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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 18th January 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 China recording 6.9% growth in 2017, which is stronger than market forecasts. This also provides more room for the government to tackle the debt and financial risk problem. The Bank of Japan surprised the market by buying less long term bonds, causing fears that this is a signal to start tightening monetary policy.

CHINA

- In December 2017, the CAIXIN China manufacturing PMI was 51.5, up .7 from the previous month, the highest in four months, indicating further improvement in manufacturing operations. Both the output index and new order index increased, while the purchase price index and ex-factory price index decreased. The pick-up in manufacturing at the end of 2017 suggested that the stabilization of the economy has been established. However, under the background of tighter fiscal regulation and monetary policies, the downward pressure on the economy in 2018 should not be underestimated. Although output and new business accelerated, manufacturers continued to shed jobs, which resulted in further increases in backlog workloads. In the meantime, the official manufacturing PMI dropped .2 to 51.6 from last month's 51.8.



- Thanks to increases in food prices, China's CPI edged up to 1.8% year-on-year in December 2017 from last month's 1.7%. As the Spring Festival is approaching, which traditionally would push up food prices, the CPI for Jan 2018 is estimated to climb up to 2%. Due to seasonal weakening steel prices and a relatively higher comparative base, the PPI posted growth of 4.9% year-on-year, compared to a 5.8% increase in November. However, since December 2017, prices of nonferrous metals have increased significantly and crude oil prices continued to rise due to geopolitical volatility. The PPI is expected to gain support and hover around 5% in months to come.
- In December 2017, China's exports in dollar dominated terms gained 10.9% from last year, while imports increased 4.5% year-on-year. That left China in a monthly trade surplus of \$54.69 billion. Exports to emerging markets like Brazil, South Africa and India grew robustly, while exports growth to E.U. and the U.S. dropped slightly compared to last month. Exports increased 8.3% in 2017, significantly improved compared to negative growth in 2016. Imports side, volume of imported iron ore, crude oil and copper declined. As the economy is expected to take downward pressure in 2018, domestic demand might be further weakened.
- Driven by lucrative crushing margin and strong demand ahead of Chinese New Year, China's soybean imports rose to the second highest monthly level of 9.55mmt in December 2017, up by 6% YOY and 10% on a monthly basis. In year 2017, China's soybean imports grew 13.9% from last year's 83.91mmt to 95.54mmt. For year 2018, domestic soybean planting acres are expected to increase, while demand from aquaculture industry might be weak.

OTHER ASIAN COUNTRIES

- The BoK revised up its forecast on Korea's economic growth from 2.9% to 3% annually, but still below the expected rate of 3.2% growth of 2017. The BoJ also revised down its forecast on the 2018 inflation rate from 1.8% to 1.7%. Total exports from South Korea in 2017 reached a record high of US\$ 574 trillion, which went up by 15.8% annually. Exports of semiconductors was the largest single item contributing more than US\$90 billion.
- The BoJ has announced it will buy less long-dated bonds, which is in line with its 'stealth tapering' policy. The announcement lifted the yen by more than 1.5%. The market expected the BoJ will warn the market that Japan will maintain its ultra-easy policy as inflation is still below the 2% target after the BoJ's interest decision meeting on 23 January. The latest November inflation rate was merely y-o-y 0.6%.
- New Zealand's NZIER Business Confidence index has shown -12% for the 4th quarter of 2017, which is lower than the previous quarter's level of 5%, recording the worst figure since the third quarter of 2015. The report presented a pessimistic view on the overall economy, particularly in retail and manufacturing industries. Some believe that the pessimistic view comes from the lack of confidence in the new Labour-led government.



- The World Bank has released the 2018 Global Economics Prospect. The Bank forecasts India's GDP growth in 2018-2019 at 7.3%, which will make India the fastest growing economy in the world. Moreover, according to the Centre for Economics and Business Research, India will become the fifth largest economy. The SENSEX index has climbed to another historical high recently due to the optimism on the world and India's economy.
- The sovereignty grading of India was upgraded to BBB by Fitch. Fitch expects Indonesia's economy will grow at 5.4% in 2018 and 5.5% in 2019. The grade was upgraded back to investment grade. However, the World Bank has suggested potential risks for Indonesia's economy, including slower than expected consumption growth and relatively low commodities prices.
- The Australian Bureau of Statistics has released the December 2017 employment statistics. The employment number increased 34.7K, which is a lot better than expected, although the unemployment rate increased from 5.4% to 5.5%, which is because of the increase in the labor force. The home loans growth rate in November is at 2.1%, which is much better than the expected .2% decline. This is showing optimism in the housing market.