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MARKET OUTLOOK FOR CHINA AND ASIA REGION

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*The following is an overview of the Chinese and Asian economic, political and crop situations as of **19th April 2018**. This report is intended to be informative and does not guarantee price direction.*

The key Chinese and Asian event over the last 30 days has been the concern of a trade war. In addition to the direct impact of some commodity exports, investors worry higher tariffs will derail the growth of global economy and, as a result, affect the exports of Asian countries as a whole. The PBOC lowered the Reserve Requirement Ratio, which will release funds to some banks and the economy.

CHINA

- Growth in China's manufacturing factor slightly slowed down in March, as indicated by the CAIXIN China manufacturing PMI, which dipped to 51.0 from last month's 51.6. New orders continued to grow, but at the slowest pace over the past four months. New export orders saw the lowest increase since last May. Subsequently, output growth slipped to the weakest reading since last November. In order to lower labor cost factories kept shedding jobs at a pace that takes them to a seven month high. It is obvious that China's economy went through a certain degree of weakness, but the rate was moderate. China's official manufacturing PMI climbed to 51.5 in March from 50.3 in February, staying at the expansion area for its 20th consecutive month.



- China's consumer inflation in March eased from the previous month. The CPI increased 2.1% year-on-year, compared with an increase of 2.9% in February. The moderated consumer inflation is generally attributed to an eased demand after the Chinese New Year holiday, along with an adequate supply, thanks to elevated temperatures. Consumer prices are expected to stay within 3% for this year. On the industrial side, PPI growth fell for five months in a row, down to 3.1% year-on-year. The difference between CPI and PPI has been narrowing, which facilitates the profitability improvement for downstream enterprises. But in Q2, with the promotion of environmental protection, which leads to a restriction of production, the PPI might pick up again.
- China's exports in dollar dominated terms unexpectedly fell 2.7% year-on-year to \$174.12 billion in March, while imports increased 14.4% from last year to \$179.1 billion. That left the country with a trade deficit of \$4.98 billion. It is the first monthly trade deficit since February of 2017. With the disturbance of holiday factors gone, which twisted the trade data in February, China's exports are painting a hard-to-be-optimistic picture. Looking forward, as the trade dispute between China and the U.S. casts lot of uncertainties, China's exports might be worse in months to come.
- Concerned by the uncertainties of a "trade war," China's soybean imports significantly declined in March to 5.66 million tons, which is down 11% year-on-year and 18.56% on a monthly basis. But, as the possible tariff on U.S. soybeans pushes domestic soymeal prices, which leads to a more lucrative crushing margin, China's crushers are motivated to purchase more soybeans. Soybeans imports are expected to climb to as high as 26.9 million tons in Q2.

OTHER ASIAN COUNTRIES

- South Korea recorded quarter-to-quarter GDP growth of -0.2% in 2017 Q4, which is the worst growth since 2008. Year-to-year GDP growth has also declined to 2.8 %, which is below market expectations and the previous growth of 3%. Although the U.S. has exempted South Korea from its steel tariff, there is still concern that trade war tension may lessen the demand of South Korean exports.
- U.S. President Donald Trump and Japanese Prime Minister Shinzo Abe agree to intensify trade talks at a joint news conference, further relieving the concern of a possible negative impact on Japan's economy due to the trade war tension. Due to a stronger yen in March, Japan's export in March rose only 2.1% year-to-year, which is less than the market expectation of 4.7%. The BOJ reiterated its forecast of inflation reaching its 2% target in 2019 and 2020.



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- The Reserve Bank of New Zealand kept its key interest rate unchanged in March at 1.75%. The 2018 Q1 CPI growth has met market expectation of 1.1% year-to-year and 0.5% quarter-to-quarter. The 2017 Q4 year-to-year GDP growth rate rose to 2.9%, which is below market expectation of 3.1%.
- India is now facing another shortage of currency and there is no cash in ATMs. This could cause another slowdown for the economy. India has reconfirmed it will not join calibration with China in the Belt and Road Initiative. The IMF is expecting economic growth will be above 7% in 2018 and 2019 and the growth rate in 2019 would be higher than in 2018.
- Indonesia's President Widodo said he expects Indonesia would become the fourth largest economy in the world by 2045. Moody's has upgraded Indonesia's sovereign credit rating from Baa3 to Baa2. It highlighted Indonesia's large economy and strong economic growth.
- Australia's March unemployment rate was at 5.5%, which is the same as market expectations. However, employment increased by 4,900, which was a lot less than expected. The IMF has increased the economic growth forecast in Australia to 3%, from 2.3% in 2017.