# Asia Insights

Global Markets Research
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Economics - Asia ex-Japan

## China: Raising inflation forecasts

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Since we *last revised up* our inflation forecasts in early March, oil prices have surged to new highs. Despite the recent easing of oil inflation in sequential terms, prices remain elevated and supply disruptions remain intact, boosting headline inflation by raising manufacturing costs across oil-related industries and domestic retail fuel prices. At the same time, the ongoing AI supercycle is also exerting upward pressure on the prices of technology products. Considering these latest developments, we are raising our quarterly forecasts for PPI inflation to 3.8% y-o-y, 4.5% and 2.2% for Q2-Q4, respectively, up from 2.4% y-o-y, 1.5% and 1.0%. Our 2026 full-year PPI inflation forecast is thus lifted to 2.5% from 1.0%. We also raise our quarterly forecasts for CPI inflation to 1.2% y-o-y, 0.5% and 0.6%, respectively, for Q2-Q4, from 0.9%, 0.5%, and 0.3%, with our full-year CPI forecast lifted to 0.9% from 0.6%. Although Beijing might feel a sense of relief from the end of deflation, it may not take much comfort, as China is a net importer of chips and the world's largest net importer of energy. The *worsening terms of trade* could shrink its balance of payments at a macro level and squeeze most domestic producers and consumers.

**Surging oil and chip-related products prompt us to raise PPI inflation**

Since *early March*, the rapid surge in global oil prices was quickly passed through to oil-related industries. We estimate oil-related sectors, including oil & gas mining, petroleum processing, chemical products manufacturing, chemical fiber manufacturing, and rubber & plastic manufacturing, account for 14.0% of the PPI basket, boosting the headline PPI inflation reading (3.9% y-o-y) by 1.90pp in May. At the same time, rising chip prices have emerged as an additional driver of PPI inflation, pushing up producer prices for semiconductor and electronic products. PPI inflation for the "computers, communication equipment and other electronic equipment manufacturing sector", which accounts for 12.5% of the PPI basket, contributed 0.26pp y-o-y to May headline PPI inflation and is likely to boost full-year PPI inflation by 0.56pp.

**Pass-through to CPI inflation**

We raise our CPI inflation forecast in view of the pass-through from higher PPI inflation due to surging global oil and chip prices. In response to surging global oil prices, the NDRC has announced several rounds of *price hikes* to domestic retail fuel prices since March. We expect retail oil prices to boost 2026 CPI inflation by 0.3pp. In addition, the rise in chip prices is passing through to retail selling prices of electronics products. We expect price inflation from communication facilities (mostly mobile phones) and recreational goods (mostly computers) to boost 2026 CPI inflation by another 0.3pp. Excluding the boost from oil and chips, CPI inflation is likely to remain muted at 0.3%, up from 0.0% in 2025, weighed on by subdued *pork prices*, deflationary rental prices and limited upside to major service prices in the face of *labor displacements from AI*.

**Beijing will not become complacent following the end of deflation**

Although Beijing might feel a sense of relief from the end of deflation, it may not take much comfort, as China is a net importer of chips and the world's largest net importer of energy. The *worsening terms of trade* could shrink its balance of payments at a macro level and squeeze most domestic producers and consumers. The broad-based disappointment from *April activity data* underscores that externally led reflation cannot extricate China from its economic woes. Household consumption, already sapped by payback effects from the trade-in program and the perennial property bust, could be further curtailed by supply-driven reflation, while industrial production could be impaired by *supply disruptions* from energy and chemical raw materials. We expect Beijing to maintain an accommodative monetary policy and ramp up fiscal spending to boost domestic demand in coming months. That said, given flush market liquidity and falling CGB yields, we have *pushed out our forecast for RRR and rate cuts* to next year.

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## Raising 2026 PPI inflation forecast to 2.5% from 1.0%

Since *early March* , oil prices have surged to new highs, with our team assumption for full-year Brent crude price inflation now standing at 35.9%, up from 27.8%. The sharp rises in global oil prices in March and April have been swiftly transmitted to oil-related industries, with pass-through effects proving more pronounced than what took place during the Russia-Ukraine War. At the same time, rising chip prices have emerged as an additional driver of upward pressure on PPI inflation, pushing up domestic producer prices for semiconductor products and electronic goods that rely on chips as key inputs. In light of these developments, we raise our 2026 PPI inflation forecast to 2.5% from 1.0%. Quarterly PPI inflation forecasts are revised to 3.8% y-o-y, 4.5% and 2.2% for Q2-Q4, respectively, up from 2.4% y-o-y, 1.5% and 1.0%.

### Review of PPI inflation in April and May

*April PPI inflation* beat expectations, rising to 2.8% y-o-y in April from 0.5% in March. Sequential PPI inflation rose to 1.7% m-o-m in April, which marks the highest monthly reading since October 2021, when China was experiencing nationwide power outages amid its carbon reduction campaign, surpassing March 2022, when the Russia-Ukraine War broke out. *May PPI inflation* rose further to 3.9% y-o-y, though sequential inflation eased to 0.5% m-o-m. The rebound in PPI inflation was driven by a confluence of factors, including surging energy prices, as well as chip products and non-ferrous metal prices amid the AI supercycle. Based on our calculations, oil, non-ferrous metals and chip manufacturing contributed 1.37pp y-o-y, 1.40pp and 0.14pp respectively, to April PPI inflation (Figure 1). In May, we estimate the contributions from these sectors increased to 1.90pp (oil), 1.80pp (non-ferrous metals) and 0.26pp (tech manufacturing).

**Fig. 1: Sector breakdown and contribution of PPI inflation**

| Categories | Weight | Contribution (May) | %, y-o-y | | | | |
|---|---|---|---|---|---|---|---|
| | % | pp | May-26 | Apr-26 | Mar-26 | Feb-26 | Jan-26 |
| **PPI** | | | **3.9** | **2.8** | **0.5** | **-0.9** | **-1.4** |
| **Oil-related** | | | | | | | |
| Petroleum & Natural Gas Mining | 0.8 | 0.29 | 35.7 | 28.6 | 5.2 | -12.9 | -16.7 |
| Petroleum, Coal and Other Fuel Processing | 3.8 | 0.71 | 18.4 | 14.2 | -4.5 | -12.0 | -11.5 |
| Chemical Material & Product Manufacuring | 6.5 | 0.83 | 12.7 | 8.9 | -0.3 | -3.7 | -5.0 |
| Chemical Fiber Manufacturing | 0.7 | 0.06 | 8.5 | 5.4 | -2.3 | -6.0 | -6.4 |
| Rubber & Plastic Product Manufacturing | 2.2 | 0.01 | 0.5 | -1.3 | -3.4 | -4.2 | -4.1 |
| **Non-ferrous-related** | | | | | | | |
| Non Ferrous Metal Mining | 0.3 | 0.11 | 36.5 | 38.9 | 36.4 | 30.2 | 22.7 |
| Non Ferrous Metal Smelting & Pressing | 7.0 | 1.69 | 24.0 | 22.5 | 22.4 | 22.1 | 17.1 |
| **Ferrous-related** | | | | | | | |
| Ferrous Metal Mining | 0.3 | 0.01 | 3.3 | 1.3 | 0.1 | 1.0 | 3.0 |
| Ferrous Metal Smelting & Pressing | 5.6 | 0.06 | 1.0 | -1.1 | -2.5 | -3.4 | -3.7 |
| **Coal-related** | | | | | | | |
| Coal Mining | 1.9 | 0.19 | 10.0 | 3.1 | -2.2 | -7.0 | -9.8 |
| Non-metal Mineral Smelting & Pressing | 0.3 | -0.01 | -3.4 | -4.1 | -4.2 | -5.0 | -4.6 |
| Non-metal Mineral Product Manufacturing | 3.3 | -0.17 | -5.1 | -5.5 | -4.9 | -4.9 | -5.4 |
| **Selected manufacuring products** | | | | | | | |
| Computer, Communication & Other Electronic Equipment Manufacturing | 12.5 | 0.26 | 2.1 | 1.5 | 0.4 | -0.9 | -1.6 |
| Electrical Machinery & Equipment Manufacturing | 8.4 | | | 3.6 | 3.2 | 2.0 | 0.8 |
| Automobile Manufacturing | 8.0 | -0.16 | -2.0 | -2.0 | -2.5 | -2.4 | -2.5 |
| Fabricated Metal Product Manufacturing | 3.4 | 0.03 | 0.8 | 0.5 | 0.2 | -0.2 | -0.7 |
| General Equipment Manufacturing | 3.7 | -0.03 | -0.9 | -1.0 | -1.2 | -1.1 | -1.3 |
| Special Equipment Manufacturing | 2.8 | | | -0.9 | -1.0 | -1.0 | -0.9 |
| Rail, Ship, Aircraft & Other Transport Equipment Manufacturing | 1.3 | 0.00 | -0.3 | -0.3 | -0.1 | -0.3 | -0.3 |

Note: Sector weight is calculated by their 2025 industrial revenue.
Source: Wind, Nomura Global Economics.

### Impact of surging oil prices

Since *early March* , oil prices have hit new highs, with our team assumption for full-year Brent crude price inflation now revised up to 35.9% from 27.8%. The rapid surge in global oil prices in March and April was quickly passed through to oil-related industries, with the extent of transmission more evident than what took place during the Russian-Ukraine War.

We estimate oil-related sectors account for 14.0% of the PPI basket, boosting PPI inflation by 1.37pp and 1.90pp in April and May, respectively.

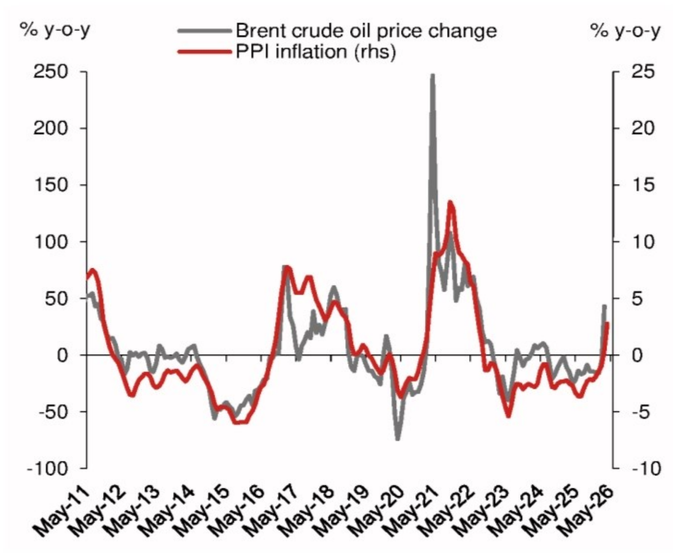
### Rising global oil prices

Average global crude oil prices increased from USD105/bbl in March to USD120.9/bbl in April and USD108.3/bbl in May. In year-on-year terms, it rose by 43.2% in March, 77.9% in April and 68.3% in May. Our global team raised its 2026 oil assumption to USD93.9/bbl from USD88.3/bbl, suggesting a year-on-year increase of 35.9%, 14.5pp above the 27.8% increase envisaged in the previous assumption. *Our previous estimate* showed that a 10% sustained crude oil price increase could raise PPI inflation by 1.0pp (Figure 2).

### The oil surge explains half of PPI inflation in April and May

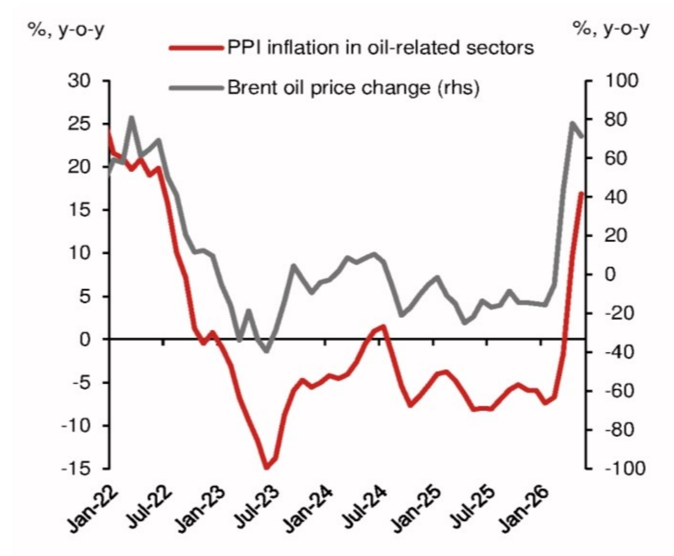
Based on industrial revenues in 2025, we estimate oil-related mining, processing and manufacturing industries account for 14% of the PPI basket, including oil & gas mining (0.8%), petroleum, coal and other fuel processing (3.8%), chemical products manufacturing (6.5%), chemical fiber manufacturing (0.7%), and rubber and plastic manufacturing (2.2%). We estimate the combined contribution from oil-related industries was 1.37pp and 1.90pp in April and May, respectively, explaining half of headline inflation (Figure 1).

**Fig. 2: Brent oil price and PPI inflation**




Source: Wind, Nomura Global Economics.

**Fig. 3: Price inflation in brent oil and oil-related industries**




Note: Oil-related industries include oil & gas mining, petroleum, coal and other fuel processing, chemical products manufacturing, chemical fibre manufacturing, and rubber and plastic manufacturing.
Source: Wind, Nomura Global Economics.

### Pass-through was faster than in 2022

When Brent oil price inflation rose to 80.9% y-o-y in March 2022 from 57.7% in February 2022 following the outbreak of Russian-Ukraine War, PPI inflation in the oil-related sector remained largely flat at 19.7% y-o-y in March, down from 21.0% in February, before ticking up slightly to 20.9% in April 2022. More recently, when Brent oil price surged from -5.2% in February to 43.2% y-o-y in March and 77.9% in April, PPI inflation in oil-related industries responded almost immediately, rising from -6.7% y-o-y in February to -1.7% in March, before surging to 9.7% in April and 13.4% in May (Figure 3).

### Emerging impact from surging chip prices

In addition to global oil prices, rising chip prices have become an emerging force exerting upward pressure on PPI inflation, prompting us to revise up our forecasts. The surge in chip prices passes through to headline PPI through two channels: 1) directly raising domestic producer prices of semiconductor products, including memory chips and SoCs; and 2) raising producer prices of electronic products that use chips as inputs, including laptops, smartphones and AI appliances. Both channels are reflected in the PPI inflation of the "computers, communication equipment and other electronic equipment manufacturing sector", which increased to 1.5% y-o-y and 2.1% in April and May, respectively, from 0.4% in March, contributing 0.14pp and 0.26pp to PPI inflation in April and May, respectively, given its sector weighting of 12.5%.

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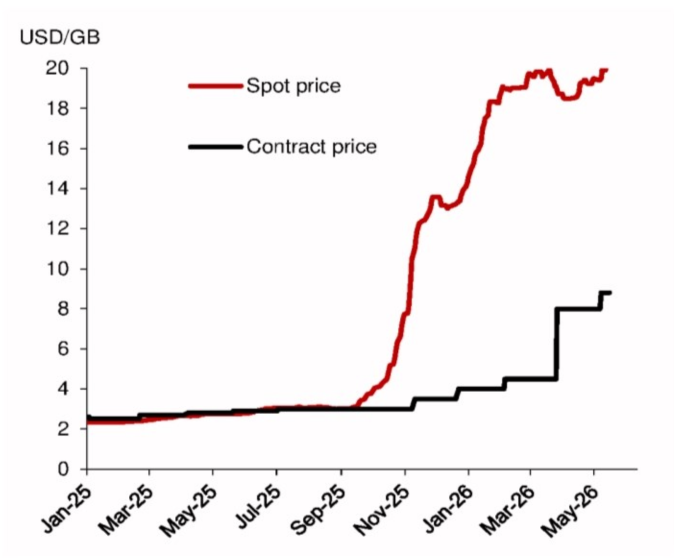
Based on our team's forecast of chip prices surging by 150% for full-year 2026 (see below section), the rise in chip prices is likely to contribute 0.56pp to our expected 2026 PPI inflation of 2.5%, assuming the chip sector accounts for approximately 3% of the industrial revenue of the "computers, communication equipment and other electronic equipment manufacturing sector".

## The surging prices of memory chips

We have observed a notable surge in global memory chip prices since 2025. As global AI server demand skyrocketed, companies reallocated production capacity towards High Bandwidth Memory (HBM), reducing the supply availability of commodity memory chips. Prices for DRAM and NAND, the two primary memory categories, increased substantially in Q1 2026. *Our equity research team* now expects average selling prices of DRAM and NAND to increase by 234% and 65%, respectively, in 2026, before falling by 5% and -2% in 2027.

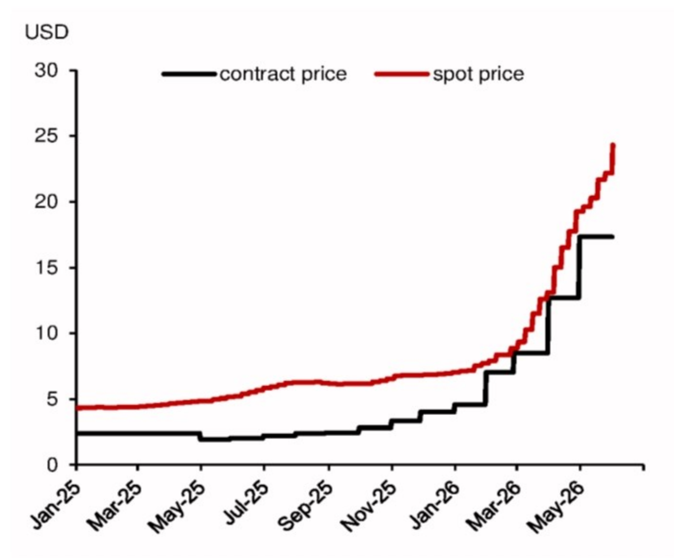
Specifically, for DRAM, the price surge gained momentum from Q4 2025. According to DRAMeXchange, DDR5 16GB spot price increased by 223.9% q-o-q in Q4 2025 and continued rising by a further 82.9% in Q1. On a year-on-year basis, prices have surged by 663.2% in Q1. Given contract prices for DRAM are typically negotiated quarterly, the substantial spot price increases observed in Q4 last year was largely reflected in Q1 pricing this year (Figure 4). The price surge in the NAND market materialized later than in DRAM. NAND flash 64GB spot prices rose by 38.4% q-o-q in Q1, after a 8.6% gain in Q4. On a year-on-year basis, prices increased by 109.5% in Q1 (Figure 5).

**Fig. 4: DDR5 spot versus contract price**




Note: Based on DDR5 16Gb (2Gx8) 4800/5600 spot prices and DDR5 16GB U-DIMM contract prices, both converted into USD per GB terms.
Source: DramExchange, Wind, Nomura Global Economics.

**Fig. 5: NAND flash spot versus contract prices**




Note: Based on NAND Flash (64Gb 8Gx8 MLC).
Source: Wind, Nomura Global Economics.

## Rising CPU and SoC costs

Beyond memory chips, CPU supply constraints have emerged as an additional cost pressure. During the current AI boom, CPU manufacturers have reallocated production capacity toward high-end large-core server processors, cutting capacity of lower-core CPUs utilized in smartphones and laptops. These CPUs are integrated with modems as System on Chip (SoC) solutions and were already the most expensive component in smartphone and laptop manufacturing prior to the memory price surge. The Qualcomm Snapdragon 8 Elite, a premium SoC for smartphones, experienced price increases of 20% in 2025 followed by an additional 20% in Q1 2026. SoC pricing for laptops remains relatively opaque due to confidential supplier-manufacturer negotiations and the complexity of product design and quotation processes.

### Other supporting forces for PPI inflation

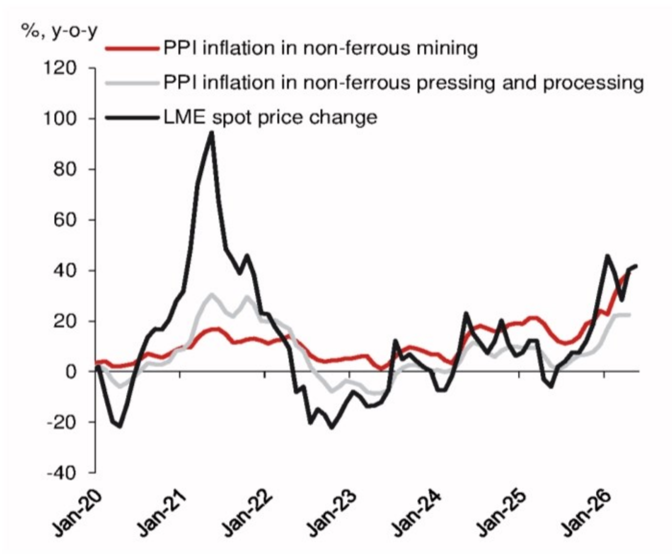
Apart from surging oil and gas prices, inflationary pressures have already emerged in a few other sectors since late 2025, including non-ferrous metals and raw materials related to green sectors. We estimate non-ferrous sectors account for 7.3% of PPI, while raw materials related to green sectors account for about 8.4%.

### Non-ferrous metal prices

We estimate that the share of non-ferrous metal sectors in the PPI is 7.3%, including non-ferrous metal mining (0.3%) and smelting and processing (7.0%). PPI inflation of non-ferrous metal mining and smelting, and pressing of non-ferrous metals remained elevated at 36.5% y-o-y and 24.0%, respectively, in May. Therefore, non-ferrous metal sectors contributed 1.80pp to the headline PPI reading of 3.9% in May (Figure 1).

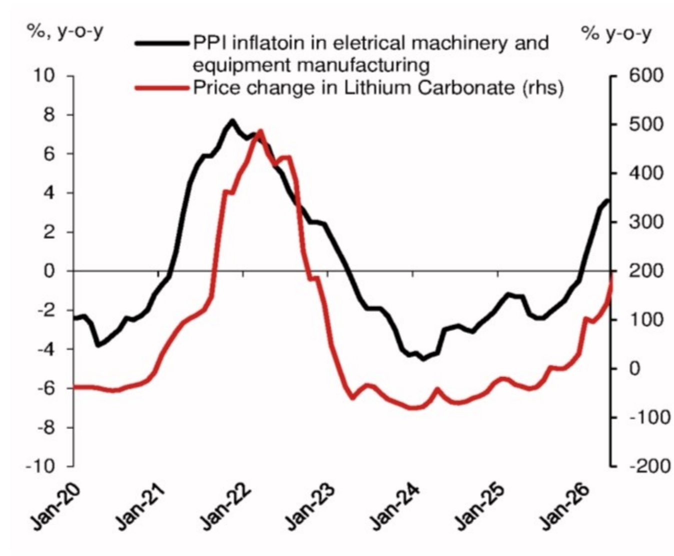
That said, this factor was already reflected in our prior PPI inflation forecast, as the pass-through had already started in late 2025, driven by surging global copper prices underpinned by strong demand from electrification and AI. LME copper price inflation remained elevated at 45.8% y-o-y, 39.0%, 28.4%, 40.2% and 41.7% through January to May, respectively (Figure 6), exerting upward pressure on headline PPI inflation. We estimate that, from January to May, the average monthly contribution from the non-ferrous sector was 1.62pp, as opposed to average headline PPI inflation of 0.3% y-o-y.

**Fig. 6: Copper price and non-ferrous PPI inflation**




Source: Wind, Nomura Global Economics.

**Fig. 7: EV battery material price change and PPI inflation in electrical machinery and equipment manufacturing sector**




Source: Wind, Nomura Global Economics.

### Raw materials related to new energy sectors

Since the anti-involution campaign intensified in mid-2025, along with rising global demand for new energy products in the face of global energy disruptions, prices of raw materials for solar panels and EV batteries (Figure 7) have continued to rise. The impact of these higher raw materials prices is mainly reflected in the electrical machinery and equipment manufacturing sector, with this component's PPI inflation turning positive since January 2026 andrising to 3.6% y-o-y in April (latest data available). We estimate the share of the electrical machinery and equipment manufacturing sector in the PPI is about 8.4%, which suggests its contribution of 0.03pp to April headline PPI inflation (Figure 1).

## Raising 2026 CPI inflation forecast from 0.6% to 0.9%

We raise our 2026 CPI inflation forecast to 0.9% from 0.6%, in view of the pass-through from higher PPI inflation due to surging global oil and chip prices. On a quarterly basis, we now expect CPI inflation of1.2% y-o-y, 0.5% and 0.6% for Q2-Q4, respectively, up from 0.9%, 0.5%, 0.3%. Despite this revision, which is entirely due to imported reflationary forces, underlying consumer prices should continue to be weighed down by sustained weak domestic demand. Excluding the boost from oil (0.3pp) and chip products (0.3pp), full-year CPI inflation should be around 0.3%.

Pork prices are unlikely to rebound notably after hitting a 16-year low in April, as *subdued dining-out activity* and the *protracted property market correction* have curtailed pork orders from restaurants and construction sites, which has structurally impaired demand. Rental prices are likely to remain deflationary in 2026, as most cities are still mired in deep property price corrections. Emerging *labor displacement effects from the AI revolution* are likely to add pressure to the youth unemployment rate and weigh on services prices. Household consumption demand, which is already weighed down by payback effects from the *scaled back trade-in program* and *perennial property bust*, is likely to be further curtailed by the supply-driven reflation.

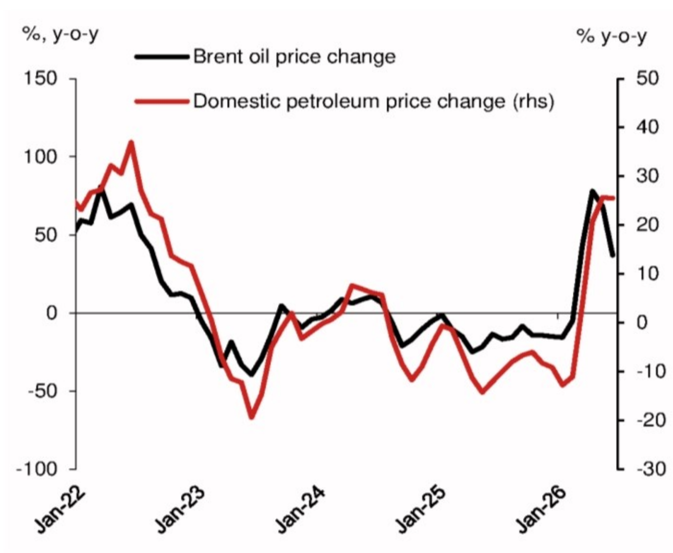
**Impact from domestic fuel price hikes**

In response to surging global oil prices, the NDRC has announced *several rounds of price hikes* since March. Domestic retail petroleum price inflation rose from -11.0% y-o-y in February to 3.8% in March, before surging to 20.8% and 25.6% in April and May, respectively (Figure 8). The rise in oil prices boosted April and May CPI inflation by 0.56pp and 0.66pp, respectively, given the energy component weighting of around 3%. We expect domestic retail petroleum price inflation to remain elevated at 20% y-o-y in June, boosting headline CPI inflation by 0.60pp. For full-year 2026, based on our team's assumption of global oil prices, we expect retail oil prices to increase by 10%, boosting headline CPI inflation by 0.3pp.

**Non-linear reaction to global oil prices**

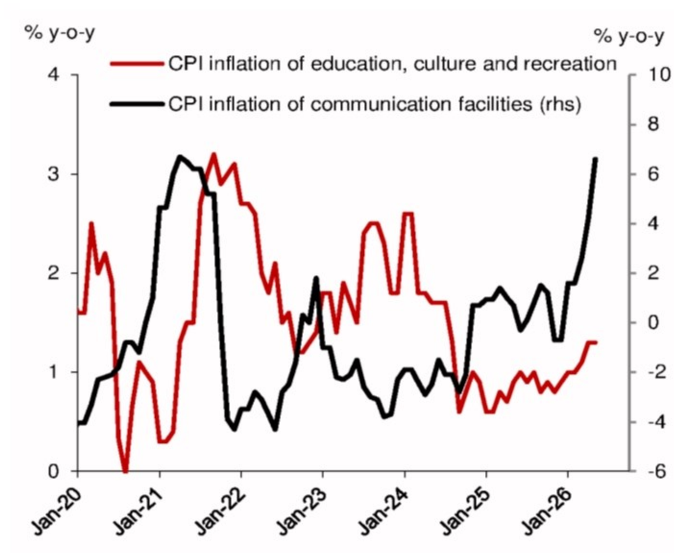
Domestic fuel prices rose by far less than global oil prices, as regulatory measures have been implemented to mitigate the impact of extreme oil price volatility on downstream sectors and end-consumers. Under the *current pricing mechanism* for retail refined oil products, regulatory measures are activated when global crude oil prices exceed USD80/bbl. This ensures that actual price adjustments to domestic retail fuel prices remain below the actual surge in global oil prices. The coefficient of domestic retail prices to global prices falls quickly when global prices reach USD80/bbl and converges to zero when global prices reach USD130/bbl. Consequently, if global oil prices exceed USD130/bbl, domestic retail fuel prices are effectively capped.

**Fig. 8: Impact of global oil price on domestic fuel prices**




Note: We use the NDRC guideline price for domestic retail fuel prices.
Source: Wind, Nomura Global Economics.

**Fig. 9: Impact of chip price on CPI components**




Note: We use January-February average to smooth out LNY effect.
Source: Wind, Nomura Global Economics.

The burden of compressed oil prices is initially borne by refining companies. As these companies are predominantly state-owned enterprises (PetroChina, Sinopec and CNOOC), any profit losses are ultimately absorbed by the fiscal budget. Refined oil supply guarantee subsidies from the central government fiscal budget are typically settled on an annual basis.

**Impact from rising chip prices**
The price surge in memory chips and SoCs is likely to be passed through to retail selling prices of consumer electronic products, including smartphones and computers. We expect price inflation from communication facilities (mostly mobile phones) and recreational goods (mostly computers) to boost 2026 headline CPI inflation by 0.3pp.

The price surge could dampen consumer demand for mobile phones and computers, which is already weighed down by payback effects from a scaled back consumer trade-in program this year. *Our equity research team* expects volume growth for domestic smartphone shipments to drop to -5.0% in 2026 from -0.7% in 2025. RUNTO, a consulting firm, expects domestic retail sales volumes of computers to drop by 10.0% in 2026 after gaining 9.0% in 2025. That said, the NBS is unlikely to make a mid-year basket re-weighting to reflect this lower share of expenditure, as the category weightings used for 2026 are based on household surveys in 2025 to ensure comparable year-on-year data.

**Communication facilities: 0.20pp contribution to 2026 CPI inflation**
Based on household surveys, smartphones, which fall under the "communication facilities" category, account for around 2% of the CPI basket. Prices of communication facilities increased by 4.2% y-o-y and 6.6% in April and May, respectively, contributing 0.08pp and 0.13pp to headline CPI inflation (Figure 9). For full-year 2026, we expect price inflation of 10% under the communication facilities category, which is likely to boost full-year headline CPI inflation by 0.20pp.

Prior to their price surges, memory and SoCs together accounted for 40% of an average smartphone, based on estimates from *our equity research team*, which suggests a cost increase of 60%, assuming a 150% increase in chip prices (see above section in PPI). Due to the massive cost increase, major brands except for Apple, including Samsung, Xiaomi, OPPO, Vivo and Honor, have all implemented price hikes since March. Pass-through to retail selling prices is likely to be more evident among entry-level devices, due to lower margins and less cost-absorbing capacity. According to Counterpoint Research, the average retail price of new mobile phones in China market is projected to increase by 15% to 25% relative to equivalent 2025 models.

**Cultural and recreational goods: 0.1pp contribution to 2026 CPI inflation**
Computers fall under the major category of “Education, culture and recreation”, which accounts for 11.4% of the total CPI basket (Figure 9xx). Within this major category, personal computers, along with tablets and gaming consoles, are classified under the sub-category of cultural and recreational goods. This sub-category accounts for around 1.0% of the total CPI basket. Because computers are just one item within this sub-category, its weighting alone is likely around 0.5% of the CPI basket. The NBS does not disclose price inflation under the sub-category of cultural and recreational goods, but only the major category, which also contains education and tourism services, which makes it difficult to tease out the net contribution from recreational goods inflation.

Price hikes for computers are likely to be even larger than those for smartphones, as chip-related products, including memory chips and CPUs, typically account for 45% of production costs for personal computers, based on estimates from *our equity research team*, higher than the 40% composition for smartphones. Assuming an average computer price increase of 20%, it is likely to contribute 0.10pp to headline CPI inflation. For other chip-related products under the same sub-category, such as tablets and gaming consoles, the contribution is almost negligible due to their limited weightings.

**Negative forces for CPI inflation**
The imported reflationary forces from global energy and chip products are unlikely to generate broad-based and self-sustained inflationary forces. Excluding the boost from oil (0.3pp) and chip products (0.3pp), full-year CPI inflation is around 0.3%, little changed from 0.0% in 2025. We see several negative forces:

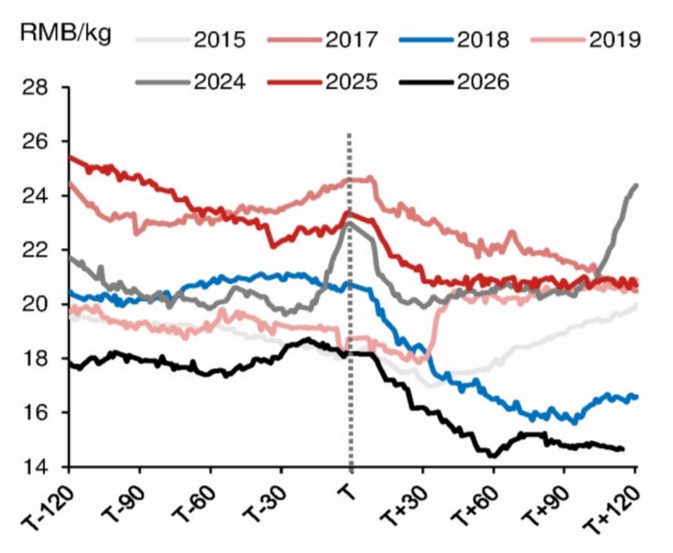
First, pork prices are unlikely to rebound notably after hitting a 16-year low in April, as *subdued dining-out activity* and the *protracted property market correction* have curtailed pork orders from restaurants and construction sites, which has structurally impaired demand (Figure 10). Second, rental price inflation is likely to remain negative for 2026, as most cities are still mired in deep property price correction (Figure 11). Third, emerging *labor displacement effects* from the AI revolution are likely to further pressure the youth unemployment rate and weigh on services prices. Fourth, household real consumption demand, which is already weighed down by payback effects from a scaled back trade-in program and perennial property bust, is likely to be further curtailed by the supply-driven reflation.

**Pork prices are likely to remain subdued after hitting a 16-year low in April**

Pork prices remain the largest ongoing drag on CPI inflation. Pork inflation remained deeply subdued at -15.2% y-o-y and -16.4% in April and May, respectively, contributing -0.29pp and -0.31pp to headline CPI inflation. On 14 May, following the *April Politburo meeting*, which explicitly pledged to stabilize pork prices, the Ministry of Agriculture and Rural Affairs (MARA) *cut the national breeding sow inventory target* from 39mn units to 37.5mn units in its first cut since January 2024. This represents the latest efforts following a slew of measures to reflate pork prices, including multiple rounds of state purchases and capacity cuts.

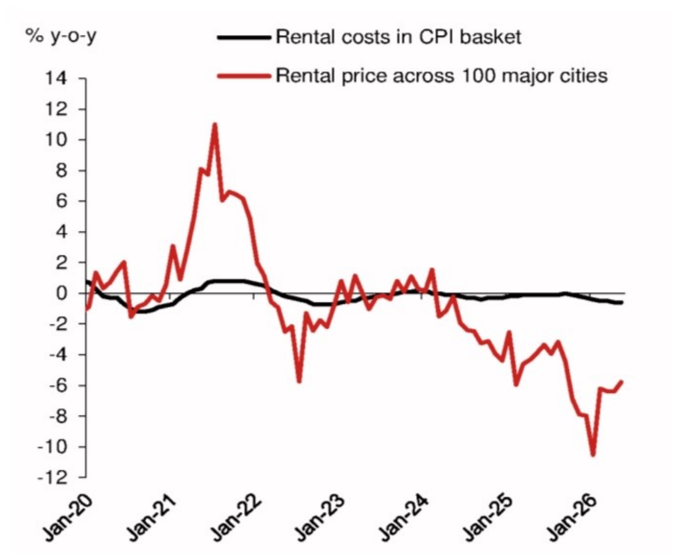
Despite policy efforts, we expect pork price inflation to remain flattish at 0.3% in 2026, which is unlikely to provide a boost to headline CPI inflation, given its 1.9% weighting. As discussed in our previous reports (*here* and *here*), pork demand is structurally impaired, as *subdued dining-out activity* and the *protracted property market correction* have curtailed pork orders from restaurants and construction sites. On the other hand, supply-side market consolidation raised production efficiency, increasing hog producer's toleration for profit losses and making it harder for regulators to cut capacity.

**Fig. 10: Pork prices barely improved following April Politburo meeting**




Note: 2020-2023 data excluded due to distortions from African Swine Fever.
Source: Wind, Nomura Global Economics.

**Fig. 11: Market rental price suggests a more significant drop**




Source: Wnid, Nomura Global Economics.

# Appendix A-1

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