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Expert Commentary

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Mark Williams, Chief Asia economist at Capital Economics Ltd, on Chinese economy and CNY

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Mark Williams
Chief Asia economist
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NBS data published last week showed consumer inflation moderated more than expected in October, while PPI extended a decline to a 44th straight month, sliding 5.9% year-on-year. In your opinion, what may be the main reasons for such sharp drop in China's PPI?

The fall in China's producer prices is almost entirely due to the collapse in commodity prices that we have seen over the past eighteen months. Obviously, that is itself linked to shifting expectations for China's economy.

China's factory production grew slower than expected in October at an annual pace of 5.6%. However, fixed asset investment grew by 10.2%, while retail sales picked up slightly from September to 11%. Do you think that these mixed data have come in as a result of China attempting to make its transition from an investment-driven, manufacturing-dominated economy to a more consumption-and services-led?

There are two important shifts underway in China. The first is that policy stimulus is helping to proper growth in key parts of the economy, notably investment. The second one is medium-term shift away from heavy industry, towards services and consumer spending. That explains why retail spending has remained fairly healthy over the past couple of years, even though other parts of the economy have been struggling.

What are the major drivers for Chinese Yuan and what are your short- and long-term forecasts for EUR/CNY and the USD/CNY?

In the near term there are two drivers for the Chinese currency. One is market sentiment towards the currency and towards China's economy. We saw capital outflows over much of the past year because people have turned more negative on prospects for future currency appreciation. The second de facto is how the People's Bank of China responds to those shifts.

The People's Bank so far this year has resisted pressure to allow the Renminbi to depreciate significantly. My view is that the Bank will continue to resist that pressure and, in fact, over the medium-term, because China still has a large current account surplus. I think that is more likely that the Renminbi will appreciate than depreciate.

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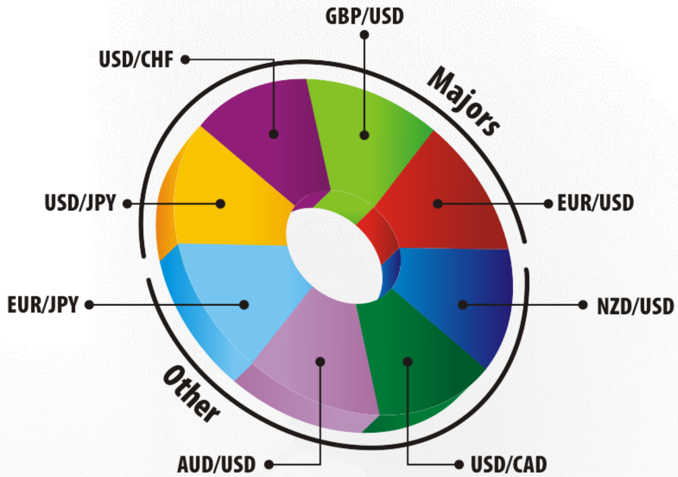

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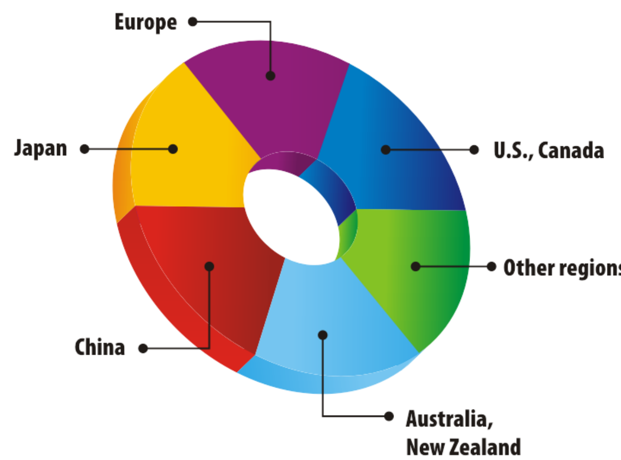

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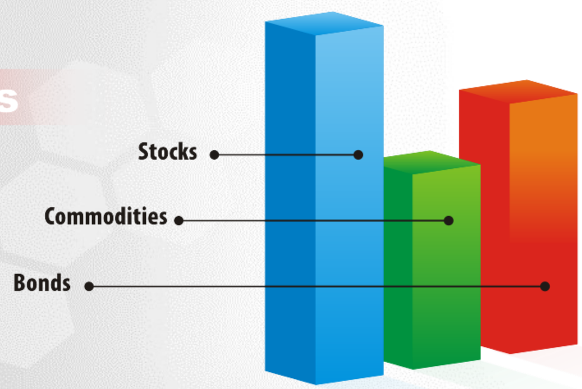

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