



## Monthly Global Research Newsletter

### CHICAGO

ADM Investor Services  
141 West Jackson Blvd.  
Suite 1600A  
Chicago, IL 60604  
www.admis.com

### LONDON

ADM Investor Services  
International  
4th Floor  
Millennium Bridge House  
2 Lambeth 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 **16th March 2015**. This report is intended to be informative and does not guarantee price direction.*

The key event in China and Asia over the last 30 days has been the accelerated pace of regional central banks' interest rate cuts together with their currency depreciations. The People's Bank of China (PBOC) cut the benchmark interest rate after the Chinese New Year, and the renminbi (yuan) continued to decline vs the U.S. dollar. Indonesia and India also cut their rates. The combination of lower rates and lower currencies should eventually help encourage exports, as long as overseas demand remains in good shape.

### CHINA

- The most dramatic change in China over the past month was the interest rate cut announced by the PBOC on February 28, which was the latest effort of the largest easing campaign since the 2008 global financial crisis.
- China's manufacturing activities edged up in February. The HSBC China manufacturing PMI rebounded to a seven-month high of 50.7 from January's 49.7. This put it back in the expansion area above 50, as overall new orders picked up, suggesting an improvement in domestic demand. But the new export orders index fell significantly to 48.5, and manufacturing employment declined for a 16<sup>th</sup> month. This indicates foreign demand has weakened and that factories continued to cut jobs. The official PMI also edged higher to 49.9 from 49.8.
- Even though China's CPI in February saw a 1.4% annual increase compared to January's 0.8%, the PPI experienced a deeper annual decline of 4.8%, suggesting deflationary pressure still remained high. To combat the downturn, the PBOC announced an interest rate cut on



February 28, which was the third major stimulus measure since November. To meet the GDP growth target of 7% set by the government amid a cooling property market, high debt levels and excess factory capacity, China will likely rely on further easing, including cuts in interest rates and reserve requirement ratios (RRR).

- China's February exports unexpectedly surged 48.9% from a year earlier. This was attributed to a distortion from the Lunar New Year holiday when exporters generally concentrate their shipments in the first half of the month before the holiday. But the combined January and February figure still gained 15.1%, reflecting a robust recovery in overseas demand. Exports to the U.S. in the first two months jumped 21% and to South Asia 38%. January-February imports declined 20.1%, resulting in the trade surplus hitting a record high of \$60.6 billion. Thanks to the recovery in the U.S. economy, China's exports are expected to be stronger in 2015.
- Due to the Lunar New Year holiday, when most Chinese crushing plants suspend production, February soybean imports saw a sharp decline. They totaled 4.26 million metric tons (mmt), off 38% on a monthly basis and off 11% on the year. March imports are expected to recover to around 5 mmt. If realized, this would bring January-March imports to around 16 mmt, up 3% year-on-year. Since September 2013, breeding stocks of sows have fallen for 17 consecutive months. This has led to a decline in hog numbers, which will likely suppress soymeal demand.
- In 2014, cotton output in Xinjiang province totaled 3.68 mmt, or nearly 60% of nationwide production. Plantings this year are expected to be reduced to 1.67 million hectares, or 16% below last year's 1.98 million, according to the province's agriculture department. This will have a significant impact on the domestic cotton supply-demand situation.

## **OTHER ASIAN COUNTRIES**

- In a surprise move in early March, the Reserve Bank of India lowered the interest rate to 7.5%. However, February's CPI rose a higher-than-expected 5.37%, and food prices grew at an even faster rate of 6.79%. The market remains very optimistic about Indian economic reform and is expecting economic growth at 7.5%.
- Japan's GDP annualized growth in Q4 was 1.5% after negative growth the prior two quarters, but it still remains below market expectations. Although lower crude oil prices should benefit the Japanese economy, some economists remain dissatisfied with the recent pace of growth and believe the Bank of Japan should increase the size of its QE program in order to boost the economy.
- South Korea's preliminary trade surplus in February reached a record high \$7.7 billion, as imports declined at a faster rate of 19.6% while exports fell just 3.4%. However, excluding the effect of fewer operating days this year due to the Chinese holiday, daily average exports increased 9.3% from a year ago. Also, exports, excluding oil products, increased 0.8%. The ministry said the trade numbers were actually a positive sign.



- Indonesia's inflation in February rose at a 6.29% annual pace but slipped 0.36% from January. Both numbers were worse than the market anticipated. Bank Indonesia in February announced a rate cut of 25 basis points to 7.5%. Following the release of the lower-than-expected data, Indonesia's president said that there was room for another rate cut but that the decision was up to the central bank.
- The Reserve Bank of Australia on March 2 kept the benchmark interest rate unchanged at the record low of 2.25%. Fourth-quarter GDP rose 0.5% from Q3, which was higher than the previous reading for a 0.4% rise and as expected. Retail sales in February grew 0.4% from January, which was better than the previous reading of 0.2% and met expectations. Total employment in February increased a better-than-expected 15,600 and was far better than January's 14,600 decline. The unemployment rate in February was lower at 6.3%.
- New Zealand's fourth-quarter retail sales grew a higher-than-expected 1.7% and topped Q3 sales of 1.3%. As was widely expected, the Reserve Bank of New Zealand on March 11 kept the benchmark interest rate unchanged at 3.5%. However, the central bank signaled a rate hike is possible, depending on economic growth.