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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 July 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 U.S.-Sino trade issues and the economic data of China worsening. Indonesia hiked interest rates further to tackle inflation, currency depreciation and capital outflow.

CHINA

- The growth of China's manufacturing sector cooled down in June on the back of trade tensions between the U.S. and China. The CAIXIN China manufacturing PMI dropped slightly to 51.0 from last month's 51.1. This was in line with the official PMI reading, which declined to 51.5 in June from 51.9 in May. Production continued to increase at the highest rate of growth over the past four months, while new exports orders fell for the third month in a row and remained in contraction area amid the escalating trade war between the U.S. and China. Factories kept shedding jobs. The rate of job reduction in June reached an 11 month high. Deteriorating exports and weak employment, along with companies destocking and poor capital turnover, put pressure on the manufacturing sector. Factories generally expect output to increase in the coming year, but optimism has fallen to its lowest level in the past six months.



- Thanks to weak pork prices, China's consumer inflation remained moderate in June. The CPI rose 1.9% year-on-year in June, compared to a 1.8% increase in May. On a monthly basis, the CPI declined 0.1%. Meanwhile, the PPI gained 4.7% year-on-year versus the 4.1% increase last month. PPI growth has been increasing for three straight months and posted the highest level in June. The increase in PPI was mainly attributed to robust price hikes in crude oil and natural gas, which rose 32.7% compared to last year. But as the energy prices lost momentum, the PPI is expected to stabilize in Q3 and even fall back in Q4. The CPI is estimated to moderately recover later of this year, but will stay within the government's target of 3%.
- In June, China's exports in dollar dominated terms unexpectedly increased 11.3% compared to last year, while imports rose 14.1% year-on-year, leaving the country with a \$41.62 billion trade surplus, the highest monthly level of this year. Worth mentioning is the trade surplus from the U.S. swelled to a record of \$28.97 billion, climbing for the third month in a row. Most analysts believe this was due to early exports from Chinese exporters in the context of an escalating trade dispute between the world's two biggest economies. Looking ahead, as the new tariffs on Chinese goods start to take effect on July 6, the trade balance in July should be less favorable for China.
- China's soybean imports rose 13.1% from last year to 8.7 million tons, as buyers scooped up Brazilian supplies to avoid higher tariffs imposed on U.S. soybeans by the Chinese government. China has imported 44.87 million tons of soybeans in the first six months of this year. China's national soybean stocks have risen over 50% since the middle of April and exceeded 8.52 million tons, the highest level since 2010. The buying spree is expected to continue, since Chinese buyers want to build up more stocks in advance.

OTHER ASIAN COUNTRIES

- Japan's May unemployment rate fell to 2.2%, which is the lowest since 1992 and below market expectation of 2.5%. Despite the improvement in the labour market, May inflation remained unchanged at 0.7% year-on-year, meeting market expectations. The IMF revised Japan's 2018 growth outlook from 1.2% to 1.0% due to escalating trade war uncertainty. Yet the trade deal recently signed by Japan and E.U. to cut nearly all tariffs may help rebuilding the market's confidence in Japan's economy.
- The Bank of Korea revised down its economic outlook for 2018 from 3.0% in December to 2.9%, after experiencing a 3.1% growth rate in 2017, due to a slower recovery of the labour market and global trade tensions. Despite the June unemployment rate dropping to 3.7% from 4% month-to-month, the BoK sees new jobs added in 2018 dropping to 180,000 from the previous estimate of 320,000. South Korea signed a bilateral trade agreement with India to cut tariffs on food products mainly.



- Bank Indonesia unexpectedly hiked its benchmark rate by 50 bps. to 5.25%. Some analysts said the hike was in response to the Fed's rate hike in June and to stabilize the volatile Rupiah. The recent hike stabilized the volatility of the Rupiah and it is forecasted that the rate would remain unchanged on Thursday (19 Jul).
- India has beaten France and became the sixth largest economy in the world, according to World Bank data. The IMF said rising Fed interest rates, a stronger U.S. dollar, trade conflicts and higher oil prices could hurt India's economy. Industrial data has become weaker recently with the industrial output growth rate dropping from 4.9% to 3.2% in May.
- The Reserve Bank of Australia is determined to keep interest rates unchanged until inflation or growth are at a higher level. The RBA has also warned high levels of household debt could hurt the economy as it would make households more vulnerable to an economic downturn. Housing data has been disappointing, with new home sales and building permits dropping for two consecutive months.
- New Zealand's quarter-to-quarter 2018 Q1 GDP growth is at 0.5%, significantly lower from 0.6% previously, but meeting market expectations of 0.5%. The Reserve Bank of New Zealand kept its interest rate unchanged at 1.75% at its June meeting. The Q2 CPI advanced to 1.5% year-to-year, which was slightly below market expectations of 1.6%, but higher than 1.1% in the previous quarter. Rising fuel prices contributed the largest part of the CPI increase.