China's factory inflation hit 25-year high in September

Figures fan concerns higher prices could filter through supply chains

BEIJING: China's factory inflation hit its highest level in a quarter of a century on surging commodity costs last month, with yesterday's figures fanning concerns that higher prices could filter through supply chains and into the global economy. The reopening from lockdowns around the world has ramped up demand for energy just as stockpiles are low, made worse by China's drive to meet environmental goals by slashing emissions targets.

The producer price index (PPI), which measures the cost of goods at the factory gate, hit 10.7 percent, the National Bureau of Statistics said, marking the biggest jump in its data going back to October 1996. The index had already hit a 13-year high in August, reflecting a surge in commodity prices-and piling pressure on businesses. Many factories have been forced to halt operations because of power outages caused by emissions reduction targets, the surging price of coal and supply shortages. Chinese authorities have since ordered mines to expand production, with energy firms told to ensure there are adequate fuel supplies for winter.

"In September, affected by factors such as rising prices of coal and some energy-intensive industry products, the price increase of industrial products continued to expand," NBS senior statistician Dong Lijuan said in a statement. Dong added that among 40 industrial sectors surveyed, 36 saw price hikes-including coal mining, which had a 74.9 percent rise. For now, there are "few signs" power shortages are feeding into the prices of finished consumer goods, said Sheana Yue, assistant economist at Capital Economics.

The consumer price index (CPI), a key gauge of retail inflation, hit 0.7 percent in September, slightly down from August. The NBS said pork prices-which fuelled a spike in CPI previously-fell by 46.9 percent on an annual basis.

Stagflation risk

But Zhiwei Zhang, chief economist at Pinpoint Asset Management, cautioned that, with prices soaring and economic growth showing signs of slowing, "the risk of stagflation is rising in China as well as the rest of the world". "The ambitious goal of carbon neutrality puts persistent pressure on commodity prices, which will be passed to downstream firms," Zhang added.

Beijing has set a target of reaching peak carbon emissions by 2030, and becoming carbon neutral by 2060. As authorities seek ways to ease the energy crisis, economists warn of the risk of worsening factory inflation.

The country's cabinet, the State Council, said this month that electricity prices would be allowed to rise by up to 20 percent against a benchmark-double the level of the current cap-helping to make it profitable for electricity producers to boost supply. But such a move adds to inflation pressures, leaving authorities with the complicated task of trying to tame prices while also needing to boost the flagging economy. Third-quarter GDP data is due out next week. ANZ Research senior China strategist Zhaopeng Xing said the electricity price cap move was likely to boost headline PPI and warned September's reading will "not be its peak", forecasting higher numbers in October or November.

Yue, however, expected factory-gate inflation would moderate, saying "coal and metal prices are likely to drop back as property construction slows". Analysts earlier cautioned of a looming hit from the power crunch on other aspects of China's economy such as foreign trade, with supply disruptions possibly filtering down supply chains. That comes as central banks around the world begin to wind back the ultra-loose monetary policies put in place at the start of the pandemic, which were key to supporting economies but which now are helping fan inflation.


SHENYANG, China: People buy vegetables at a market in Shenyang in China's northeastern Liaoning province yesterday. — AFP

Concerns about China's property sector have also seen the People's Bank of China pump more money into the market in recent weeks. The government has been trying to halt spillover risk from teetering Chinese real estate giant Evergrande, which is bogged down in a $300 billion debt quagmire. — AFP

Singapore tightens monetary policy as economy recovers

SINGAPORE: Singapore's central bank tightened monetary policy for the first time in three years yesterday, the latest country to act against inflation as coronavirus-hit economies reopen amid continuing supply chain bottlenecks. The world's central bankers are walking a fine line between supporting economic recovery with easy financial conditions while preventing a long-term increase in prices. The move by the Monetary Authority of Singapore (MAS) came as the economy grew 6.5 percent year-on-year in the third quarter, according to preliminary estimates, extending the city-state's recovery from its worst-ever recession last year due to the pandemic.

Singapore has taken a strategy of living with the virus by ramping up its vaccination rate-currently at around 85 percent-as it opens up the economy and eases travel for those who have been vaccinated. Inflation has been rising across the world as supply chains struggle to meet surging demand, prompting central banks such as those in New Zealand and South Korea to tighten monetary policy.

"MAS' move is in response to concerns that inflation globally may stay elevated for longer than what may be currently perceived," said Song Seng Wun, a regional economist with CIMB Private Banking.

"For Singapore, which imports everything from food on the table to shoes, it is inevitable that a stronger exchange rate is needed to contain inflation as much as possible," he told AFP. This is all the more crucial as the economy is expected to continue growing into next year with further opening-up and as travel gains pace, he added. Singapore's conducts monetary policy through the exchange rate in which the local dollar is managed against a basket of the currencies of its major trading partners.

MAS said yesterday said it will "raise slightly" the slope of the Singapore dollar's exchange policy band from zero percent, which would allow for a modest appreciation of the unit.

This "will ensure price stability over the medium term while recognizing the risks to the economic recovery", it said. Singapore has registered more than 135,000 virus cases but a very low level of fatalities compared with other countries, reporting just 192 deaths. — AFP

Chile's central bank flags biggest rate hike in 20 years

SANTIAGO: The Central Bank of Chile on Wednesday announced a hike in its benchmark rate from 1.50 percent to 2.75 percent, the biggest hike in 20 years as the country grapples with inflationary pressures. The bank raised the interest rate by 125 basis points in the face of a "macroeconomic scenario which increased the risks concerning the (official) objective of inflation at three percent," the bank said in a statement. The move came after the consumer price index (CPI) rose 1.2 percent in September, the highest monthly spike in 13 years, representing a rise of 4.4 percent since early 2021 and of 5.3 percent over the previous twelve months.

Inflation has been spurred by greater liquidity in the country after votes in Congress that allowed Chileans to withdraw funds on three occasions from their private retirement savings in order to weather the economic and social consequences of the coronavirus pandemic. The Central Bank indicated further rate hikes could follow, and the economy's trajectory will be assessed in the next monetary policy report, "bearing in mind the need to avoid a more persistent rise in inflation," the bank said. Chile ended 2020 with three percent inflation, but several experts warned of an "overheating economy" and inflationary risks if a fourth withdrawal of funds from private retirement savings, currently being debated in Congress, is approved. —AFP