



# China Sourcing Update

March 21, 2019

## Energy Costs

### 1. Crude prices rise in February

In line with the movement of global crude prices, China's crude prices went up in early to mid-February, and then fluctuated at high levels in late February.<sup>1</sup> For instance, the Daqing<sup>2</sup> crude price rose from US\$ 52.4 per barrel on 29 January to US\$ 60.0 per barrel on 18 February, before fluctuating within a range of US\$ 57.8 per barrel to US\$ 60.1 per barrel during the rest of the month (see *exhibit 1*).

The global crude prices trended upward in early to mid-February due mainly to the following two reasons. First, the output of members of the OPEC dropped markedly by 0.93 million barrels per day (mbd) to 30.83 mbd in January, the lowest level in four years, according to the report published by the International Energy Agency (IEA) on 13 February. The figures indicated that the OPEC-led production cuts were underway in January following an agreement reached by OPEC members and some non-OPEC oil producing countries to cut their crude output in the first six months of 2019. Second, market sentiments improved as the Republicans and the Democrats in the US Congress reached a deal on 11 February to prevent another government shutdown.

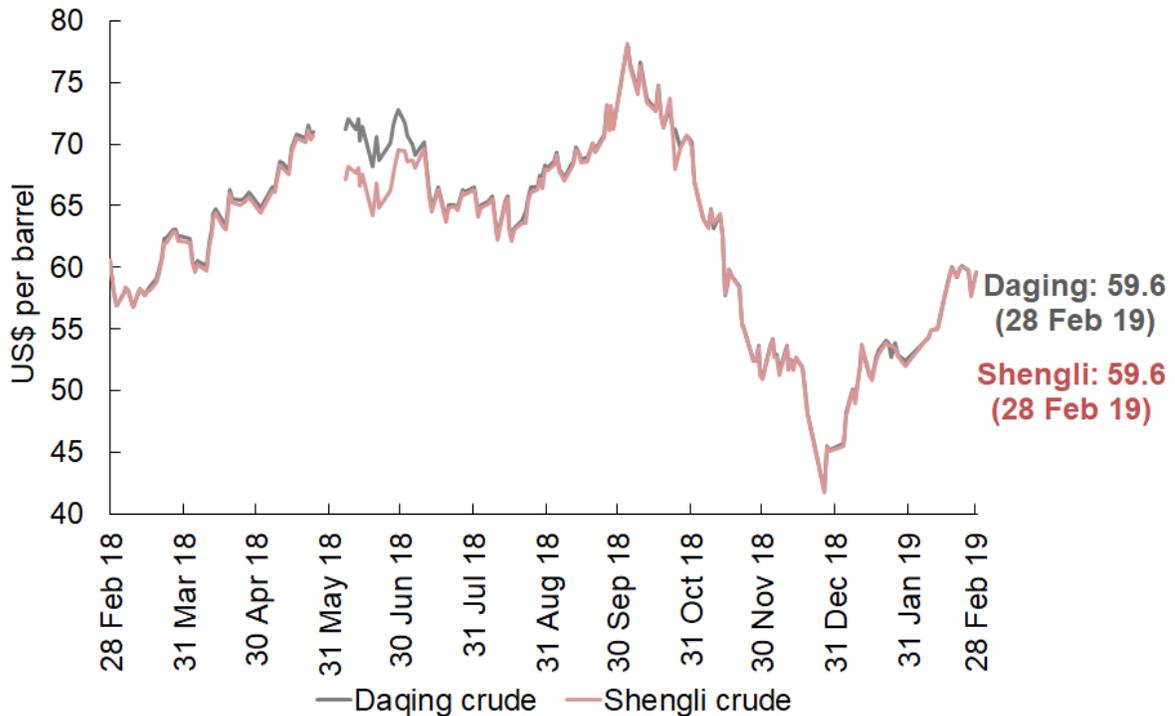
Looking ahead, we do not expect the global crude prices to rise much in the near future as the global demand for the crude is likely to moderate amid weaker growth of the

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

<sup>2</sup> Daqing Field is the largest oil field in China.

global economy this year. According to the forecasts by the OECD on 6 March, the world's economic growth is projected to decelerate to 3.3% in 2019 from 3.6% in 2018.<sup>3</sup>

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



Source: ifeng.com, gcec.com.cn

## 2. Wholesale price index of refined oil products rises slightly in February

The wholesale price index of refined oil products rose slightly by 0.2% mom in February (see exhibit 2).<sup>4</sup> Specifically, the wholesale price index of diesel edged down by 0.1% mom, while that of gasoline increased by 0.7% mom.

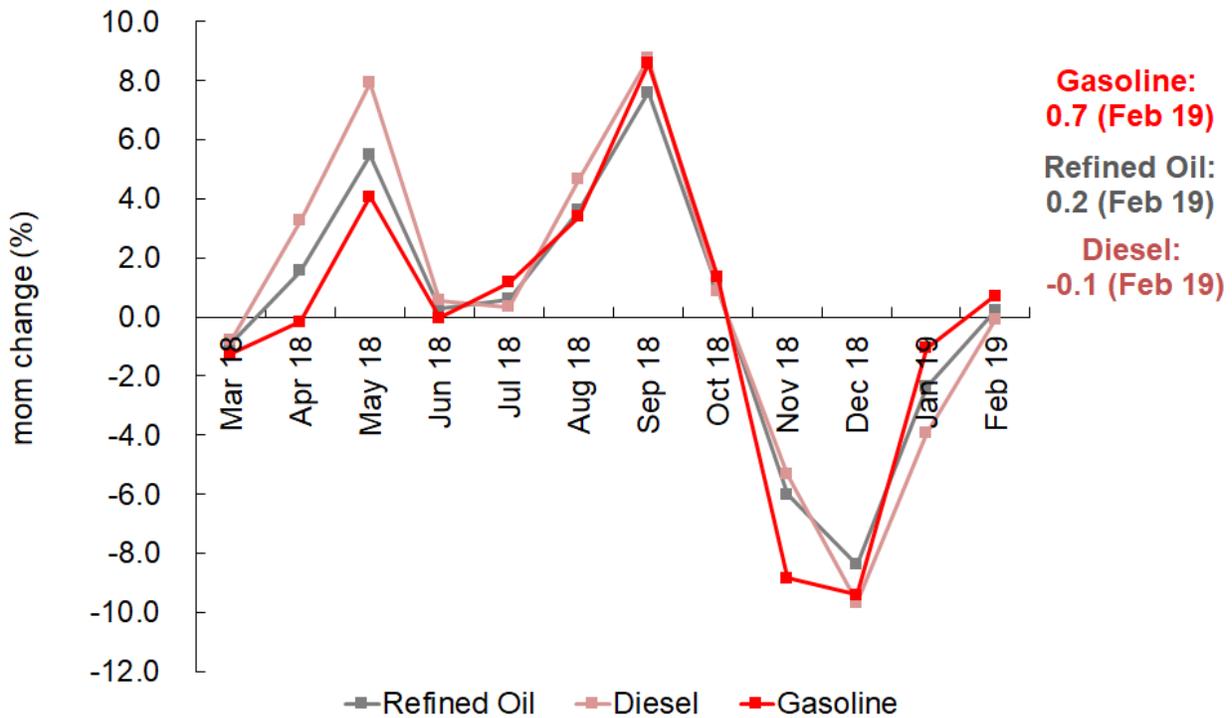
According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline are adjusted every 10 working days, based on the change in a basket of global crude prices. In response to a rise in global crude prices during early to mid-February, the National Development and Reform Commission (NDRC) raised the maximum wholesale prices of gasoline and diesel by 50 yuan per tonne on 15 February.

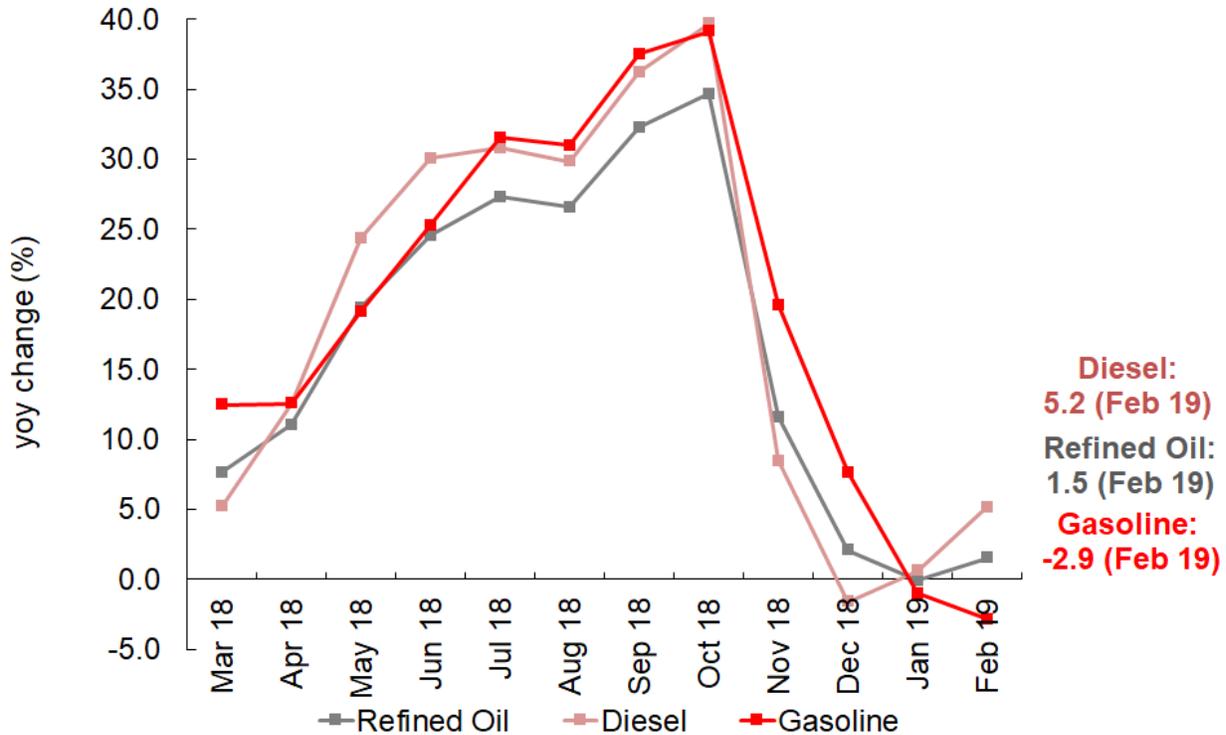
<sup>3</sup> OECD, *Interim Economic Outlook*, March 2019

<sup>4</sup> The index is compiled by the China Logistics Information Center (CLIC).

Looking ahead, we expect the wholesale price index of refined oil products to rise further in March, as the NDRC raised the maximum wholesale prices of gasoline and diesel by 270 yuan and 260 yuan per tonne respectively on 1 March due to a rise in global crude prices in the few days after 15 February.

**Exhibit 2: China's wholesale price indices of refined oil products, March 2018 to February 2019**





Source: China Logistics Information Center

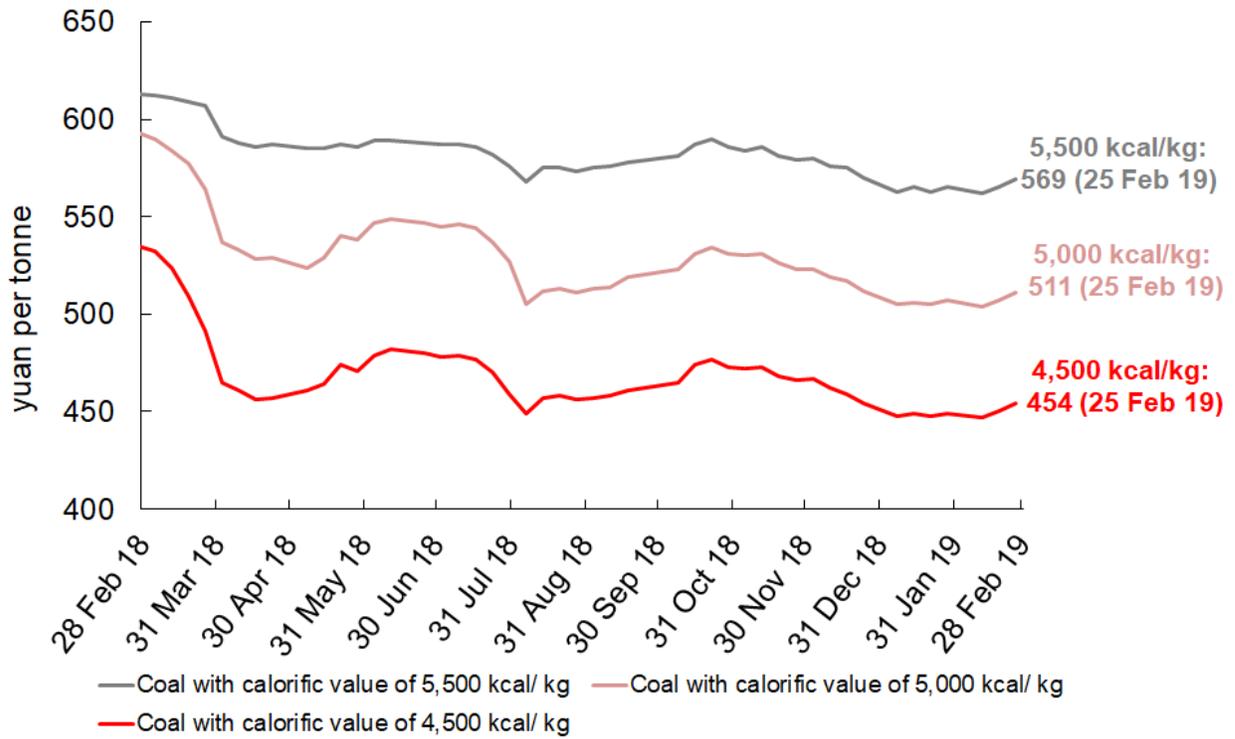
### 3. Benchmark Qinhuangdao coal prices go up in February

The benchmark Qinhuangdao coal prices went up in February (see exhibit 3). For example, the price of coal with calorific value of 5,000 kcal/ kg was 511 yuan per tonne on 25 February, compared to 507 yuan per tonne on 28 January.

The slight rise in the coal prices in February could be highly associated with an improvement in the market sentiments on coal amid a tightening supply. The Chinese government ordered a number of coal mines in several provinces to shut down their operations for safety checks after the collapse of a coal mine in Shenmu county on 12 January.

According to latest media reports, more and more coal mines in major coal producing provinces have resumed production, and the downstream demand for coal has been weak recently. Therefore, we predict that the coal prices will start to fall soon.

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



Source: ifeng.com, cctd.com.cn

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