ADM Investor Services, Inc.

CHICAGO

ADM Investor Services
141 W. Jackson Blvd.
Suite 2100A
Chicago IL 60604
www.admis.com

LONDON

ADM Investor Services International
4th Floor
Millennium Bridge House
2 Lambeth Hill
London EC4 V3TT
www.admisi.com

HONG KONG

ADMIS Hong Kong
Suite 908-10
9/F Lincoln House
Taikoo Place
979 Kings Road
Hong Kong
www.admis.com.hk

MARKET OUTLOOK FOR CHINA AND ASIA REGION

By Alex Poon, ADMIS Hong Kong &
Kevin Yang, ADMIS Shanghai Representative Office

*The following is an overview of the Chinese and Asian economic, political and crop situations as of **22nd Aug 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 weaker manufacturing performance and shrinking trade surplus. Indonesia hiked rates further to tackle inflation, currency depreciation and capital outflow.

CHINA

- The CAIXIN China manufacturing PMI came in at 50.8 for July, the lowest in the past eight months. Growth rates of both new orders and output slowed down in July. Additionally, due to the reduction of overseas demand, new export orders have been in a contraction area for four consecutive months and posted the biggest drop in July. Although the increase in input costs in July was still significant, it has slowed down compared to last month. According to the surveyed manufacturers, the increase in costs is mainly related to the price increase of raw materials such as steel and petroleum. Manufacturing employment continued to contract in July and has been in the contraction zone for 57 consecutive months, but the contraction rate slowed slightly from last month. The official manufacturing PMI also declined to 51.2 in July from 51.5 in June.

- China's consumer price index increased 2.1% year-on-year in July, higher than last month's 1.9%. On a monthly basis, the CPI went up

0.3%. That was mainly attributed to higher travel prices driven by increasing summer tour activities. As pork consumption enters into a seasonal peak in coming months and swine fever in northeast China might hurt pork supply, pork prices are expected to pick up considerably, which might further drive up CPI. On the industrial side, the PPI annual growth rate slightly declined 0.1% to 4.6% in July. On a monthly basis, the PPI increased 0.1%. As demands remain staggering, the PPI has reached a turning point and is expected to decline in months to come.

- China's exports and imports in dollar dominated terms rose 12.2% and 27.3% respectively compared to last year, leaving the country with a 28.05 billion of trade surplus, which is down by 32.4% from last month. The yearly growth rate of exports to the U.S. and E.U. dropped 1.3% and 0.9% respectively compared to last month, thanks to the ongoing trade dispute. Given that the tariff on $16 billion worth of goods will take effect on August 23 and there might be additional tariffs later, China's trade surplus is expected to drop. China's yuan against dollar has depreciated almost 9% since this April, which to some extent will help mitigate the tariff impact.

- Thanks to the trade conflict between China and the U.S., China's soybean imports in July declined 20.6% year-on-year to 8 million tons and was significantly lower than June's 8.7 million tons. Soybean imports had fallen for two straight months. In the first seven months, China imported 52.88 million tons of soybeans, down 3.7% compared to last year. China's buyers have turned to Brazil for soybean purchases, which has pushed up Brazil soybean prices. Other than looking for substitution of U.S. soybeans, China is now promoting low-protein feed formulas to reduce soybean consumption demand. Analysts estimate that the soybeans imports for 2018 might drop to 85 million tons.

OTHER ASIAN COUNTRIES

- Japan Q2 annualized GDP growth rate was at 1.9%, compared with -0.6% at Q1 and above market expectation of 1.4%. Private consumption has increased to 0.7%, compared with down 0.2% in Q2. Business investment has also increased to 1.3%, higher than 0.5% in Q2, which partly was due to rising construction demand from the Tokyo Olympics in 2020. Despite some market participants expecting the BOJ to adjust its ultra-easing monetary policy, following the global tightening trend, the BOJ had kept it unchanged at -0.1%. Yet the BOJ has widened the allowable band of the 10-year JGB in order to make the easing policy more sustainable.

- Trade tensions has had little impact on South Korea's exports recently. July export growth was at 6.2% year-to-year, recovering from the -0.2% decline in June, but was still below the market expectation of 7%. The labour market has been weakening in July. The July unemployment rate increased to 3.8% from 3.7% month-to- month, and new jobs created in July sharply dropped to 5,000, which has also recorded the smallest number since 2010.

- Indonesia's Q2 annualized GDP growth rate was at 5.27%, higher than 5.06% in Q1 and market expectations of 5.16%. The figure was the fastest growth since 2013. President Joko Widodo set Indonesia's economy's growth target in 2019 to be 5.3%, slightly higher than the target of 5.2% in 2018, but down from the 5.4% target set previously. The central bank has announced a rate hike to 5.5% to stabilize the Rupiah, which was dragged down by the Turkey crisis and a strong rally of the U.S. dollar.

- The IMF has an optimistic outlook for India's economy with an estimate of its 2018-2019 GDP growth at 7.3% and its 2019-2020 GDP growth at 7.5% due to strengthening investment and private consumption. Industrial data has undergone a strong recovery in July with industrial output growth rate increasing from 3.2% to 7%, which is much higher than the market expectation of 5.4%.

- The Reserve Bank of Australia kept rates unchanged at 1.5%, meeting market expectations. The July unemployment rate dropped to 5.3%, which is below both the market expectation and the figure in June of 5.4%, and recording the lowest level since 2012. While the RBA has showed it is less worried about the housing market, it has expressed its concern over the global economy, especially due to the uncertainty of the trade tensions and China's slowing growth.

- In New Zealand, the Q2 unemployment rate was at 4.5%, slightly above both the market expectation and the previous figure of 4.4% but is still near the lowest level since 2009. The RBNZ kept its interest rate unchanged in June at 1.75%. The RBNZ downgraded its forecast of the 2019 GDP growth to 2.6% from 3.1% previously and scheduled to keep the interest rate at the current level throughout 2019.