

# China Macro Flash

## Benign Inflation May Keep Accommodative Policy for Longer

- **The shift to neutral policy stance will likely be prolonged amid benign inflation** – Consumer prices crept up by 0.2%MoM and YoY inflation edged up from 2.1% in March to 2.4% in April, broadly in-line with expectations. The mild inflation rebound was mainly due to weather-related increase in vegetable prices. Seasonally adjusted inflation is stable, and CPI inflation should not pose a threat with continued PPI deflation, although we believe the YoY rate is set to trend up to about 3% in the middle of the year, in large part due to the base effect. Despite the recent wave of rate cuts globally, we view a rate cut in China is still quite unlikely in the near-term, but liquidity conditions may stay accommodative for longer.
- **Food prices jumped to 4.0%YoY led by vegetables** – Food prices increased 0.4%MoM and YoY inflation jumped from 2.7% in March to 4.0% in April. In particular, vegetable prices surged 11.2%MoM and 5.9%YoY, due to lower-than-average temperature and rainfalls during the month. Meanwhile, meat prices fell 3.6%MoM on declining pork prices (-6.1%MoM and -6.5%YoY). The declining live pig inventory indicates pork price correction may have been overdone, and pork price may start to rise in 2Q.
- **Non-food inflation is increasingly driven by services** – Non-food prices rose 0.2%MoM and 1.6%YoY. Consecutive gasoline/diesel price cuts in the past two months led to a 3.0%MoM decline in auto fuel and spare part prices. Liquor prices dropped 0.1%MoM, reflecting the effect of the anti-corruption campaign. Nonetheless, clothing and tourism prices gained 0.7%MoM and 2.1%MoM, respectively, boosted by the labor holiday effect. Service prices rose 0.3%MoM and 2.9%YoY, both higher than consumer goods inflation.
- **PPI deflation intensified to -2.6%YoY, indicating weak recovery** – PPI slid by 0.6%MoM and YoY deflation deepened from -1.9% in March to -2.6% in April, in-line with the fall in international commodity prices and PMI input price index. Specifically, PPI for mining, raw materials, and processing industries decreased by 1.6%, 1.3% and 0.3%MoM, respectively. Industrial producer input prices also dropped by 0.6%MoM and YoY deflation intensified from -2.0% to -2.7%. PPI deflation may last until 3Q due to the weak recovery.
- **Monetary policy will likely remain accommodative in the near-term** – Incoming data indicate growth momentum is still weak. The role of fiscal policy is constrained by the budgeted deficit of 2% of GDP, and the government has shown no intention to introduce new stimulus. The rest of the world appears to be engaging in policy easing. Under such circumstance, we expect the easing bias of monetary policy to stay longer, but additional easing (such as rate cut) is quite unlikely with inflation trending up. Today's resumption of PBOC bill issuance, in our view, does not signal policy tightening.

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### Shuang Ding

+852-2501-2769  
shuang.ding@citi.com

### Minggao Shen

+852-2501-2485  
minggao.shen@citi.com

### Enjiang Cheng

+86-10-5937-6038  
enjiang.cheng@citi.com

### Serena Wang

serena.wang@citi.com

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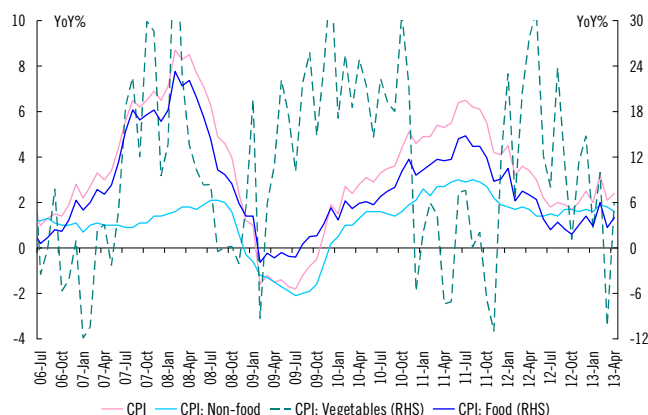
# Benign Inflation May Keep Accommodative Policy for Longer

Figure 1. China Data Release

	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev
CPI (% YoY)	9-May	Apr	2.4	2.3	2.3	2.1
PPI (% YoY)			-2.6	-2.4	-2.3	-1.9

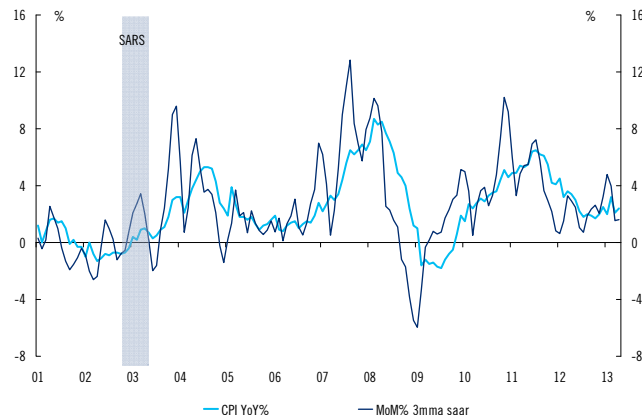
Source: Bloomberg and Citi Research Estimates

Figure 2. CPI rebounded on weather-related rise in vegetable prices



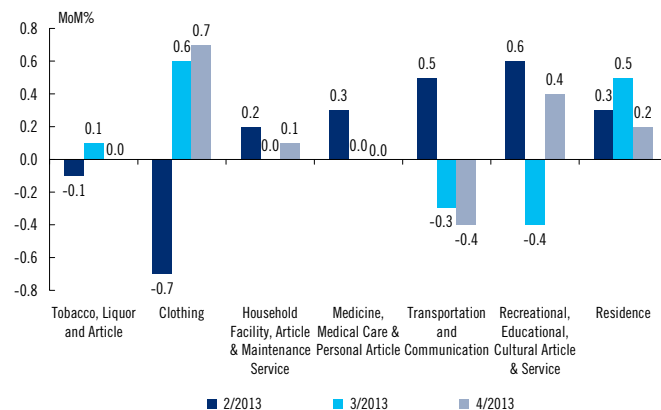
Source: NBS and Citi Research

Figure 3. Seasonally adjusted inflation is stable



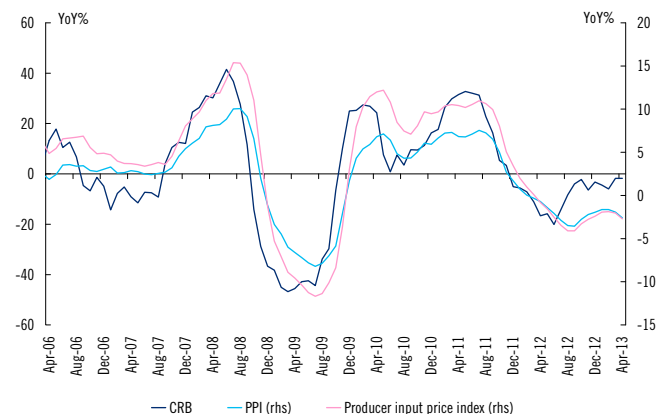
Source: NBS and Citi Research

Figure 4. Breakdown of monthly price changes



Source: NDRC and Citi Research

Figure 5. PPI deflation intensified to -2.6%YoY, indicating weak recovery



Source: NBS and Citi Research

## Appendix A-1

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Shuang Ding; Minggao Shen; Serena Wang

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