

# China inflation in Jun

## PPI contraction pressure alleviated further

China's NBS released inflation monitors of Jun. CPI growth post 2.5% YoY, same as our estimate, while PPI declined 3.0% YoY, 0.2ppt better than our estimate. In 1H20, CPI/PPI growth recorded 3.8%/-1.9% YoY. Overall speaking, inflation outlook remained modest and PPI contraction pressure will continue to alleviate with the gradual recovery of domestic and overseas demand. Our annual CPI/PPI growth forecast is pegged at 3.1%/-2.0% YoY.

- **Slackness in non-food prices continued.** CPI growth accelerated 0.1ppt from May to 2.5% YoY in Jun, which was mainly attributable to strengthening food prices. Prices of food, tobacco and liquor increased 8.8% YoY in Jun, up 0.3ppt from May. The outbreak of COVID-19 in Beijing interrupting fresh food supply and severe floods in certain provinces lifted food prices in Jun. Non-food price growth, however, remained lackluster at 0.3% YoY in Jun. Except transportation & communications, other non-food categories post deceleration in YoY growth.
- **Rebound of pork prices,** which was up 81.6% YoY and contributing to 2.05ppt of CPI growth in Jun. We think MoM increase of pork prices may likely continue into Jul, which was more a result of within-year seasonal cyclicity and demand-side recovery of restaurant and catering sector. Hog price has climbed back to around RMB 33. Supply conditions of the breeding industry have been steadily improving since 4Q19. That being said, we do not expect pork prices to continue climbing to previous highs.
- **PPI – MoM growth turned positive at +0.4%,** vs. -0.4% in May. YoY decline narrowed to 3.0% in Jun from 3.7% in May. This trend echoed PMI price indices in Jun, which also strengthened notably with the steady recovery of domestic demand. Major industries recorded narrowing decline of PPI growth in Jun, including oil & natural gas extraction, oil, coal & other fuel processing, chemical products manufacturing, ferrous and non-ferrous metal processing.
- **Future inflation trends.** 1) CPI growth is likely to stay between 2.0-3.0% in the next few months. It may strengthen further in Jul due to seasonal factors and stormy weather; 2) alleviating PPI contraction pressure, although YoY growth may remain in negative territory.
- **Risks.** To the upside, 1) stormy weather and floods causing food supply shortage in summer; 2) commodity price increase. Downside risks mainly involves slower-than-expected economic recovery dragging non-food CPI and PPI growth.

### Data Summary

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	2019A	2020E
CPI, YoY (%)	5.2	4.3	3.3	2.4	2.5	2.9	3.1
CPI, MoM (%)	0.8	-1.2	-0.9	-0.8	-0.1	n.a.	n.a.
PPI, YoY (%)	-0.4	-1.5	-3.1	-3.7	3.0	-0.3	-2.0
PPI, MoM (%)	-0.5	-1.0	-1.3	-0.4	0.4	n.a.	n.a.

Source: NBS, CMBIS estimates

### Ding Wenjie, PhD

(852) 3900 0856 /  
(86) 755 2367 5597  
dingwenjie@cmbi.com.hk

### Related Reports

#### Thematic reports

1. The return of street vendors – 8 Jun 2020
2. Takeaways of 2020 Government Work Report – 25 May 2020
3. Employment situations in light of COVID-19 – 5 May 2020
4. Policy support and demand boost – 30 Mar 2020
5. China New Infrastructure: What, why, how and where – 12 Mar 2020
6. Charting the Hubei Economy – 20 Feb 2020
7. Returned to work? Observations from travel data – 10 Feb 2020
8. Looking for silver linings of the virus outbreak – 3 Feb 2020
9. Embracing new relationship in the new decade: on China-US Phase One Deal – 17 Jan 2020

#### On monthly China economy

10. China Economy in May: Recovery and bifurcation – 16 Jun 2020
11. China Economy in Apr: Recovery on track – 18 May 2020
12. China Economy in 1Q20: Simultaneous freefall, asynchronous recovery – 20 Apr 2020
13. China Economy in Jan-Feb: Worst data, best hope – 17 Mar 2020
14. China Economy in 2019: Bottom-up stabilization in 4Q – 20 Jan 2020

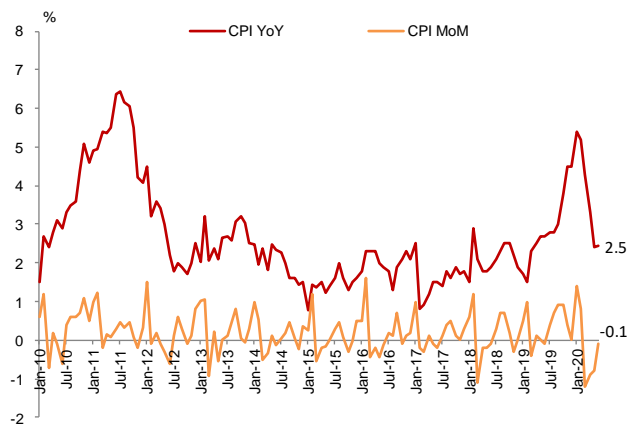
#### On inflation/PMI monitors

15. China inflation in May – CPI back to normal; PPI decline narrowed MoM, 10 Jun 2020
16. China inflation in Apr – Moderated inflation echoing weak demand, 12 May 2020
17. China PMI in Mar: Actual rebound seemed shallower than V-shaped PMI – 31 Mar 2020
18. China PMI in Feb: Free fall due to COVID19 – 2 Mar 2020

**Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:**

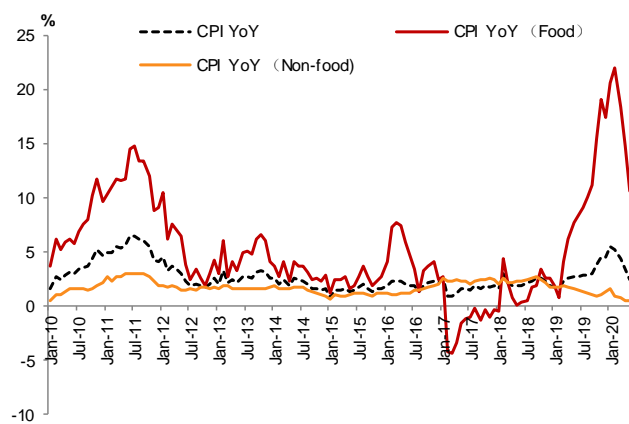
<https://euromoney.com/brokers>

**Figure 1: CPI +2.5% YoY/-0.1% MoM in Jun**



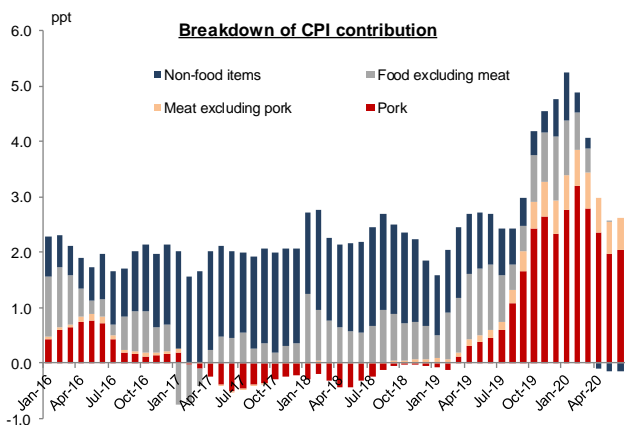
Source: NBS, Wind, CMBIS

**Figure 2: Food/non-food prices +11.1%/+0.3% YoY**



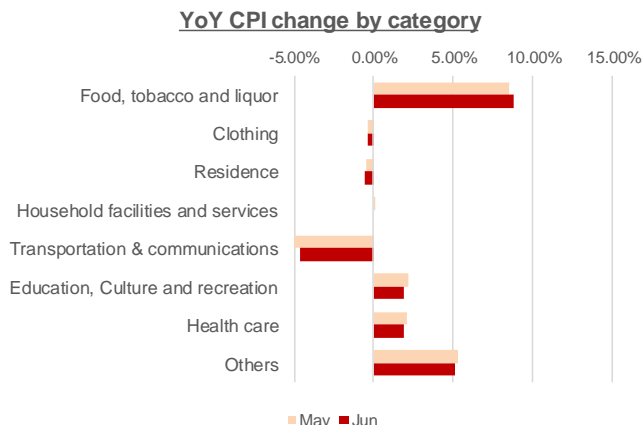
Source: NBS, Wind, CMBIS

**Figure 3: Breakdown of CPI contribution**



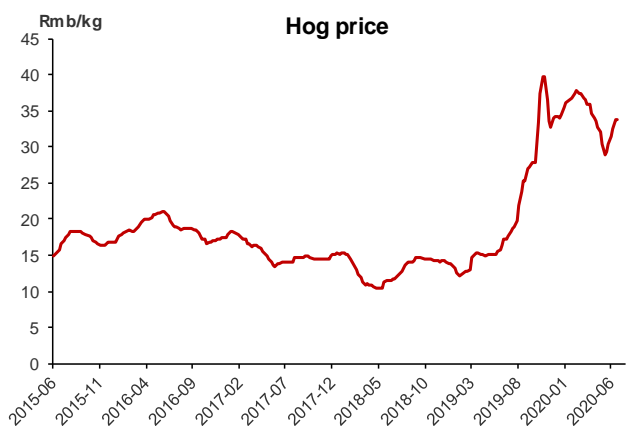
Source: NBS, Wind, CMBIS

**Figure 4: CPI YoY change by major categories**



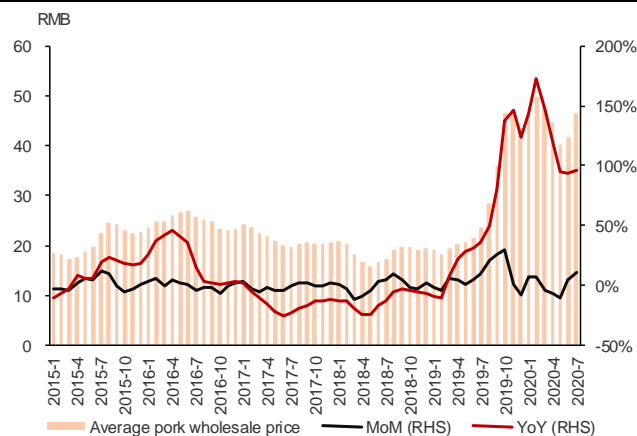
Source: NBS, Wind, CMBIS

**Figure 5: Hog price recently climbed above RMB 30**



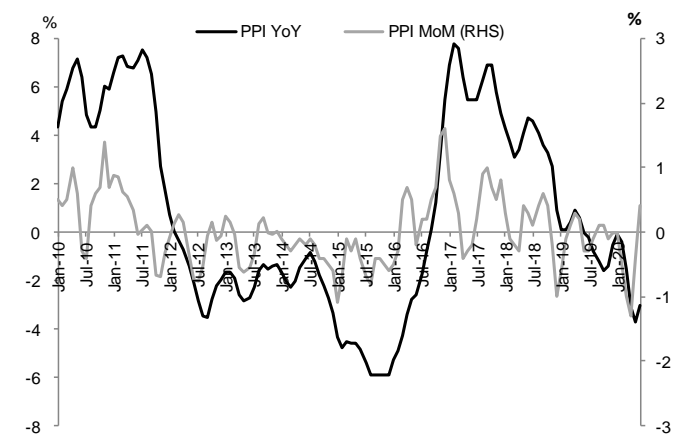
Source: Ministry of Agriculture and Rural Affairs, Wind, CMBIS

**Figure 6: Pork wholesale price post MoM increase**



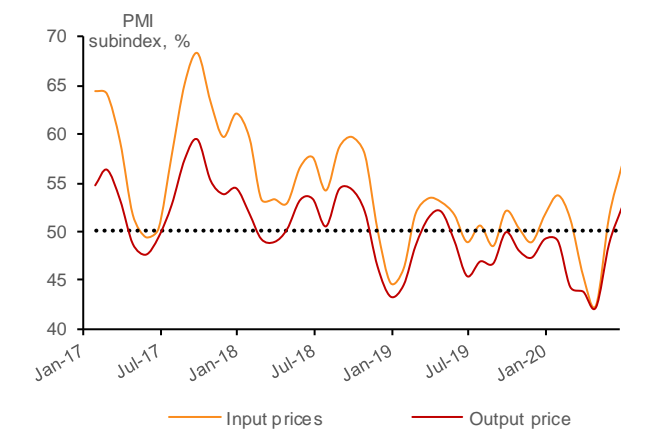
Source: NBS, Wind, CMBIS

**Figure 7: PPI -3.0% YoY in Jun, MoM growth turned positive**



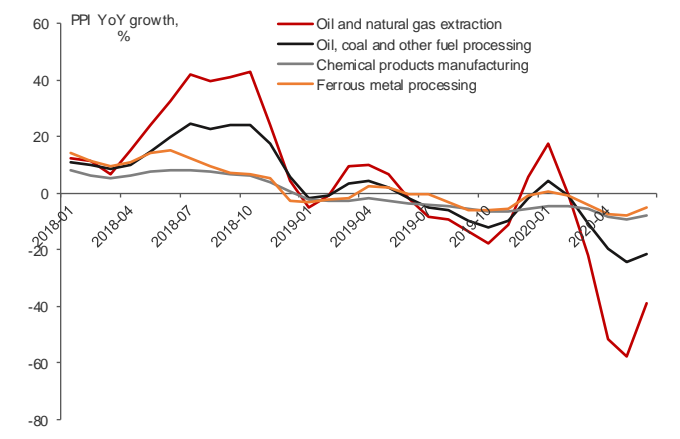
Source: NBS, Wind, CMBIS

**Figure 8: ... which was consistent with PMI price indices, the latter picked up further in Jun**



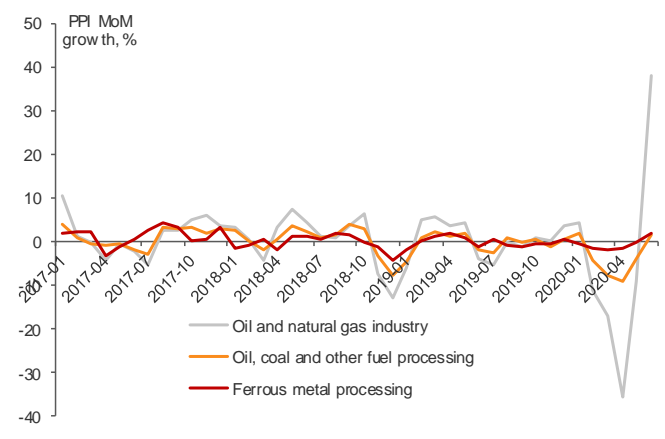
Source: NBS, Wind, CMBIS

**Figure 9: PPI YoY decline of major industries narrowed**



Source: NBS, Wind, CMBIS

**Figure 10: PPI MoM change of major industries**



Source: NBS, Wind, CMBIS

# 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.

## CMBIS 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 CMBIS

**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 Securities Limited

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

**CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (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. CMBISG 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, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.