

China inflation in Aug

Surging pork prices and PPI contraction

China's NBS released Aug inflation figures this morning. CPI increased 2.8% YoY/0.7% MoM in Aug, mainly driven by pork prices. Going forward, we predict CPI growth to drop a bit due to base effect, although pork prices are likely to maintain at high levels. PPI growth dived deeper in negative territory to 36-month low at -0.8% YoY, and posted MoM decline for three consecutive months. We expect PPI growth will be exposed to further headwinds due to weak demand for commodities after housing market regulations are tightened. Our forecast for annual CPI/PPI growth is +2.3%/-0.2% YoY, respectively.

- **Pork prices surged in Aug, being the leading CPI driver.** The outbreak of African swine fever has changed pork supply phenomenally. During the beginning months, pork price increase was reasonable because additional hogs being slaughtered added to supply. Entering Jul and Aug, however, hog herd recorded much steeper decline and pork price growth skyrocketed, marking a turning point for the hog breeding sector. As of 31 Jul 2019, sow herd contracted 8.9% MoM and 31.9% YoY to 21.65 million, sending CPI pork prices to hike 46.7% YoY/23.1% MoM in Aug and drive CPI growth by 1.08ppt. Pork shortage also pushed up prices of other animal proteins, such as beef (+12.3% YoY in Aug), lamb (12.5%), chicken (wholesale +18.5%).
- **... and are likely to maintain at high levels into 2020.** Bleak outlook of hog farming discouraged farmers from breeding sows and adding new supply. Starting Jul, comprehensive measures have been announced at the state and provincial levels to encourage hog production via subsidies, loss compensation, discounted loans, speedier approval, etc. However, supply ecosystem of the whole hog breeding sector take time to rebuild, taking into account construction lag of farms and lifecycle of hogs. In 2H19 and 2020, we expect pork prices will remain high.
- **Consumer price overall increased at a stable pace in spite of pork.** CPI growth kept flat at 2.8% YoY, thanks in part to smaller carry-over effect. Stabilizing factors include 1) vegetables and fruit, of which price growth decelerated in response to supply expansion, and 2) non-food items, of which price growth slowed down to 1.1% YoY. Prices of transportation and communications, for example, declined 2.3% YoY in Aug, thanks to lower oil price and govt's mandate to cut communication service fees.
- **PPI decline enlarged YoY, facing more downward pressures.** Carry-over effect accounted for -0.2ppt YoY growth in Aug, although MoM decline narrowed to 0.1%. PPI of oil & gas industry (-9.1% YoY, down 0.8ppt from Jul), oil, coal & other fuel processing industry (-5.9% YoY/-0.8ppt), ferrous metal processing industry (-3.1%/-2.7ppt), chemicals (-4.6%/-0.6ppt) enlarged decline. Future PPI downward pressures mainly involve weak demand for commodities due to tightened housing market regulations.

Data Summary

	May-19	Jun-19	Jul-19	Aug-19	Jan-Aug	2019E
CPI, YoY (%)	2.7	2.7	2.8	2.8	2.4	2.3
CPI, MoM (%)	0	-0.1	0.4	0.7	n.a.	n.a.
PPI, YoY (%)	0.6	0	-0.2	-0.8	0.1	-0.2
PPI, MoM (%)	0.2	-0.3	-0.3	-0.1	n.a.	n.a.

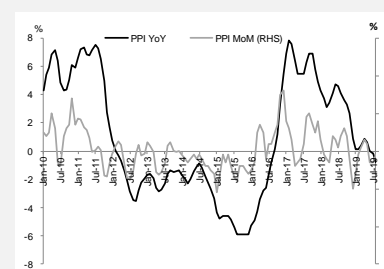
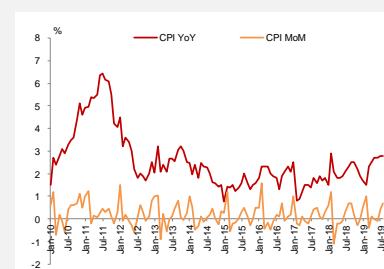
Source: NBS, CMBIS

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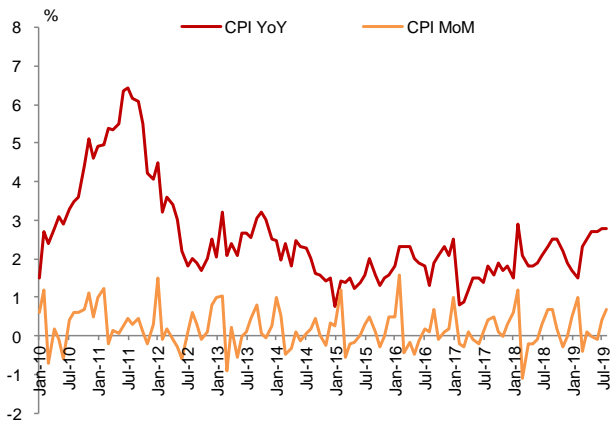


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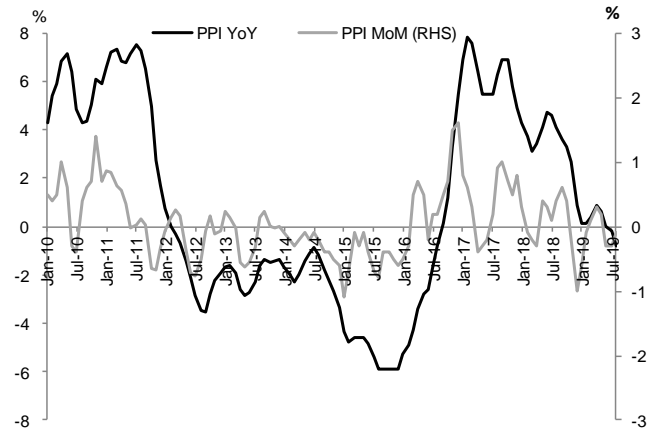
Focus Charts

Figure 1: CPI growth, YoY and MoM



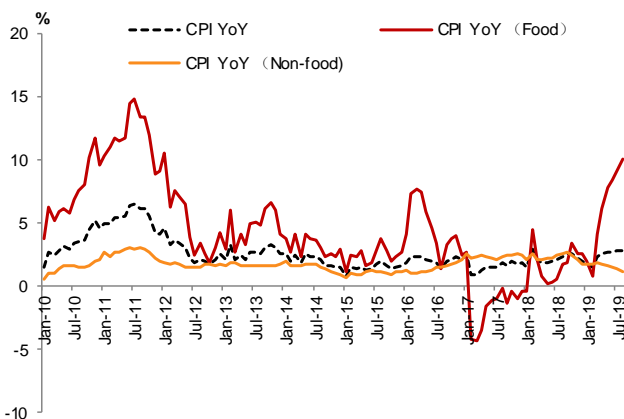
Source: NBS, Wind, CMBIS

Figure 2: PPI growth, YoY and MoM



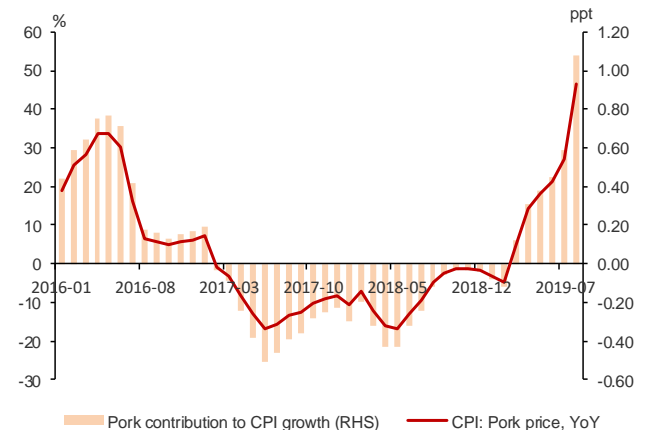
Source: NBS, Wind, CMBIS

Figure 3: Food price hiked while non-food price muted



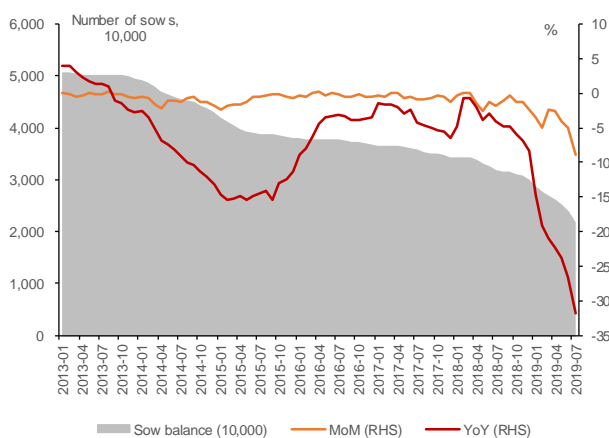
Source: NBS, Wind, CMBIS

Figure 4: CPI pork prices surged 46.7% YoY, driving CPI growth by 1.08ppt in Aug



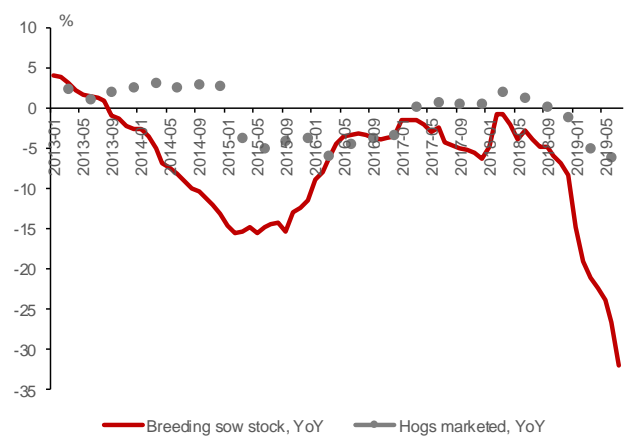
Source: Wind, CMBIS

Figure 5: Sow balance declined 31.9% YoY as of 31 Jul 2019

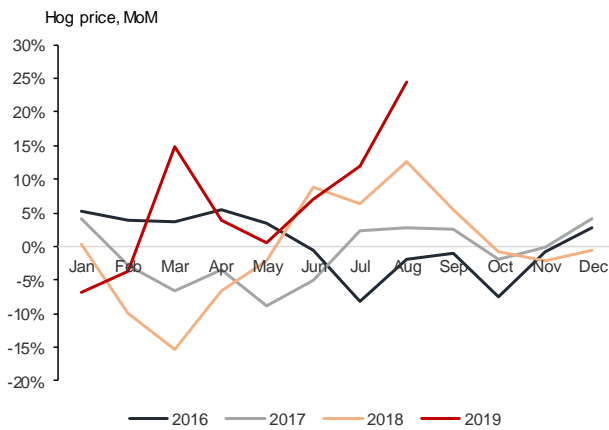


Source: NBS, Wind, CMBIS.

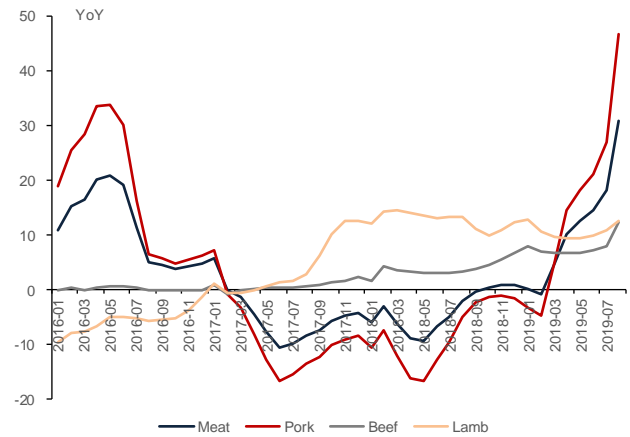
Figure 6: Shrinking sow stock is causing supply shortage (hogs marketed declined 6.2% YoY in 2Q)



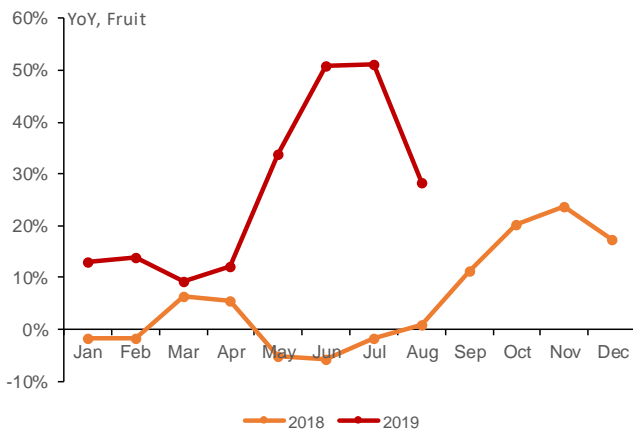
Source: NBS, Wind, CMBIS

Figure 7: Hog price MoM growth hiked in Aug

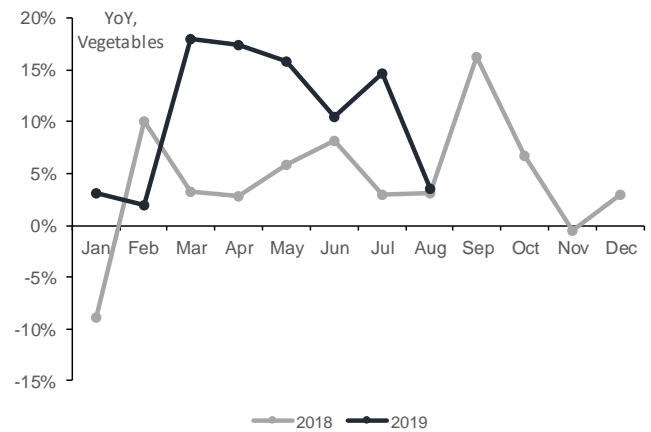
Source: Wind, CMBIS.

Figure 8: Beef and lamb prices also pushed up

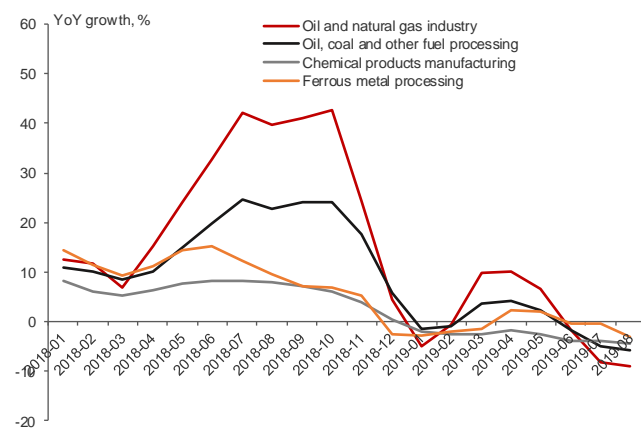
Source: NBS, Wind, CMBIS

Figure 9: Wholesale fruit price growth decelerated in Aug

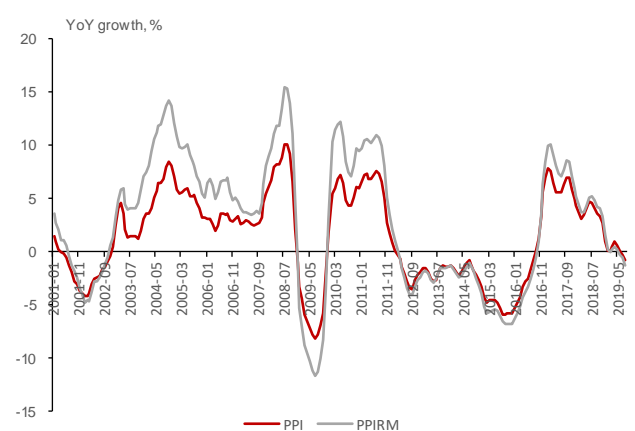
Source: Ministry of Agriculture and Rural Affairs, Wind, CMBIS

Figure 10: Wholesale vegetable price growth decelerated in Aug

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

Figure 11: PPI of key industries enlarged drop in Aug

Source: NBS, Wind, CMBIS

Figure 12: PPI vs. PPIRM

Source: NBS, Wind, CMBIS

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