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 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 ***20th June 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 report of poor Chinese economic data due to continuous deleveraging and the possible outbreak of a trade war. Some countries in the region, including India and Indonesia, hiked interest rate to tackle inflation and the outflow of capital.

CHINA

- Even though new export orders suffered a slight contraction in May, thanks to stable growth in output and new orders, the CAIXIN China manufacturing PMI stayed in expansion area by standing at 51.1, which is the same as last month. Prices for raw materials climbed at the fastest level for the past three months due to a pickup in prices of commodities. Industrial product prices are expected to form an upward trend. Surveyed factories said the cost increases are mainly related to higher prices of crude oil, metals and chemicals. To mitigate the cost pressures, factories continued to shed jobs at a higher pace compared to April. In the meantime, the official manufacturing PMI, which covers large state owned enterprises, came in at 51.9 in May, compared to a reading of 51.4 in April.

- As food prices, especially pork, which account for a considerable proportion of the consumer price index remained moderate, China's inflation rate stood at 1.8% year-on-year in May, which is flat compared to last month. On a monthly basis, the CPI declined 0.2%. The PPI increased 4.1% year-on-year in May, compared to a growth of 3.4% in April. Output price increases caused by higher raw material prices are the major contributor to the PPI climbing. Since pork prices are unlikely to significantly rise in months to come, the CPI won't be a major concern for Chinese government. The PPI is expected to continue to grow, while prices of coal, iron ore and crude oil remain strong.
- Data from China's customs showed China's trade performed well in May, despite the trade war with the U.S. Exports increased 12.6% year-on-year to $212.87 billion, while imports gained 26% to $187.95 billion. That left China with a $24.92 billion monthly trade surplus. In the first five months of this year, China's imports and exports were up 16.8% and 13.3% year-on-year respectively, contributing $99.67 billion of the trade surplus to the country. In May, exports to the U.S., E.U. and Japan increased 11.6%, 8.5% and 10.2% year-on-year respectively, while exports to Korean, Brazil, India and Russia climbed 11.4%, 65.5%, 17.2% and 16.9% from last year. The abnormal exports to Brazil need more observation to confirm its sustainability. Worth mentioning is imports from Brazil also increased 26.3%, which is probably related to more soybean purchases from Chinese soybean buyers.
- China's appetite for soybeans continued to grow. In May, soybean imports surged to 9.69 million tons from last month's 6.92 million tons, up by 40.6% on a monthly basis. Annually, the volume increased 1.15%. In the first five months, soybean imports amounted to 36.17 million tons, edging down by 2.6% compared to last year. But according to shipment statistics, there will be almost 10 million tons every month to arrive in June and July. It is estimated that soybean imports in June to September will be 35.75 million tons. Because of the trade war with the U.S., China's soybeans import from Brazil surged 128% year-on-year in the first quarter, which pushed the prices of Brazil soybeans up. Some buyers turned to other countries like Russia.

OTHER ASIAN COUNTRIES

- Japan's Q1 GDP growth shrunk at 0.6% annually, which is unchanged from the preliminary estimate and meeting market expectations. Despite upward revisions of capital expenditures, the fall in private consumption offset the positive impact. In the June report of the Cabinet Office, the officers restated their confidence of the gradual improvements for both the capital spending and private consumption. Fear of a full-blown trade war has lifted the Japanese yen as a safe haven, yet Japan's exports can still be vulnerable as President Trump has imposed tariffs on imports of steel and aluminum from Japan.

- Korea's May exports rose 13.5% year-to-year, partially due to the 45% growth of semiconductor exports after a surprising contraction of exports in April. Finance Minister Kim Dong-yeon said South Korea is on track for the 3% growth target, but there remains economic uncertainties, such as high youth unemployment. Record high household debt at around US$1.4 trillion remained one of the obstacle for the BOK to further tighten its monetary policy. The benchmark interest rate remained at 1.5% in May.
- Bank Indonesia has increased its benchmark rate twice in May to 4.75% from 4.25%. The U.S. Fed is signaling further rate increases this year, causing funds flowing out from the Indonesian economy. And Bank Indonesia has said that they may increase its interest rate again next week because of credit concerns. The Indonesian Rupiah was one of the weakest Asia currencies this year. It has depreciated about 4% against USD in 2018.
- The Indian economy has outperformed the world as it has grown at a yearly rate at 7.7% in the first quarter of 2018. However, rising inflation has become a major problem to the economy, particularly with the higher energy prices and a weaker Rupee. The Reserve Bank of India has increased the benchmark rate for the first time since 2014.
- The GDP growth of Australia in the first quarter reached 3.1%, beating the market expectation of 2.8%. The Australia economy has been running well recently, with record growth in companies' gross operating profit at 5.9% in the first quarter. The Reserve Bank of Australia kept its benchmark rate at a record low of 1.5%. There are still some chances for the RBA to hike rates in September.
- RBNZ Governor Orr has stated his confidence in its household market with a high level of household debt. This has been previously pointed out as the main vulnerability in its financial system in the tightening international environment. New Zealand will soon publish its figure for Q1 GDP growth on 2018 on 20 June. The market expected the growth rate to be 0.5% quarter-to-quarter and 2.7% year-to-year respectively, due to its expectation of loss in business confidence in Q1.