BNY Mellon IM: Comment on China's inflation rates

Aninda Mitra, Head of Asia Macro and Investment Strategy at BNY Mellon IM, comments on China's latest inflation rates and provides an assessment of the impact of the current data on the Chinese economy and the global market.

- China’s inflation surprised to the downside yet again in April underscoring the unevenness of the re-opening impulse and highlighting the growing need for policy stimulus.
- Consumption and services activity are clearly rising, but slack in other parts of the economy is piling up.
- Both CPI and PPI were lower than market expectations. Economy-wide deflation is now a real risk --with consumer prices rising by just 0.1%y/y and producer prices deeper in deflation, at -3.6%y/y. This will also tug at corporate pricing power and earnings estimates.
- We still think a fiscal push is needed to nurture the re-opening impulse and keep the Chinese consumer from becoming discouraged by worsening headwinds in manufacturing and a sub-par recovery in real estate.
- But given the downside surprises on the inflation front, we now think that a PBOC rate cut, or other forms of monetary easing, is also coming into view.
- Considering the emerging drag on corporate earnings, than has been anticipated by the market consensus, we think it makes increasing sense to express the constructive view about China’s re-opening vis-à-vis regional proxies like Korea, Thailand, Singapore which stand to benefit the most from consumption and tourism spillovers.
- China’s credit (total social finance) data for April also surprised to the downside, highlighting that credit recovery is slowing on the dearth of demand from real estate as well as from SOEs and local governments.
- The only silver-lining in all this is that China’s re-opening related reflation is proving to be lot more benign, from a global macro standpoint, than was feared by many market participants. We expect global (and U.S.) goods price disinflation to continue in coming months.

12.05.2023