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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 **15<sup>th</sup> March 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 geopolitical tensions in the Korea peninsula, which have been greatly eased after the friendly interaction between North and South Korea during the Winter Olympic and the leader of the U.S. and North Korea planning to meet in May. However, trade war worries are clouding the region, especially the tensions between the U.S. and China, which is escalating amid the high U.S. trade deficit.

### CHINA

- In February, the CAIXIN China manufacturing PMI increased slightly from last month's 51.5 to 51.6, indicating that factories' business continued improving. The output index, the new export order index and the employment index declined while new orders, producer prices and production expectations picked up. Purchase inventories and manufactured inventories increased significantly. Even though overseas demand weakened, new orders still increased compared to January, suggesting that the resilience of the Chinese economy has been extended. It is worth mentioning that the official manufacturing PMI slightly dropped to 50.3 from January's 50.4.



- Thanks to a significant increase in food prices, including vegetables, fruit and meat, China's consumer prices increased 2.9% year-on-year, which is the highest level in near four years. The unexpected inflation reading was generally attributed to the bad weather and the staggered holiday. On a monthly basis, the CPI climbed 1.2%. The consumer inflation rate is expected to drop to 2.5% year-on-year in March, as food demand steps down from the holiday peak. On the industrial side, PPI growth declined to 3.7% year-on-year, as crude oil and iron ore prices declined. Since prices of commodities remain weak, industrial inflation is expected to further ease in March.
- China's exports in dollar dominated terms unexpectedly surged 44.5% from last year, which is the highest monthly increase since February 2015. The combination of exports in January and February increased 24.4% year-on-year, which presented a good start for 2018. In the meantime, imports increased 6.3% from last year. The trade surplus expanded to \$33.74 billion from last month's \$20.35 billion. Demand from emerging markets is playing a more important role. In February exports to Russia, Brazil and South Africa increased 77.9%, 108.8% and 71.3% respectively. Meanwhile, exports to the U.S. increased 46.1% year-on-year, which some analysts attributed to a race for businesses to beat the tariff, in light of the possible trade war between the two countries.
- Due to the Festival holiday, which fell in the middle February, China's soybeans imports edged down 2.2% in February to 5.42 million tons, which is the lowest monthly level since October, 2016. Soybean imports in the first two months of 2018 increased 5.3% from last year to 13.9 million tons. Because of slow loading of beans in Brazil and weather disruption in the U.S., soybean imports in March are expected to stand at around 5.5 million tons. However, as the crushing margin remains profitable and with strong demand, soybean imports might pick up in the second quarter.

### **OTHER ASIAN COUNTRIES**

- India's latest CPI dropped to 4.44%, which is lower than the expected at 4.8%. However, it is still higher than the target of 4% set by the central bank. January industrial output increased by 7.5%, which is a lot better than the anticipated growth at 6.7%. The 2017Q4 GDP growth was announced at 7.2%. And thus India becomes the country with the fastest rate of economic growth in the period.
- The Indonesian Rupiah has dropped to the lowest since January 2016. The economy of Indonesia expanded by 5.2% in the fourth quarter of 2017, which is higher than the forecast of 5.1%. However, economists are worried about a possible trade war and a slowing of China's economy that could bring harm to Indonesia.
- Australia's 2017Q4 GDP growth is at 2.4%, which is lower than the expected rate of 2.5%. The slower growth rate was mainly caused by bad weather in the quarter. The trade



surplus in January was a lot better than expected at A\$1,055 million, according to the Australian Bureau of Statistics. The export value has risen by 4%, while the import value dropped by 2%.

- Economists are forecasting an upbeat New Zealand Q4 GDP growth rate, after a disappointing read recorded in Q3. However, worries of a possible trade war are limiting the optimism in the New Zealand economy. The New Zealand government is forecasting a benefit to the economy of \$1.2 billion to \$4 billion if the new TTP could be fully implemented as planned.
- Japan's 2017 Q4 GDP growth is at .4%, which is higher than the expectation of a gain of .2%. This records the first consecutive eight quarters of positive growth in 28 years. The January unemployment rate was at 2.4%, the lowest in 25 years. The BOJ kept interest rates unchanged at -.1%, the same as market expectations. BOJ Governor Haruhiko Kuroda said the BOJ may be considering exiting the ultra-loose monetary policy if inflation hits 2% in 2019.
- The U.S. steel tariff has shadowed the export driven Korean economy, as Korea is the third largest steel exporter to the U.S. In response to U.S. protectionism, the South Korean Finance Minister said South Korea will deploy all possible means to minimize the damage caused to the local steelmakers. Easing tensions between South Korea and North Korea may help boost consumer confidence and stabilize the financial markets.