



# China Sourcing Update

February 28, 2017

## Energy Costs

### 1. Crude prices fluctuate during early January to late February

In line with the movement of global crude prices, China's crude prices have fluctuated within a narrow range since the start of 2017.<sup>1</sup> For example, the Daqing<sup>2</sup> crude price hovered between US\$ 48.5 per barrel and US\$ 52.0 per barrel during early January to mid-February, before closing at US\$ 50.7 per barrel on 22 February (*see exhibit 1*).

As the impacts of the crude output cut led by the member countries of the Organization of the Petroleum Exporting Countries (OPEC) have been partly offset by a rise in the US oil output in recent months, global oil output has not fallen as much as initially hoped. According to a Reuters survey, as the crude output cut kicked in on 1 January, the total crude output of the member countries of the OPEC dropped by over 1 million barrels per day to 32.27 million barrels per day in January 2017 from the previous month.<sup>3</sup> On the other hand, data from the US Energy Information Administration showed that the US's production of crude oil rose by more than 456,000 barrels per day from October 2016 to January 2017 and is expected to increase further in the coming months.

Looking ahead, the rising US oil output is likely to continue to undermine the positive impacts of the OPEC's output cut on global crude prices. Moreover, there is great uncertainty about the pace of interest rate hikes in the US, which will affect the strength of the US dollar in which global oil prices are denominated. In view of these factors, we

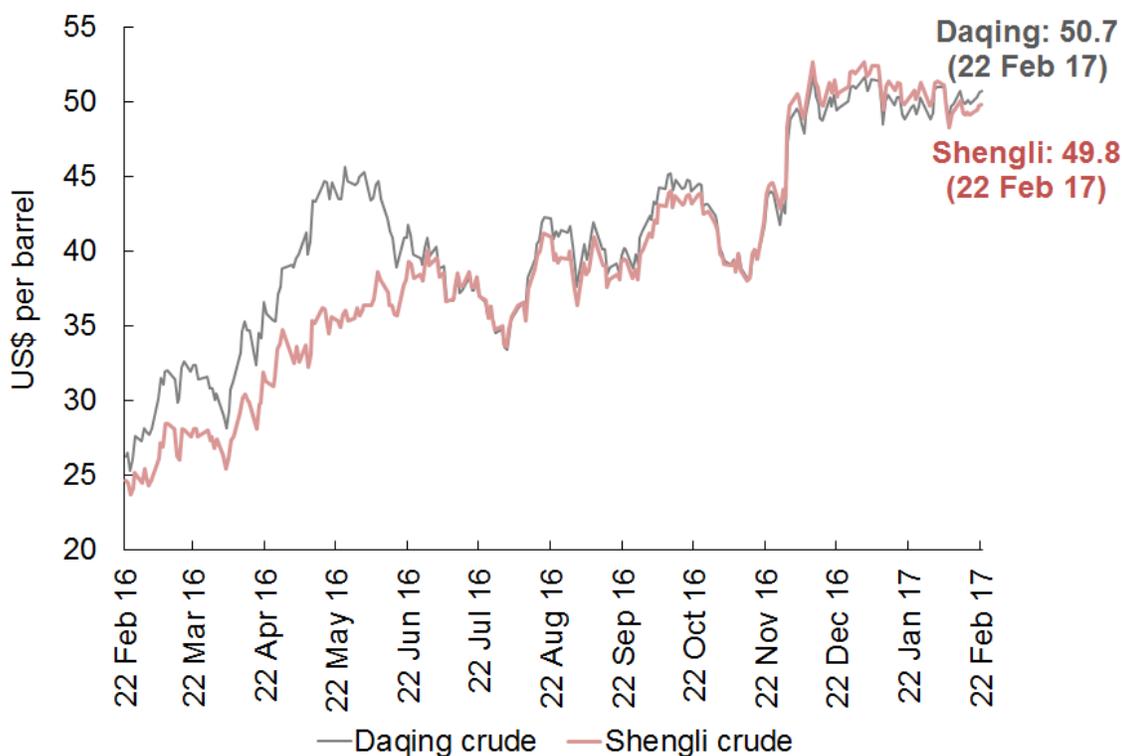
<sup>1</sup> From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

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

<sup>3</sup> <http://www.reuters.com/article/global-oil-idUSL4N1FM0FP>

expect that oil market will lack a clear direction and global oil prices will fluctuate around the current levels in the near future.

**Exhibit 1: China's crude prices, February 2016 to February 2017**



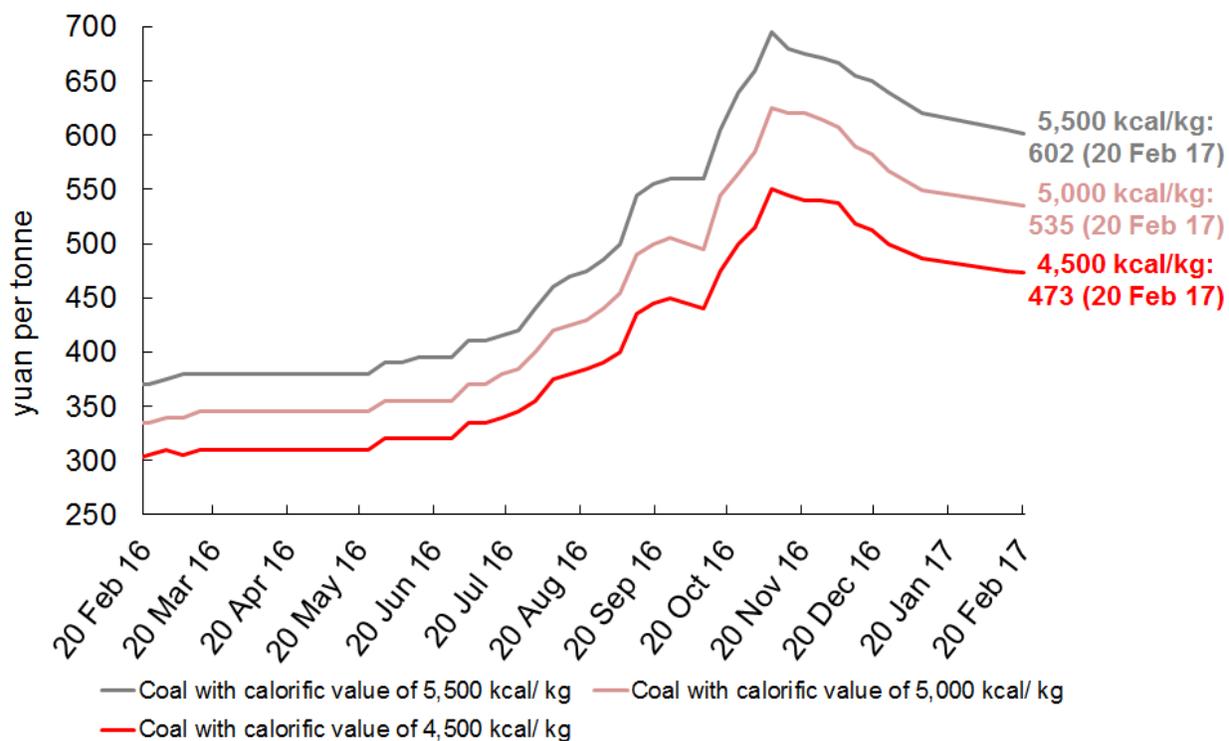
Source: ifeng.com

## 2. Benchmark Qinhuangdao coal prices drop further

The benchmark Qinhuangdao coal prices went down during early January to mid-February (see exhibit 2). For instance, the price of coal with calorific value of 5,500 kcal/kg fell from 621 yuan per tonne on 9 January to 602 yuan per tonne on 20 February. We believe that the main reason for the decline in domestic coal prices in the period was a fall in the demand for coal from power producers.

Looking ahead, the domestic supply of coal is expected to rise in the near term, boosted by a series of government measures to increase coal supply; and the restocking demand for coal from power producers is likely to slow further in the coming low season. Therefore, we expect the domestic coal prices to fall further in the foreseeable future.

**Exhibit 2: Qinhuangdao coal prices, February 2016 to February 2017**



Source: ifeng.com, cctd.com.cn

## FUNG BUSINESS INTELLIGENCE

**Fung Business Intelligence** collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The **Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 45,100 people across 40 economies worldwide, generating total revenue of over US\$24.8 billion in 2015. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

## CONTACT

Helen Chin  
Vice President  
Global Sourcing

Fung Business Intelligence  
10/F LiFung Tower,  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)

W: <http://www.fbicgroup.com>



© Copyright 2017 Fung Business Intelligence. All rights reserved.

Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.