



China Sourcing Update

July 20, 2017

Energy Costs

1. Crude prices fluctuate during mid-June to mid-July

In line with the movement of global crude prices, China's crude prices fluctuated around low levels during mid-June to mid-July.¹ For example, after dropping from US\$ 43.0 per barrel on 13 June to a seven-month low of US\$ 39.4 per barrel on 22 June, the Daqing² crude price picked up to US\$ 44.1 per barrel on 5 July before falling again to US\$ 41.2 per barrel on 11 July (see *exhibit 1*).

The plunge in global oil prices during mid- to late June was due largely to investors' concerns that the oil market would remain over-supplied for longer than expected, as both the Organization of the Petroleum Exporting Countries (OPEC) and the US reported an increase in their crude output. According to the *OPEC Monthly Oil Market Report* published on 13 June, crude production by OPEC member countries rose by 336,000 barrels per day in May to 32.14 million barrels per day. Meanwhile, US production of crude oil expanded to a 22-month high of 9.35 million barrels per day in the week ending 16 June, according to the US Energy Information Administration (EIA).

Global crude prices rebounded during late June to early July as investors went bargain-hunting and market concerns about the global supply glut of crude oil temporarily eased after it was reported that both the crude production and gasoline inventories in the US fell in the week ending 23 June.

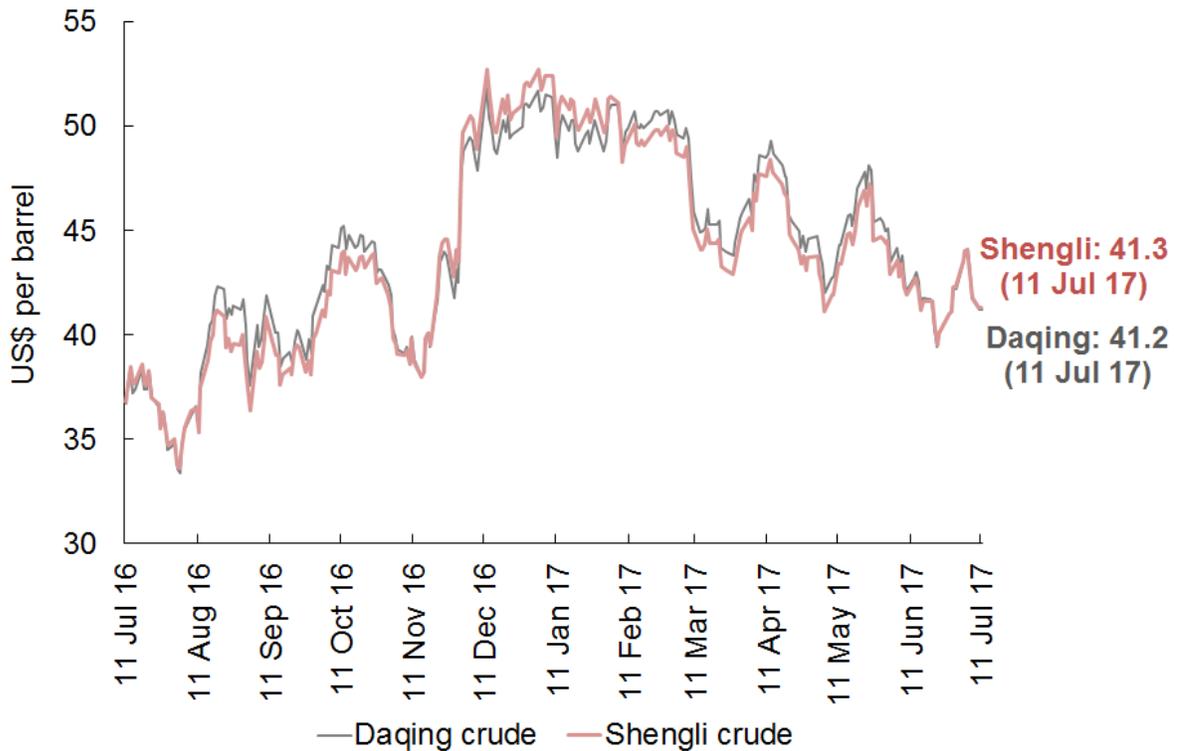
¹ From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

² Daqing Field is the largest oil field in China.

However, global oil prices dropped again during late June to early July after reports surfaced that oil exports by OPEC member countries climbed for a second consecutive month in June, and that US crude output rose to 9.338 million barrels per day in the week ending 30 June.

Looking ahead, we expect global oil prices to fluctuate around the current low levels in the foreseeable future as it is still doubtful as to whether the OPEC-led output cut can significantly mitigate the global oil supply glut amid a rising oil production in the US.

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



Source: ifeng.com

2. Wholesale price index of refined oil products falls in June

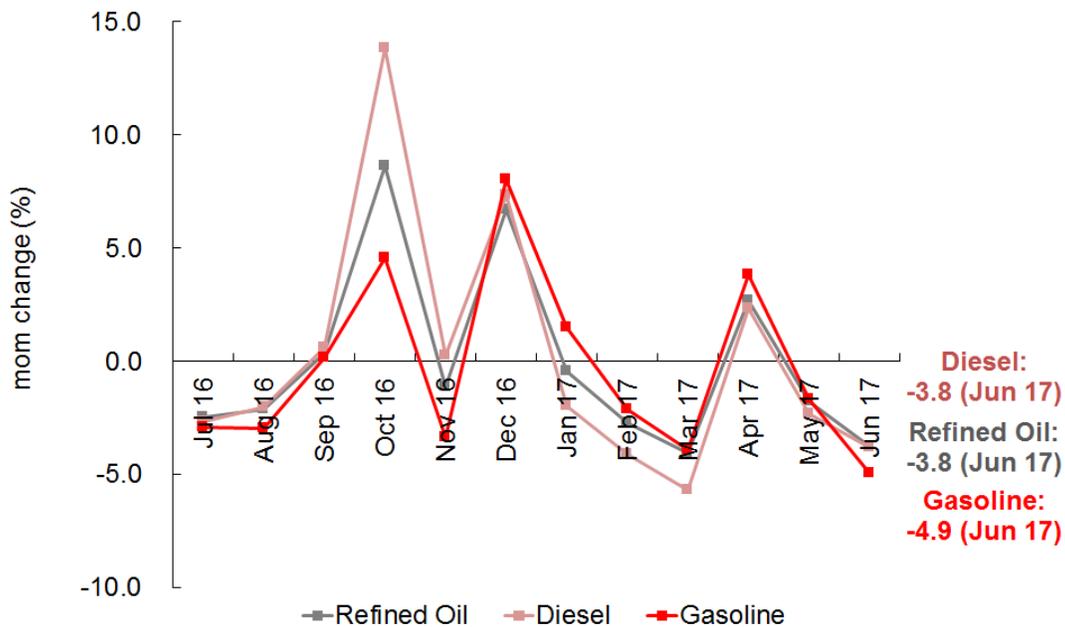
The wholesale price index of refined oil products went down by 3.8% mom in June (see exhibit 2).³ Specifically, the wholesale price index of diesel dropped by 3.8% mom, while that of gasoline declined by 4.9% mom in the month.

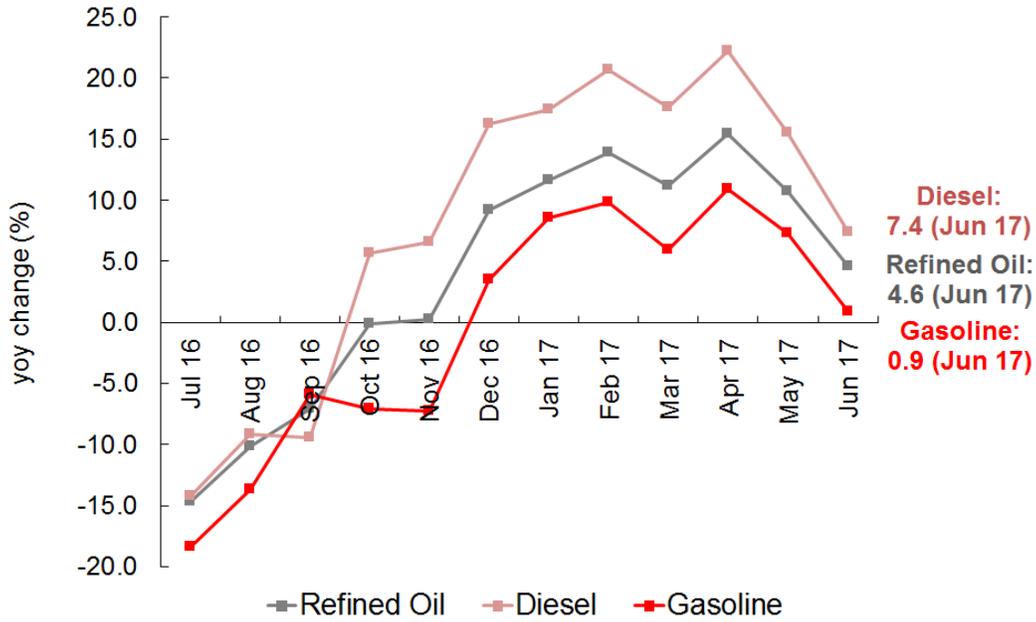
³ The index is compiled by the China Logistics Information Center (CLIC).

The movement of the price index in June was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made downward adjustments to the maximum wholesale prices of refined oil products on 10 June and 24 June, in response to the fall in global crude prices in the month. 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 continue to decline in July, further reflecting the wholesale price cuts made on 24 June.

Exhibit 2: China's wholesale price indices of refined oil products, July 2016 to June 2017





Source: China Logistics Information Center

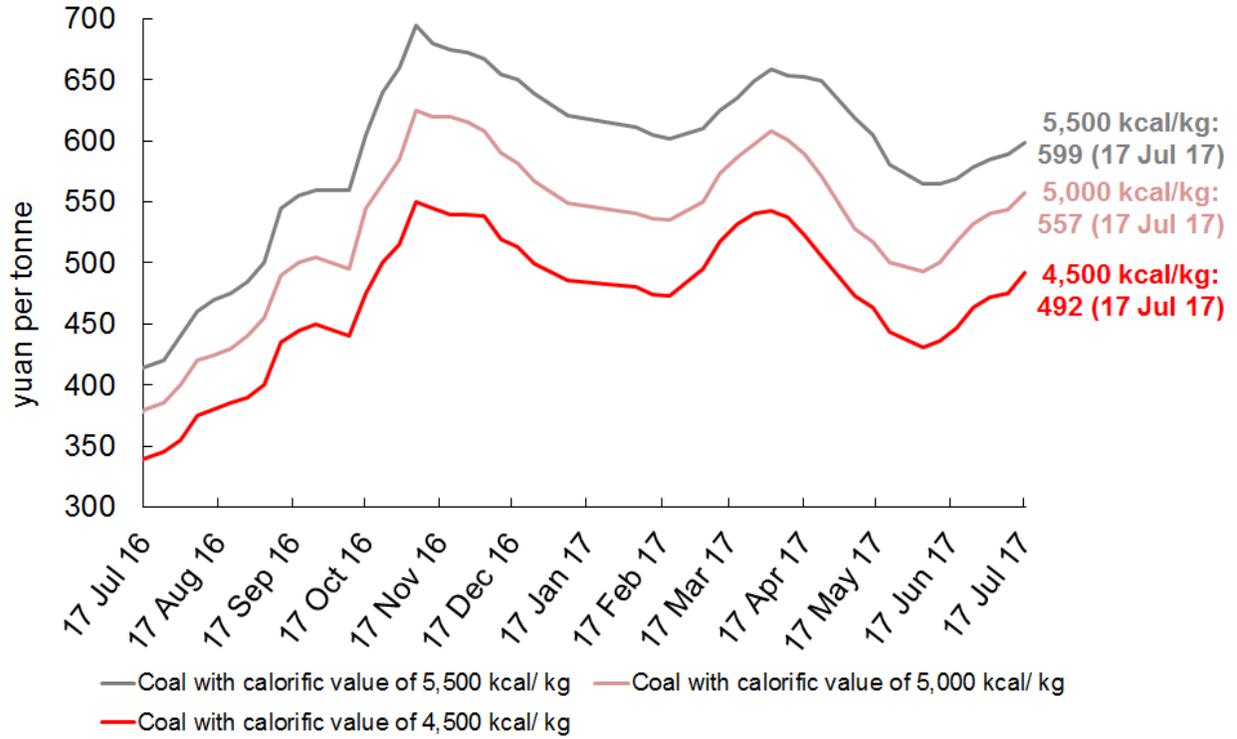
3. Benchmark Qinhuangdao coal prices go up during mid-June to mid-July

The benchmark Qinhuangdao coal prices rose during mid-June to mid-July (see exhibit 3). For instance, the price of coal with calorific value of 5,500 kcal/ kg climbed from 565 yuan per tonne on 12 June to 599 yuan per tonne on 17 July.

In our view, the main reasons for the increase in domestic coal prices in the period were an increased demand for coal from power producers, boosted by the hot weather in various parts of China; and a tightened supply of coal due to ongoing safety checks on domestic coal mines.

Looking ahead, we expect the domestic coal prices to continue to rise in the near term as the demand for coal from power producers is likely to increase further in the current high season for power consumption.

Exhibit 3: Qinhuangdao coal prices, July 2016 to July 2017



Source: ifeng.com, cctd.com.cn

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