



Monthly Global Research Newsletter

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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 15th November 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 Chinese economy is feeling the impact from supply-side reform and environmental restrictions, while CPI under controlled while PPI keep its robust trend. With Japan's Prime Minister Abe winning the general election, the market expectation of a loose monetary policy weakened the Japanese yen.

CHINA

CAIXIN China manufacturing PMI stayed flat from last month, standing at 51 in October and suggesting the manufacturing sector expanded steadily. Thanks to an improved overseas demand, new orders picked up. In the meantime, Chinese official manufacturing PMI fell to 51.6 from last month's 52.4, but still remained in expansion area. But stringent policies of environmental protections and low inventories have increased the pressure on the costs of midstream and downstream enterprises and may cause adverse effect on productions. Over the past two years, the Chinese economy has shown great resilience without experiencing either a sustained strong rebound or a cliff-like decline. Affected by supply-side reform and environmental restrictions, the economic growth in the fourth quarter will be flat or slightly down from the third quarter with little downward pressure.



- China's consumer inflation remained controlled in October. CPI increased 1.9% compared to last year. On a monthly basis, the index rose .15. The PPI kept its robust trend, increasing 6.9% year-on-year. In the first 10 months of this year, the PPI climbed 6.5% from last year. Data showed that the main contributors to PPI were upstream and midstream industries, indicating that the driving force of price increases came from the supply contraction caused by overcapacity cutting and production constraining for environmental protection. As the downstream demand is weakening, it is difficult to transmit the price increases, which means there is little foundation for PPI to go higher.
- The Yuan's appreciation is taking toll on China's trade. China's exports in dollar terms lagged market expectations by growing 6.9% year-on-year, while imports beat forecasts by increasing 17.2% from last year. The trade surplus for October stood at \$ 38.17 billion. Among major trading partners, exports to the U.S. and the E.U. increased 8.3% and 11.4% respectively, while exports to Japan and Korean lagged the average. The imports and exports are expected to stabilize at 15% and 7.5% respectively for the year.
- Due to quality and shipment issues, China's soybeans imports for October fell sharply to 5.85mmt from last month's 8.44mmt, but still gained 12% compared to last year's 5.21mmt. Overseas short supply also restrained imports scale, because the U.S. soybeans haven't been fully on the market, while supply from South America has almost been drained. As Chinese demand for soybeans usually picks up before Chinese New Year and the delayed shipments will eventually arrive, monthly soybeans imports for November and December are expected to exceed 9mmt. Supply pressure is likely to emerge.

OTHER ASIAN COUNTRIES

- India's inflation in October touched a seven month high at 3.58%, which is also above market expectations. The Indian government has announced a plan to boost the economy by spending over 9 trillion rupees in late October. India will also inject more than 2 trillion rupees into state-controlled banks, enhancing their risk buffers and lending capacities to boost the economy.
- Indonesia's Q3 GDP growth is slightly lower than expected at 5.06%. However, the government forecast a yearly GDP growth of 5.4% next year. The inflation rate was lowered to 3.58%, lower than the expectation at 3.68%.
- The Reserve Bank of Australia decided to leave the cash rate unchanged at 1.5% during its meeting on 7th November. Australia's trade surplus widened in September, with the trade balance surging to AUD\$1.745bn, up from a downwardly revised AUD\$873m in August. The Q3 Australian CPI rose .6% Q to Q with an annual pace of 1.8% YoY, both are below expectations of .8% & 2% respectively.



- The Reserve Bank of New Zealand's interest rate decision met forecasts, remaining at 1.75%. New Zealand's unemployment rate fell to 4.6% in Q3, which is the lowest rate since December 2008, beating market forecasts of a fall to 4.7%. A coalition government was formed between Labour and New Zealand First. The coalition agreed to reform the central bank's legislation and raise the minimum wage, etc.
- South Korea's Q3 annual GDP growth reached 3.6%. Quarterly growth also reached 1.4%, which is the highest since the third quarter of 2010, due to the robust growth of 6.1% growth in exports. Private consumption remains a weakness in South Korea's economy, with its growth slowing to .7% from 1% previously. The strong GDP growth strengthens the market's confidence in an interest rate hike at the BOK meeting on November 30. The interest rate of South Korea remained at 1.25% on October 19. During the trip to South Korea, U.S. President Donald Trump reiterated that FTA agreement is unfair to the U.S., but only with little elaboration on the issues. Much discussion was focused on the threat from North Korea.
- The expansionary policy of Abe's economic policy is expected to continue after Shinzo Abe won the presidential election in October. The Japanese Yen remained weak throughout October as interest rates are expected to remain negative for a longer period of time. The recent policy meeting of BoJ kept interest rate at -.1% at the end of October. The September annualized export growth rate of Japan was at 14.1%, below market expectations and the previous month's data, but still showing the strong exports of Japan. The unemployment rate remains at a low level of 2.8%. While the market is expecting inflation to remain below the BoJ's 2% target rate, the Nikkei 225 index reached its highest level since 1992.