Snap | 10 April 2025 China

Soft March CPI strengthens case for rate cuts in China

CPI inflation failed to rebound above the zero threshold in March as price pressures persist across the board. Combined with a sharp escalation of tariffs, this sets up a suitable window for the People's Bank of China to resume monetary policy easing



CPI was soft in March and this could lead to rate cuts by the central bank

-0.1%

March CPI inflation

Yo

Lower than expected

Deflationary pressures remain significant

CPI inflation rose slightly from -0.7% year-on-year to -0.1% YoY in March, coming in softer than forecasts as we saw broad-based price pressures across the economy.

Both food and non-food inflation slowed in month-on-month terms, bringing the YoY inflation

Snap | 10 April 2025

rates to -1.4% and 0.2% respectively.

In food inflation, the biggest drags on inflation were fresh vegetables (-6.8%) as well as beef (-10.8%) and mutton (-5.4%). Pork prices (6.7%) continued to be the main support for food inflation but have been declining in sequential terms for several months now. The pork cycle has been on a downturn, with sequential price declines in five of the past six months, but trade disruptions could throw a wrench in the cycle.

In non-food inflation, we can see the impact of price competition in many categories. The transportation facility category including cars was down to -4.0% YoY. The communication facility category which covers various electronics remained positive at 1.4% YoY but saw a third straight month of sequential price declines. Rents remained in negative inflation for a twelfth consecutive month at -0.1% YoY, but eked out a slight MoM gain of 0.1% and could be soon returning above the zero bound.

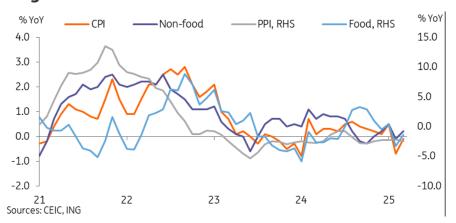
To no one's surprise, PPI inflation remained negative for the 30th consecutive month as well amid falling raw material prices.

As tariffs on US agricultural products come into effect, it's possible this could begin to pressure food prices higher, perhaps most notably through the pork cycle which has historically had significant exposure to US soybean imports. It's uncertain at this point if China will be able to source these imports from other areas without experiencing a notable price hike.

However, non-food prices will likely face further pressure, as US tariffs will worsen the overcapacity issues and likely prompt further price competition as exporters previously selling to the US market will need to find new buyers.

A question is if this year's measures to boost domestic demand will help restore inflation to a healthier trajectory. While this makes sense on an intuitive level, currently policy support for consumption is mostly focused on the trade-in policy, which in essence subsidises consumption through providing discounts and as such should do little to move price levels higher. It's possible that if consumption-support policies are expanded toward general use consumption vouchers, or if we see minimum wage hikes or tax bracket adjustments, these would be more conducive to moving inflation higher.

Price pressures persist as CPI and PPI inflation both remained negative



Snap | 10 April 2025 2

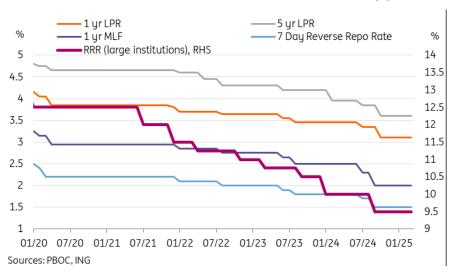
Weak inflation read and mounting tariff pressure should prompt PBOC easing

In light lower-than-expected inflation in the first quarter, as well as an escalation of tariffs which will worsen the overcapacity problem and intensify price competition, we are downgrading our 2025 CPI inflation forecast from 0.7% to 0.0% YoY.

At the Two Sessions, policymakers vowed a "moderately loose" monetary policy stance, and noted that we'd see timely cuts in interest rates and required reserve ratios. With inflation still failing to break above zero, and the economy facing new challenges this year as the trade war has quickly escalated to full throttle, we think we are now in a favourable period for the People's Bank of China to provide further easing beyond the open market operations that they have been conducting in the past weeks.

Given last year's experience, we think it is more likely we could see a bundled package of monetary policy easing, as last year's piecemeal measures had a smaller impact in stabilising market confidence. Our forecasts have looked for 30bp of cuts to the 7-day reverse repo rate, and 100bp of RRR cuts, and we expect this could be front loaded in the second or third quarter. If trade tensions persist or if there are signs that domestic demand has not picked up sufficiently through the year, it's possible to see more aggressive easing as well.

PBOC could soon cut rates and RRR to support the economy



Author

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

Snap | 10 April 2025

(being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.

Snap | 10 April 2025 4