



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 Lamberth 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 13th December 2017. 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 restriction of coal usage in China failing to meet the heating need since the supply of gas is insufficient. The Bank of Korea increased the interest rates, marking the first central bank in Asia to tighten monetary policy. Some are speculating more central banks in the region might follow.

CHINA

- The CAIXIN China manufacturing PMI posted 50.8 in November, which was down .2% from October. That's the lowest level in the past five months. In the meantime, a survey showed that business confidence for the next 12 months weakened to the lowest level since 2012. The output index rebounded slightly, ending its string of declines. New orders fell, while employment continued to shrink at the fastest pace in the past three months. The economy is expected to maintain stable momentum in the fourth quarter, but will face stronger downward pressure in 2018. The official manufacturing PMI, which covers large state owned enterprises deviated from the CAIXIN reading, climbing .2% to 51.8 in November.
- Due to the drag of declining food prices, China's consumer inflation rate slipped to 1.7% in November. But as the year comes to an end, when pork prices might pick up due to seasonal demand and vegetable prices probably will climb because of low temperatures, the CPI is expected to grow over 2% year-on-year in



December. On the industrial side, the PPI increased 5.8% compared to last year, which is far lower than last month's 6.9% increase. The drop in the rate of growth in the PPI was mostly attributed to a high basis of comparison, because commodities prices surged in Q4 of last year when the government applied a series of policies to shed the over capacity from the supply side. The PPI is estimated to decline further in December. But for year 2017, average growth might stand at 6.3%.

- Boosted by overseas demand, China's exports gave out an unexpectedly shining performance in November by posting a 12.3% increase year-on-year in U.S. dollar dominated terms, which was the highest level in the past eight months. Meanwhile, imports increased 17.7% from a year earlier. The trade surplus for the month expanded to \$40.2 billion, compared to \$38.17 billion in October. Exports have been contributing to the GDP growth since Q3. As the global economy keeps recovering, China's exports are expected to continue its momentum in 2018.
- As the delayed soybeans were released at the port in November, China's soybean imports jumped 48% from last month to 8.68mmt, up by 11% from last year. In the first 11 months of 2017, soybean imports totaled 85.99mmt, which was 14.77% compared to 2016. Even though the buyers encountered some GMO certificate application issues earlier last month, as the Chinese New Year comes closer, which leads to a seasonal demand peak, soybean imports in December are expected to remain at a high level. Exceeding 90mmt for year 2017 appears to be inevitable.

OTHER ASIAN COUNTRIES

- Adrian Orr, who had been the head of New Zealand's superannuation fund with an average annual return of 10.2%, was named the new governor of the Reserve Bank of New Zealand starting in March 2018. The announcement stimulated NZD to surge by more than 1%. Though the market had been pessimistic on the housing market during November, November house sales ended up surging by 17.8%, which was possibly stimulated by recent overseas demand before the country's ban on foreign buyers. Yet some argued that overseas demand only accounted for less than 4%.
- Australia's Q3 GDP growth is disappointing the market at a rate of 2.8%, which is lower than the expectation at 3%. The trade data in October is also devastating. Exports dropped 3% in the month, compared to an increase of 3% in September. The RBA kept the benchmark rate unchanged in its meeting in early December. The central bank highlighted household income growth is slow and debt levels are high.
- The Reserve Bank of India kept its rate unchanged at 5.75% at the December meeting. The inflation rate in October was 3.58%, which is still lower than the average over previous years. India's economy benefited from lower inflation and the drop in energy and food prices previously, but crude oil prices recently advanced, which may cause trouble for the economy.



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- Indonesia's President Widodo said economic reform is paying off, with the biggest infrastructure plan over the country's history. Indonesia jumped in ranking to 72 from 91 of 190 countries in the ranking by the World Bank on the ease of doing business. Retail sales in October were up 2.2%, a higher rate compared to September, which was at only 1.8%.
- The Bank of Korea announced a rate hike from a record low of 1.25% to 1.5%, as expected by market participants and being its first interest rate hike since 2011. South Korea was also the first large economy to announce a tightening monetary policy among the Asian countries. South Korea maintained its robust export and GDP growth. The IMF has revised up its expectations of South Korea's annual GDP growth to 3.2% from 3% previously. Yet over reliance on its chips industry remained a concern of the economy.
- The economy of Japan showed signs of further improvement in November. Capital spending grew at 4.2%, which is higher than the expectation of 3.3%. The annual GDP in Q3 was revised up to 2.5% from 1.5%. Although export growth dropped from 15.8% to 14% annually, exports remain robust in Japan. Foreign demand remains the strongest driving force of its economic growth.