

# Macro Report

## CPI beat while PPI remained subdued

China's CPI in Feb beat expectations at 0.7% YoY thanks to the Chinese New Year (CNY) mismatch with recovery in food, energy and tourism prices. Pork price is gradually bottoming out with signs of relief on the supply side. Core CPI saw solid 0.5% MoM growth thanks to tourism recovery despite weakness in other services and durable goods. PPI further declined due to the suspension of production and construction during the CNY. The deflation pressure may persist amid the retreat of tourism price, fierce supply-side competition and weak consumer demand due to de-leveraging in the debt-deflation cycle. We maintained our forecasts of CPI and PPI growth rates in 2024 at 0.7% and -0.3%. The PBOC may further cut RRR by 50 bps in total, LPRs by 10 bps, and structurally targeted mortgage rate by 20 bps in the remainder of the year. The central bank is also expected to commit RMB1-1.5trn PSL loans for "three major projects". Fiscal policy will be more expansionary with the expected broad fiscal deficit ratio at over 7.1% in 2024 and broad fiscal expenditure growth at 7.8%.

■ **CPI beat expectations thanks to CNY mismatch with recovery in food and tourism prices.** CPI rebounded back to positive territory at 0.7% in Feb from -0.8% in Jan, notably higher than the market expectation of 0.4%. The upside YoY CPI surprise was driven by the CNY mismatch and recovery of service consumption. The food price narrowed its YoY decline from -5.9% to -0.9%, while core service increased 1.2% YoY in Feb from 0.4% in Jan. In sequential terms, CPI recovered to 1% growth after rising 0.3% in Feb. Specifically, food CPI accelerated to 3.3% MoM from 0.4%, showing stronger seasonality compared to the historical average. Pork price recorded a 7.2% MoM increase after decreasing 0.2% in Jan, with its YoY decline reversing to positive at merely 0.2%, the first time since Apr 2023. We've seen positive signs from the supply side including moderate drops in feed sales and the number of breeding sows and live hogs. The deflation effect of pork price on headline CPI should gradually ease. Energy price also rebounded with vehicle fuel price up by 1.9% MoM, with its YoY change returning to positive at 0.8%, the first time since Feb 2023.

■ **Core CPI growth rebounded thanks to an improvement in service consumption.** Core CPI growth accelerated to 1.2% YoY with its MoM growth hitting 0.5% from 0.1%, one of the highest MoM growth in history. The stronger-than-expected growth was driven by tourism price, which was up 13.1% MoM in Feb from 4.2% in Jan, in line with the record-breaking number of travellers during CNY. However, other services including home service, delivery service, education service and rent remained subdued, with -1.7%, -0.1%, 0% and 0% MoM growth, still lower than normal seasonality. For durable goods, home equipment and telecom equipment dropped to 0% and 1.1% MoM, while vehicles rebounded 0.1%. Prices of durable goods may remain weak due to low consumer confidence without demand-side policy stimulus. Looking forward, we expect the CPI to retract slightly, settling around the minimal positive bound just above 0 in next few months, as the deflation pressure persists amid the retreat of tourism price, fierce supply-side competition and weak overall demand.

■ **PPI dropped below expectation as downstream demand weakened during CNY.** PPI declined 2.7% YoY in Feb after decreasing 2.5% YoY in Jan, contracting for the 17th consecutive month. The MoM growth of PPI remained unchanged at -0.2%, showing still sluggish demand due to the suspension of production and construction during the CNY. For mining industries, PPI in oil & gas mining recovered to 4.2% YoY in Feb from 3.4%

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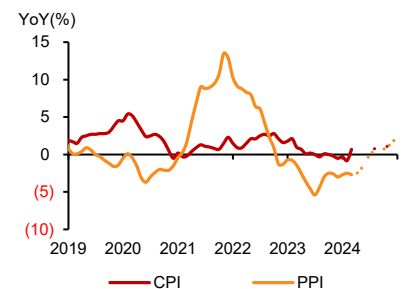
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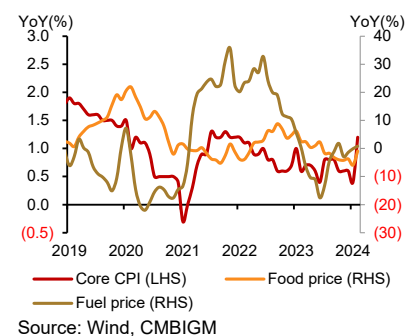
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Forecast numbers from Mar 2024  
Source: Wind, CMBIGM

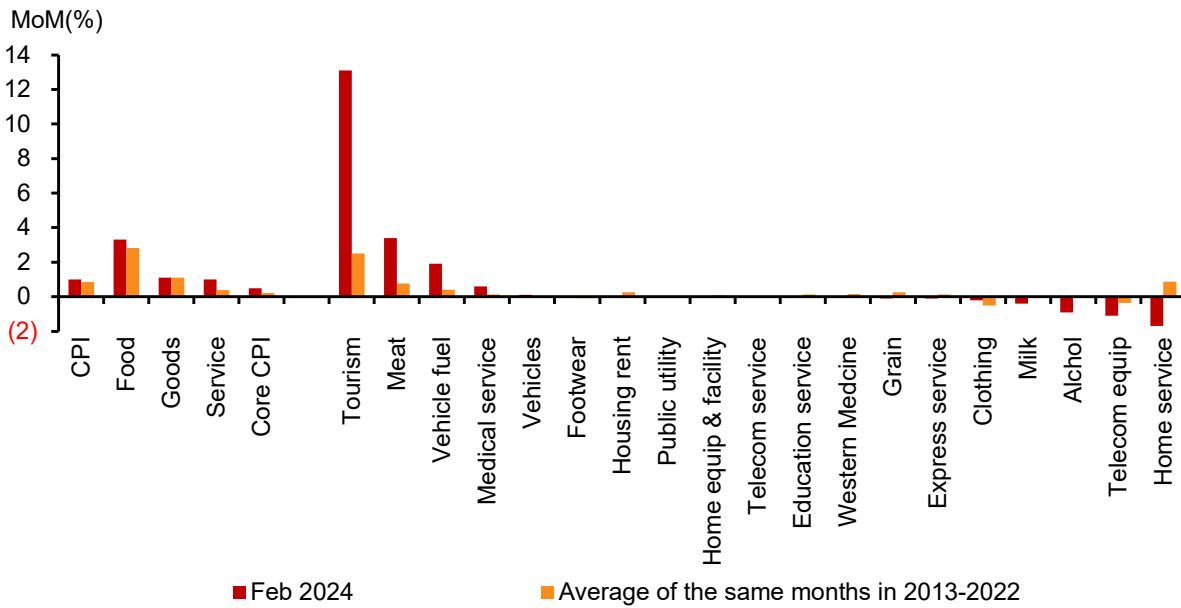


Source: Wind, CMBIGM

thanks to the resurgence of crude oil price, while coal mining, non-ferrous metals and ferrous metals remained lethargic, dropping 14.7%, 0.2% and 4.9% in Feb. For mid- and downstream industries, PPI in durables and capital goods remained weak, including automobiles, computers & electronics, general machinery, medicines and food. Looking forward, PPI may remain restrained in 2Q24 due to weak demand in China and high interest rates in the US. PPI growth may rebound in 2H24 as demand may improve in China and the US Fed may gradually cut rates.

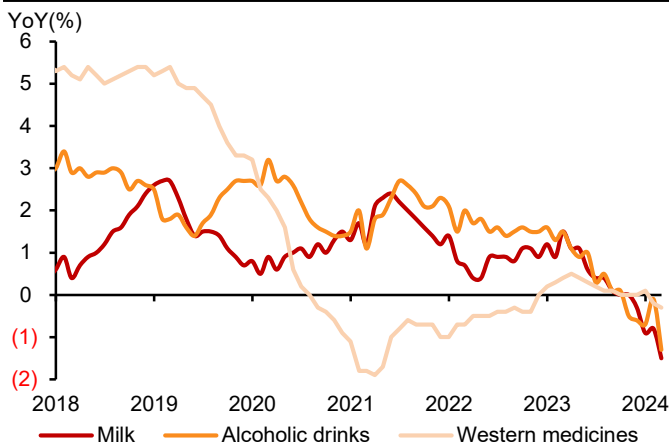
- **Deflation pressure may alleviate yet should persist as current policy focus remains on supply side.** We maintain our forecast of CPI and PPI growth at 0.7% and -0.3% for 2024, vs. 0.2% and -3% in 2023. Even though the CPI has returned to positive territory and is expected to remain minimal positive in the next few months, China's deflation pressure may persist longer due to demand weakness and supply overcapacity. Current policy support continues to focus on the supply side as broad fiscal deficit is mainly used for infrastructure investment and tax cuts for technology companies, high-end manufacturing and related equipment purchases. Fiscal transfer payments to households are relatively limited. The PBOC vowed to support a moderate reflation with ample liquidity supply and easing credit policy. We expect additional RRR cuts by 50 bps in total, 10 bps cut in LPR and a possible structural 20 bps cut targeted specifically at mortgage rates in the remainder of this year.

**Figure 1: MoM Changes of China CPI in Feb**



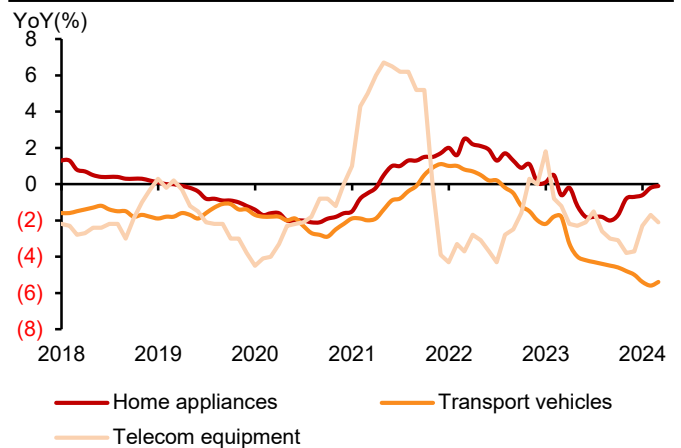
Source: Wind, CMBIGM

**Figure 2: China CPI Growth in Staples**



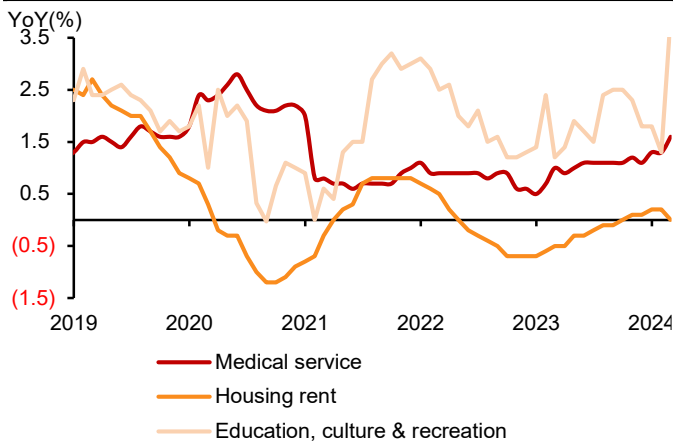
Source: Wind, CMBIGM

**Figure 3: China CPI Growth in Durables**



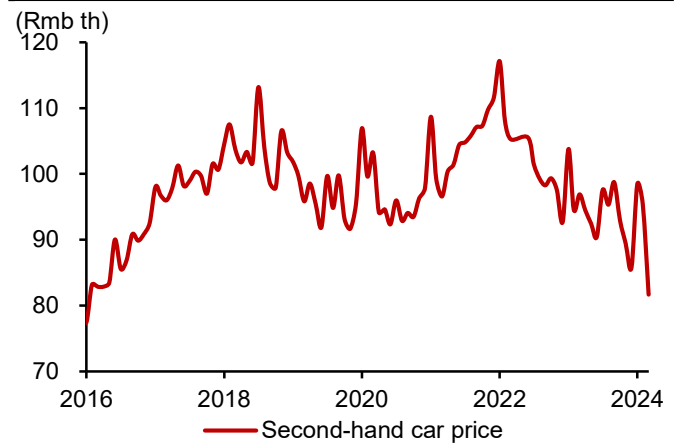
Source: Wind, CMBIGM

**Figure 4: China CPI Growth in Services**



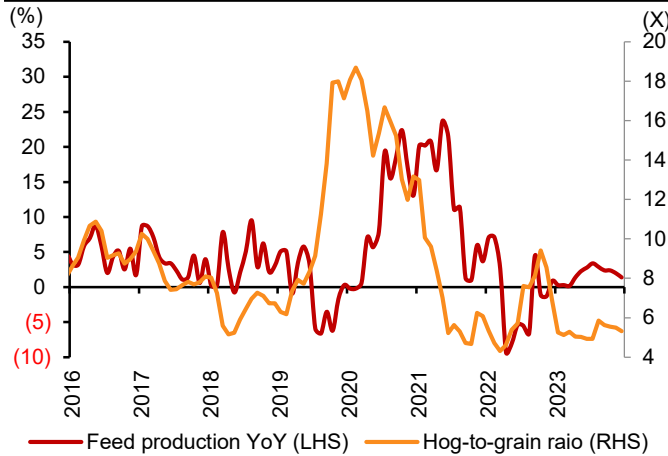
Source: Wind, CMBIGM

**Figure 5: Second-hand Car Price in Shanghai**



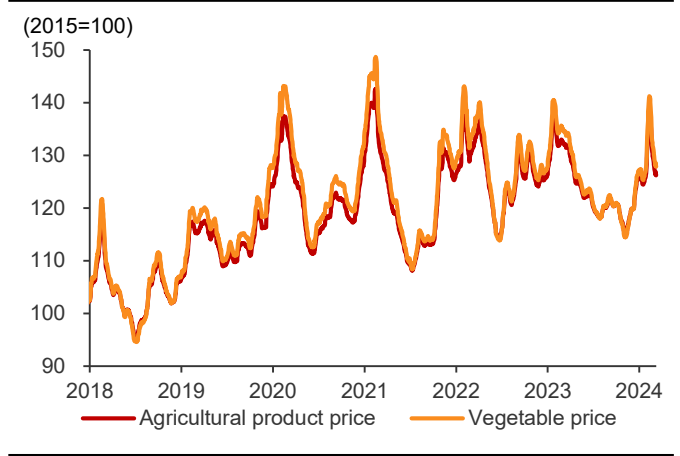
Source: Wind, CMBIGM

**Figure 6: Feed Production & Hog-to-Grain Ratio**



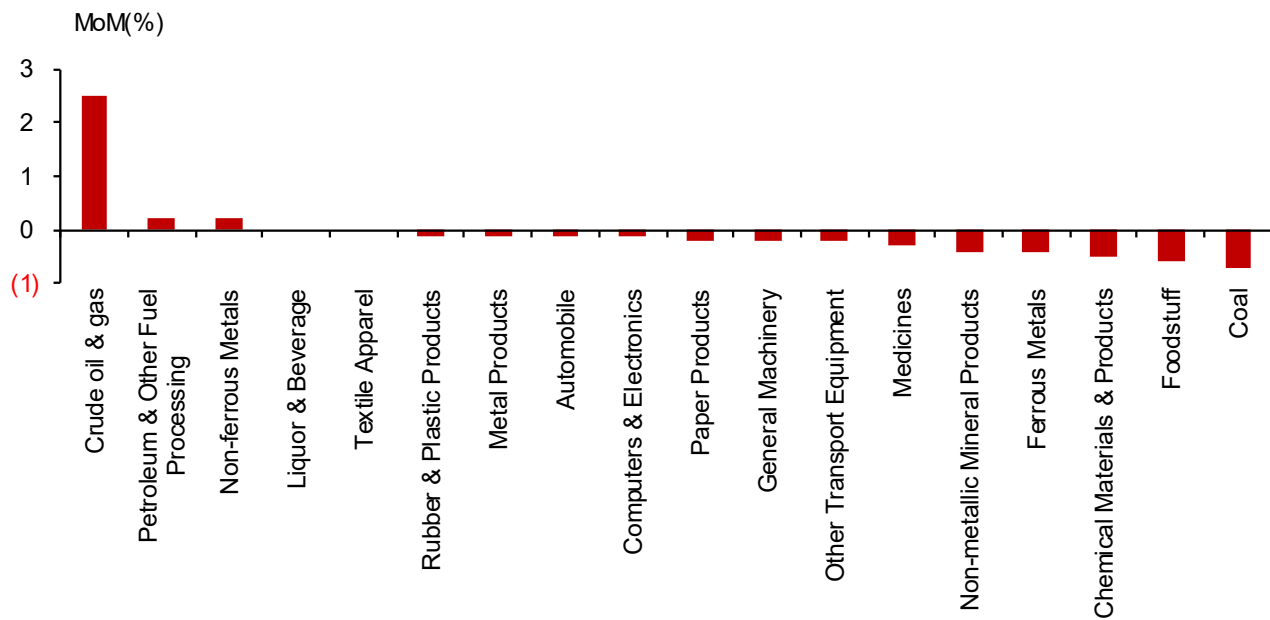
Source: Wind, CMBIGM

**Figure 7: Agricultural and Vegetable Price**



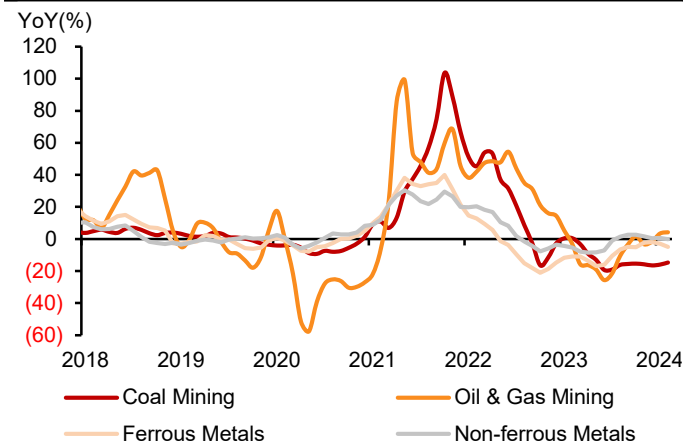
Source: Wind, CMBIGM

**Figure 8: MoM Changes of China PPI in Feb**



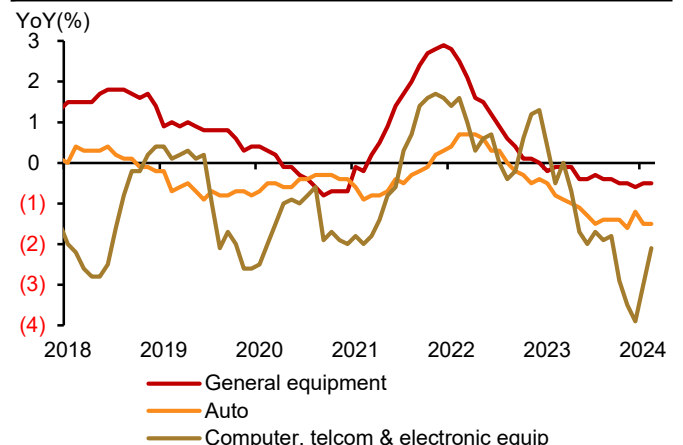
Source: Wind, CMBIGM

**Figure 9: China PPI in Energy & Metals**



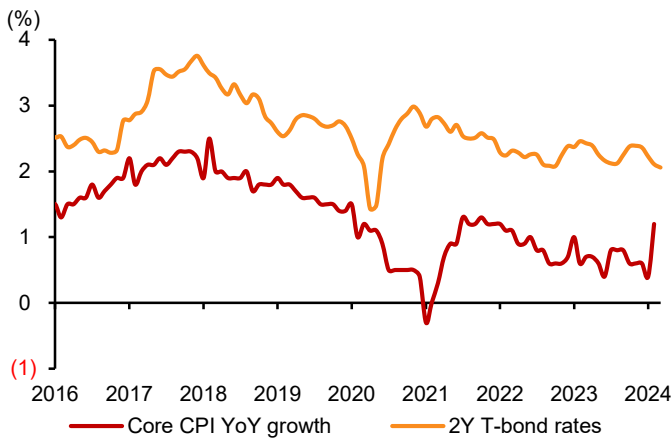
Source: Wind, CMBIGM

**Figure 10: China PPI in Equipment**



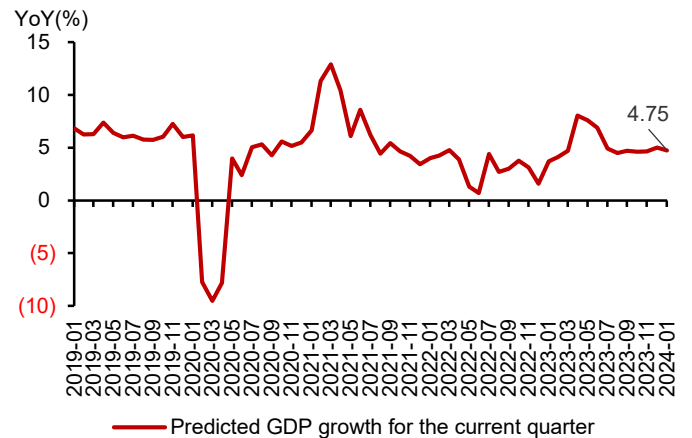
Source: Wind, CMBIGM

**Figure 11: China Core CPI Growth & 2Y T-bond Rates**



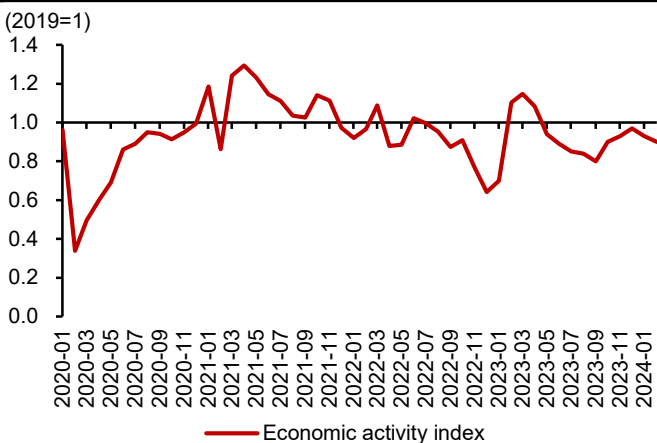
Source: Wind, CMBIGM

**Figure 12: China Predicted GDP Growth**



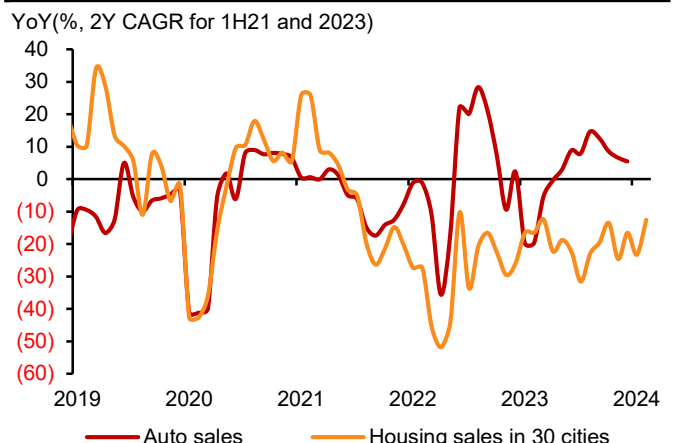
Source: Wind, CMBIGM estimates

**Figure 13: China Economic Activity Index**



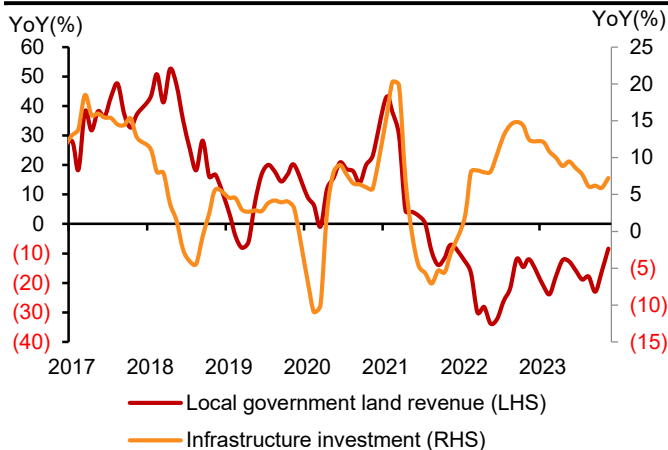
Source: Wind, CMBIGM

**Figure 14: China Auto & Housing Sales**



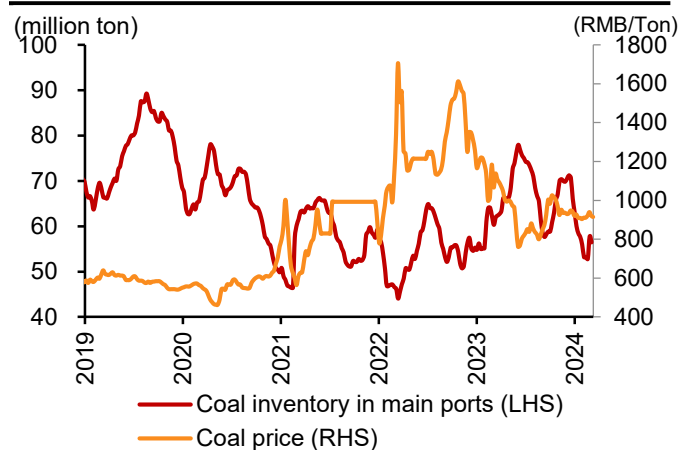
Source: Bloomberg, CMBIGM

**Figure 15: Infrastructure Investment in China**



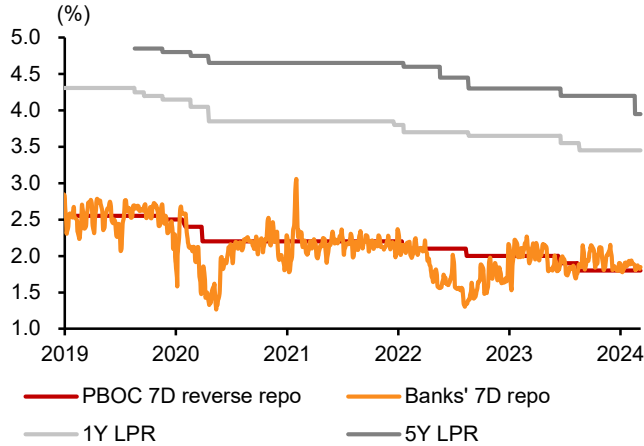
Source: Bloomberg, CMBIGM

**Figure 16: China Coal Inventory & Price**



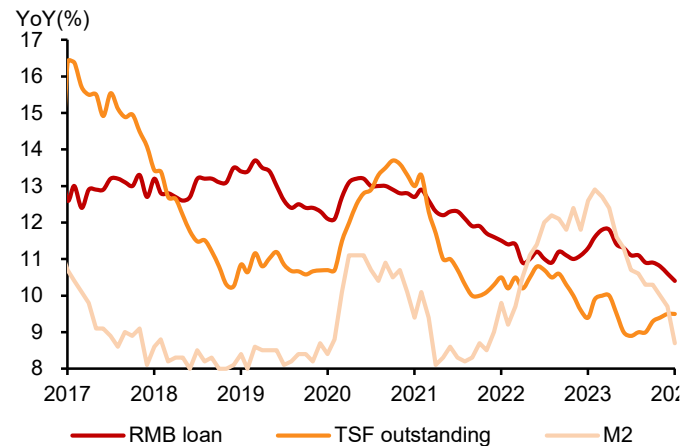
Source: Wind, CMBIGM

**Figure 17: PBOC Policy Rates & Liquidity Condition**



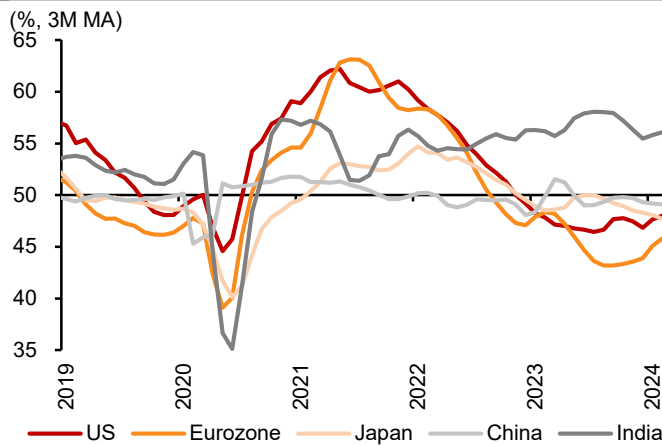
Source: Bloomberg, CMBIGM

**Figure 18: China Credit Growth**



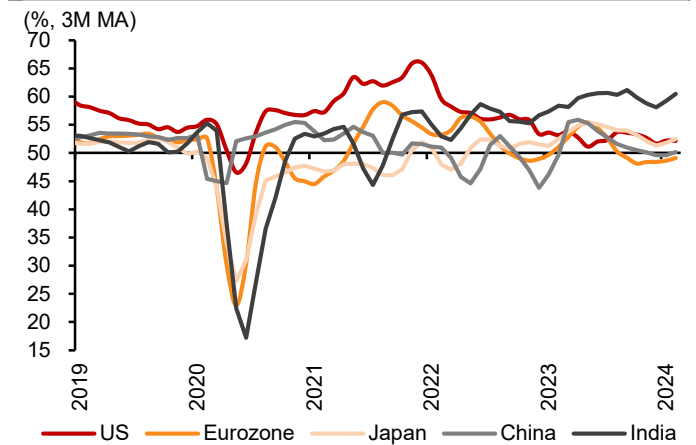
Source: Wind, CMBIGM

**Figure 19: Manufacturing PMI of Major Economies**



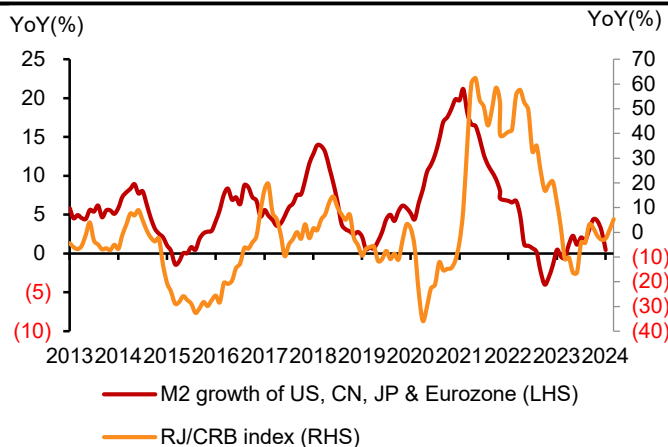
Source: Bloomberg, CMBIGM

**Figure 20: Service PMI of Major Economies**



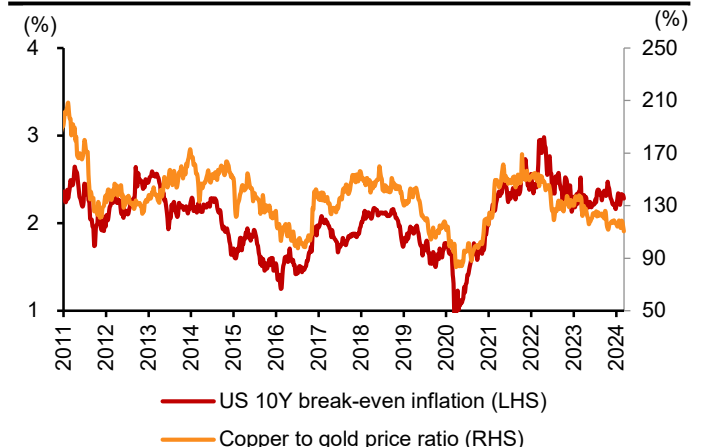
Source: Wind, CMBIGM

**Figure 21: M2 Growth & Commodity Inflation**



Source: Bloomberg, CMBIGM

**Figure 22: Copper-to-gold Ratio**



Source: Wind, CMBIGM

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