Comments on China’s macro data in Mar

We are bearish

While China’s nominal gross domestic product (GDP) growth in the first quarter at 6.8% was in line with expectations, SMM holds bearish view over other macro-economic data.

Fixed asset investment falls short of expectation

According to data from the National Bureau of Statistics (NBS), China’s fixed asset investment in the first three months of this year grew 7.5% year on year. The growth is 0.4 percentage point lower than that during January-February this year, and 1.7 percentage points lower than the March 2017 quarter, below market expectations.

While the real estate investment increased 10.4% year on year, the investment growth in manufacturing, at 3.8%, continued to fall. Investment in infrastructure excluding electricity grew 13.8%, but the growth was also down 2.3 percentage points from the January-February level.

The growth in real estate investment was mainly attributed to the increase of land purchase fees, which rose 47.9% year on year. The construction costs rebounded a slight 3.4%, while the installation costs fell 1.3%.
Exports fall, domestic demand recovers

On the export front, China’s trade surplus in the first quarter fell sharply due to the impact of the trade war. March saw a trade deficit of $4.98 billion, compared with a trade surplus of $23.93 billion the same month last year. However, domestic demand has become a bright spot as the total retail sales of consumer goods in March amounted to 9,027.5 billion yuan, up 9.8% year on year.
Manufacturing slows down

In March, the added value of industrial enterprises above a certain scale increased 6% year on year, but the growth was down 0.2 percentage point from the previous month. Meanwhile, China's electricity output grew 2.1% year on year, with the growth down 5.1 percentage point from the same month last year.
Inflation pressure eases but caution remains
China's CPI was 2.1% in March, below expectation of 2.5% due to decline in pork prices and the Chinese New Year holiday factor. While pork prices have inched closer to the cost of production, crude oil price continues to rise and input inflation remains. Due to the weather impact, the US non-farm payrolls stood at 103,000, compared with the expected 193,000 and the previous figure of 320,000. The unemployment rate was 4.1%. Therefore, SMM believes that the US domestic inflation pressure has increased significantly due to trade frictions and full employment. In March, the US CPI was 2.4% and core CPI was 2.1%, up 0.2 and 0.3 percentage point respectively from the previous month. The possibility of a rate hike in June increases and the inflation pressure needs to be watched.
**Interest rate hike + RRR cut – fiscal spending supports the economy**

China’s social credit financing growth in March saw a year-on-year decline, while the M1/M2 growth rate gap narrowed. Social financing stood at 1.33 trillion yuan in March, compared with an expectation of 1.8 trillion yuan and February’s 1.17 trillion yuan. New loans totaled 1.12 trillion yuan in March, compared with an expectation of 1.18 trillion yuan and February’s 839 billion yuan.

In March, M1 grew by 7.1% year on year while M2 rose 8.2% year on year, narrowing the growth rate gap of M1/M2. Against this backdrop, China’s central bank adopted ‘interest rate hike (3.3%) and reserve requirement ratio cut (-1%) for certain banks’ monetary policy on April 17, releasing 400 billion yuan of new liquidity to support the economy.

**Chart 15. Social credit financing scale and YoY (billion yuan, %)**

**Chart 16. New added loans and YoY (billion yuan, %)**

---

**SMM is short-term bullish, long-term bearish**

SMM is bullish on base metals in the short term due to the peak consumption season and a favourable policy environment. However, we are bearish on a longer-term basis due to trade frictions and inflation pressure.
SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

**For more information, please contact:**

Email: service.en@smm.cn

Tel: +86 021-51550306