



China Sourcing Update

December 15, 2015

1. CPI growth edges up in November

The year-on-year (yoy) growth rate of China's consumer price index (CPI)¹ rose slightly from 1.3% yoy in October to 1.5% yoy in November (*see exhibit 1 and 2*).

The yoy growth of the food component in the CPI rose from 1.9% in October to 2.3% in November, which was the main reason for the higher yoy growth of CPI in November. For example, the rainy and snowy weather in northern China during mid to late November drove up the prices of fresh vegetables. The yoy growth of fresh vegetables prices increased significantly from 4.7% in October to 9.4% in November. Meanwhile, the yoy growth of non-food component in the CPI also slightly accelerated from 0.9% in October to 1.1% in November.

Looking ahead, we expect that the non-food inflation will stay low at around the current level in the near future, amid weak domestic demand and falling crude prices. Food prices may stay high in wintertime, but there is no signs showing strong increases. Overall, in our view, the CPI growth is likely to be mild in the coming months.

¹ The CPI, compiled by the National Bureau of Statistics of China, measures the price of a basket of goods and services purchased by a typical household.

Exhibit 1: China's CPI growth, December 2013 to November 2015



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, June to November 2015

	yoy growth (%)					
	Jun 15	Jul	Aug	Sep	Oct	Nov
Clothing	2.9	2.9	2.9	2.8	2.4	2.2
Household goods and maintenance services	1.0	1.0	1.0	1.0	0.8	0.8
Recreational, educational products and services	1.7	1.7	1.8	1.4	1.1	1.2

Source: National Bureau of Statistics, PRC

2. Ex-factory prices of industrial products continue to fall

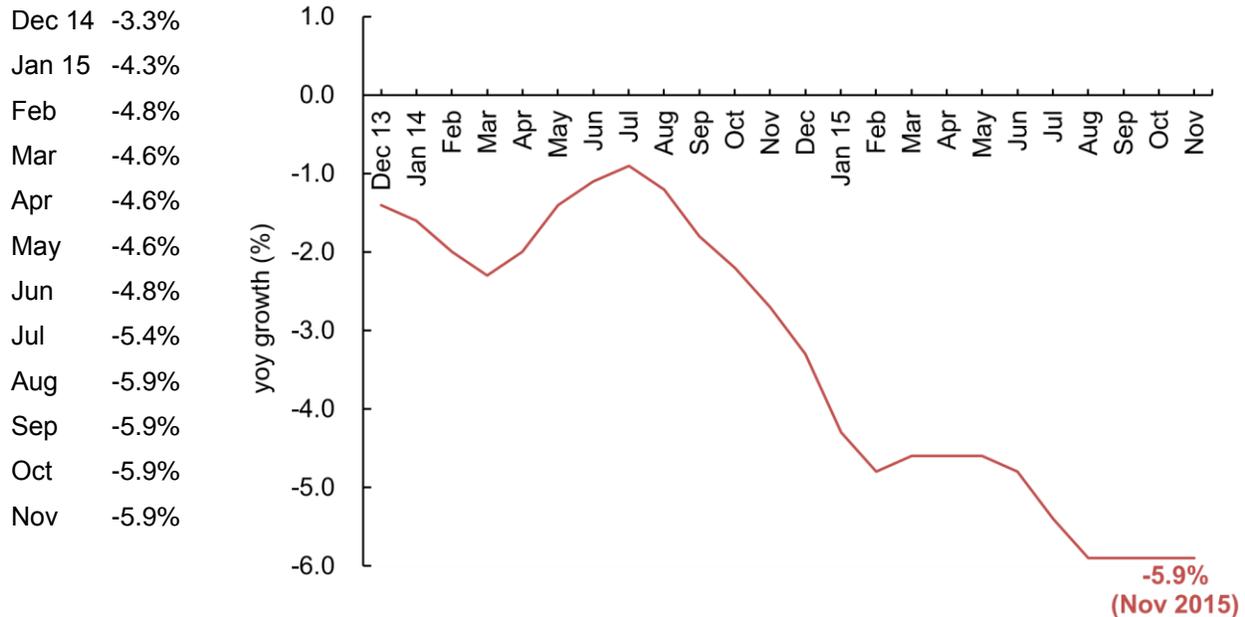
The yoy growth rate for China's producer price index of industrial products (PPI)² registered minus 5.9% in November, the same as in October, September and August (see exhibits 3 & 4).

On a month-on-month (mom) basis, the PPI fell by 0.5% in November, after dropping by 0.4% in October.

In the coming months, we expect that the deflation for industrial products will continue, as both domestic demand and foreign demand are likely to remain weak. The yoy growth of China's PPI is therefore expected to stay at low level.

² The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Exhibit 3: China's PPI growth, December 2013 to November 2015



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, June to November 2015

yoy growth (%)

	Jun 15	Jul	Aug	Sep	Oct	Nov
Textile industry	-2.3	-2.5	-2.5	-2.5	-2.3	-2.2
Textile and clothing	0.7	0.7	0.7	0.9	0.9	0.8
Timber processing & wood, bamboo, cane, palm fiber and straw products	-0.3	-0.3	-0.6	-0.5	-0.7	-0.8

Source: National Bureau of Statistics, PRC

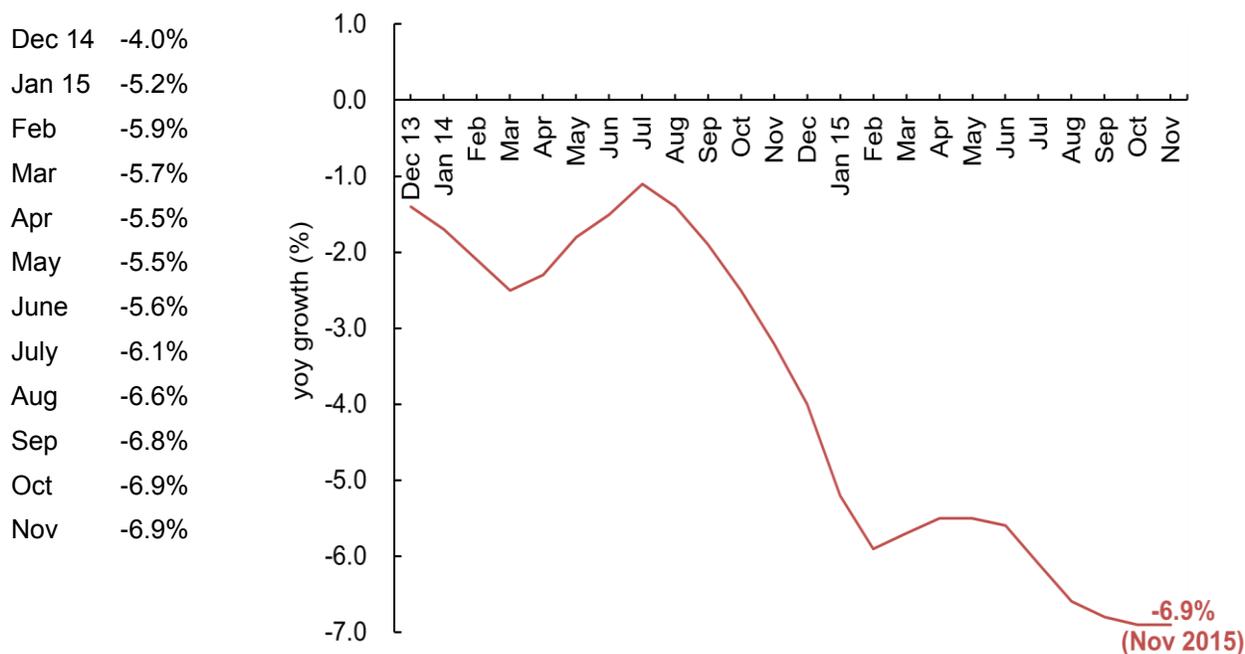
3. Domestic prices of production inputs drop further in November

The yoy growth rate of the purchaser price index of industrial products was minus 6.9% in November, the same as in October (see exhibits 5 & 6).

On a mom basis, after falling by 0.6% in October, the purchaser price index dropped further by 0.7% in October, indicating a continued downward trend in the domestic prices of production inputs.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped sharply from 44.4 in October to 41.1 in November. In our view, the latest index reading suggests that the domestic prices of production inputs are likely to stay low in the near term.

Exhibit 5: Growth of China's purchaser price index of industrial products, December 2013 to November 2015



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, June to November 2015

	yoy growth (%)					
	Jun 15	Jul	Aug	Sep	Oct	Nov
Fuel & power	-10.6	-11.1	-11.8	-12.3	-12.4	-11.5
Non-ferrous metals	-5.3	-7.5	-9.4	-9.7	-9.6	-11.3
Raw materials for the chemical industry	-5.0	-5.8	-7.0	-7.6	-7.7	-7.6
Timber and paper pulp	-0.8	-0.9	-0.7	-0.5	-0.5	-0.6
Textile raw materials	-2.0	-2.2	-2.2	-2.1	-2.0	-1.9

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel & power

The yoy growth rate of the purchaser price index of fuel and power registered minus 11.5% in November, improving from minus 12.4% in October (see exhibit 6).

(ii) Purchaser price index of non-ferrous metals

The yoy growth rate of the purchaser price index of non-ferrous metals dropped from minus 9.6% in October to minus 11.3% in November (see exhibit 6).

(iii) Purchaser price index of raw materials for the chemical industry

After falling by 7.7% yoy in October, the purchaser price index of raw materials for the chemical industry dropped by 7.6% yoy in November (see exhibit 6).

(iv) Purchaser price index of timber and paper pulp

The yoy growth rate of the purchaser price index of timber and paper pulp slightly dropped to minus 0.6% in November from minus 0.5% in October (see exhibit 6).

(v) Purchaser price index of textile raw materials

The yoy growth rate of purchaser price index of textile raw materials have stayed relatively stable, posting minus 1.9% in November (see exhibit 6).

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