

China inflation in Sep

Pork price up higher

China's Sep inflation figures were out this morning. Generally speaking, Sep's trend succeeded those of previous months, in that CPI growth surged to 3% YoY mainly driven by pork, while PPI dipped to -1.2% YoY although MoM growth turned positive. In 4Q19, we forecast 1) CPI growth to stay at 2.8% to 3.0% YoY; and 2) PPI may contract further due to sluggish demand and carry-over effect. Our forecast for annual CPI/PPI growth is +2.3%/-0.2% YoY, respectively.

- Pork remained the key driver of CPI**, which surged 69.3% YoY, boosting CPI growth by 1.65ppt (46.7% YoY and 1.08ppt in Aug). As of 30 Sep 2019, sow herd contracted 38.9% YoY to 19.13 million. **MoM trend moderated a bit** thanks to top-down efforts to tame pork price. Sow herd declined 2.8% MoM in Sep (vs. 9.1% in Aug) and pork prices increased 19.7% MoM in Sep (vs. 23.1% in Aug).
- Will increasing pork import curb price surge? We bet only marginally.** Although pork imports hiked 43.6% YoY in Jan-Sep 2019, it only composed a very small portion of pork consumption in China (<4% in 2018) and its impact on domestic pork price is still marginal. The primary solution is to encourage domestic hog breeding thus adding new supply. Comprehensive measures have been announced by various levels of governments. However, considering construction lag of breeding farms and lifecycle of hogs, to revive the hog breeding sector takes time. We expect supply shortage will continue to hold pork price at high levels into 1H20.
- PPI growth dipped further to -1.2% YoY**, although MoM growth bounced back to positive territory. Carry-over effect accounted for -0.7ppt YoY growth in Sep. PPI of major upstream and midstream industries enlarged decline - oil & gas (-9.1% YoY, down 0.8ppt from Jul), oil, coal & other fuel processing (-5.9% YoY/-0.8ppt), ferrous metal processing (-3.1%/-2.7ppt), chemicals (-4.6%/-0.6ppt). We expect more downside risks to PPI growth in the following months because of sluggish demand as well as carry-over effect.
- We do not expect higher CPI to pause monetary easing in a meaningful way**, because 1) excluding pork, CPI growth was relatively stable; 2) price growth subdued with respect to other food items, e.g. vegetables and fruit, as well as service items, in particular transportation and communication; 3) PPI growth was sluggish. Again, inflation is not the primary constraint for monetary policy now.

Data Summary

	Jun-19	Jul-19	Aug-19	Sep-19	Jan-Sep	2019E
CPI, YoY (%)	2.7	2.8	2.8	3.0	2.5	2.3
CPI, MoM (%)	-0.1	0.4	0.7	0.9	n.a.	n.a.
PPI, YoY (%)	0	-0.2	-0.8	-1.2	-0.3	-0.2
PPI, MoM (%)	-0.3	-0.3	-0.1	0.1	n.a.	n.a.

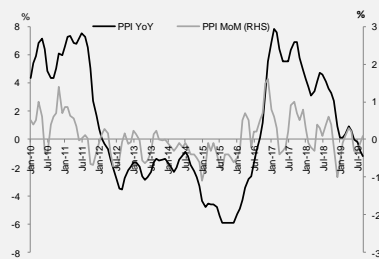
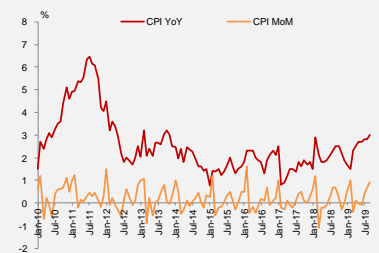
Source: NBS, CMBIS

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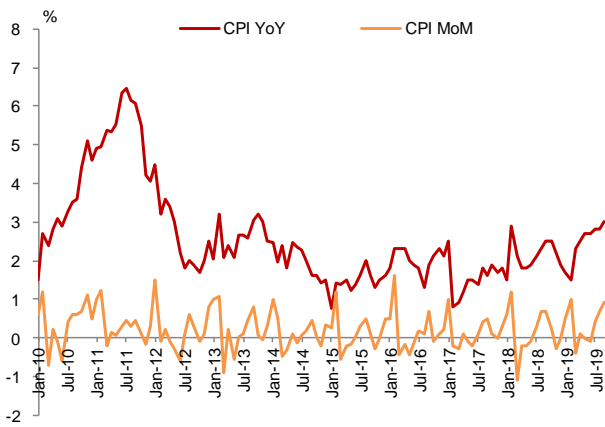


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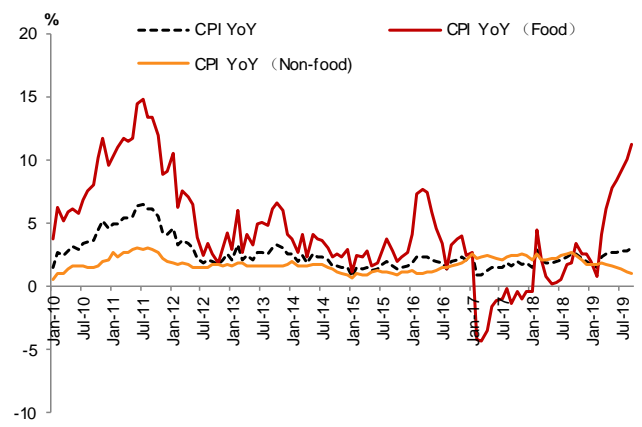
Focus Charts

Figure 1: CPI growth, YoY and MoM



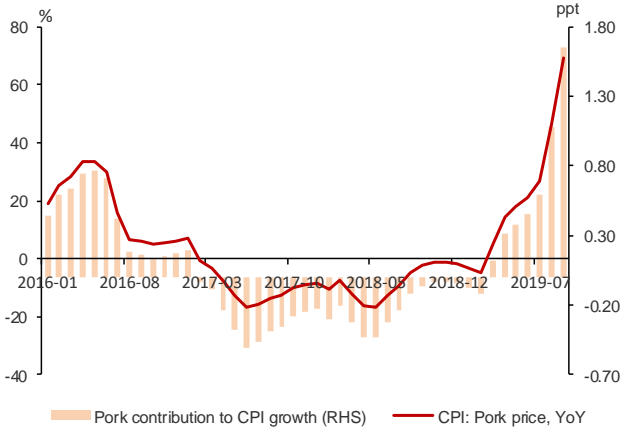
Source: NBS, Wind, CMBIS

Figure 2: Food surged while non-food prices subdued



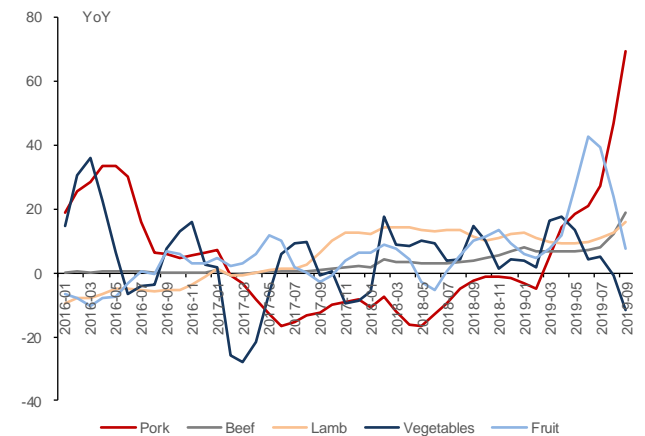
Source: NBS, Wind, CMBIS

Figure 3: CPI pork prices surged 69.3% YoY, driving CPI growth by 1.65ppt in Sep



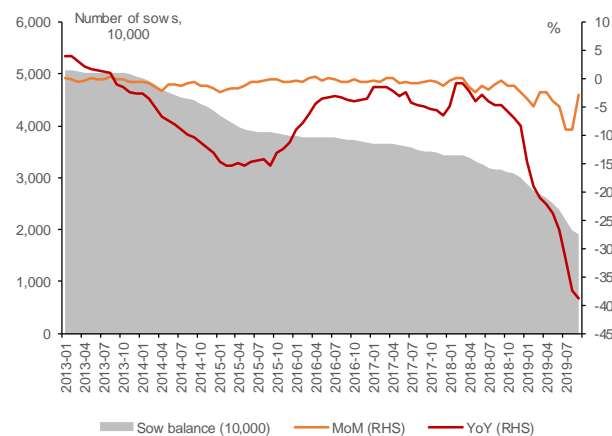
Source: NBS, Wind, CMBIS

Figure 4: Prices of vegetables and fruit went down, offsetting surge in meat prices



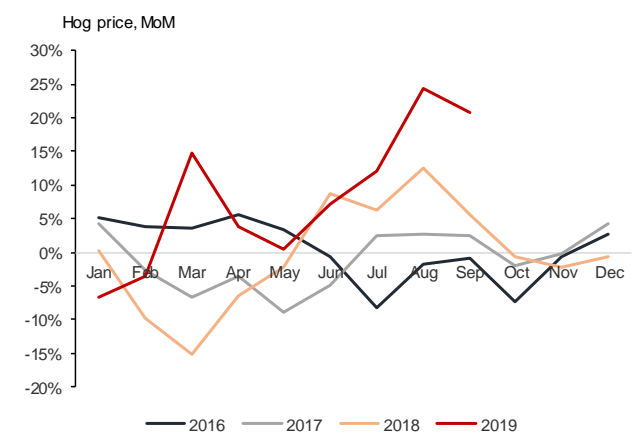
Source: NBS, Wind, CMBIS

Figure 5: Sow balance declined 38.9% YoY as of 30 Sep 2019



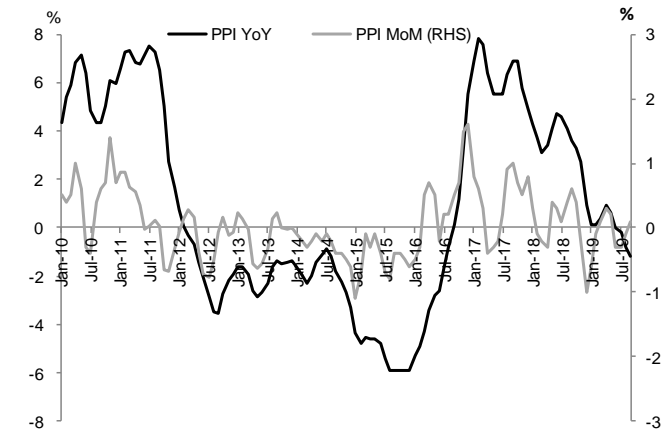
Source: NBS, Wind, CMBIS.

Figure 6: Hog price MoM growth moved down to 20.7% in Sep from 24.4% in Aug



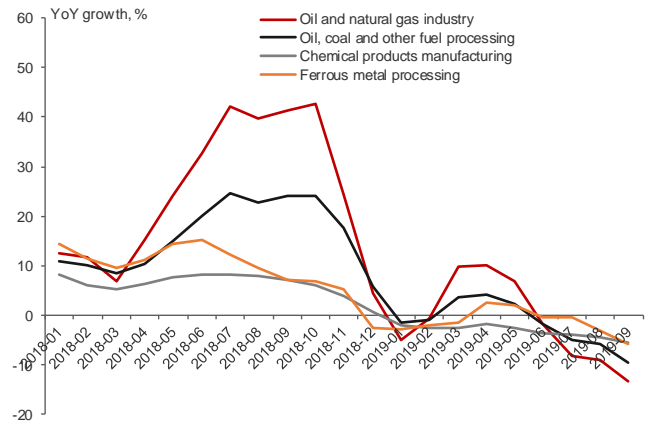
Source: Wind, CMBIS

Figure 7: PPI YoY dipped while MoM rebounded



Source: NBS, Wind, CMBIS.

Figure 8: PPI of major industries



Source: NBS, Wind, CMBIS

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