



China Sourcing Update

November 26, 2015

Energy Costs

1. Crude prices drop in November

In line with the movement of global crude prices, China's crude prices fluctuated during October, before dropping in early November.¹ For example, the Daqing² crude price fluctuated between US\$ 37.5 per barrel and US\$ 44.1 per barrel during October. Afterwards, it went down from US\$ 40.7 per barrel on 4 November to US\$ 35.4 per barrel on 18 November, the lowest since September (see exhibit 1).

The drop in global oil prices in early November was triggered by the reportedly high level of crude oil inventories in the US. The US Energy Information Administration (EIA) released the data on 4 November, showing that the commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) in the US reached a high of around 482 million barrels as at the end of October.³

Moreover, according to the *Monthly Oil Market Report* published by the Organization of the Petroleum Exporting Countries (OPEC) on 12 November, global oil oversupply still persisted in October. According to secondary sources quoted by the report, the crude production from OPEC member countries dropped by 256,500 barrels per day in October from the previous month; however, the overall OPEC production still stayed high at 31.38 million barrels per day in October, higher than its target of 30 million barrels per day.

Looking ahead, the crude supply from Iran is expected to return to the international market soon, which will add to the oversupply woes in the future. Besides, according to the International Energy Agency (IEA), the growth of oil demand is projected to slow to 1.2 million barrels per day in 2016, after reaching a five-year high of 1.8 million barrels

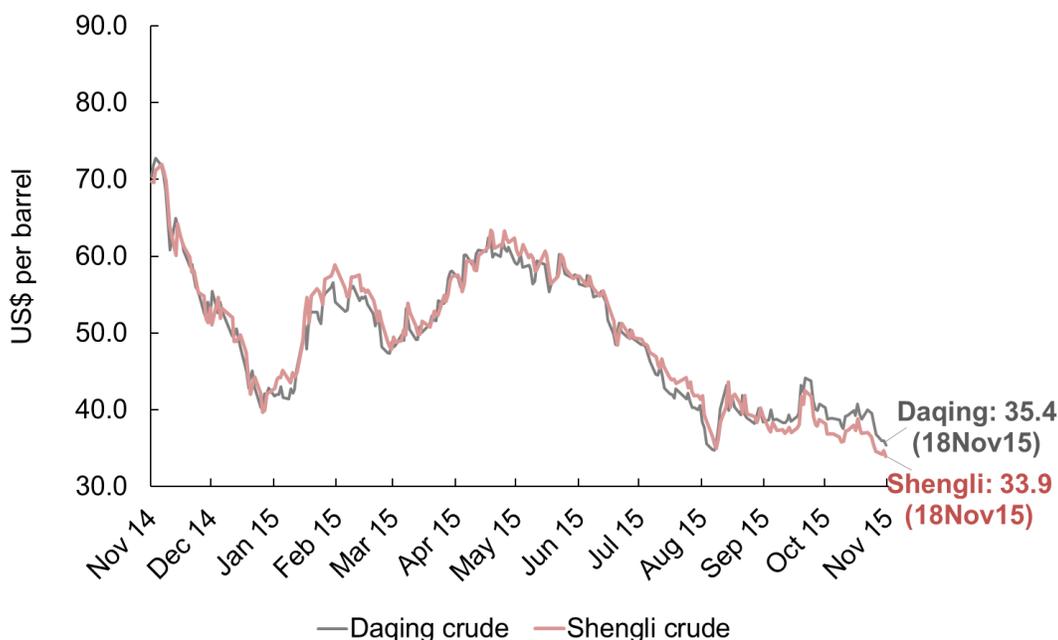
¹ From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

² Daqing Field is the largest oil field in China.

³ https://www.eia.gov/petroleum/supply/weekly/archive/2015/2015_11_04/pdf/wpsrall.pdf

per day in 2015.⁴ All in all, we expect the oil prices to remain at low levels in the coming months.

Exhibit 1: China's crude prices, November 2014 to November 2015



Source: ifeng.com

2. Wholesale price index of refined oil products rises slightly

The wholesale price index of refined oil products rose by 0.4% mom in October (see exhibit 2).⁵

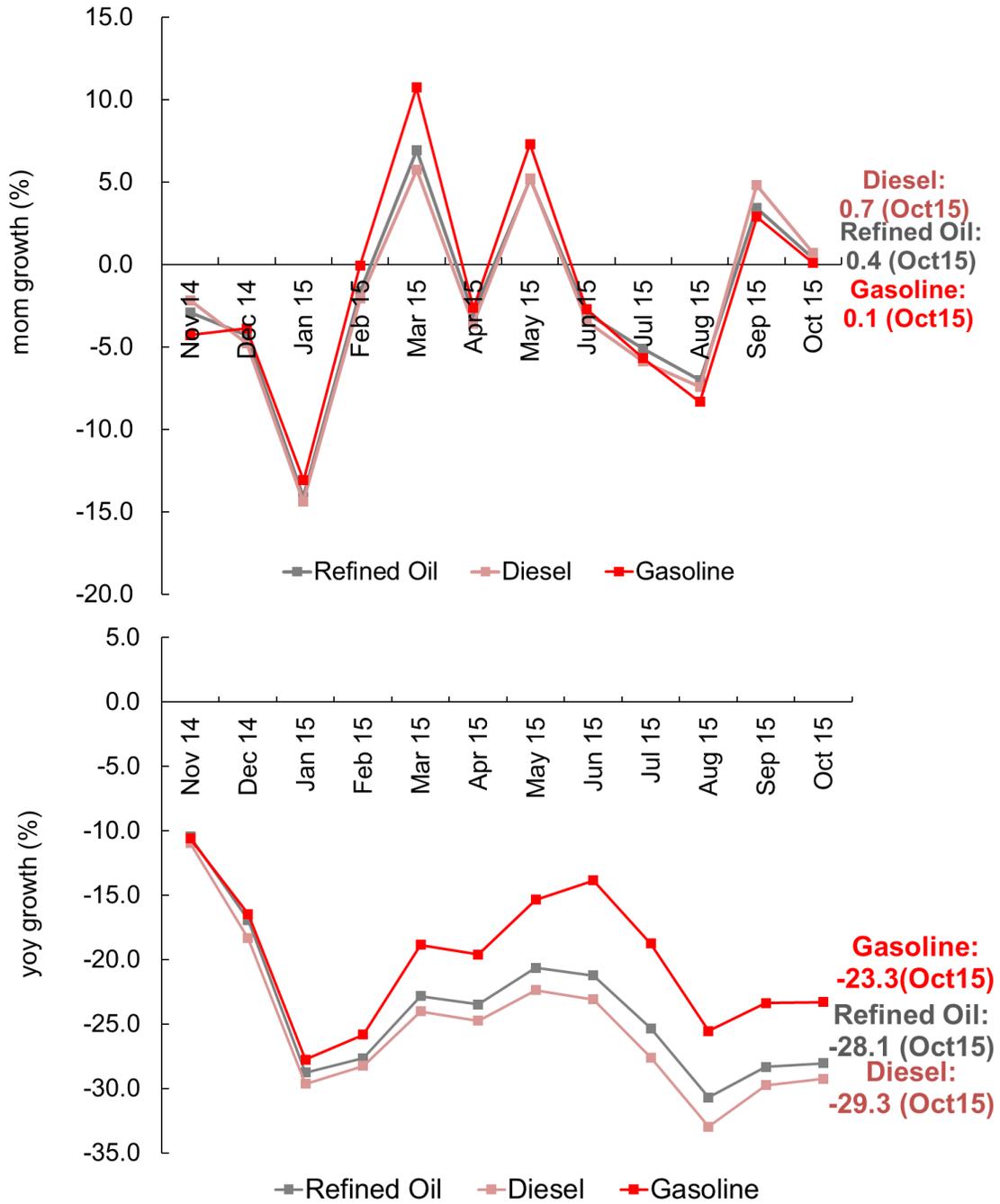
The movement of the price index in the month was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made an upward adjustment on the wholesale prices of refined oil products on 21 October, in response to the fluctuations in global crude prices in the first half of October.

Looking ahead, the future movement of the wholesale prices of refined oil products will depend mainly on the movement of global crude prices. According to the pricing mechanism of refined oil, the fuel prices are adjusted every 10 working days, based on the change in a basket of global crude prices. If the computed amount of fuel price change is less than 50 yuan per tonne, no adjustment will be made, and the amount will be accumulated for the next round of adjustment.

⁴ <https://www.iea.org/oilmarketreport/omrpublic/>

⁵ The index is compiled by the China Logistics Information Center (CLIC).

Exhibit 2: China's wholesale price indices of refined oil products, November 2014 to October 2015



Source: China Logistics Information Center

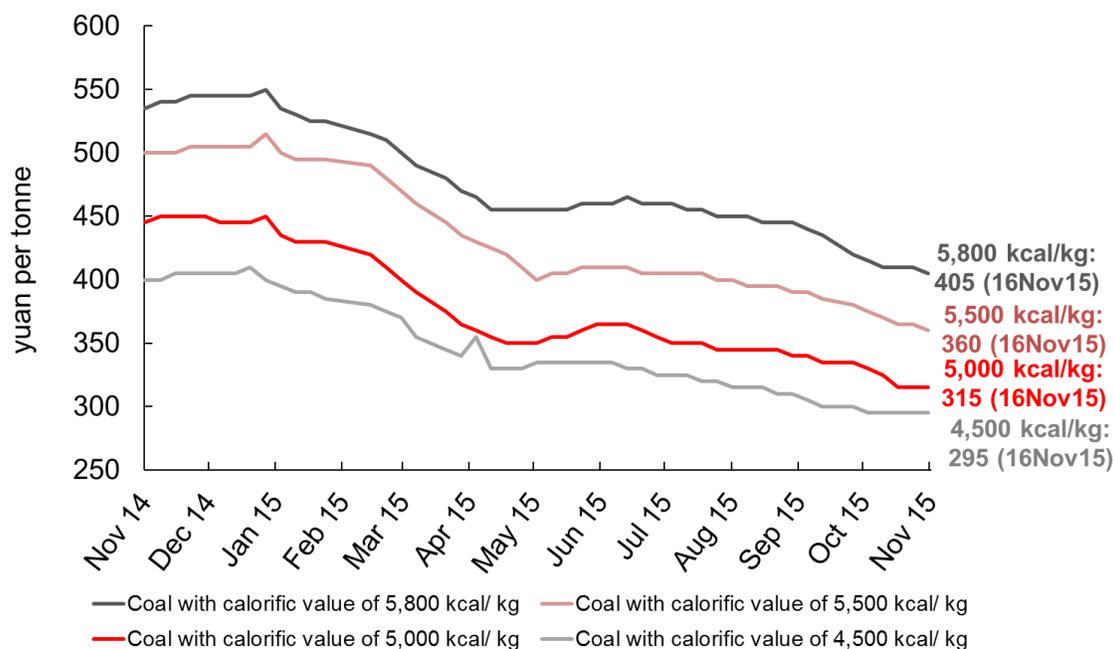
3. The benchmark Qinhuangdao coal prices fall

The benchmark Qinhuangdao coal prices have continued to drop in recent months (see *exhibit 3*). For instance, the price of coal with calorific value of 5,500 kcal/ kg came in at 360 yuan per tonne on 16 November, the lowest level since November 2004.

Amid the moderating growth of China's economy, the domestic demand for coal has stayed weak in recent months. According to the local media, a number of major coal enterprises cut their prices during mid to late-October to promote coal sales. However, the coal inventory levels among power producers still remained high during the period as a result of the sluggish downstream demand, and thus they were reluctant to place orders for coal.

Looking ahead, the demand for heating will increase during the coming winter, which may help support the coal prices. However, as long as the stock levels of coal remain high, we do not expect the domestic coal prices to rebound significantly in the near term.

Exhibit 3: Qinhuangdao coal prices, November 2014 to November 2015



Source: Cqcoal.com

THE FUNG BUSINESS INTELLIGENCE CENTRE

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