	Jan-20	2019A	2020E
CPI, YoY (%)	3.8	4.5	4.5	5.4	2.9	3.3
CPI, MoM (%)	0.9	0.4	0.0	1.4	n.a.	n.a.
PPI, YoY (%)	-1.6	-1.4	-0.5	0.1	-0.3	0.2
PPI, MoM (%)	0.1	-0.1	0.0	0.0	n.a.	n.a.

Source: NBS, CMBIS

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Source: NBS, Wind, CMBIS

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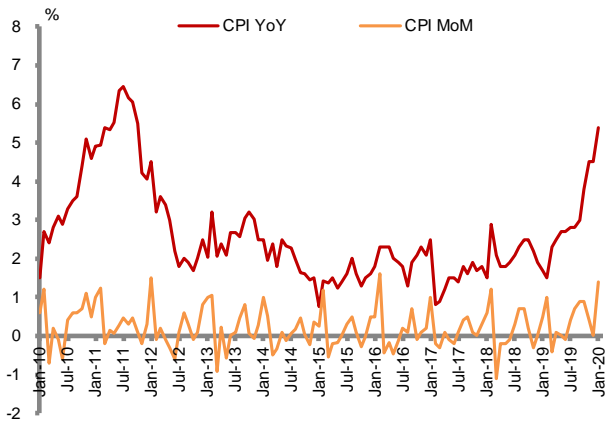
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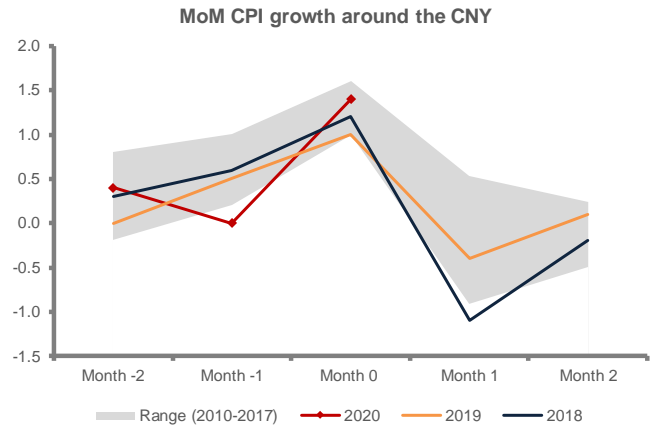
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Figure 1: Both YoY and MoM growth of CPI peaked in Jan 2020



Source: NBS, Wind, CMBIS

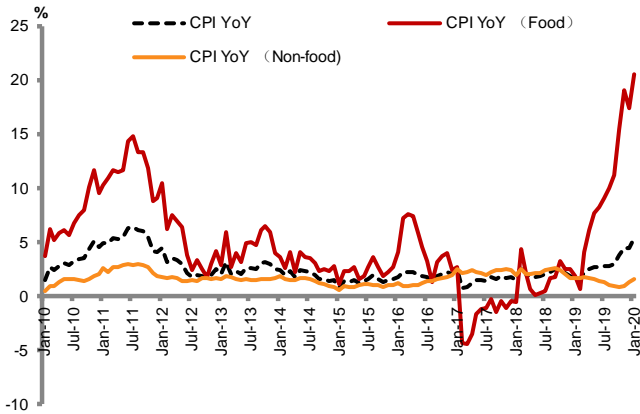
Figure 2: MoM growth increased more abruptly in Jan 2020 than in CNY month of previous years



Source: NBS, Wind, CMBIS

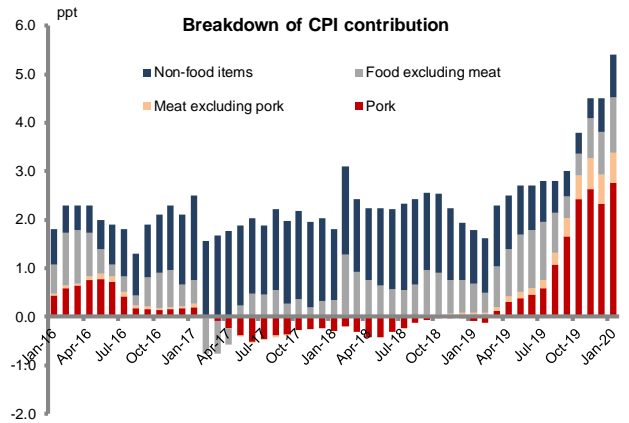
Note: "Month 0" denotes the calendar month of CNY, "Month 1" denotes 1 calendar month after the CNY, and vice versa.

Figure 3: YoY growth of both food and non-food items accelerated primarily due to the CNY effect



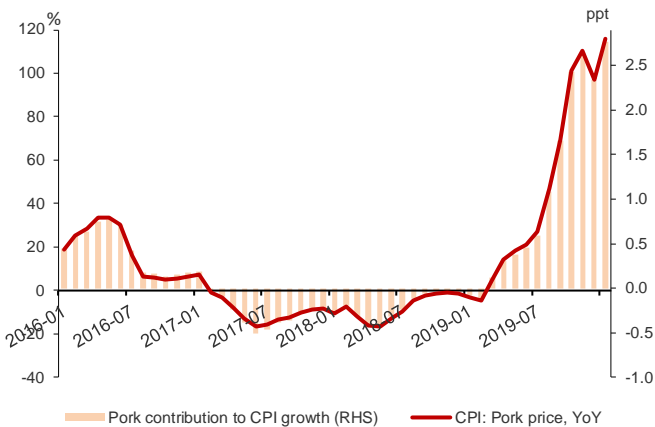
Source: NBS, Wind, CMBIS

Figure 4: Food in total contributed to 4.52ppt of CPI YoY growth in Jan 2020



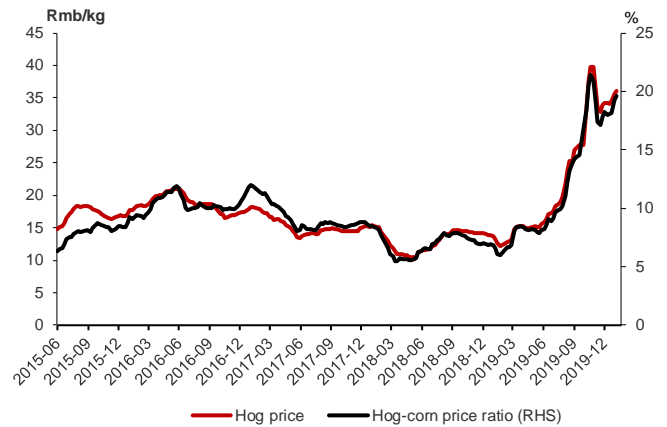
Source: NBS, Wind, CMBIS estimates

Figure 5: CPI pork price rose 116% in Jan 2020



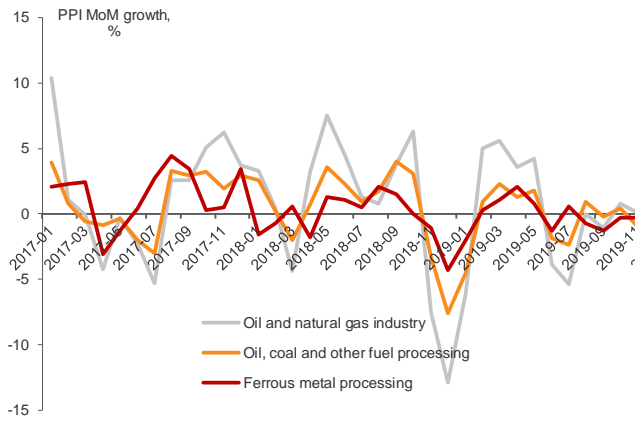
Source: NBS, Wind, CMBIS

Figure 6: Hog price rose to RMB 36.11/kg as of 17 Jan



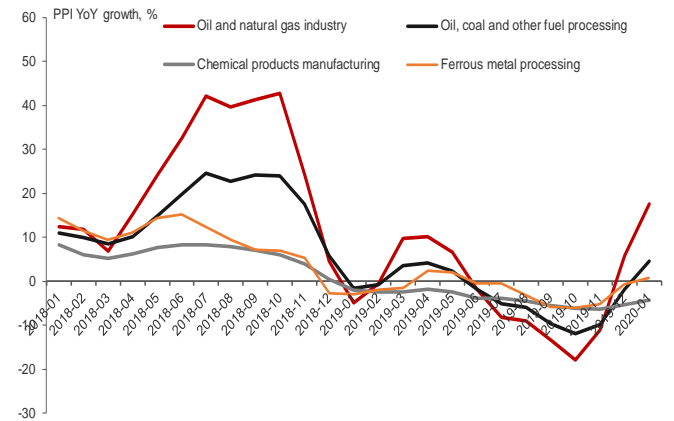
Source: Ministry of Agriculture and Rural Affairs, CMBIS

Figure 7: PPI MoM growth



Source: NBS, Wind, CMBIS

Figure 8: PPI YoY growth



Source: NBS, Wind, CMBIS

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