



China Sourcing Update

February 22, 2016

Major Price Indicators

1. CPI growth edges up in January

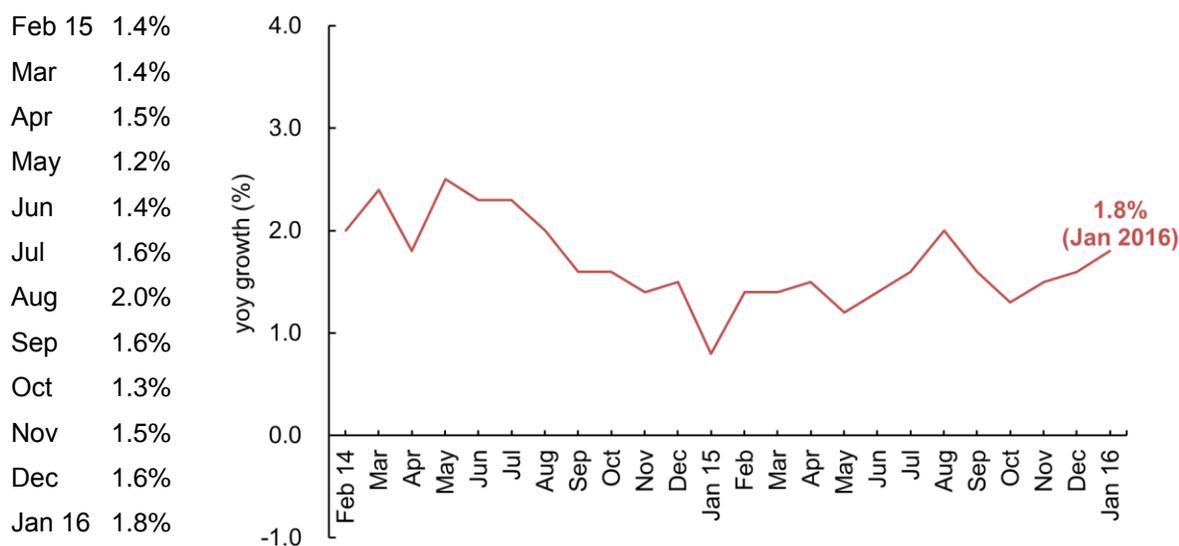
The year-on-year (yoy) growth rate of China's consumer price index (CPI)¹ rose slightly from 1.6% yoy in December 2015 to 1.8% yoy in January (see *exhibit 1 and 2*).

The yoy growth of the food component in the CPI went up further from 2.7% in December 2015 to 4.1% in January, which was the main reason for the higher yoy growth of CPI in January. The wide coverage of rain and snow during the month affected the supply of fresh vegetables and fruits, as well as affecting the transportation of food. Besides, the demand for food increased before the Chinese New Year holidays. Thus, some of the food prices showed significant growth in January. For example, the prices of fresh vegetables went up by 14.7% yoy, or 7.2% month-on-month (mom); and the prices of pork rose by 18.8% yoy, or 2.5% mom, in the month. Meanwhile, the yoy growth of the non-food component in the CPI remained relatively stable at 1.2% in January.

Looking ahead, we expect that the non-food inflation will stay at around the current level in the near future, amid the weak domestic demand and the low commodity prices. Food prices may stay high during February. Overall, in our view, the CPI growth is likely to be stable 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, February 2014 to January 2016



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, August 2015 to January 2016

yoy growth (%)

	Aug 15	Sep	Oct	Nov	Dec	Jan 16
Clothing	2.9	2.8	2.4	2.2	2.0	1.9
Household goods and maintenance services	1.0	1.0	0.8	0.8	0.8	0.6
Recreational, educational products and services	1.8	1.4	1.1	1.2	1.3	1.7

Source: National Bureau of Statistics, PRC

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

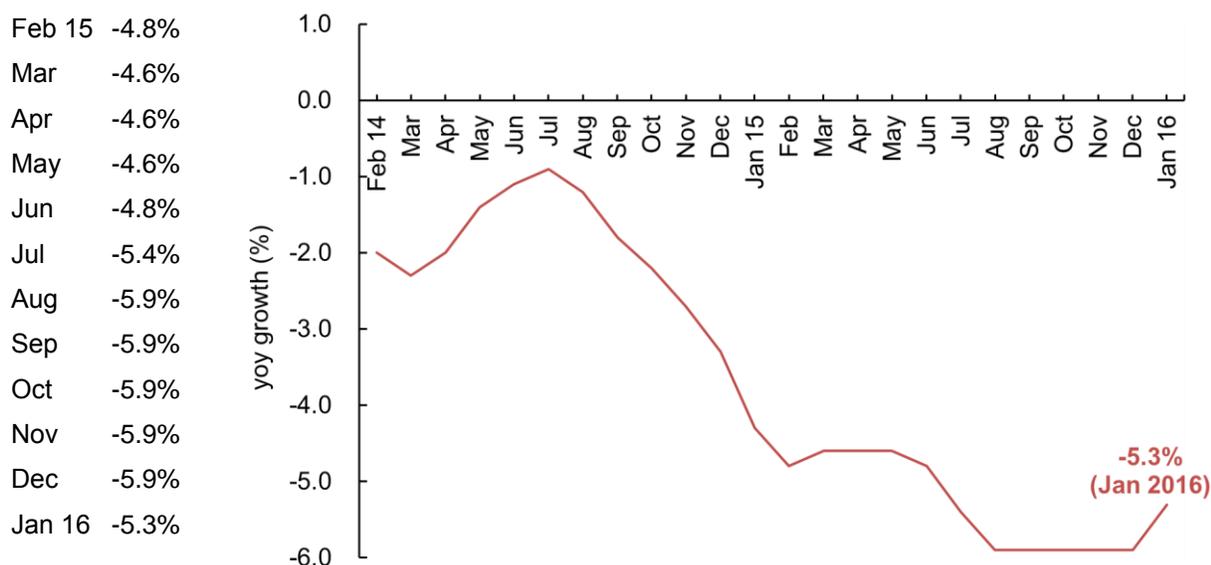
After registering the fifth consecutive minus 5.9% yoy growth in December 2015, China's producer price index of industrial products (PPI)² continued to fall, but at a slower pace, by 5.3% yoy in January (see exhibits 3 & 4).

On a mom basis, the PPI fell by 0.5% in January, after dropping by 0.6% in December 2015.

In the coming months, we expect that the deflation for industrial products will continue, as the overcapacity problem in the industrial goods sector remains and 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, February 2014 to January 2016



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, August 2015 to January 2016

yoy growth (%)

	Aug 15	Sep	Oct	Nov	Dec	Jan 16
Textile industry	-2.5	-2.5	-2.3	-2.2	-2.2	-2.9
Textile and clothing	0.7	0.9	0.9	0.8	0.8	0.5
Timber processing & wood, bamboo, cane, palm fiber and straw products	-0.6	-0.5	-0.7	-0.8	-1.0	-0.7

Source: National Bureau of Statistics, PRC

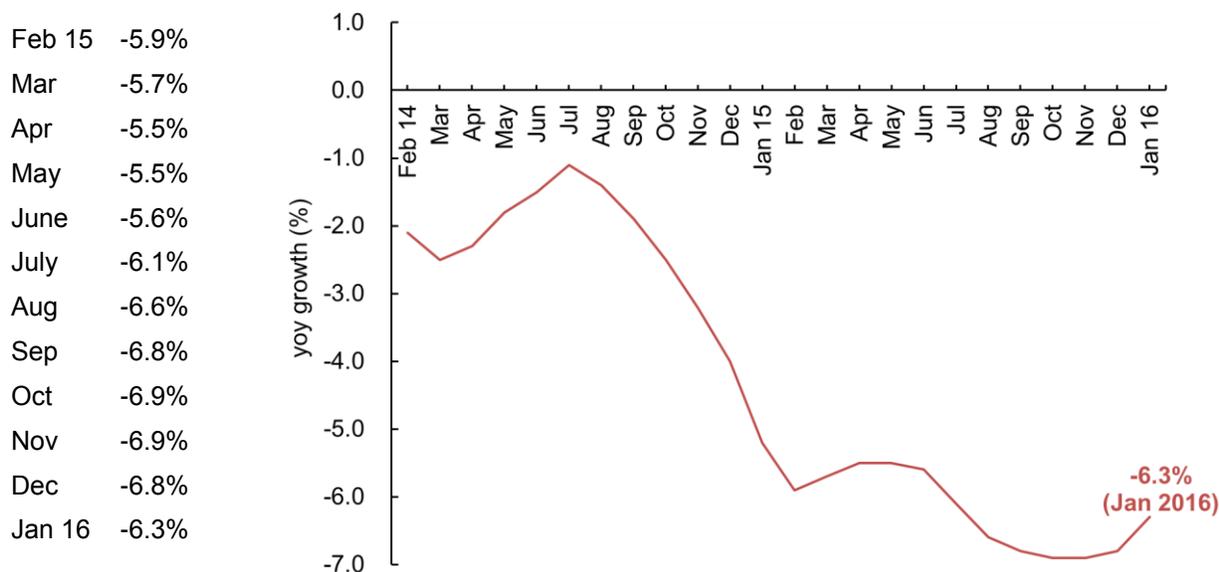
3. Domestic prices of production inputs drop further in January

The yoy growth rate of the purchaser price index of industrial products recorded minus 6.3% in January, slightly improved from minus 6.8% in December 2015 (see exhibits 5 & 6).

On a mom basis, the purchaser price index dropped further by 0.7% in January, the same as in December 2015, 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, improved from 42.4 in December to 45.1 in January. In our view, the latest index reading suggests that the price deflation of production inputs may start to decelerate in the near term.

Exhibit 5: Growth of China's purchaser price index of industrial products, February 2014 to January 2016



Source: National Bureau of Statistics, PRC

Exhibit 6: China's purchaser price index of industrial products by selected commodity, August 2015 to January 2016

	yoy growth (%)					
	Aug 15	Sep	Oct	Nov	Dec	Jan 16
Fuel & power	-11.8	-12.3	-12.4	-11.5	-11.0	-10.7
Non-ferrous metals	-9.4	-9.7	-9.6	-11.3	-12.0	-10.4
Raw materials for the chemical industry	-7.0	-7.6	-7.7	-7.6	-7.6	-5.7
Timber and paper pulp	-0.7	-0.5	-0.5	-0.6	-0.6	-0.5
Textile raw materials	-2.2	-2.1	-2.0	-1.9	-1.9	-1.6

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 10.7% in January (see exhibit 6).

(ii) Purchaser price index of non-ferrous metals

The purchaser price index of non-ferrous metals declined by 10.4% yoy in January, compared with the yoy growth of minus 12.0% yoy in December 2015 (see exhibit 6).

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

The purchaser price index of raw materials for the chemical industry dropped by 5.7% yoy in January, improved from the minus 7.6% yoy growth in December 2016 (see *exhibit 6*).

(iv) Purchaser price index of timber and paper pulp

The purchaser price index of timber and paper pulp dropped by 0.5% yoy in January (see *exhibit 6*).

(v) Purchaser price index of textile raw materials

The yoy growth rate of the purchaser price index of textile raw materials slightly improved, posting minus 1.6% in January (see *exhibit 6*).

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