

China inflation in May

CPI back to normal; PPI decline narrowed MoM

The NBS released inflation figures of May. CPI growth fell back to 2.4% YoY in May, primarily reflecting moderating food price growth and continued slackness in service prices. PPI decline narrowed MoM thanks to demand recovery, but enlarged YoY due to high base last year. Going forward, we expect modest inflation outlook to continue – CPI growth will likely stay in the range of 2.0%-3.0% before falling below 2.0% in 4Q. PPI growth is likely to remain in the negative territory since demand recovery from the COVID-19 has been slow.

- **CPI growth weakened to 2.4%, mainly because of food items.** Prices of food advanced 10.6% YoY, decelerating 4.2ppt from Apr. Meat price growth decelerated to 57.4%, contributing 2.55ppt to CPI growth in May. Overall YoY growth of fruit, vegetables, eggs and other food items besides meat was flat.
- **Non-food and service prices remained weak in May**, which continued to drag CPI growth by about 0.7ppt in May. Nevertheless, we expect to see some strengthening in prices of transportation in Jun thanks to recovering travel demand since May. Prices of education, cultural and recreational services are also likely to pick up with the reopening of schools in early Jun.
- **CPI pork prices +81.7% YoY in May, vs. +96.9% in Apr.** Both supply stabilization and demand slackness have contributed to taming pork prices since Mar. Average hog price fell below RMB 30 in late May, enlarging its MoM decline to 10.7% in May vs. -7.5% in Apr. Average wholesale price of pork dropped 10.3% MoM in May. Despite weakness in May, however, high frequency price data suggested pork price MoM decline may narrow in Jun due partly to within-year cyclical.
- **PPI – MoM decline narrowed to 0.4%**, suggesting improving, albeit slowly, demand in domestic market. This was consistent with PMI price indices released earlier, which ticked up in May. However, due to relatively high base last year, YoY decline widened 0.6ppt from Apr to 3.7% in May. With the stabilization of oil prices, oil and natural gas extraction declined 9.1% MoM, narrowing 26.6ppt from Apr, although YoY decline enlarged to 57.6%. Oil, coal and other fuel processing, chemical production also narrowed decline whereas ferrous/non-ferrous metals MoM growth turned flat/slightly positive. With the gradual recovery of domestic and overseas demand, we expect downward pressures on PPI are likely to alleviate although YoY growth may still remain in negative territory.

Data Summary

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	2019A	2020E
CPI, YoY (%)	5.4	5.2	4.3	3.3	2.4	2.9	3.1
CPI, MoM (%)	1.4	0.8	-1.2	-0.9	-0.8	n.a.	n.a.
PPI, YoY (%)	0.1	-0.4	-1.5	-3.1	-3.7	-0.3	-2.0
PPI, MoM (%)	0.0	-0.5	-1.0	-1.3	-0.4	n.a.	n.a.

Source: NBS, CMBIS estimates

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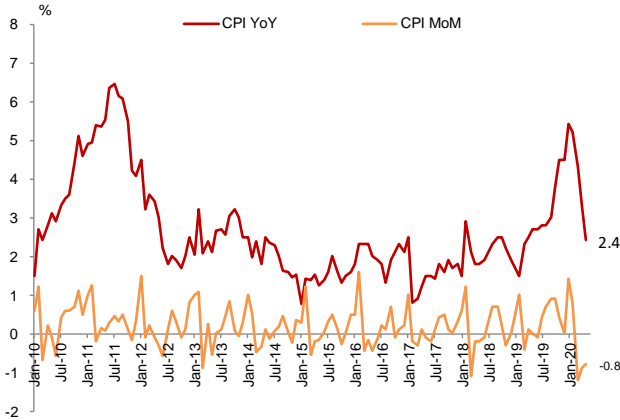
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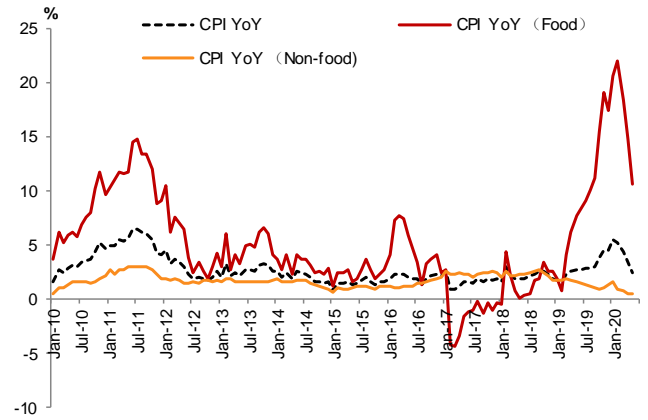
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Figure 1: CPI +2.4% YoY/-0.8% MoM in May



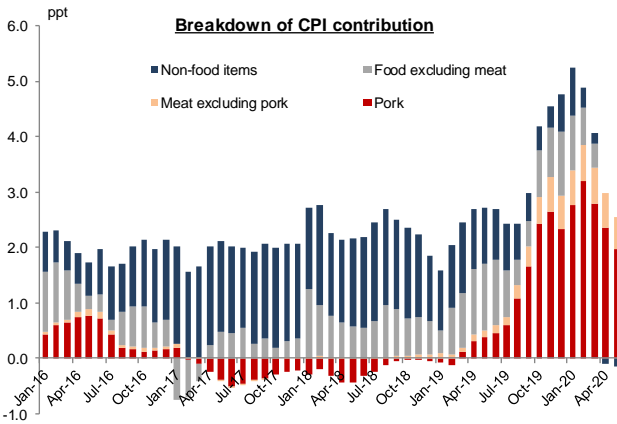
Source: NBS, Wind, CMBIS

Figure 2: Food prices +10.6% YoY in May, decelerating 4.2ppt from Apr



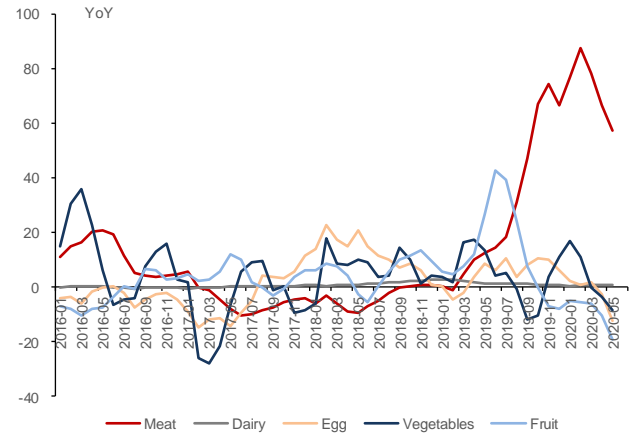
Source: NBS, Wind, CMBIS

Figure 3: Non-food items continued to drag CPI growth in May



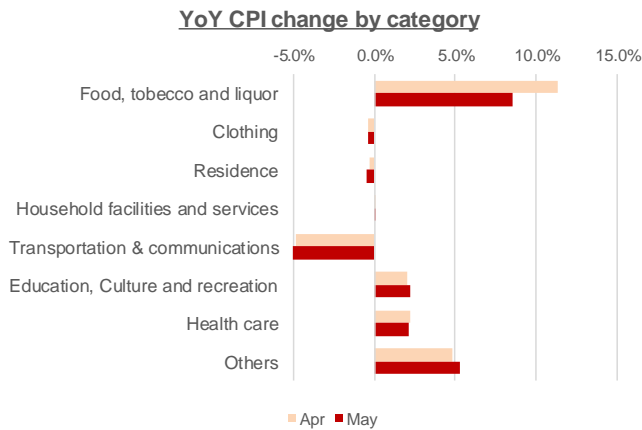
Source: NBS, Wind, CMBIS

Figure 4: Growth decelerated for most categories of food items



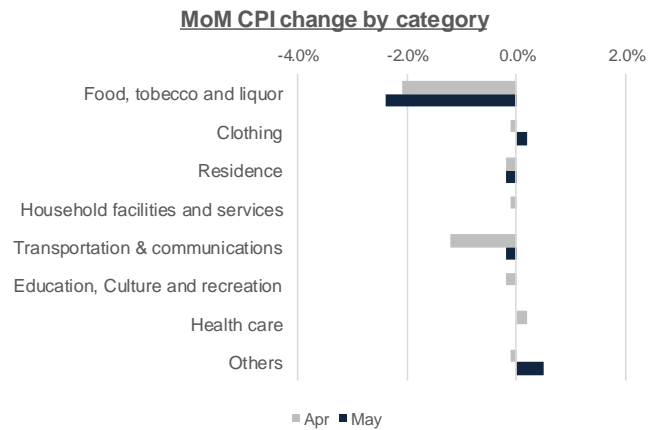
Source: NBS, Wind, CMBIS

Figure 5: YoY CPI change by category



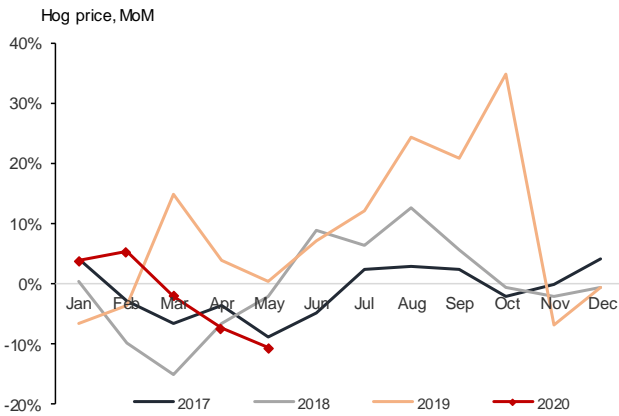
Source: NBS, Wind, CMBIS

Figure 6: MoM CPI change by category



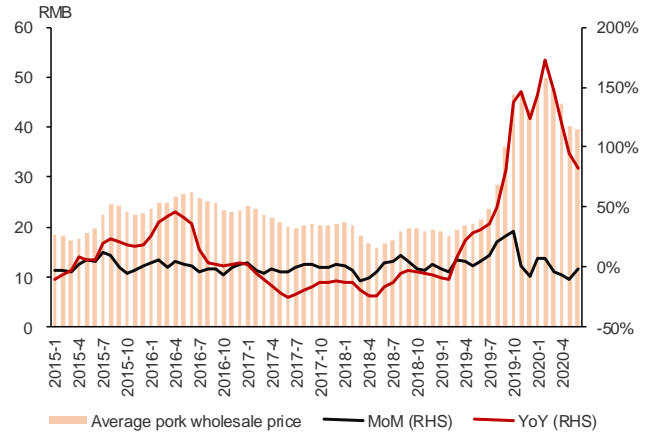
Source: NBS, Wind, CMBIS

Figure 7: MoM decline of hog price enlarged in May



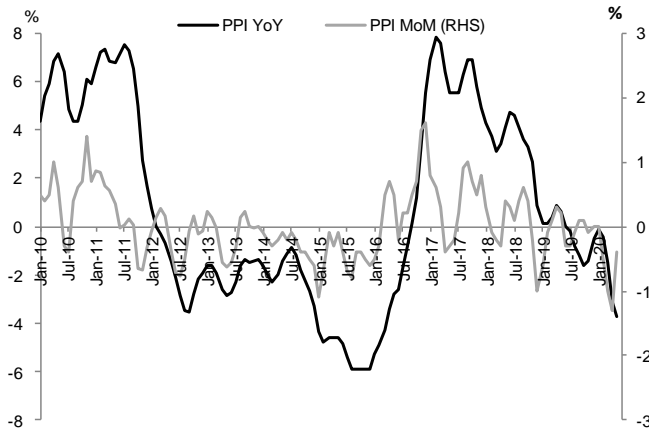
Source: Ministry of Agriculture, Wind, CMBIS

Figure 8: Pork wholesale price dropped to ~RMB 40



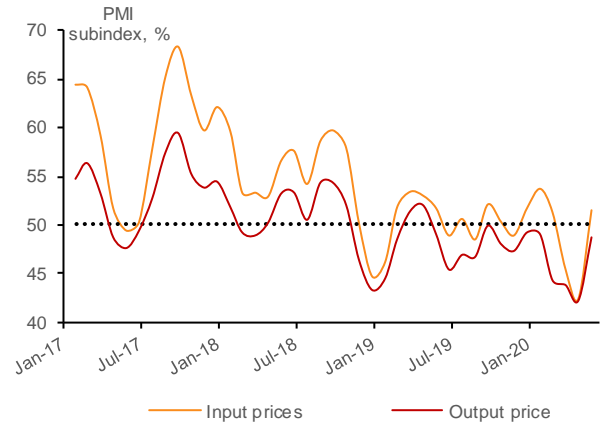
Source: Ministry of Agriculture, Wind, CMBIS

Figure 9: PPI -3.7% YoY in May, but MoM decline narrowed 0.9ppt to 0.4%



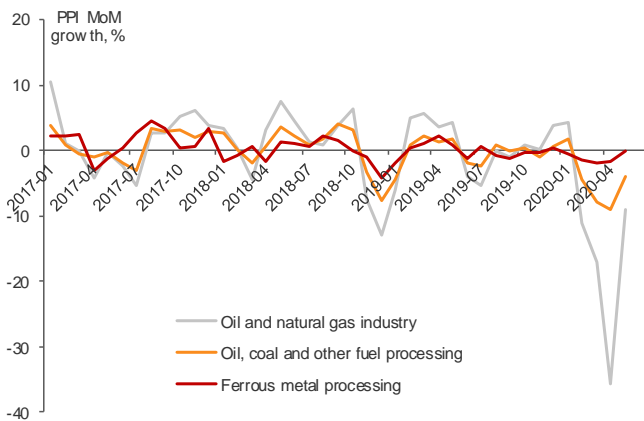
Source: NBS, Wind, CMBIS

Figure 10: ... which was consistent with PMI price indices, the latter picked up in May



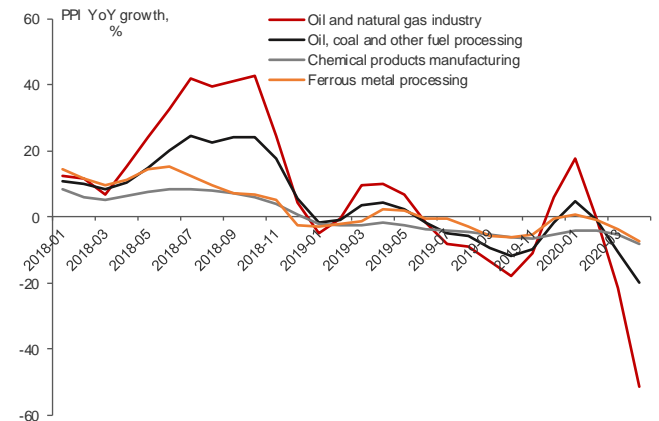
Source: NBS, Wind, CMBIS

Figure 11: PPI MoM decline of major industries narrowed



Source: NBS, Wind, CMBIS

Figure 12: ... although YoY decline widened due to high base last year



Source: NBS, Wind, CMBIS

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