

China inflation in Sep

Food impact waned; oil price dragged PPI growth

Inflation monitors in Sep was largely in line with expectation. CPI growth moderated to 1.7% YoY and 0.2% MoM largely due to diminishing pork price disturbance. Core CPI rose 0.5% YoY, the same as Aug and Jul. PPI increased 0.1% MoM and declined 2.1% YoY in Sep. The decline was 0.1ppt larger than Aug's mainly because of oil price volatilities. That aside, trend of PPI was still consistent with warming-up of industrial activities overall.

- **Impact of pork tailed off.** Despite strong demand before the Oct 1 Holiday, pork price declined 1.6% MoM and YoY growth narrowed to 25.5% in Sep on back of expanding supply. Hogs and breeding sows have resumed at 80% of their stock before the swine fever according to Ministry of Agriculture and Rural Affairs. Frequent price monitors showed that pork wholesale price continued to edge down in Oct and is likely to exhibit negative YoY growth in upcoming months, thereby weighing on future CPI growth.
- **Holiday season lifted service prices.** Education, cultural and recreational prices rose 0.7% YoY/0.8% MoM, with the opening of new school semester and leisure demand during the eight-day Oct 1 Holiday. Price of movie tickets rose 4.1% YoY thanks to the launch of several top movies. Holiday travel warmed up to strengthen prices for hotels, tickets and catering services.
- **PPI growth weighed on by oil price volatilities.** PPI enlarged YoY decline to 2.1% in Sep, vs. 2.0% in Aug primarily due to setback in oil prices. PPI of oil-related industries turned from positive to negative MoM growth, including oil and natural gas exploration (from +3.6% in Aug to -2.3% in Sep), and oil, coal & other fuel processing (from +1.2% to -0.5%).
- **... but still echoed recovery of industrial demand.** Prices of major industrial products, including coal, ferrous metal and etc. were lifted as demand is nudging back to normal.
- **Outlook.** We expect CPI YoY growth to decelerate in 4Q, in the range of 1.0%-1.5% since pork price growth could turn negative on YoY basis. PPI decline is expected to remain stable or narrow a bit. Oil price remains one of the largest downside risk.
- **No haste on monetary policy normalization.** Although there are emerging positive signs pointing to demand as well as supply recovery, it seems a long process forging back to "normal" and the path could be bumpy ahead. With inflation lacking boost, we think it is too soon to talk about normalization of monetary policies in a broader sense. Structural policies and reasonable level of liquidity will remain an optimal policy combination at least towards year end.

Data Summary

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	2019A	2020E
CPI, YoY (%)	2.4	2.5	2.7	2.4	1.7	2.9	2.8
CPI, MoM (%)	-0.8	-0.1	0.6	0.4	0.2	n.a.	n.a.
PPI, YoY (%)	-3.7	-3	-2.4	-2.0	-2.1	-0.3	-2.0
PPI, MoM (%)	-0.4	0.4	0.4	0.3	0.1	n.a.	n.a.

Source: Wind, CMBIS

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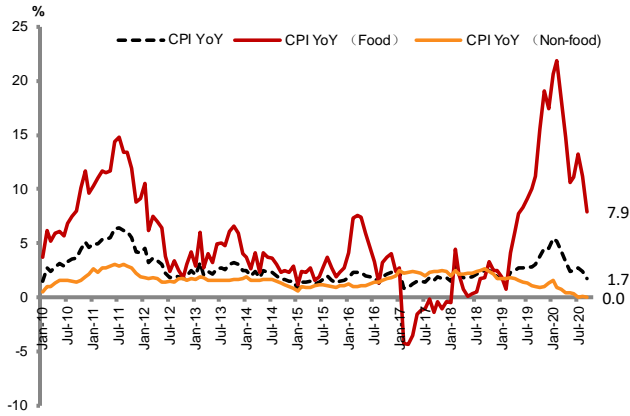
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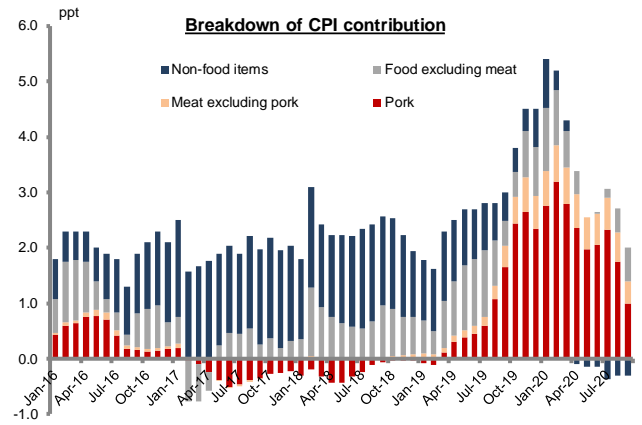
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Figure 1: CPI +1.7% YoY; Food +7.9% YoY while non-food recorded flat growth



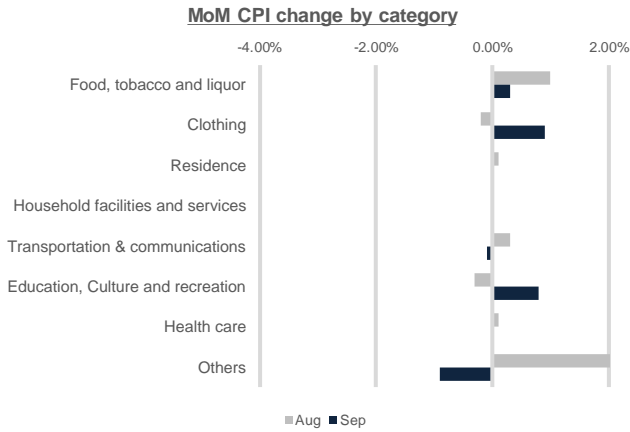
Source: NBS, Wind, CMBIS

Figure 2: Contribution from pork is shrinking



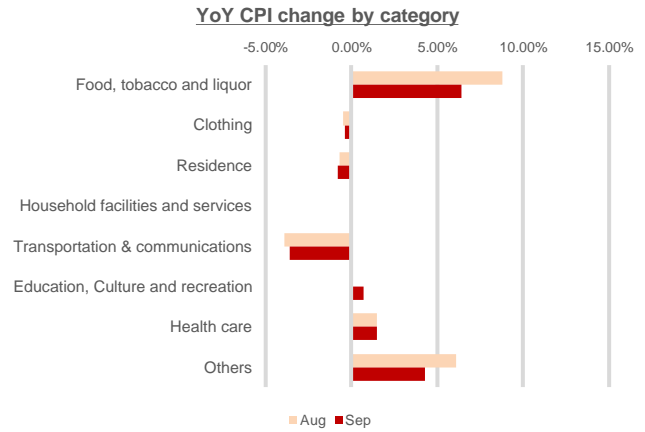
Source: NBS, Wind, CMBIS

Figure 3: Education, cultural and recreation prices rose 0.8% MoM



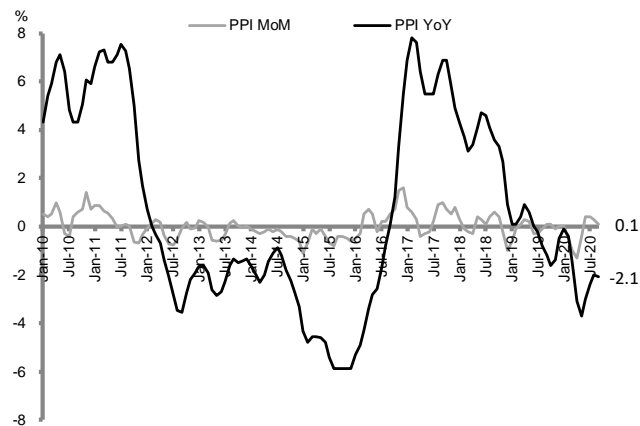
Source: NBS, Wind, CMBIS

Figure 4: YoY CPI change by major categories



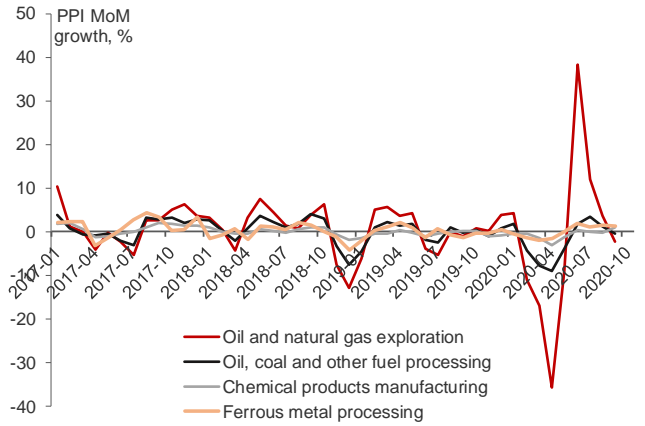
Source: NBS, Wind, CMBIS

Figure 5: PPI +0.1% MoM/-2.1% YoY in Sep



Source: NBS, Wind, CMBIS

Figure 6: PPI of oil-related industries recorded MoM decline in Sep



Source: NBS, Wind, CMBIS

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