



Economic Insight

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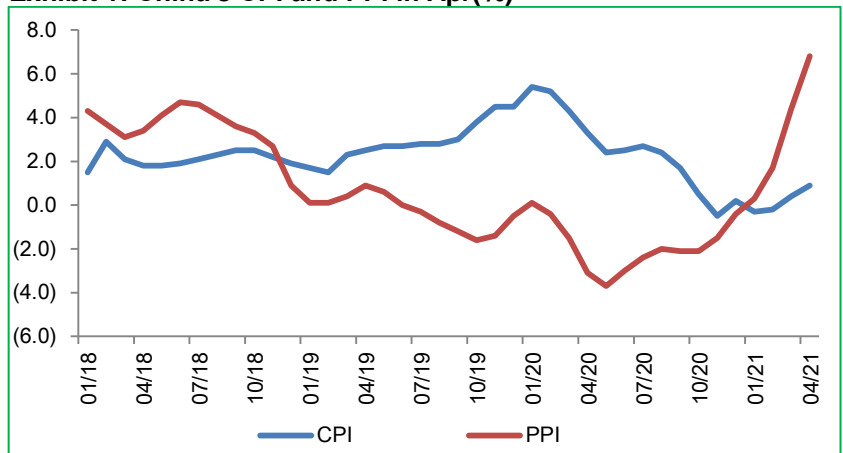
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China's PPI rebounded significantly in April

- China's CPI rebounded to 0.9% in Apr from 0.4% in Mar, slightly below the market expectation of 1.0%. The CPI rebound in Apr was mainly driven by rising non-food prices
- PPI rebounded further to 6.8% in Apr from 4.4% in Mar, above the market expectation of 6.5%. The sharp rebound of PPI in Apr was mainly due to the low base effect and the rebound in commodity prices including oil, non-ferrous metals and ferrous metals. The sharp rebound in PPI prices in Apr will have a positive impact on the earnings expectations for upstream industrial companies; conversely, it may have a negative impact on the earnings expectations for mid-to-downstream industrial companies
- On the whole, CPI inflation, especially the core CPI inflation is still relatively weak. Monetary policy will remain stable without major sharp turns. For the next few months, as domestic demand continues to strengthen and international commodity prices rebound, PPI would remain high; CPI would be moderate due to a higher base and falling pork prices

China's CPI rebounded to 0.9%¹ in Apr from 0.4% in Mar, slightly below the market expectation of 1.0% (Exhibit 1). Overall food inflation remained at -0.7% in Apr, dragging down CPI by 0.14ppt. Non-food prices edged up to 1.3% in Apr from 0.7% in Mar, boosting CPI by 1.05ppt. On a MoM basis, CPI inflation edged up to -0.3% in Apr from -0.5% in Mar. In 4M21, consumer prices rose 0.2%.

Exhibit 1: China's CPI and PPI in Apr(%)



Source(s): NBS, ABCI Securities

The CPI rebound in Apr was mainly driven by rising non-food prices. For non-food items, the price of transportation and communication rose 4.9% in Apr, mainly due to the 19.4% jump in transportation fuel, while communication tools price was up by 6.7%. In detail, the prices of air tickets, gasoline, and diesel rose 26.9%, 20.1% and 21.9%, respectively. In addition, the prices of cultural and entertainment services and education services rose 2.2% and 2.0%. For food, with

¹ All growth rates are YoY except specified otherwise

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the continuous recovery of live pig production and decline in consumer demand, pork price in Apr fell 21.4%, 3.0ppt lower than that of the previous month, dragging down the CPI by about 0.49ppt. Notably, pork prices was down 11.0% MoM, compared with the 10.9% drop in Mar. Prices of beef and mutton rose 4.1% and 9.4%. Fruits price was up 2.7%, lifting CPI by 0.05ppt, while fresh vegetables price dropped 1.3%, dragging down CPI by 0.03ppt.

PPI rebounded further to 6.8% in Apr from 4.4% in Mar, above the market expectation of 6.5%. Inflation in producer industries advanced further to 9.1% in Apr from 5.8% in Mar, driving up PPI by 6.76ppt. Inflation in consumer goods industries rebounded slightly to 0.3% from 0.2% in Mar, boosting PPI by 0.07ppt. PPI was 0.9% MoM, down from the 1.6% increase in the previous month. For 4M21, producer prices rose 3.3%.

The sharp rebound of PPI in Apr was mainly due to the low base effect and the rebound in commodity prices, including oil, non-ferrous metals, and ferrous metals. Among the major industries, the price of oil and natural gas extraction industry rose 85.8% in Apr, up 62.1ppt MoM; the price of ferrous metal smelting and rolling processing industry jumped 30.0%, up 8.5ppt MoM; the price of non-ferrous metal smelting and rolling processing industry went up 26.9%, up 5.6ppt MoM; the price of petroleum, coal and other fuel processing industries climbed 23.8%, up 9.9ppt MoM; the price of chemical raw materials and chemical products manufacturing industries increased by 17.5%, up 6.1ppt MoM; the price of coal mining and washing industries rose 13.3%, up 6.4ppt MoM. The sharp rebound in PPI prices in Apr is expected to have a positive impact on the earnings expectations of upstream industrial companies, but it may have a negative impact on the earnings expectations for mid-to-downstream industrial companies.

On the whole, despite the sharp rebound of PPI in Apr, CPI inflation remained weak. Excluding the volatile food and energy prices, core CPI inflation rose only 0.7% in Apr, indicating that consumption is weaker than production. In addition, historical data in recent years has shown that PPI inflation can only exert limited pressure on CPI, which confirms the need for a consistent policy without any sharp turns. A moderate CPI inflation is unlikely cause disturbances to monetary policy, which has remained stable so far. For the next few months, as domestic demand strengthens and international commodity prices rebound, PPI is expected to remain high and 2021E PPI is expected to be 4.5%. CPI will maintain a moderate trend due to a high base and falling pork prices and 2021E CPI is expected to be 1.2%.



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 10\%$)
Hold	- Market return rate ($\sim 10\%$) \leq Stock return rate $<$ Market return rate ($\sim 10\%$)
Sell	Stock return $<$ - Market return ($\sim 10\%$)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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