

China Economy

Mild reflation in upstream sectors

YoY CPI edged up in Sep as food price rebounded. Core CPI rose to a recent high, indicating a gradual recovery of consumer demand. PPI narrowed its contraction as the mining sector notably rebounded, while the downstream consumer goods remained subdued. The recent Premier's symposium indicated that the future policy focus includes stronger macro policy support, domestic demand stimulus and countering over-competition. Therefore, against the rising trade tensions and the backdrop of potentially sharp slowdowns in retail sales and the property market in 4Q25, demand-side stimulus and supply-side restructuring appear increasingly necessary to support the economic recovery and reflation, in our view. We expect a policy easing window in 4Q25 with a further 10bps LPR cut and 50bps RRR cut, and expanding fiscal stimulus towards consumption and the property market. We forecast CPI to remain unchanged at 0.2% in 2025 while PPI may drop from -2.2% in 2024 to -2.5% in 2025; CPI and PPI YoY in 4Q may recover to 0.3% and -2.3% from -0.2% and -2.9% in 3Q.

■ **CPI marginally recovered as food price rebounded.** China's CPI YoY recovered to -0.3% in Sep from -0.4% in Aug, missing market expectation at -0.1%. In sequential terms, CPI rebounded to 0.1% from 0% in Aug. Food price increased by 0.7% MoM in Sep, mildly weaker than the 1.2% average increase in the past 10 years. Vegetable price rebounded by 6.1% while pork price saw another drop at -0.7% in Sep. Vehicle fuel price dropped 1.7% MoM due to a declining crude oil price. We expect the CPI to recover to -0.1% YoY in Oct due to a lower base last year, while high frequency data indicated that the prices of pork, vegetable and vehicle fuel remained subdued.

■ **Core CPI rose to a recent high, indicating a gradual recovery in consumer demand.** Core inflation edged up to 1% YoY in Sep from 0.9% in Aug, the highest record since early 2024. Core CPI MoM remained unchanged at 0%. Durable goods including home equipment and telecom equipment rose 0.6% and 0.1% respectively as June promotion activities ended, while auto price dropped 0.1% as price competition remained fierce. It's worth noting that the discounts from the trade-in scheme are excluded from CPI calculations. Discretionary goods notably rebounded under the seasonal pattern as footwear and clothing expanded by 0.8% and 0.7% in Sep. Service price dropped to -0.3% MoM in Sep, as tourism price sharply declined by 6.1% while education and medical service rose by 0.5% and 0.3%. Other services including rent, express, telecommunications and home services remained unchanged.

■ **PPI narrowed its contraction driven by reflating upstream sectors.** YoY contraction of PPI narrowed to -2.3% in Sep from -2.9%, beating the market expectations at -2.4%. The MoM growth remained flat for another month in Sep, marking the first time without two consecutive negative readings since Oct 2023. PPI of mining industries rebounded by 1.2% MoM in Sep, driven by the 2.5%, 2.6% and 2.5% growth of extraction of coal, non-ferrous metals and ferrous metals, while the mining of crude oil and gas declined. Non-ferrous metals rose 0.7% MoM. PPI of raw material sectors stayed unchanged in Sep while processing sectors dropped by 0.1% MoM. NBS officials pointed out that YoY price contraction has notably narrowed in major sectors including coal processing, ferrous metals, photovoltaic equipment, battery and non-metallic mineral products, thanks to the effort from the anti-involution campaign. Downstream sectors remained subdued, as PPI of consumer goods dropped 0.2% MoM. Durable goods further

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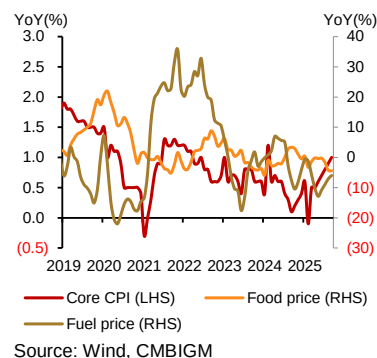
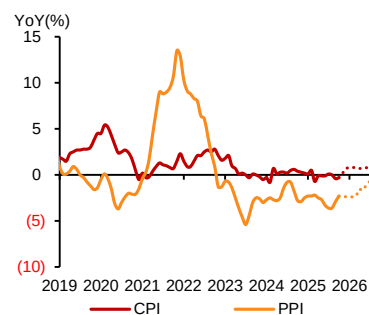
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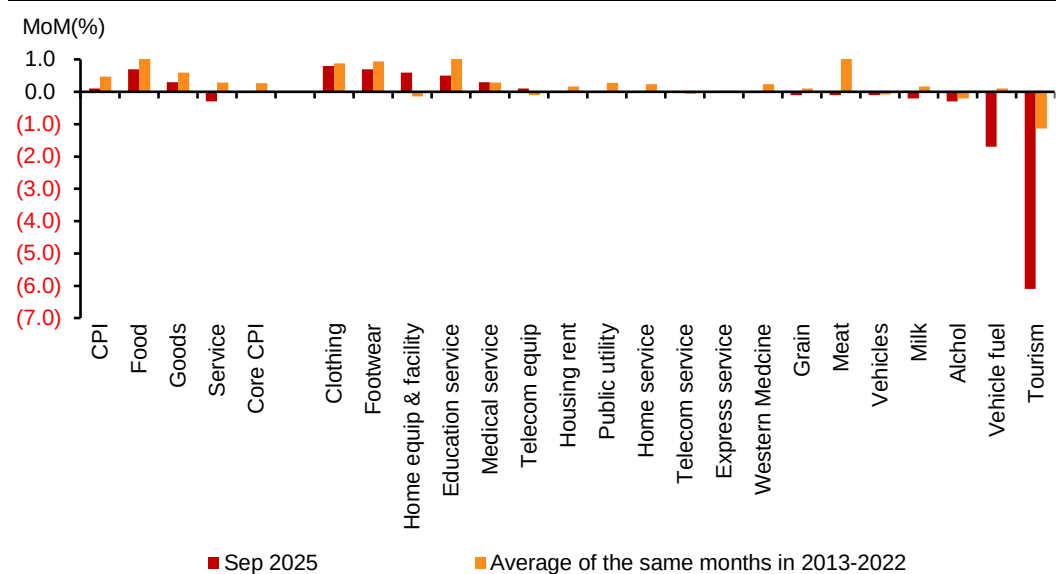
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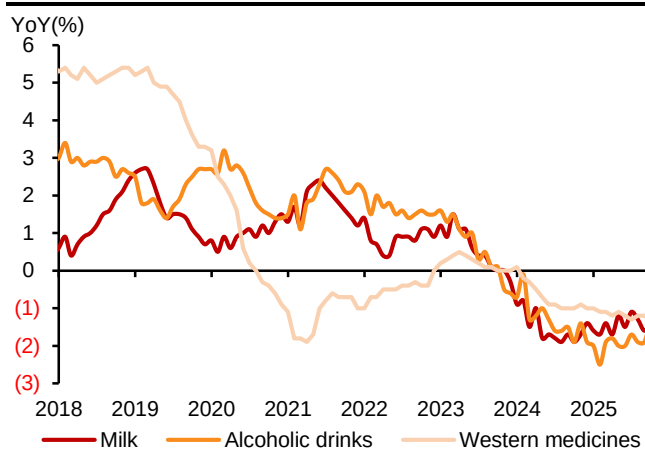


dropped 0.4% MoM in Sep, as auto and computers & electronics declined by 0.5% and 0.2%.

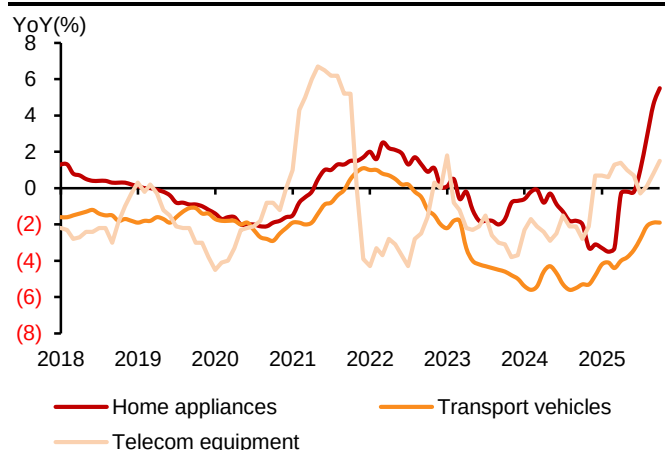
- **Economic rebalance and moderate reflation will remain key policy targets in near term.** The recent Premier's symposium indicated that the future policy focus will be stronger macro policy support, domestic demand stimulus and countering over-competition. Economic rebalance and moderate reflation will serve as key policy targets. Therefore, against the backdrop of rising trade tensions and potentially sharp slowdowns in retail sales and the property market in 4Q25, Chinese policymakers are likely to launch additional monetary loosening and fiscal stimulus to boost economic growth and defy deflation, in our view. We expect a policy easing window in 4Q25 with a further 10bps LPR cut and 50bps RRR cut and additional fiscal support to household consumption and the property sector.

Figure 1: MoM changes of China CPI in Sep

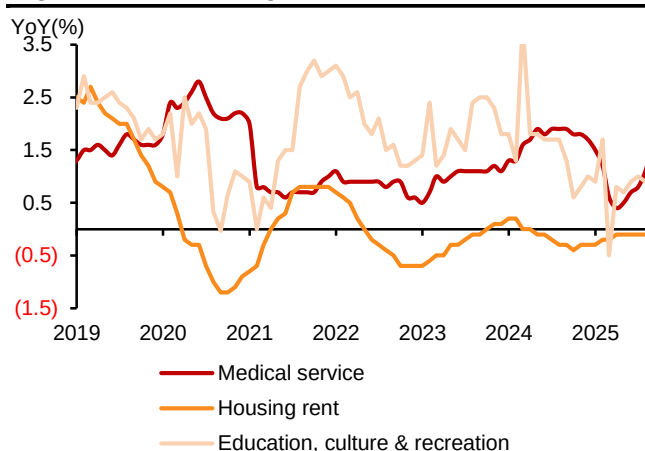
Source: Wind, CMBIGM

Figure 2: China CPI growth in staples

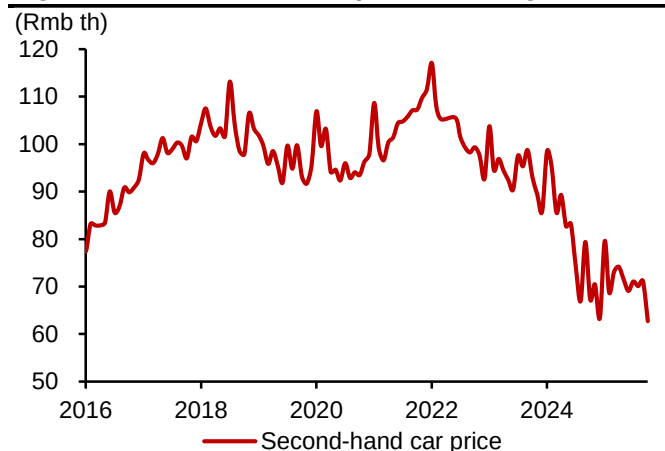
Source: Wind, CMBIGM

Figure 3: China CPI growth in durables

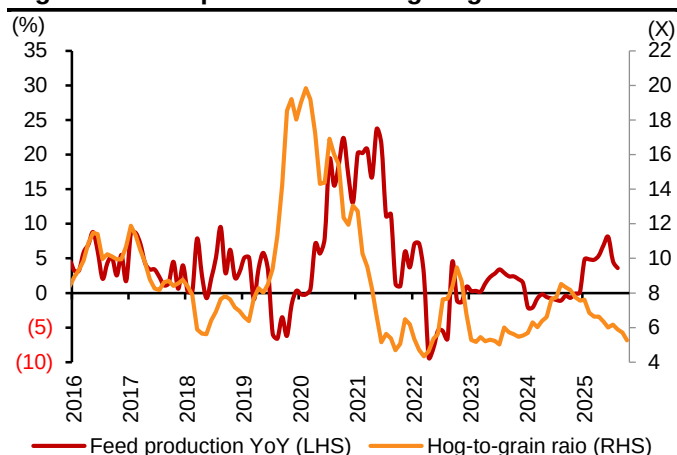
Source: Wind, CMBIGM

Figure 4: China CPI growth in services

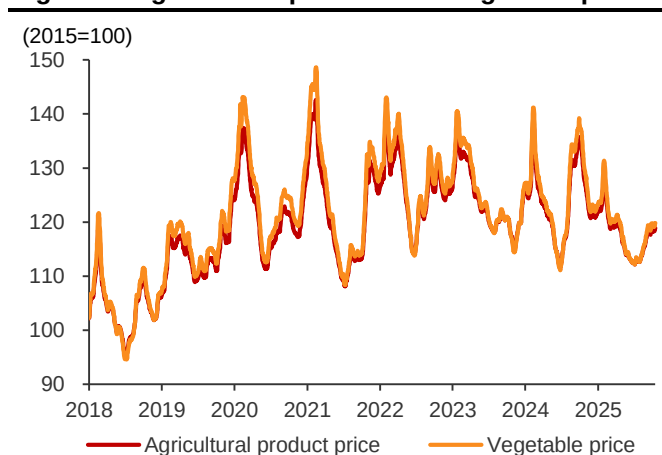
Source: Wind, CMBIGM

Figure 5: Second-hand car price in Shanghai

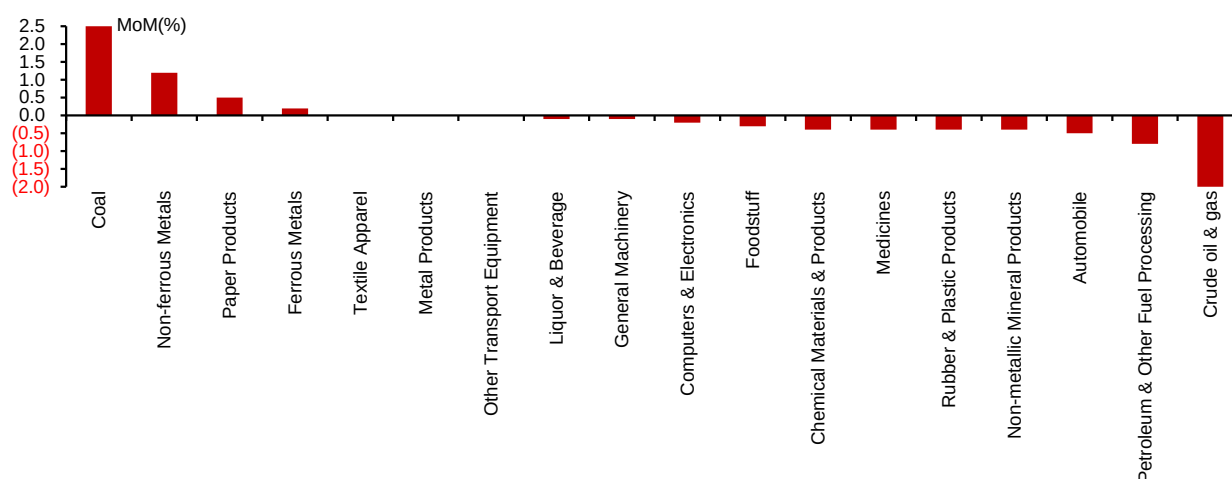
Source: Wind, CMBIGM

Figure 6: Feed production & hog-to-grain ratio

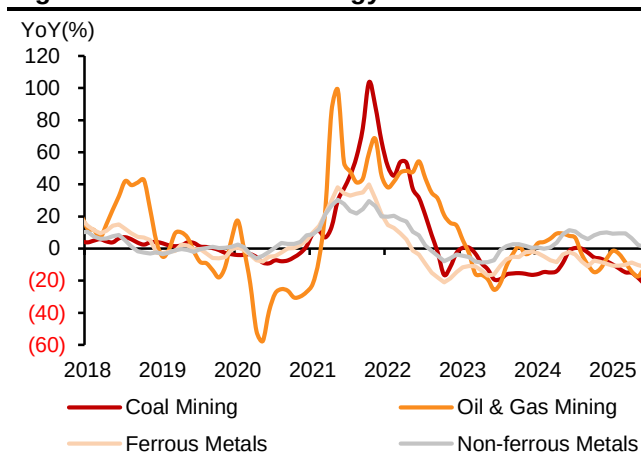
Source: Wind, CMBIGM

Figure 7: Agricultural product and vegetable prices

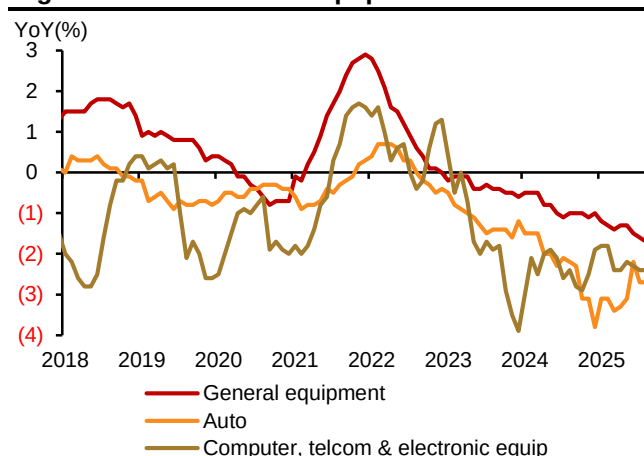
Source: Wind, CMBIGM

Figure 8: MoM changes of China PPI in Sep

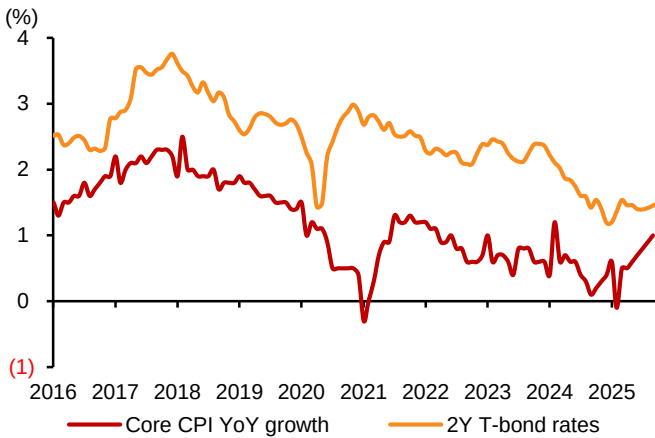
Source: Wind, CMBIGM

Figure 9: China PPI in energy & metals

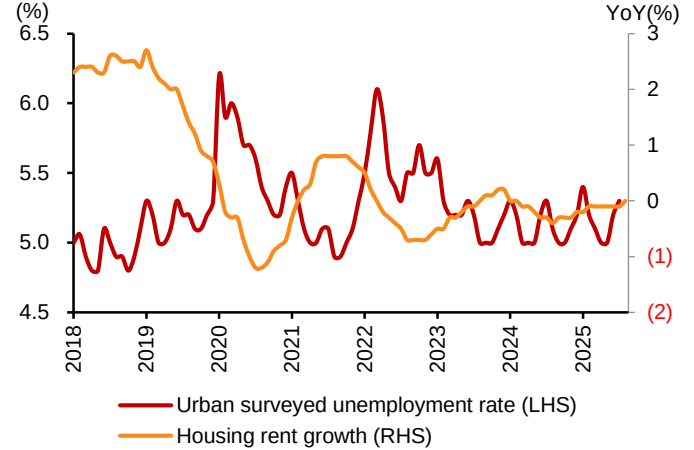
Source: Wind, CMBIGM

Figure 10: China PPI in equipment

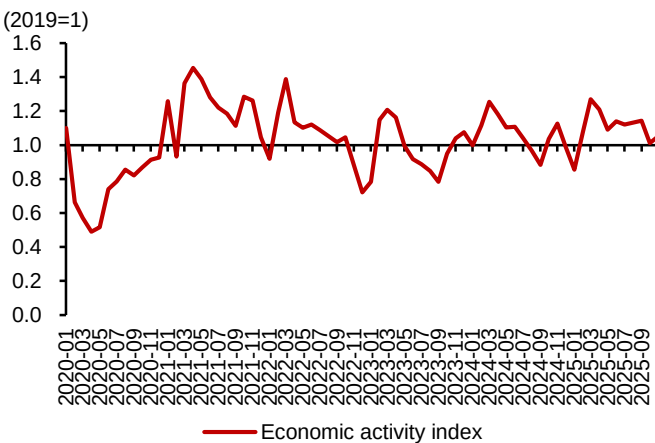
Source: Wind, CMBIGM

Figure 11: China core CPI growth & 2Y T-bond rates

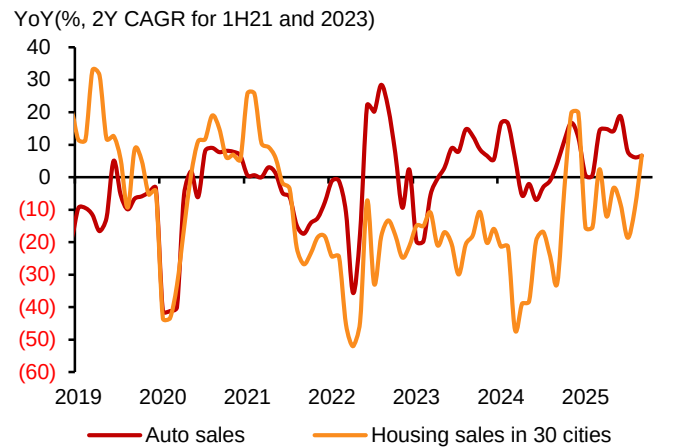
Source: Wind, CMBIGM

Figure 12: Unemployment rate and rent growth

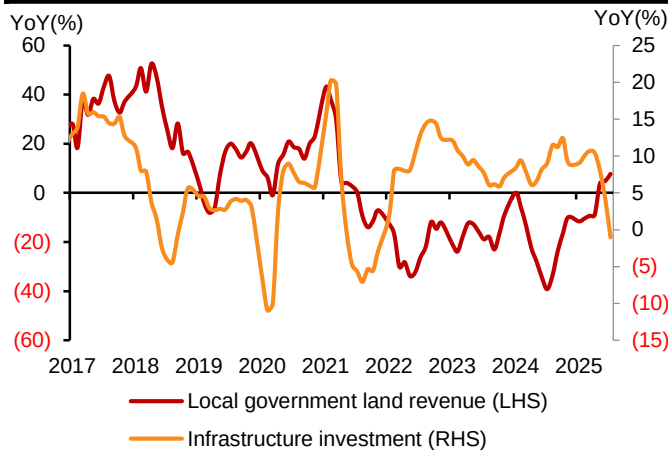
Source: Wind, CMBIGM estimates

Figure 13: China Economic Activity Index

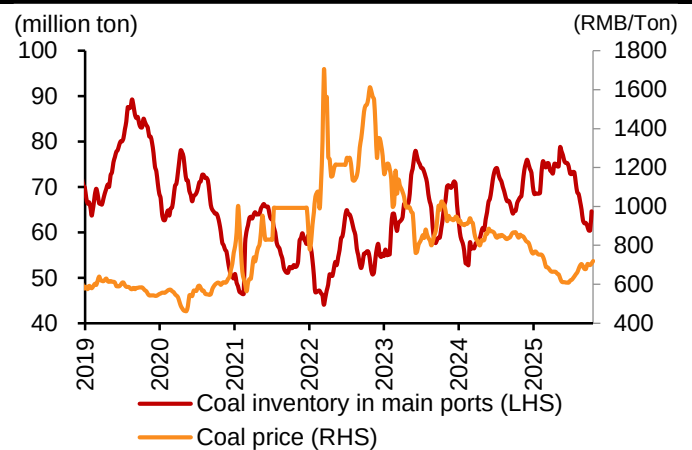
Source: Wind, CMBIGM

Figure 14: China auto & housing sales

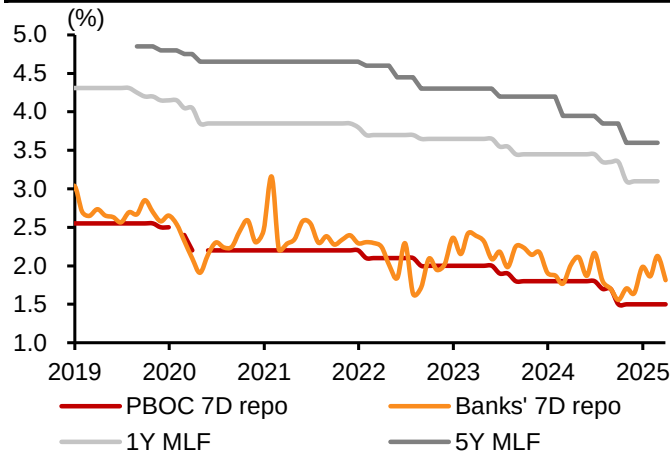
Source: Bloomberg, CMBIGM

Figure 15: Infrastructure investment in China

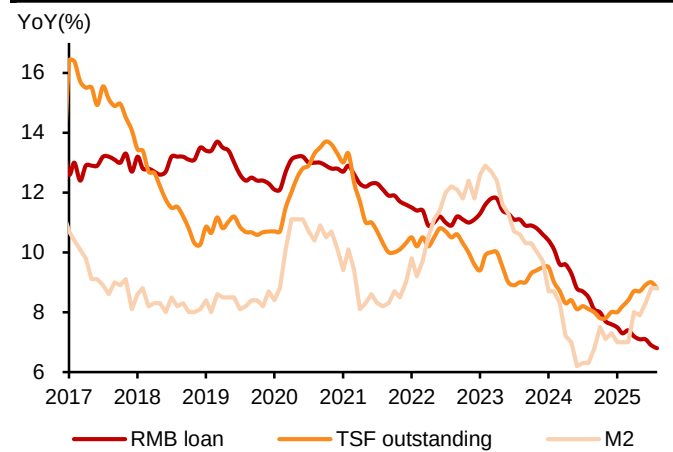
Source: Bloomberg, CMBIGM

Figure 16: China coal inventory & coal price

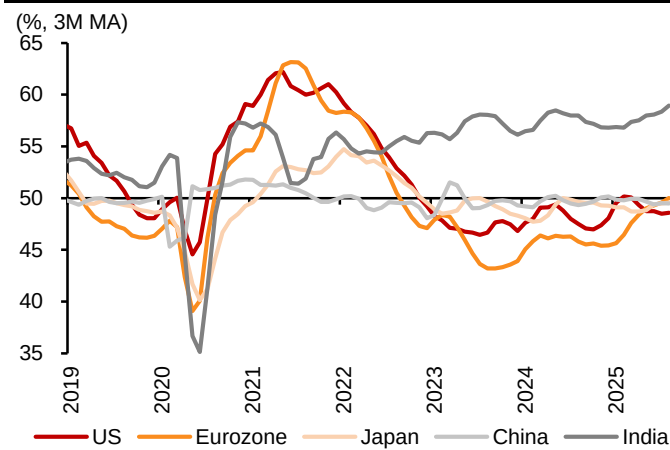
Source: Wind, CMBIGM

Figure 17: PBOC policy rates & liquidity condition

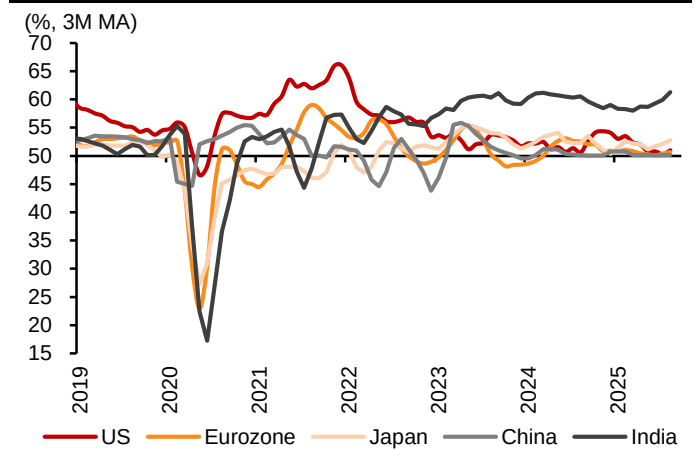
Source: Bloomberg, CMBIGM

Figure 18: China credit growth

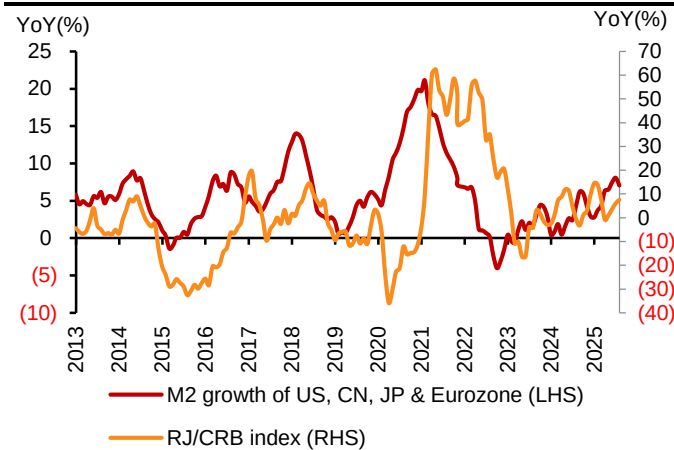
Source: Wind, CMBIGM

Figure 19: Manufacturing PMI of major economies

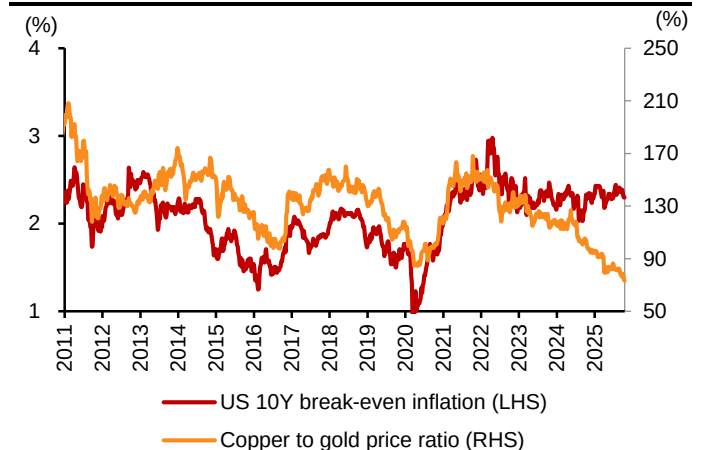
Source: Bloomberg, CMBIGM

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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