



China Sourcing Update

August 15, 2018

Energy Costs

1. Crude prices slump and then rebound in July

In line with the movement of global crude prices, China's crude prices trended downward during early to mid-July and picked up afterwards.¹ For instance, the Daqing² crude price plummeted from US\$72.8 per barrel on 29 June to US\$63.9 per barrel on 19 July, before rebounding to US\$66.5 per barrel on 31 July (*see exhibit 1*).

Global crude prices slumped by more than 5% on 11 July on a series of bearish news. First, the US unveiled on the night before a list of US\$200 billion worth of Chinese products to be hit with 10% tariffs, prompting fears that the escalating trade tensions between the US and China could hurt global economic growth and thus the demand for oil. Second, Libya announced that it would re-open four export terminals that had been closed since late June; and the OPEC reported that its crude output increased in June, as the crude production of Saudi Arabia reached the highest level since the end of 2016. The increase in the crude output of Libya and Saudi Arabia raised market concerns over an over-supply of crude oil.

Crude prices rebounded in late July as geopolitical tensions in the Middle East re-ignited market worries that oil supply from the region could be disrupted. Iran threatened on 21 July to block the Strait of Hormuz, which is a major oil shipping route, if its own exports are blocked under new US sanctions. Several days later, Saudi Arabia closed

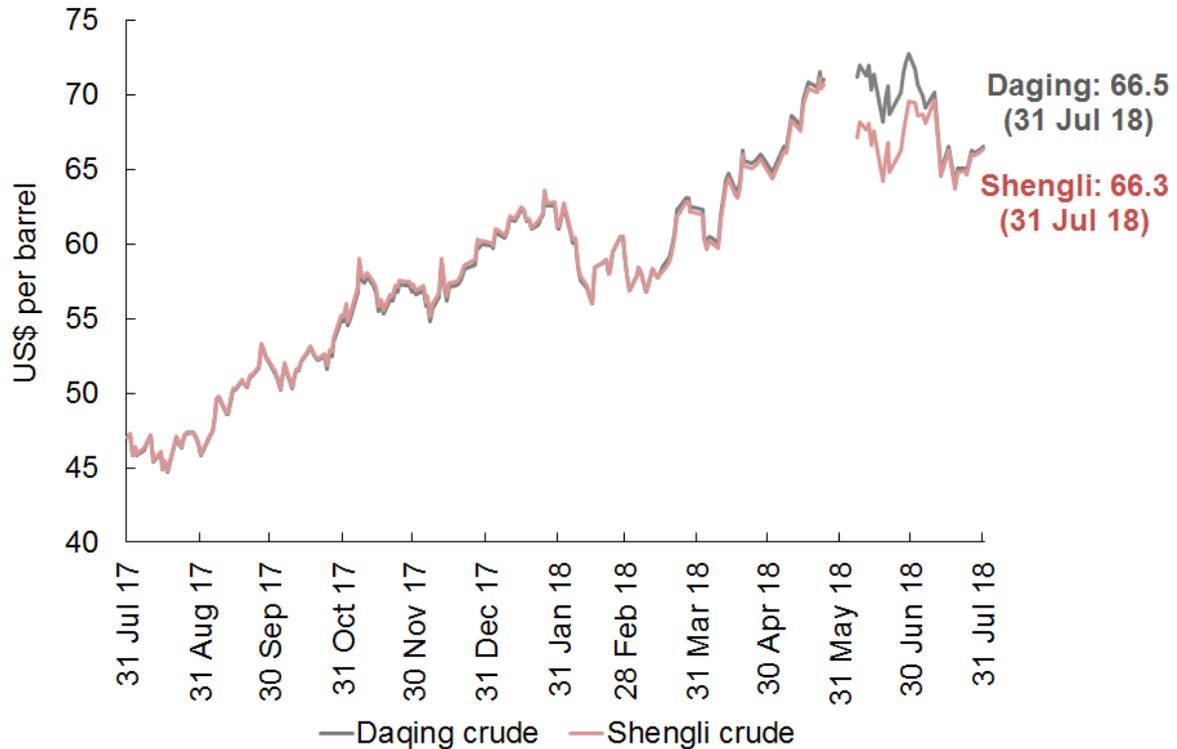
¹ From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

² Daqing Field is the largest oil field in China.

an important oil shipping lane in the Red Sea following an attack on two of its large oil-tankers by Houthi fighters from Yemen.³

Looking ahead, we expect that global crude prices will trend downward in the near future, given the recent increase in the crude output of major oil producing countries and the uncertainty surrounding the China-US trade war.

Exhibit 1: China's crude prices, July 2017 to July 2018



Source: ifeng.com, gcec.com.cn

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

The wholesale price index of refined oil products went up by 0.6% in July (see exhibit 2).⁴ Specifically, the wholesale price index of diesel climbed by 1.2% mom, while that of gasoline advanced by 0.3% mom.

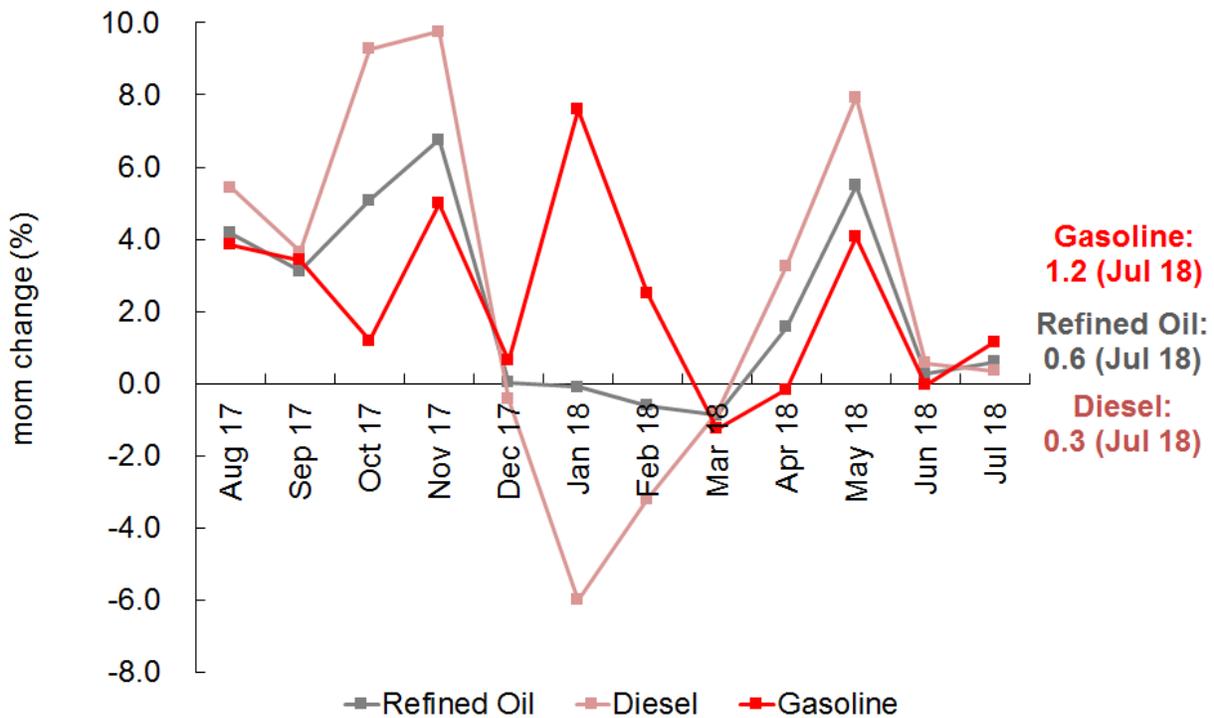
³ In the Yemeni Civil War, Houthi rebel fighters backed by Iran have been fighting with pro-government forces supported by Saudi Arabia for the control of the country.

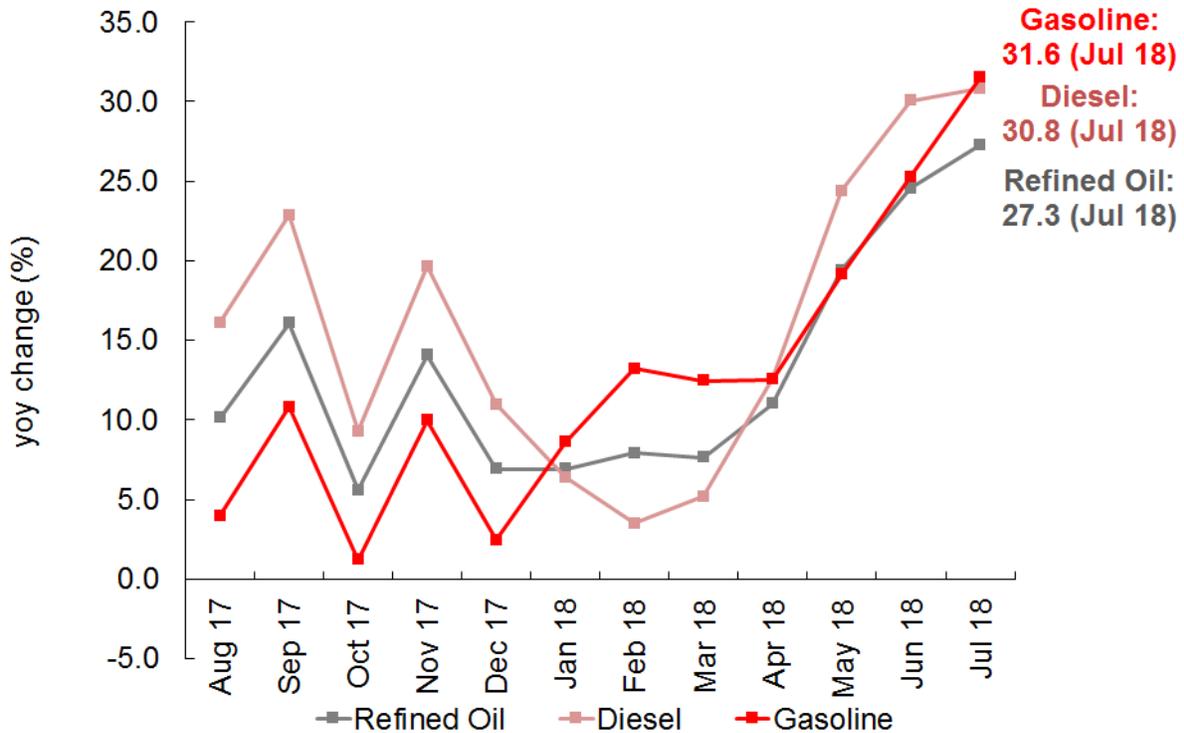
⁴ The index is compiled by the China Logistics Information Center (CLIC).

The National Development and Reform Commission (NDRC) made an upward adjustment to the maximum wholesale prices of refined oil products on 10 July, and a downward adjustment on 24 July, resulting in slightly higher average prices of refined oil products in July than in June. 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.

Looking ahead, we expect the wholesale price index of refined oil products to stay high in August, as the NDRC raised the maximum prices of diesel and gasoline on 7 August in response to higher global crude prices during late July to early August.

Exhibit 2: China's wholesale price indices of refined oil products, August 2017 to July 2018





Source: China Logistics Information Center

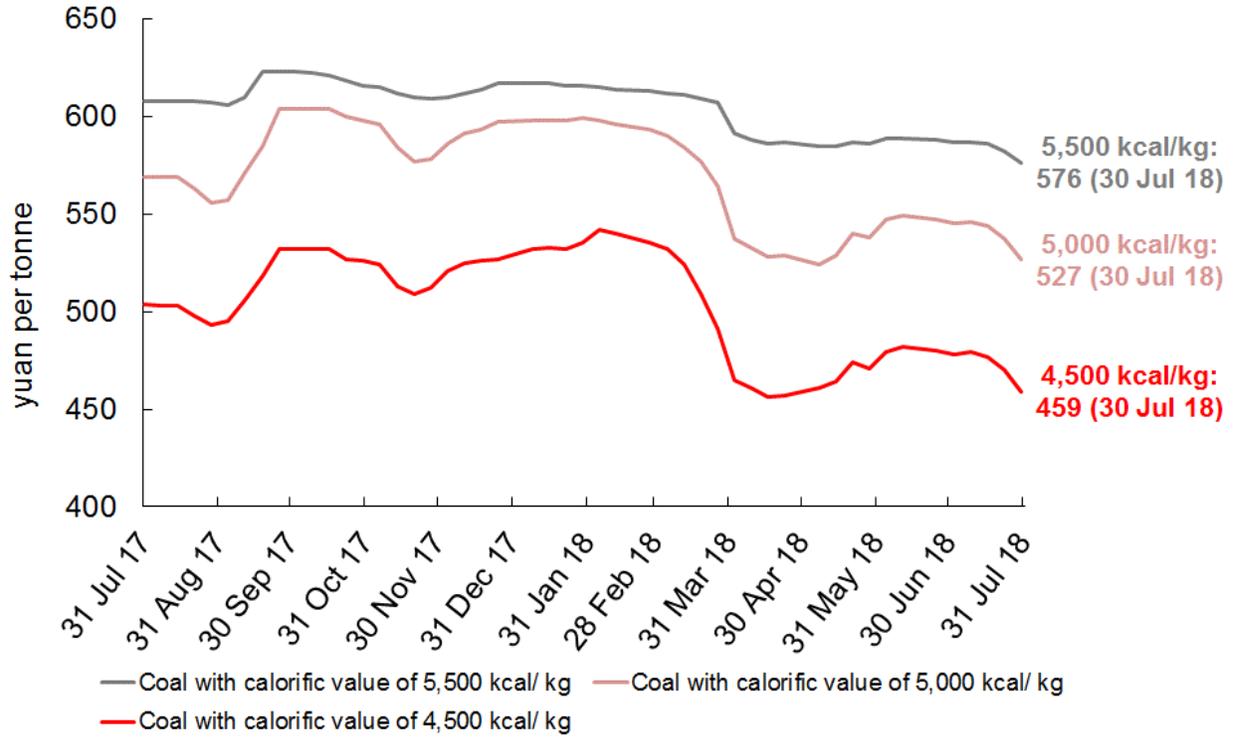
3. Benchmark Qinhuangdao coal prices fall in July

The benchmark Qinhuangdao coal prices dropped in July (see exhibit 3). For example, the price of coal with calorific value of 5,000 kcal/ kg went down from 547 yuan per tonne on 25 June to 527 yuan per tonne on 30 July.

There are several reasons for the decline in coal prices in the month. First, an increase in hydropower generation and weaker-than-expected power consumption for air-conditioning led to a lower demand for thermal power generation and thus a reduced demand for coal from thermal power producers. Second, a surge in coal imports dragged down domestic coal prices. Moreover, high stockpiles of coal held by thermal power producers and in major ports put downward pressures on coal prices.

Looking ahead, we expect that domestic coal prices will pick up in the near term, as the demand for coal from power producers is likely to improve in the high season for power consumption in August.

Exhibit 3: Qinhuangdao coal prices, July 2017 to July 2018



Source: ifeng.com, cctd.com.cn

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