

# China inflation in Nov

## Pork remains in the spotlight

According to NBS release this morning, China's CPI growth peaked to 4.5% YoY in Nov on higher pork prices. PPI growth remained slack, decreasing 1.4% YoY and 0.1% MoM. In the upcoming months, we forecast CPI may soar further to reflect pork shortage and the CNY seasonal effect.

- Pork price continued to play a focal role, but growth momentum tamed in Nov.** Pork price soared 110.2% YoY in Nov, lifting CPI by 2.64ppt. MoM growth of pork, however, decelerated to 3.8% due to nationwide initiatives to boost hog supply as well as seasonal low tide after the Oct National holiday. Sow balance stopped shrinking, posting a net gain of 110 thousand in Oct. Other than pork and alternative meat prices, inflation measures subdued. Price growth of non-food items seemed to be stabilizing at around 1.0% YoY, after decelerating gradually since 1Q19.
- When hog supply shrank, pork demand may also mute.** Supply shortage of hog may sustain for a least another 6-9 months nationwide, sending pork prices higher. On the other hand, demand for pork seemed to be more price-elastic than expected - households are changing meat consumption habit and recipes to reduce dependence on pork, thereby offsetting negative impact of hog supply dip on price levels. Given current progress of hog restocking, we estimate pork price level could stay high until 2Q20 despite seasonal volatilities, and may decline steadily from 3Q20.
- Forecast of CPI depends a lot on pork price trajectory.** We estimate pork price and CPI may peak in 1Q20 and 2Q20 and likely start to fall gradually from 3Q20. We peg annual 2019/20E CPI growth at 2.9%/3.3%, respectively.
- PPI decreased 1.4% YoY in Nov, reflecting slack demand overall.** Carryover effect accounted for -0.9ppt of PPI growth. PPI of major industries has been stabilizing MoM. Since some key industries are likely to enter into a recovery or restocking cycle, we forecast PPI growth may slowly edge up back to positive territory in 2020.
- Impact on monetary policies.** We maintain our view that pork-driven CPI surge is non-monetary and should not impede monetary easing. However, given the potential risk that CPI may overshoot before the Chinese New Year, PBoC may tend to adopt structural tools (e.g. MLF, PSL) or provide specific guidance to financial institutions in order to reduce financing cost to the real economy.

### Data Summary

	Sep-19	Oct-19	Nov-19	Jan-Nov	2019E	2020E
CPI, YoY (%)	3	3.8	4.5	2.8	2.9	3.3
CPI, MoM (%)	0.9	0.9	0.4	n.a.	n.a.	n.a.
PPI, YoY (%)	-1.2	-1.6	-1.5	-0.3	-0.3	0.2
PPI, MoM (%)	0.1	0.1	-0.1	n.a.	n.a.	n.a.

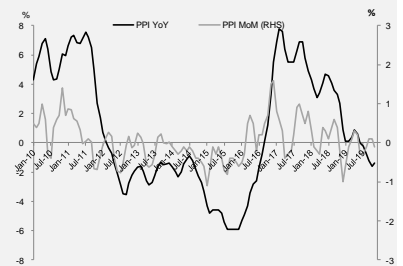
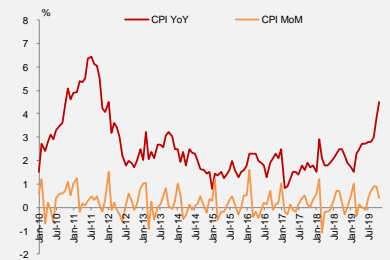
Source: NBS, CMBIS estimates

### Ding Wenjie, PhD

(852) 3900 0856 /

(86) 755 2367 5597

dingwenjie@cmbi.com.hk

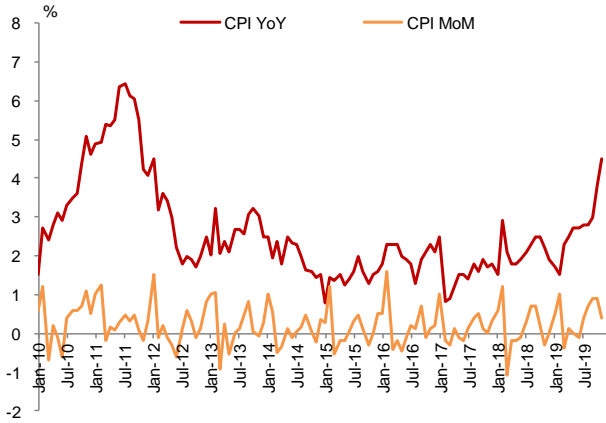


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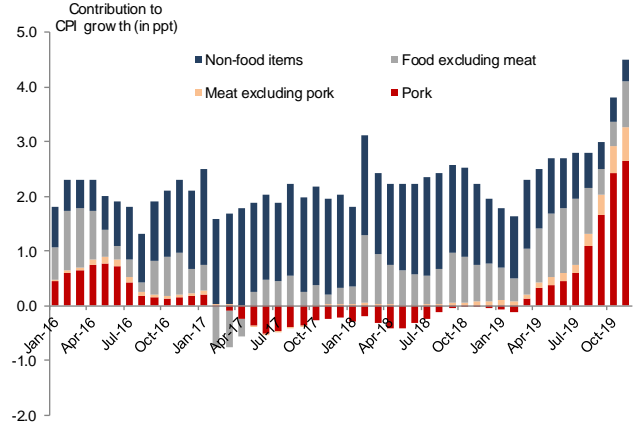
**Focus Charts**

**Figure 1: CPI growth – MoM tamed but YoY surged**



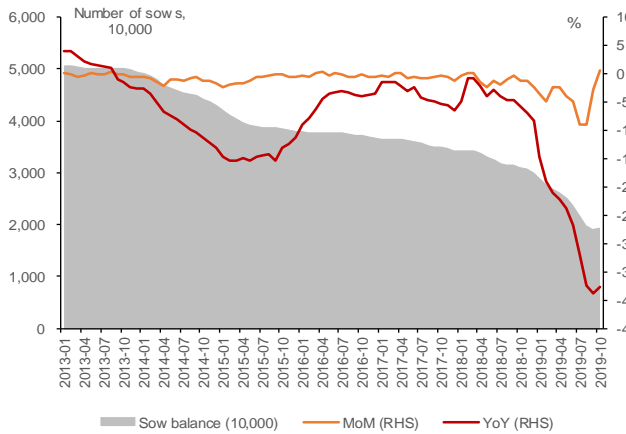
Source: NBS, Wind, CMBIS

**Figure 2: Pork and its alternative meat drove 3.27ppt of CPI growth in Nov**



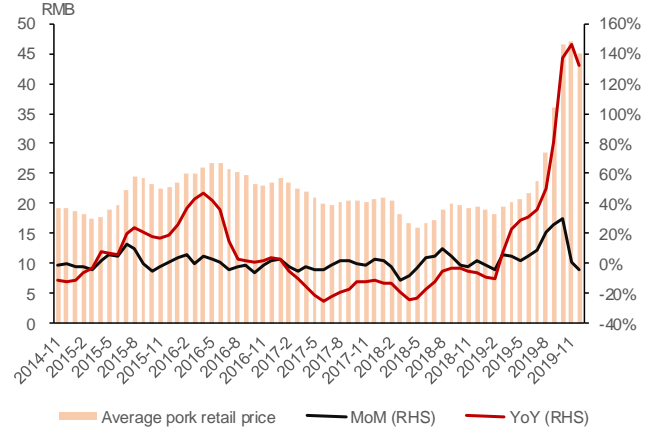
Source: NBS, Wind, CMBIS estimates

**Figure 3: Sow balance declined 37.8% YoY as of 31 Oct 2019, but the decline started to narrow since Oct**



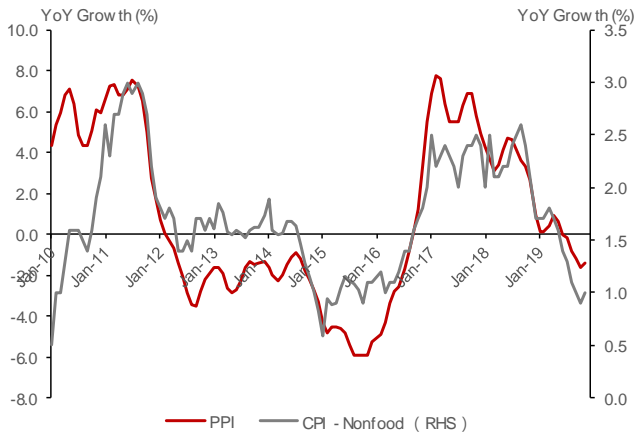
Source: NBS, Wind, CMBIS.

**Figure 4: Average pork retail price MoM growth decelerated in Nov**



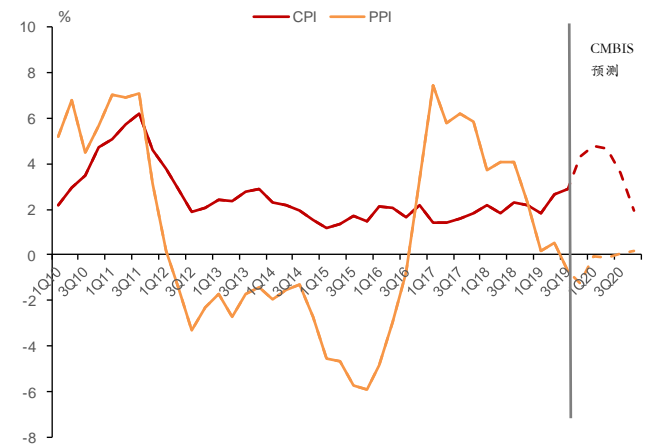
Source: Ministry of Agriculture and Rural Affairs, CMBIS

**Figure 5: PPI YoY dipped while MoM rebounded**



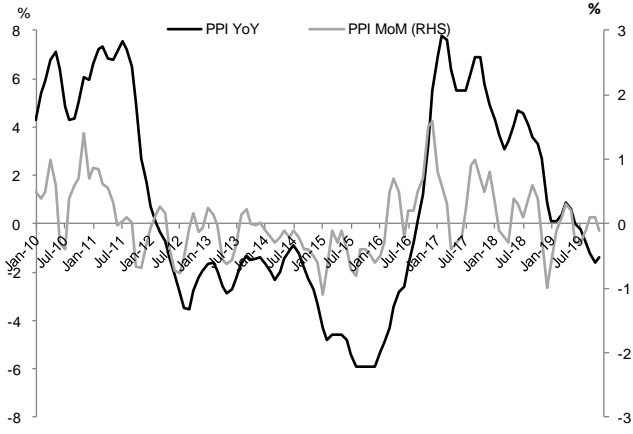
Source: NBS, Wind, CMBIS.

**Figure 6: Forecast of CPI and PPI trajectory**



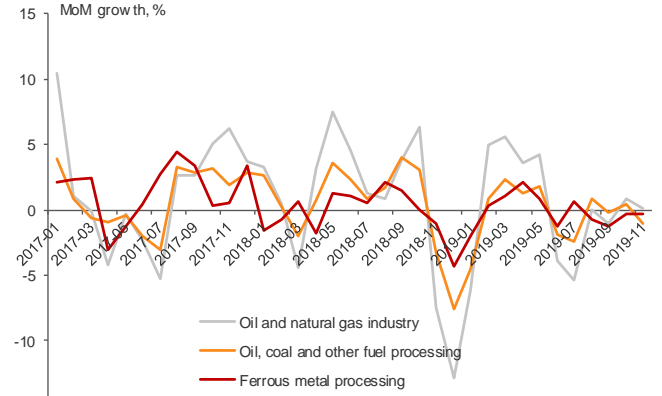
Source: NBS, Wind, CMBIS estimates

**Figure 7: PPI YoY dipped while MoM rebounded**



Source: NBS, Wind, CMBIS.

**Figure 8: PPI MoM of major industries**



Source: NBS, Wind, CMBIS estimates

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

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