

China inflation in Dec 2019

Distortions from pork will gradually abate

The NBS released Dec 2019 inflation monitors this morning. China's CPI and PPI growth was 4.5%/-0.5% (vs. CMBIS estimate 4.6%/-0.7%) in Dec. Core CPI (excl. food and energy) increased 1.4% YoY. Annual CPI/PPI growth for 2019 stood at 2.9%/-0.3%, same as CMBIS forecast. The Dec inflation monitors indicated a rosier inflation picture in 2020 thanks to fewer distortions or uncertainties regarding pork and modest recovery of PPI growth. We think inflation will become less a constraint to monetary policies in 2020. However, due to the Lunar New Year's effect, CPI growth is likely to hike again in Jan.

- Impact of pork abated.** In Dec, pork prices rose 97% YoY, contributing 2.34ppt to overall CPI growth (110.2%/2.64ppt in Nov). We believe the pork breeding industry has made steadfast progress dealing with the African Swine. Excluding seasonal fluctuations, we expect distortions from pork price on CPI to alleviate in the upcoming months given a few observations - **1) shortening of supply-demand gap.** In Dec, pigs slaughtered increased 14.4% MoM, rewinding its trend of declining growth since Aug; **2) rebound of sow balance and hog stock.** Breeding sow balance increased 2.2% in Dec from Nov, documenting positive MoM gains for three consecutive months while YoY decline continued to narrow to 32.6%. Compared to Sep, sow balance increased a net of 1.32 million; **3) recovery of pig-breeding industry and confidence.** Hog production capacity posted continuous recovery since 4Q thanks to all-rounded policy support.
- Non-food items gained momentum before the Lunar New Year.** With the approach of Chinese New Year in Jan, prices of non-food items, such as transportation and travel services, gained growth momentum to reflect booming seasonal demand.
- PPI decline continued to narrow to 0.5% YoY in Dec 2019,** while MoM growth was flat in Dec. Narrowing PPI decline is consistent with the trends of other high frequency commodity price monitors and PMI price sub-indices. Growth was mainly attributable to oil-related products, ferrous metal, etc. We maintain our forecast that PPI growth will turn slightly positive in 2020 thanks to robust demand coming from infrastructure investment, and restock demand of key tech-oriented industries.
- Overall inflation outlook getting more amiable** featured by **1) less distortions** from pork prices and gradually taming CPI growth according to our forecast despite seasonal fluctuations, **2) retrieved PPI growth** driven by revived activities from key tech-oriented industries. Going forward, we think the better inflation environment will extend more flexibility to monetary policies.

Data Summary

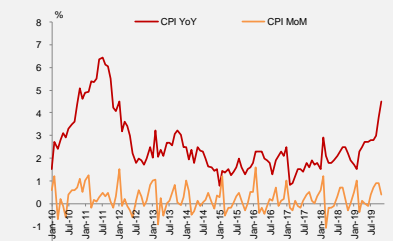
	Oct-19	Nov-19	Dec-19	2019A	2019E	2020E
CPI, YoY (%)	3.8	4.5	4.5	2.9	2.9	3.3
CPI, MoM (%)	0.9	0.4	0.0	n.a.	n.a.	n.a.
PPI, YoY (%)	-1.6	-1.4	-0.5	-0.3	-0.3	0.2
PPI, MoM (%)	0.1	-0.1	0.0	n.a.	n.a.	n.a.

Source: NBS, CMBIS estimates

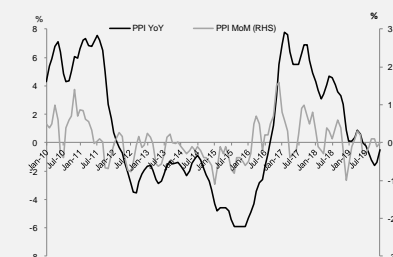
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Source: NBS, CMBIS



Source: NBS, CMBIS

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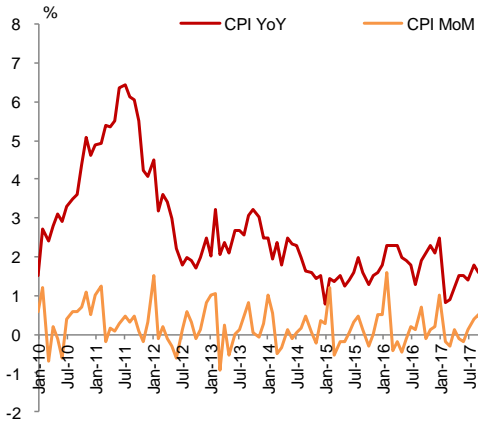
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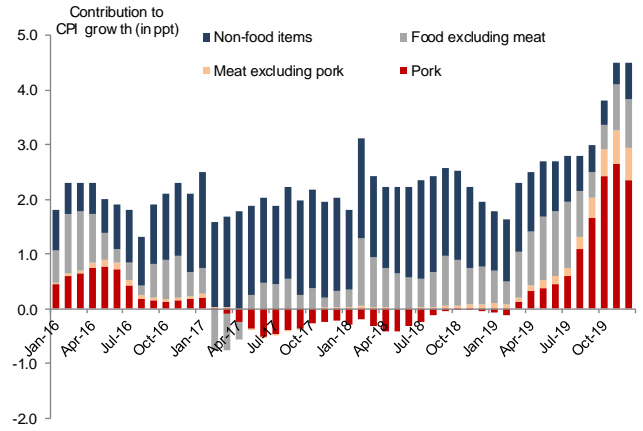
Focus Charts

Figure 1: CPI in Dec – MoM stayed flat, YoY growth same as previous month's



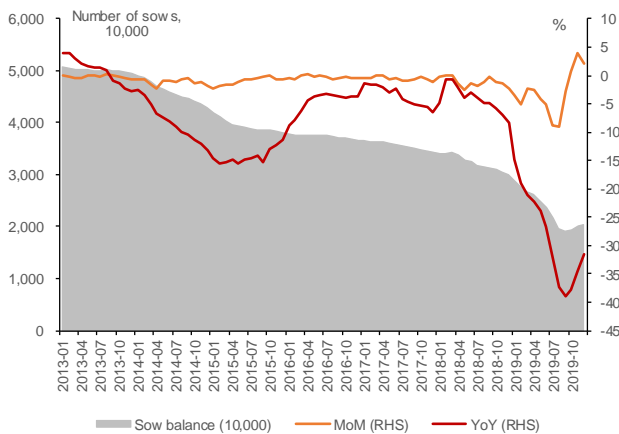
Source: NBS, Wind, CMBIS

Figure 2: Impact from pork and meat product started to recede gradually in Dec 2019



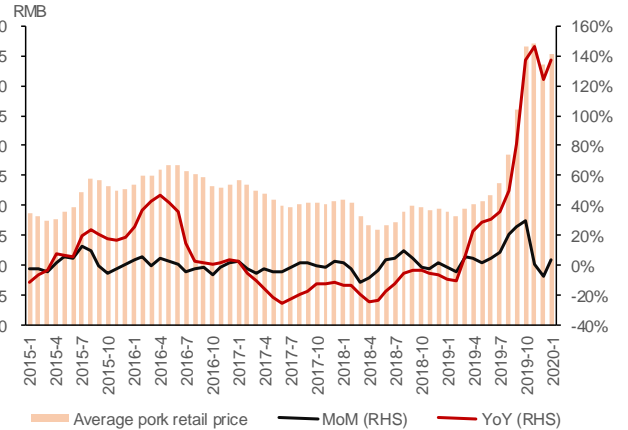
Source: NBS, Wind, CMBIS estimates

Figure 3: Sow balance posted MoM gain for 3 consecutive months (20.45 million at YE19)



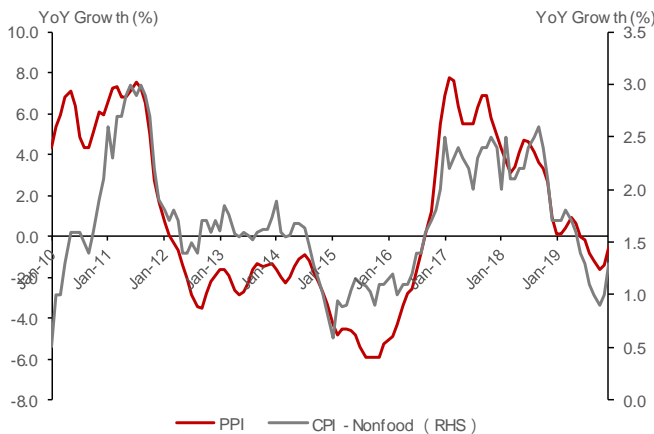
Source: Ministry of Agriculture and Rural Affairs, Wind, CMBIS

Figure 4: Avg pork wholesale price declined in Dec, but we expect it to rise in Jan due to the Lunar New Year



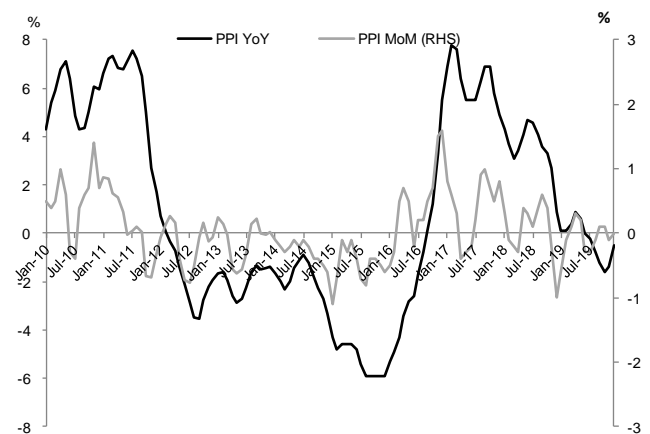
Source: Ministry of Agriculture and Rural Affairs, Wind, CMBIS

Figure 5: Inflation picture is getting rosier even after stripping food items



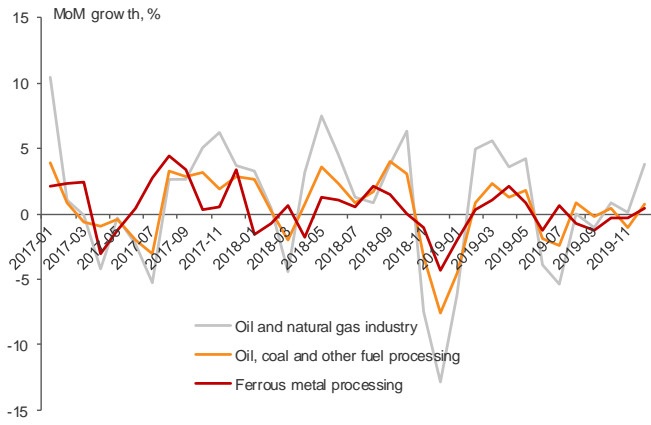
Source: NBS, Wind, CMBIS

Figure 6: PPI decline continued to narrow



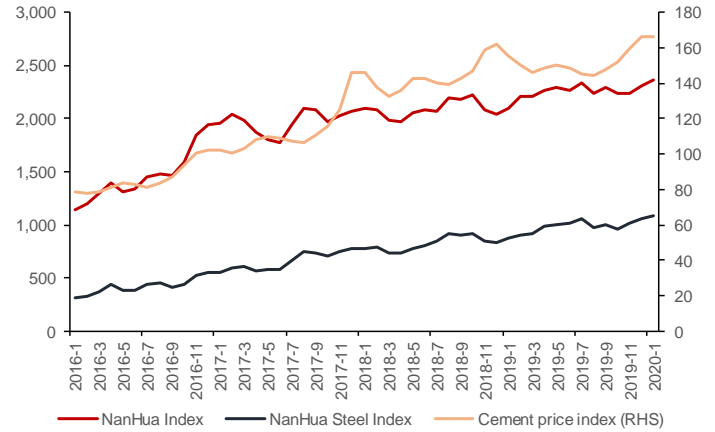
Source: NBS, Wind, CMBIS

Figure 7: ... thanks to rebound of oil related prices



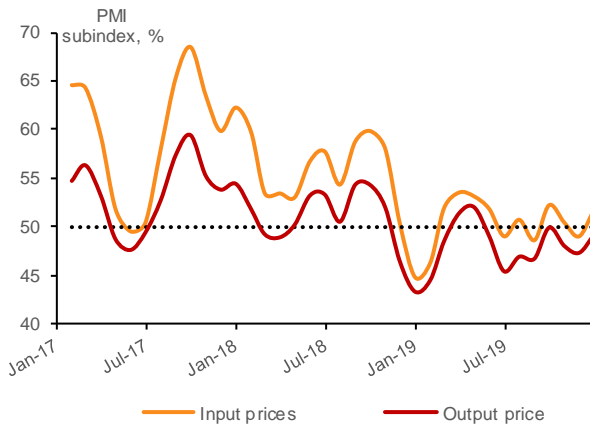
Source: NBS, Wind, CMBIS

Figure 8: High frequency commodity price indices



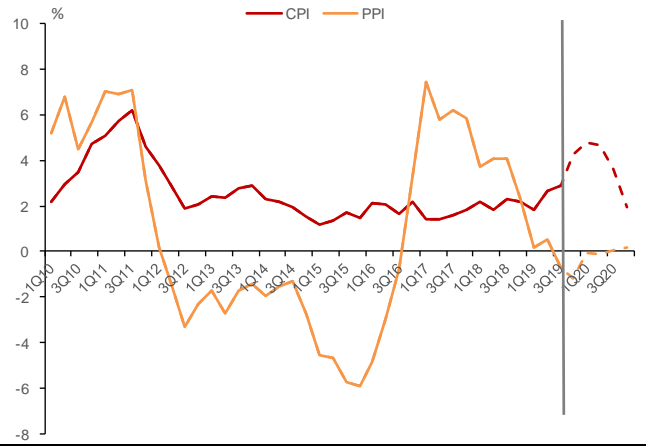
Source: NBS, Wind, CMBIS

Figure 9: PMI price subindices



Source: NBS, Wind, CMBIS

Figure 10: CMBIS forecast of CPI and PPI trajectory



Source: NBS, Wind, CMBIS estimates

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