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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 **20th July 2017**. This report is intended to be informative and does not guarantee price direction.*

The key over the last 30 days has been that Chinese economic data improved across the broad, including the rebound of the PMIs and trade data. China's Q2 growth also exceeded expectations thanks to strong investment in infrastructure. Unlike the central banks in the west, Asia's interest rate had been kept steady, while the BOJ found it difficult to end the monetary easing amid disappointing inflation data.

CHINA

- In June, the CAIXIN China manufacturing PMI rebounded to 50.4 from last month's 49.6, suggesting an improvement in the manufacturing sector. The reading tallied with the official data, which rose to 51.7 in June from 51.2 in May. New orders and production saw a slight increase. However, both stocks of inventories and stocks of finished goods remained in contraction area, which indicated that businesses still lack confidence and the improvement in June is likely to be a temporary rebound, given that the economy is still in downward trend.

- China's consumer price index for June was in line with expectations by rising 1.5% from last year, while the PPI increased 5.5% year-on-year. Both CPI and PPI fell .2% on a monthly basis. PPI inflation, the main contributor to the economy's recovery, is expected to moderate in months to come. Benefitting from strong investment in infrastructure in the first half, China stated that its GDP grew 6.9% year-on-year in Q2. Two quarters of GDP expansion, which were higher than the target of 6.5% has given the Chinese government greater tolerance of slow growth and more room to tighten the property policies and continue the deleveraging process in the second half.

- Thanks to stronger global demand, China's exports in U.S. dollar dominated terms unexpectedly rose 11.3% in June compared with last year, while imports increased 17.2%, leaving the economy a trade surplus of $42.77 billion for the month. Led by the demand for iron ore and other commodities used to satisfy the infrastructure construction, China's imports have been strong in the past months. But as the property market keeps cooling down, imports are likely to moderate in coming months. For exports, due to geopolitical uncertainties and the strong CNY, it might slow down in the second half.

- Due to adequate stocks in crushing plants and a change in taxes, China's soybean imports in June fell to 7.69 mmt from last month's 9.59 mmt. On one hand, the stocks in crushing plants are quite high. On the other hand, since China has announced it will reduce its value added taxes on soybeans to 11% from the previous 13% from July 1, some buyers decided to delay the discharge until the new tax policy takes effect. But large arrivals will eventually come in, so the imports of soybean will climb in coming months, pushing the stockpiles higher, even though the crushing margin just turned positive this month.

OTHER ASIAN COUNTRIES

- Japan's government retained its overview that Japan's economy is recovering moderately with improving consumption and exports. Following an export growth of 14.9% in May, exports have grown YoY 9.7% in June, which is higher than market expectation of YoY 9.5%, indicating sustainable growth of Japan's exports. The BOJ has recently raised the expectations of current 2017 and next fiscal year's GDP to 1.8% and 1.4%, respectively. The previous expectations were 1.6% and 1.4%, respectively. In the view of the BOJ, despite a graduate recovery, the price level is still difficult to pick up. The BOJ has delayed its timing for inflation reaching the 2% target to 2019. The current fiscal year inflation is now expected to be at 1.1%, down from the previous expectation of 1.4%. Monetary policy was kept unchanged with its key interest rate at -0.1%.

- The Bank of Korea kept the interest rate at 1.25%. The BOK raised their expectation of 2017 fiscal year's GDP growth to 2.8% from the previous estimate of 2.6% due to strong exports, but weak domestic consumption and high household debt are still being the obstacles to growth. While exports account for around half of Korea's GDP, President Donald Trump of the U.S. has threatened to renegotiate a trade deal between the two nations. Korea was accused to have been imposing protectionist policies, which were unfair to U.S. It is believed that South Korea will agree on renegotiating the deal because of the threat from North Korea.

- The Reserve Bank of New Zealand kept its interest rate at 1.75%, which was the same as what the market had expected. A central bank official said the interest rate could probably be kept unchanged for a long period. The Q2 Consumer Price Index (YoY) was 1.7%, which was lower than market expectations of 1.9%. The Q1 CPI was 2.2%. New Zealand's economy slightly slowed down. The business PMI (YoY) decreased from 58.2 to 56.2 in June. Electronic Card Retail Sales (YoY) growth in June decline from 5.2% to 4.5%.

- The recent strength of the labour market in Australia has reversed some of the downward pressure on wage growth and inflation. Following a 53,400 surge in May, full employment increased by 62,000 in June, which contributed to the highest two-month increase since 1988. The unemployment rate was at 5.6%, which was the same as the market expectations. The central bank of Australia estimated that the neutral interest rate could be raised to 3.5%, which is 2% higher than the current low level of the 1.5% interest rate. The Australia Dollar advanced to a 2 year high due to expectations of tighter monetary policy and strengthening economic growth.

- The Indonesian government is now planning to move capital from Jakarta to Palangkaraya, with the objective to relieve the overpopulation in Jakarta. Bank loan growth in May was just 8.7%, lower than the target set by Bank Indonesia. The inflation rate in June is higher at 4.37% because of the increasing costs in food and electricity.

- Economists are expecting GDP growth in India could reach 7.3%, higher than that of China, because of the tax reform and anticipation of rate reductions from the central bank. The June CPI is low at 1.5%, lower than market expectations. It is also expected by the market that the Reserve Bank of India will reduce its interest rate by .25% at the August meeting. Although the market is optimistic about the Indian economy, May industrial growth was disappointing at 1.7%, which is a lot lower than the previous reading at 3.1%.