



China Sourcing Update

May 27, 2019

Energy Costs

1. Crude prices rise and then retreat in April

In line with the movement of global crude prices, China's crude prices trended upward almost throughout April but retreated in the last few days of the month.¹ For instance, the Daqing² crude price surged from US\$60.3 per barrel on 29 March to US\$67.2 per barrel on 25 April, before dropping to US\$64.0 per barrel on 29 April (*see exhibit 1*).

Global crude prices hit new 2019 highs in the month due mainly to stronger-than-expected economic data released by China and the US in early April, which eased market worries about the global economic slowdown; and the US announcement to end the sanctions waivers on Iranian oil imports from 1 May³, which aggravated market concerns over a potential supply crunch of crude oil. Global crude prices tumbled on 26 April amid reports that US President Donald Trump asked OPEC member countries to help lower crude prices.

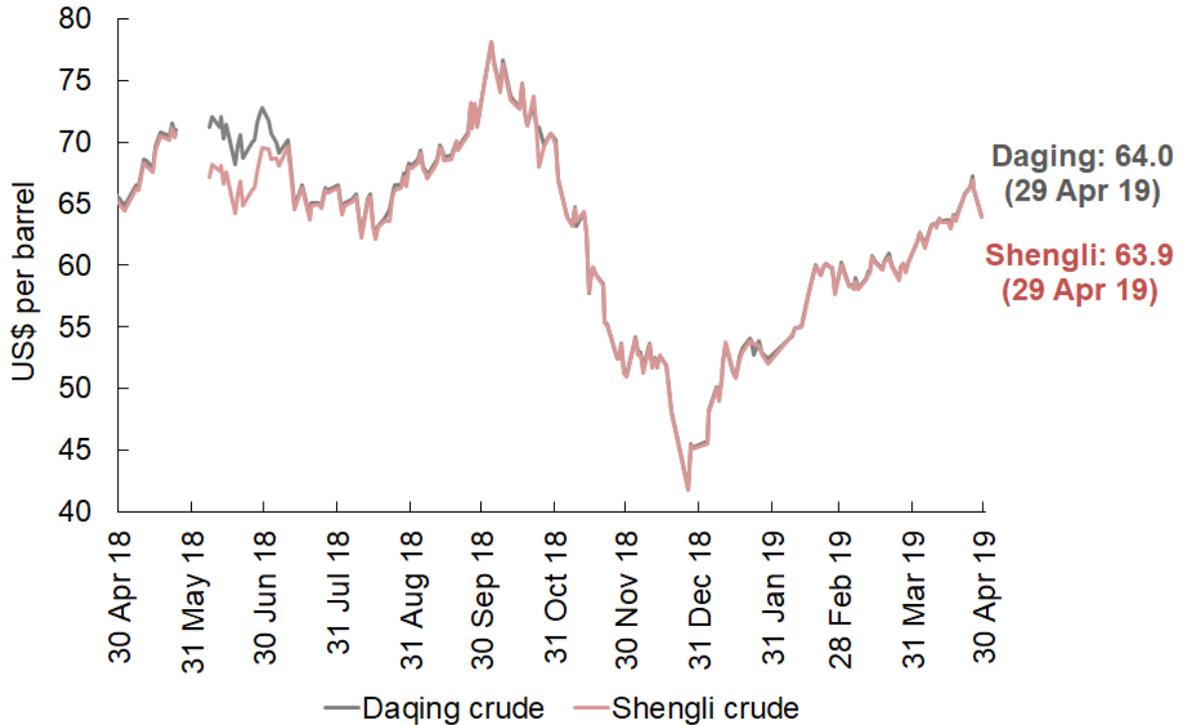
Looking ahead, we expect that global crude prices will remain volatile in the near future, as geopolitical events including the China-US trade war and the US sanctions on Iran and Venezuela continue to drive the global crude market.

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 The US re-imposed sanctions on exports of Iranian oil in early November last year. Eight countries and regions, including China and India, were granted waivers for six months.

Exhibit 1: China's crude prices, April 2018 to April 2019



Source: ifeng.com, gcec.com.cn

2. Wholesale price index of refined oil products rises in April

The wholesale price index of refined oil products rose by 0.8% mom in March (see exhibit 2).⁴ Specifically, the wholesale price index of diesel gained 2.0% mom, while that of gasoline declined by 0.5% mom.

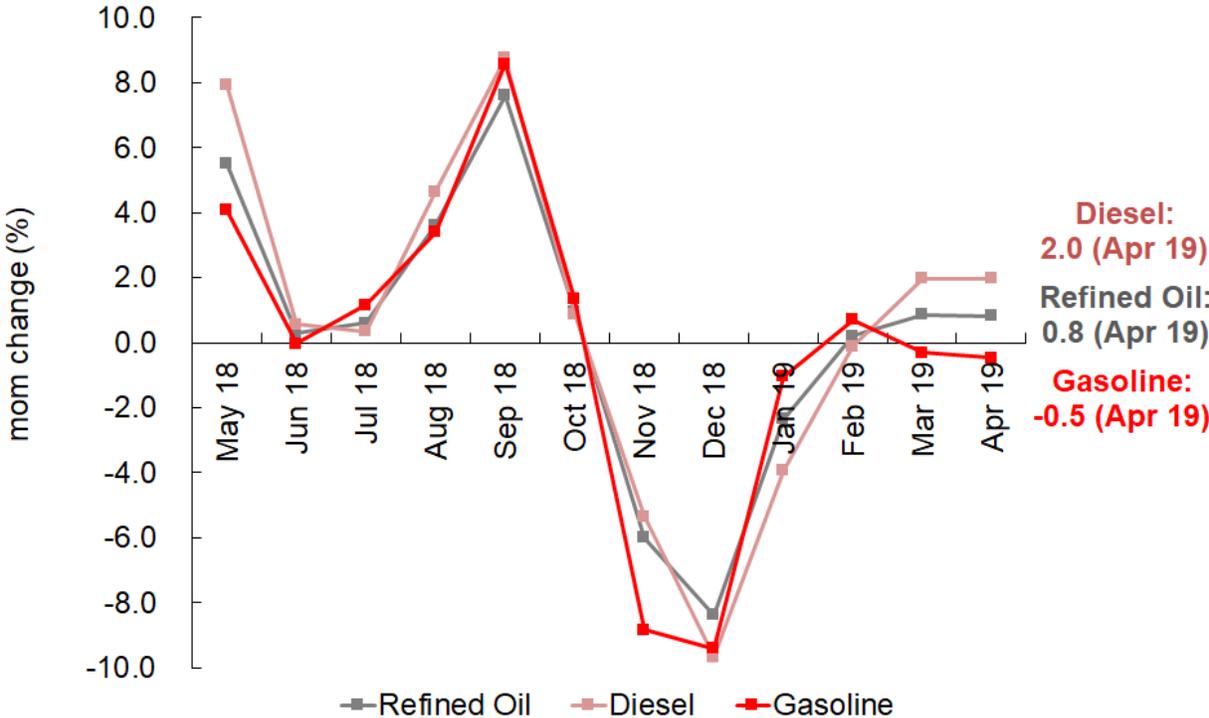
Due to the value-added tax (VAT) rate adjustment starting from 1 April, the maximum wholesale prices of gasoline and diesel were lowered by 225 yuan per tonne and 200 yuan per tonne respectively on that day, according to an announcement by the National Development and Reform Commission (NDRC).⁵ After that, in response to a rise in global crude prices in April, the NDRC raised the maximum wholesale prices of gasoline and diesel on 13 April and 27 April, which more than offset the price cuts associated with the VAT adjustment.

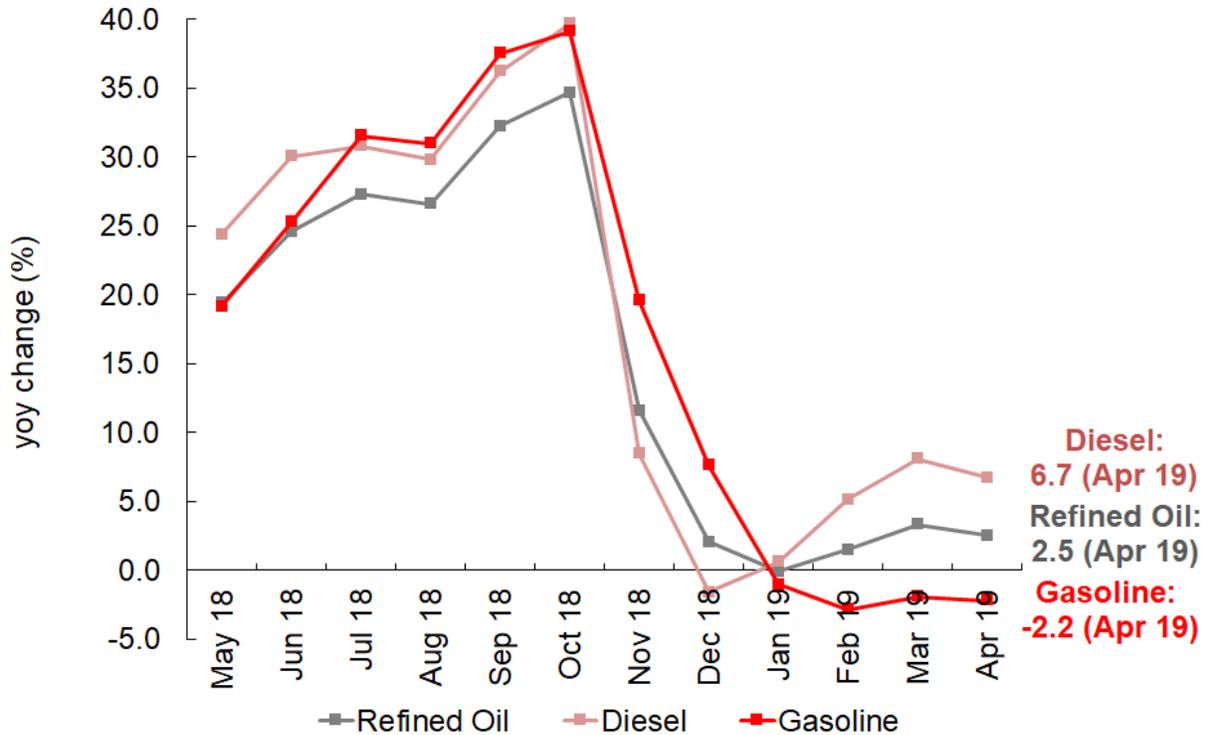
⁴ The index is compiled by the China Logistics Information Center (CLIC).

⁵ http://www.ndrc.gov.cn/xwzx/xwfb/201903/t20190329_931904.html

Looking ahead, we expect the wholesale price index of refined oil products to continue to go up in May, further reflecting the wholesale price increases made on 27 April.

Exhibit 2: China’s wholesale price indices of refined oil products, May 2018 to April 2019





Source: China Logistics Information Center

3. Benchmark Qinhuangdao coal prices rise and then retreat in April

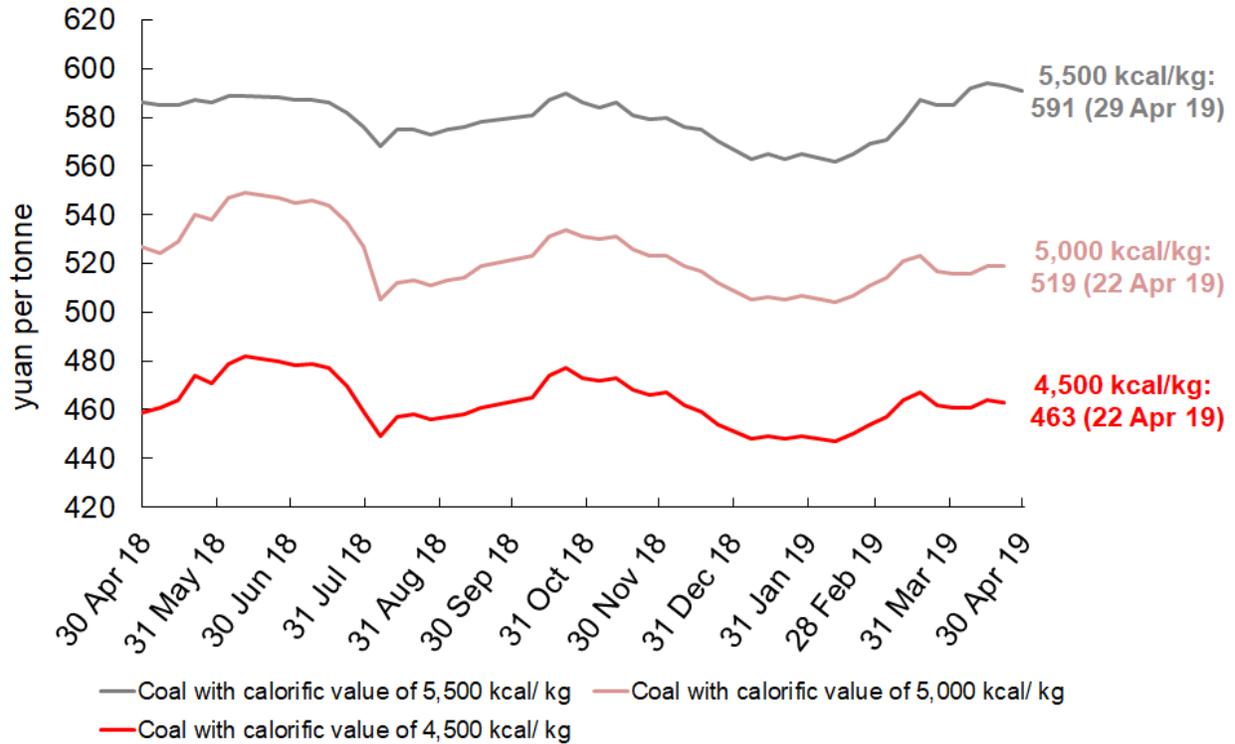
The benchmark Qinhuangdao coal prices went up during early to mid-April and eased afterwards (see exhibit 3). For example, the price of coal with calorific value of 5,500 kcal/kg increased from 585 yuan per tonne on 25 March to 594 yuan per tonne on 15 April, before retreating to 591 yuan per tonne on 29 April.

The main reason for the pick-up in the benchmark Qinhuangdao coal prices in the first half of April was a tightened supply of coal, due to safety checks on coal mines in major coal producing regions such as Shaanxi and Inner Mongolia and the maintenance of the Datong-Qinhuangdao Railway⁶ which caused a fall in coal delivery to Qinhuangdao. Coal prices fell slightly during mid- to late April as the downstream demand for coal weakened amid a seasonal drop in heating demand.

⁶ The Datong-Qinhuangdao Railway is the major rail line transporting coal from major coal-producing regions to Qinhuangdao, the largest coal shipping port in China.

According to the latest media reports, the domestic coal supply is likely to remain tight in the near term. Thus, we predict that the benchmark Qinhuangdao coal prices will stay high in the coming months.

Exhibit 3: Qinhuangdao coal prices, April 2018 to April 2019



Source: cctd.com.cn

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