



## 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 **15<sup>th</sup> October 2015**. 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 mostly disappointing trade data in the region, with poor import data maybe pointing to further weakness. Inflation data is also alarming, and there is some speculation that more monetary stimulus will be needed to reverse the price and growth trends.

### CHINA

- Despite a series of government stimulus measures over the past year, including five interest rate cuts since last November, tepid demand coupled with a massive oversupply of manufacturing still drew China's factory activities to a more than six-year low in September. The CAIXIN manufacturing PMI fell to 47.2 compared with a final reading of 47.3 in August. New export orders fell at a faster pace in September, sliding to 44.6, the lowest reading since March 2009, and well below 46.6 in August. Employment shrank at its sharpest pace in 80 months, emphatically indicating more weakness may lie ahead. China is scheduled to release its GDP data on October 19, and many economists expect growth to dip below 7%.
- As pork prices have stabilized over the past month, China's inflation rate in September retreated 1.6% on the year from August's 2.0% annual pace, another sign of softening economic activity. Unsurprisingly, the PPI declined for its 43rd straight month, falling 5.9% from last year and indicating that industries are continuing to struggle. Further cuts in interest rates and the



reserve requirement ratio (RRR) are expected during the fourth quarter and may cushion the threat of a hard landing.

- China's dollar-dominated exports in September slipped 3.7% year-on-year. Meanwhile, in line with the dismal performance in the PMI and the PPI, imports plunged by a worse-than-expected 20.4% from last year, marking the 11th consecutive month of decline. Even though the weaker yuan is expected to help China with its export competitiveness in Q4, the massive downward pressure may not be reversible in the short run. Furthermore, in the long run, as 12 countries reached terms on the Trans-Pacific Partnership Agreement, which will probably keep China locked out, China's trade prospects most likely will be overshadowed.
- Soybean imports in September beat expectations, increasing 44.4% year-on-year to 7.26mmt, but they were off slightly by 6.7% on a monthly basis. Average soybean import prices fell for a 16<sup>th</sup> consecutive month and are nearing the lowest level since 2009. In the first nine months of this year, soybean imports totaled 59.65mmt, up 13.1% on the year. Port inventories climbed to 6.32mmt, up 13% from a year ago. Soybean imports in October are still expected to exceed 6mmt, and total imports in 2015 are forecast at 78mmt, growing approximately 10% from 2014.
- China's National Development and Reform Commission recently announced import quotas for 2016. Wheat is set at 9.636mmt of which private enterprises are allotted 10%. The corn import quota is 7.20mmt, with 40% allotted to private enterprises. The rice quota is set at 5.32mmt, with 50% going to state-owned enterprises.

### OTHER ASIAN COUNTRIES

- Korea's exports in September declined 8.3% from the year before and shrank for a ninth consecutive month due to stagnant global demand. Korea's exports account for about 50% of its GDP. China's slowdown and the euro zone's failure to recover are hurting Korea's economy. Korea's imports in September also dropped 21.8% on an annual basis.
- Indonesia's annual inflation in September was 6.83%, the lowest since April, while monthly inflation declined 0.05%, the first decline since February. Indonesia's inflation is currently higher than many Asian countries and is the main reason preventing a further rate cut.
- India's monsoon season had the least rainfall since 2009 because of El Nino. Crops are expected to be hurt. This is a major factor for the recent surge in sugar prices. The CPI increased 4.41%, similar to the reading of 4.4% in September. The Reserve Bank of India lowered its economic forecast and unexpectedly reduced its interest rate by 0.5%. However, industrial output was surprisingly good, rising 6.4% year-on-year, compared with a forecast for a gain of only 4.8%.
- Japan's import and export data in September missed expectations. Industrial data showed a slowdown as well. The CPI level is still low at 0.2%. The Bank of Japan stated that it is still very keen to see inflation move toward the central bank's 2% target.



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The BOJ governor added that the Japanese economy is recovering moderately and that it will keep monetary policy unchanged.

- As was widely expected, the Reserve Bank of Australia kept the benchmark interest rate unchanged at the record-low of 2%. Retail Sales in August rose 0.4%, which was the same as the previous reading as well as the expectation.
- New Zealand's second-quarter GDP rose 0.4% on a quarterly basis, which was better than Q1's rise of 0.2%, but still lower than an expected 0.5% rise.