



China Sourcing Update

April 20, 2017

Major Price Indicators

1. CPI growth goes up slightly in March

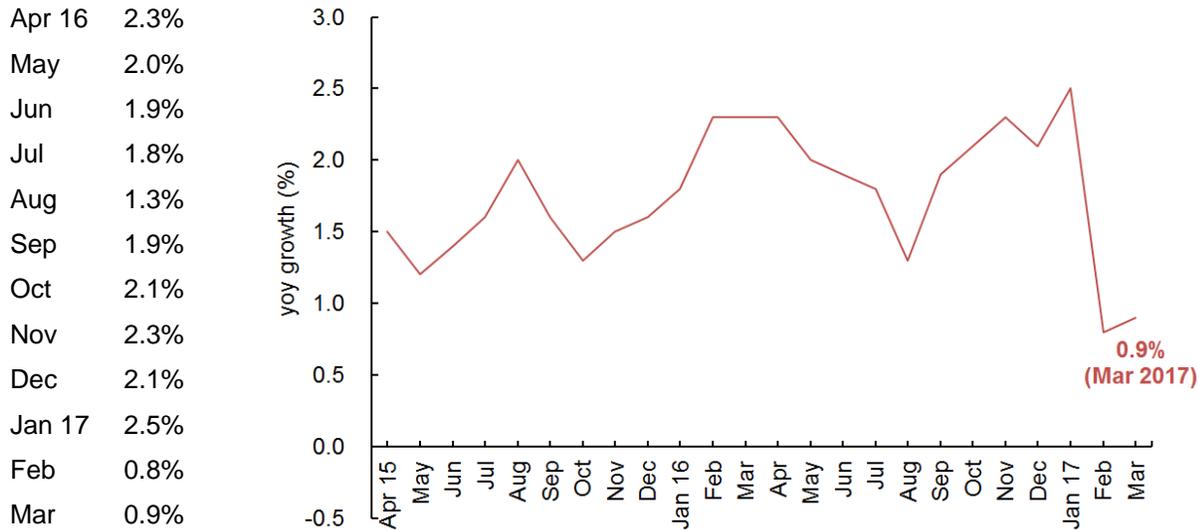
The year-on-year growth rate of China's consumer price index (CPI)¹ inched up to 0.9% in March from a two-year low of 0.8% in February, lower than market expectations (see *exhibits 1 & 2*).

The slight increase in CPI growth in March was due to acceleration in the year-on-year growth in the non-food component in the CPI, which came in at 2.3% in the month after registering 2.2% in February, driven mainly by a rise in prices of healthcare, residence and education, culture and recreation. Meanwhile, the year-on-year growth in the food component edged down from minus 4.3% in February to minus 4.4% in March, which was mainly attributable to a further fall in the prices of pork and vegetable.

Looking ahead, we predict that the food inflation will pick up in the near future due to a slowdown in the year-on-year decline of vegetable prices; meanwhile, we expect the non-food inflation to rise slightly in the near term. Overall, in our view, the CPI growth is likely to go up but stay below 2% in the coming couple of months.

¹ The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household. It is noteworthy that the NBS has changed the weights assigned to the various components in the CPI basket, effective from January 2016. The weight of the food component, for example, has been reduced by 3.2 ppt; the weight of the housing component has been increased by 2.2 ppt; and the weights of other components have been adjusted by around or less than 1 ppt. The impact of the re-weighting on the CPI growth was limited, according to the NBS.

Exhibit 1: China's CPI growth, April 2015 to March 2017



Source: National Bureau of Statistics, PRC

Exhibit 2: China's CPI growth by commodity, October 2016 to March 2017²

yoy growth (%)

	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Clothing	1.3	1.4	1.1	1.1	1.2	1.3
Household articles and services	0.4	0.3	0.4	0.6	0.5	0.7
Education, culture and recreation	2.1	2.2	2.3	3.3	1.8	2.3

Source: National Bureau of Statistics, PRC

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

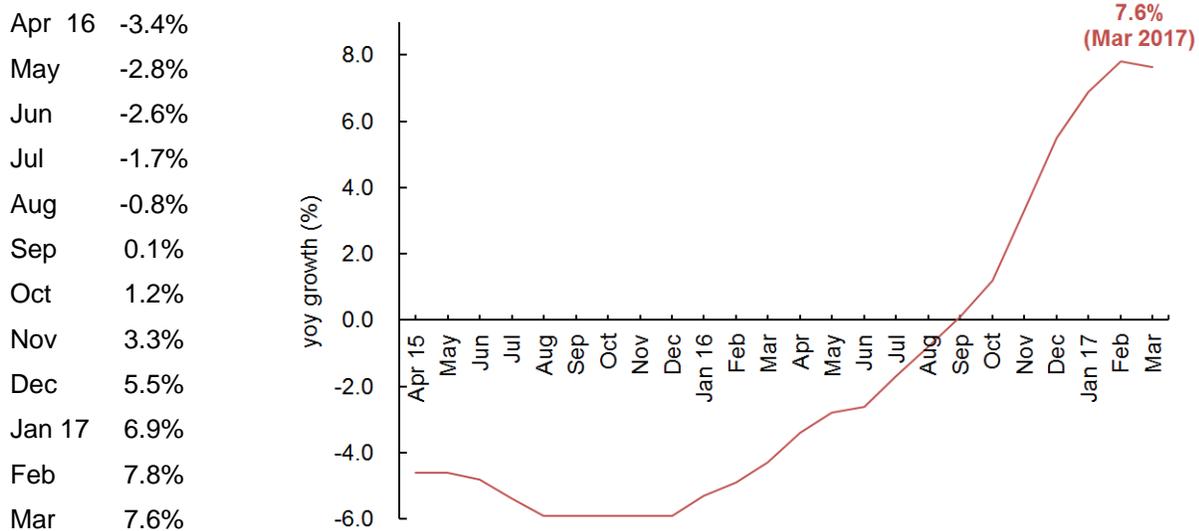
The year-on-year growth in China's producer price index of industrial products (PPI) went down slightly from an eight-year high of 7.8% in February to 7.6% in March (see exhibits 3 & 4).

² Starting from January 2016, the old category of 'household facilities, articles and maintenance services' has been re-categorized into a new category called 'household articles and services' and the category of 'other articles and services'. The old category of 'recreation, education, culture articles and services' has been re-categorized into a new category called 'education, culture and recreation' and the category of 'other articles and services'.

On a month-on-month basis, the PPI rose by 0.3% in March, a smaller increase than the 0.6% growth seen in the previous month. In our view, the main reasons for the hike in the PPI in recent months were a rise in imported commodity prices boosted by a weaker yuan and a better supply-demand balance as the demand for industrial products improved and impacts of de-capacity further materialized.

Going forward, due to a slower increase in prices of production inputs, the year-on-year growth in the PPI is expected to stay high but fall slightly in the coming months.

Exhibit 3: China's PPI growth, April 2015 to March 2017



Source: National Bureau of Statistics, PRC

Exhibit 4: China's PPI growth by selected industry, October 2016 to March 2017

	yoy growth (%)					
	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Textile	0.3	1.0	1.0	2.6	3.2	3.5
Textile wearing apparel and ornament	0.3	0.5	0.5	0.6	0.9	1.0
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.0	0.1	0.1	0.2	0.1	0.6

Source: National Bureau of Statistics, PRC

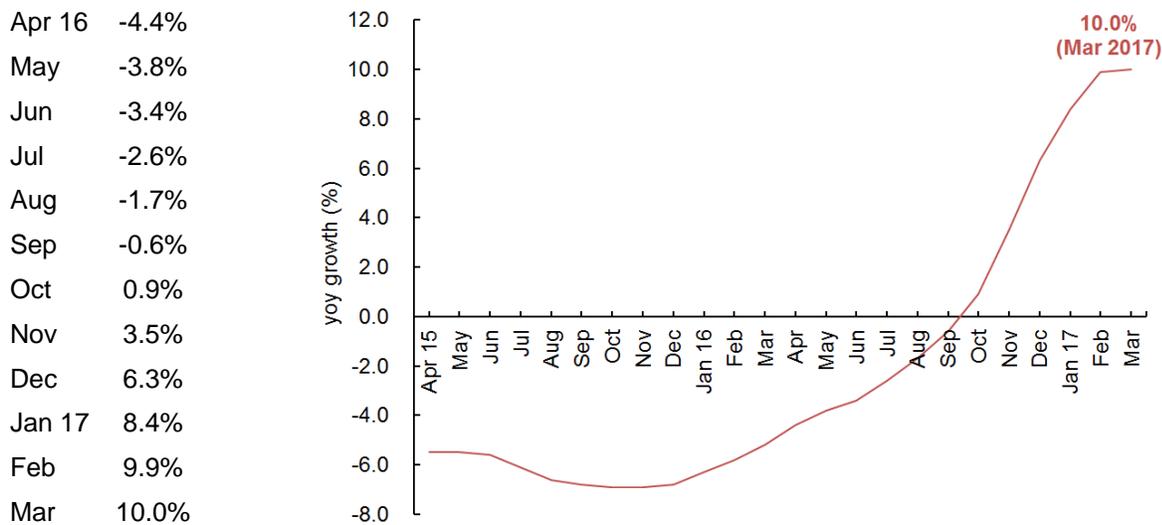
3. Domestic prices of production inputs go up further

The year-on-year growth rate of the purchaser price index of industrial products edged up from 9.9% in February to 10.0% in March, the highest level in more than five years (see exhibits 5 & 6).

On a month-on-month basis, the purchaser price index of industrial products rose by 0.5% in March, a smaller increase than the 0.8% growth recorded in the previous month. We believe that the climb in the purchaser price index in recent months were mainly caused by a rise in global commodity prices and the Chinese government's efforts in de-capacity and de-stocking.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, dropped markedly from 64.2 in February to 59.3 in March, indicating a slower increase in prices of production inputs. Thus, we believe that the year-on-year growth rate of the purchaser price index of industrial products will stay high but fall steadily in the coming months.

Exhibit 5: Growth of China's purchaser price index of industrial products, April 2015 to March 2017



Source: National Bureau of Statistics, PRC

**Exhibit 6: China's purchaser price index of industrial products
by selected commodity, October 2016 to March 2017**

yoy growth (%)

	Oct 16	Nov	Dec	Jan 17	Feb	Mar
Fuel and power	1.8	6.0	10.1	14.7	18.7	19.0
Non-ferrous metal materials and wires	2.2	9.5	14.9	15.8	17.1	16.1
Chemical raw materials	-0.1	2.0	5.3	8.1	10.3	10.0
Wood and pulp	-0.3	0.5	2.1	3.3	4.0	4.5
Textile raw materials	1.0	1.8	2.5	3.3	4.0	4.6

Source: National Bureau of Statistics, PRC

(i) Purchaser price index of fuel and power

The purchaser price index of fuel and power increased at a faster pace, by 19.0% yoy, in March, after rising by 18.7% yoy in February (see exhibit 6).

(ii) Purchaser price index of non-ferrous metal materials and wires

The year-on-year growth rate of the purchaser price index of non-ferrous metal materials and wires eased to 16.1% in March from 17.1% in February (see exhibit 6).

(iii) Purchaser price index of chemical raw materials

The purchaser price index of chemical raw materials gained 10.0% yoy in March, compared with the 10.3% yoy growth in February (see exhibit 6).

(iv) Purchaser price index of wood and pulp

The year-on-year growth rate of the purchaser price index of wood and pulp went up to 4.5% in March from 4.0% in February (see exhibit 6).

(v) Purchaser price index of textile raw materials

The year-on-year growth rate of the purchaser price index of textile raw materials registered 4.6% in March, up from 4.0% in February (see exhibit 6).

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