

Dots & Plots

11 November 2021

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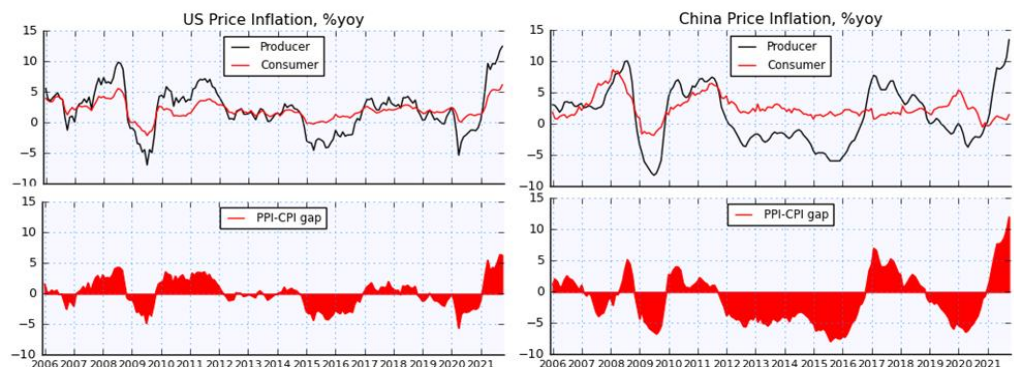
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When the Giants Soar

Inflation ticks up in both US and China – and that’s a tricky combo

- China and the US may not see eye to eye in many issues, but they do have something in common: inflation uptick. The US saw its CPI jumping 6.2%, the largest increase since 1990. Just before that, China’s CPI came in at 1.5% yoy – still mild, but the highest in a year and exceeding the market expectation.
- Moreover, consumers are not the only ones facing dearer prices. Indeed, producer price gains have been a lot more considerable across both sides of the Pacific. The PPI data for the US came in at 12.5% yoy, the highest since 1980. China’s data showed prices climbed 13.5% yoy, the highest since 1995, as producers faced an onslaught of commodities rally and power crunch.
- As producers deal with greater cost pressure, margins would be the first to suffer, but eventually they will be forced to [pass the burden](#) on to consumers. We have started to see that taking place in the US, with items ranging from [Big Mac burgers](#) to [Oreo cookies](#) already costing more. Indeed, President Joe Biden said that it was now a “top priority” to battle inflation.
- For China, while consumer price upticks remain relatively mild, the rapid uptick in what the producers pay for their supplies means that the gap has been widening so considerably that it may be a matter of time before they too are compelled to pass on their cost increases to you and me.
- China is the world’s largest exporter, commanding over 15% of global exports. Hence, any price pass-through from there will add to global inflation concerns. For ASEAN economies – to whom China is the biggest exporter by miles – that introduces a potentially nasty risk of imported inflation. (That may be impetus to hunt for “Singles Day” bargains today, while you still can).
- Thus far, only [Singapore has tightened its monetary policy](#) to face off the inflation risk, due to how open its economy is. For now, the likes of [Malaysia](#) and [Indonesia](#) are still holding the view that inflation will stay curtailed due to slow demand and there is no need to tighten any time soon. That view will be facing the test of a more hawkish Fed if US inflation soars further. It could soon be challenged by imported China’s price uptick too.



Source: OCBC, Bloomberg.

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