

China inflation in Jul

PPI decline continued to narrow

China's Jul inflation monitors reflected similar trends as those in Jun. According to the NBS, CPI increased 2.7% YoY in Jul, same as CMBIS estimate. PPI declined 2.4% YoY, 0.2ppt better than our estimate. On MoM basis, CPI rose 0.6% MoM primarily driven by uptick in food prices while non-food items kept recording stagnant price growth. PPI maintained growth at 0.4% MoM thanks to sequentially recovery of industrial activities, narrowing YoY decline to 2.4%.

- **CPI driven by food.** Prices of food & beverages increased 2.0% MoM, contributing to 0.63ppt of MoM CPI growth. **Pork price growth enlarged in Jul**, up 85.7% YoY in Jul vs. 81.6% in Jun. Hog price has exceeded RMB 37 by the end of Jul. The uptick in pork price was primarily due to **1) gradual resumption of catering and restaurant business; 2) flooding in certain areas**, which caused difficulty in cross-provincial transportation and thus regional supply shortage. We think the situation of increasing demand and relatively tight supply could continue nudging up pork prices in Aug, but YoY growth is likely to decelerate due to last year's high base.
- **However, core CPI increased only 0.5% YoY**, down 0.4ppt from Jul. Non-food prices remained weak, which again pointed to slow recovery of the service industry, including travel, recreation, residential services. Rental prices also recorded decline as a result of economic slowdown, which was in line with anecdotal evidence in major cities.
- **PPI – maintained positive MoM growth** for the second month since the outbreak of COVID-19 and narrowed its YoY decline to 2.4%. Thanks to sequential recovery of domestic as well as overseas demand, industrial activities kept trending well. Commodity prices were boosted. PPI of oil and natural gas extraction rose 12% MoM, narrowing YoY decline by 11.3ppt from Jul to 27.8%. Other major industries, such as oil, coal & other fuel processing, chemical products manufacturing, ferrous and non-ferrous metal processing all posted improving PPI figures.
- **Future inflation trend prediction.** We expect **1) CPI YoY growth** to trend down modestly in 3Q – seasonal strength of food prices may continue but offset by last year's high base. In 4Q, CPI could well dive below 2% with the stabilization of pork prices. **2) PPI growth** may continue to pick up gradually in 3Q and 4Q with the reopening of global economy.
- **Risks.** We think risks tilt toward the downside, including lackluster service prices as a result of slower-than-expected economic recovery. Upside risks mainly involve seasonal factors hiking up food prices.

Data Summary

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	2019A	2020E
CPI, YoY (%)	4.3	3.3	2.4	2.5	2.7	2.9	3.1
CPI, MoM (%)	-1.2	-0.9	-0.8	-0.1	0.6	n.a.	n.a.
PPI, YoY (%)	-1.5	-3.1	-3.7	-3	-2.4	-0.3	-2.0
PPI, MoM (%)	-1.0	-1.3	-0.4	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

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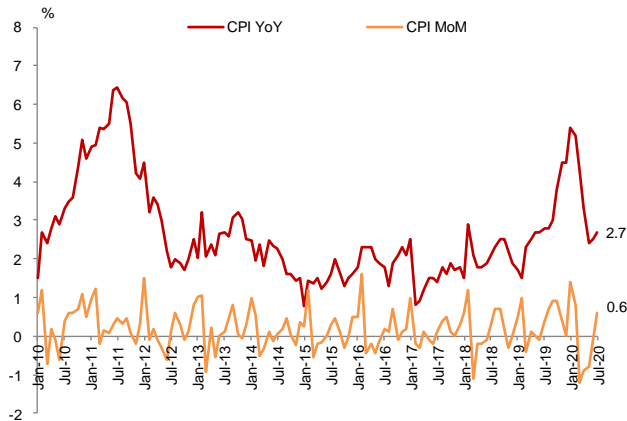
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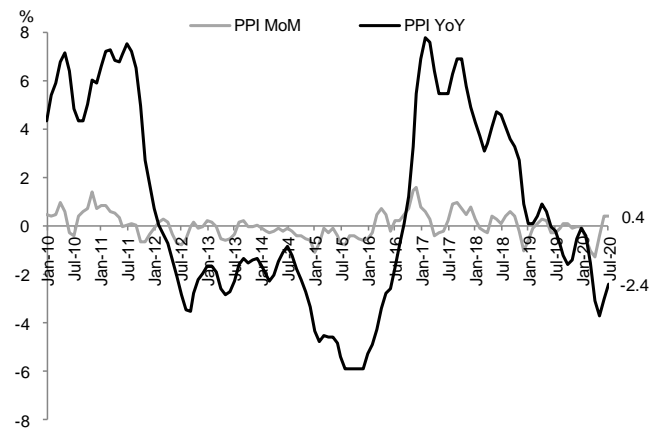
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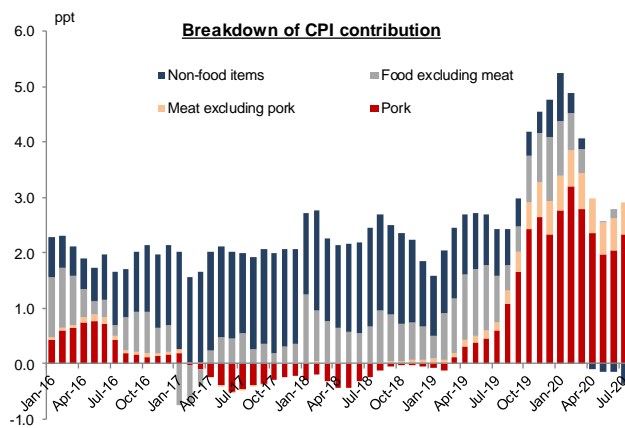
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Figure 1: CPI +2.7% YoY/+0.6% MoM in Jul

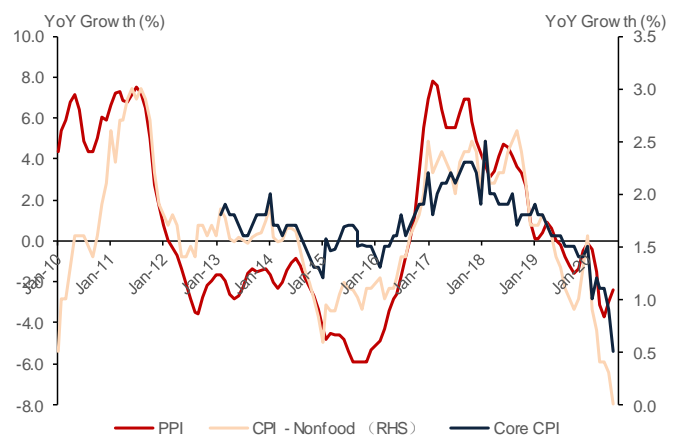
Source: NBS, Wind, CMBIS

Figure 2: PPI decline continued to narrow to 2.4% YoY in Jul while MoM growth maintained at 0.4%

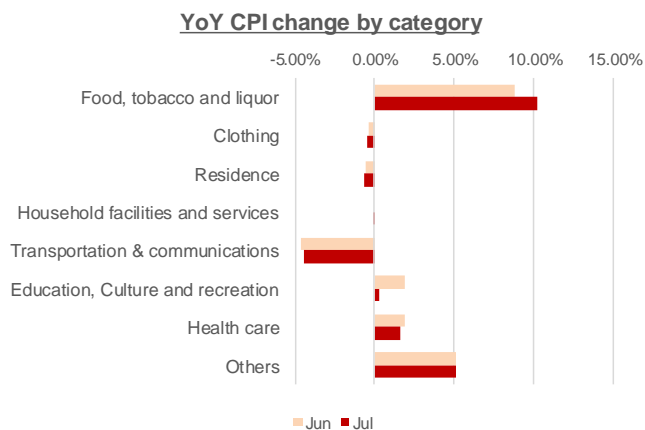
Source: NBS, Wind, CMBIS

Figure 3: CPI growth driven by food prices

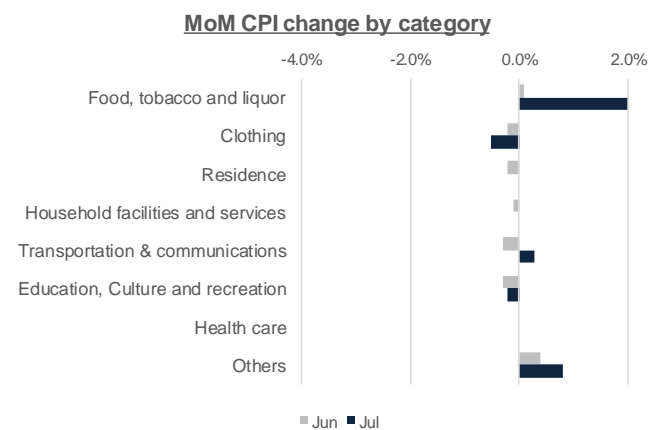
Source: NBS, Wind, CMBIS

Figure 4: Ex-food inflation monitors

Source: NBS, Wind, CMBIS

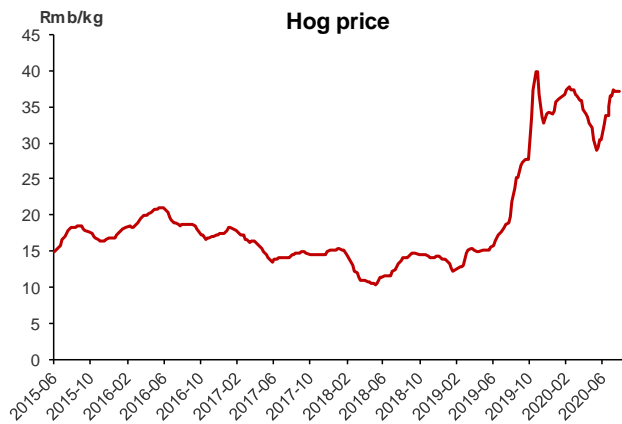
Figure 5: CPI YoY change by category

Source: NBS, Wind, CMBIS

Figure 6: CPI MoM change by category

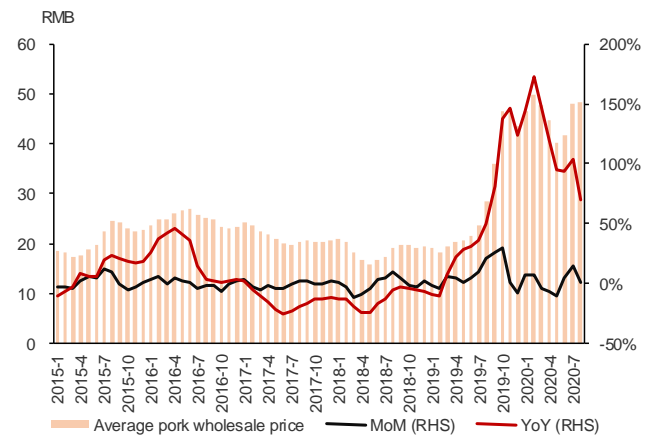
Source: NBS, Wind, CMBIS

Figure 7: Hog price climbed above RMB 37 at the end of Jul



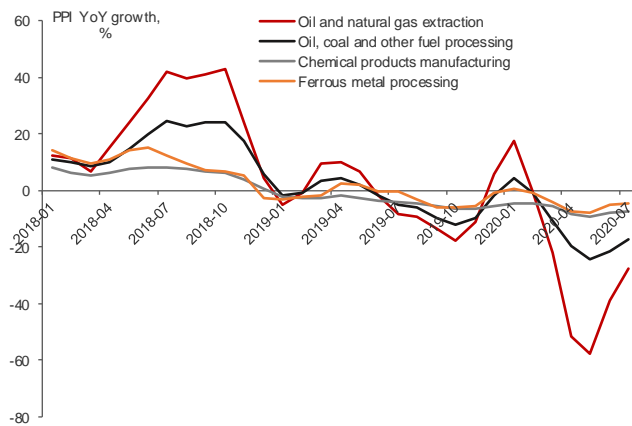
Source: Ministry of Agriculture and Rural Affairs, Wind, CMBIS

Figure 8: Pork wholesale price – YoY growth likely to decelerate in Aug



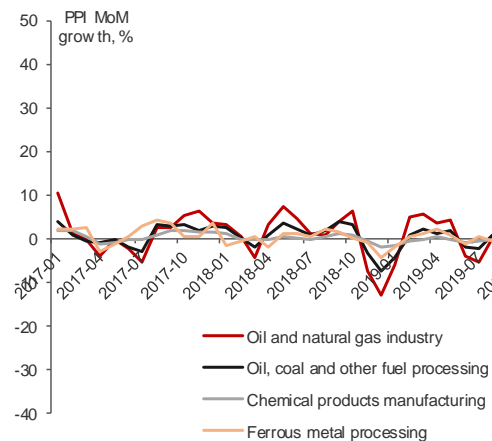
Source: Ministry of Agriculture and Rural Affairs, Wind, CMBIS estimates

Figure 9: PPI YoY decline of major industries



Source: NBS, Wind, CMBIS

Figure 10: PPI MoM change of major industries



Source: NBS, Wind, CMBIS

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CMB International Securities Limited

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

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