



China Sourcing Update

April 25, 2019

Energy Costs

1. Crude prices fluctuate within narrow range in March

In line with the movement of global crude prices, China's crude prices fluctuated within a narrow range in March.¹ For instance, the Daqing² crude price hovered between US\$58.1 per barrel and US\$61.0 per barrel in the month, before closing at US\$60.3 per barrel on 29 March (*see exhibit 1*).

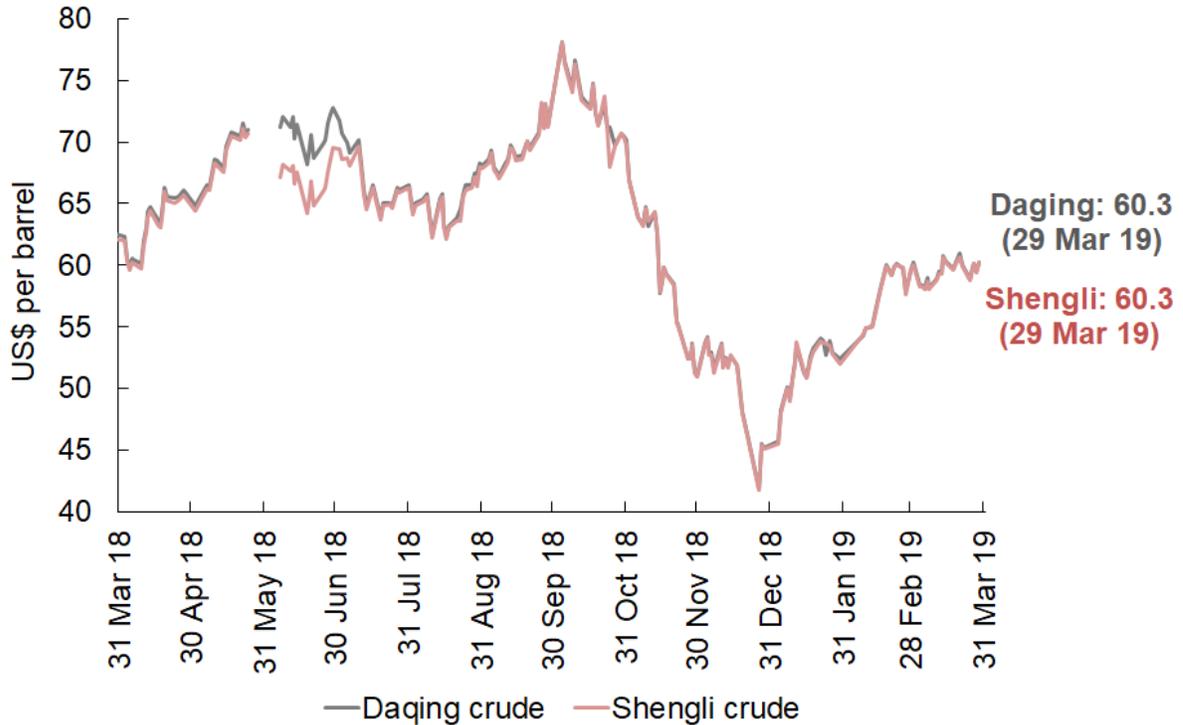
Crude production cuts led by the OPEC, along with US sanctions on Iran and Venezuela, two major oil producing countries, supported oil prices in March, but market concerns over a global economic slowdown limited the gains in oil prices.

Global crude prices hit new 2019 highs in early April following stronger-than-expected economic data released by China and the US, the two largest oil consuming countries in the world. Looking ahead, we expect global crude prices to stay high or even trend upward as market worries about a weaker global economy have eased lately.

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.

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



Source: ifeng.com, gcec.com.cn

2. Wholesale price index of refined oil products goes up in March

The wholesale price index of refined oil products rose by 0.9% mom in March (see exhibit 2).³ Specifically, the wholesale price index of diesel gained 2.0% mom, while that of gasoline edged down by 0.3% mom.

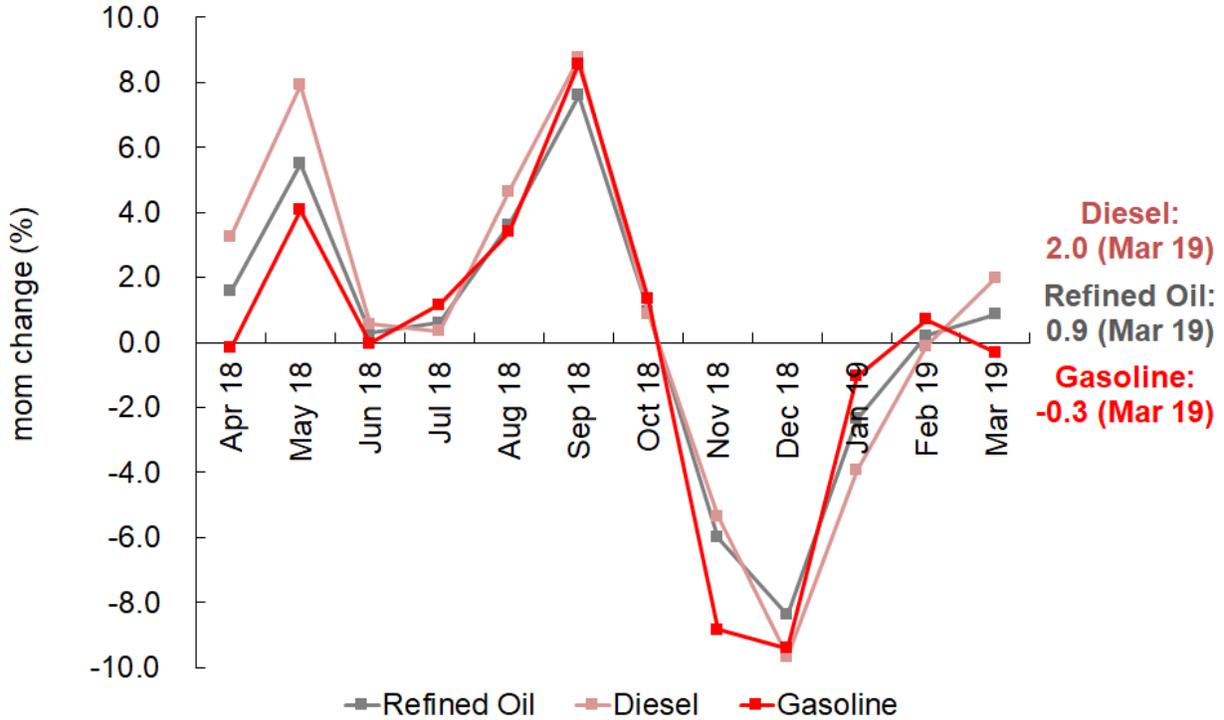
According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline are adjusted every 10 working days, based on the change in a basket of global crude prices. In response to a rise in global crude prices during late February to late March, the National Development and Reform Commission (NDRC) raised the maximum wholesale prices of gasoline and diesel on 1 March and 29 March.

Due to the value-added tax 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

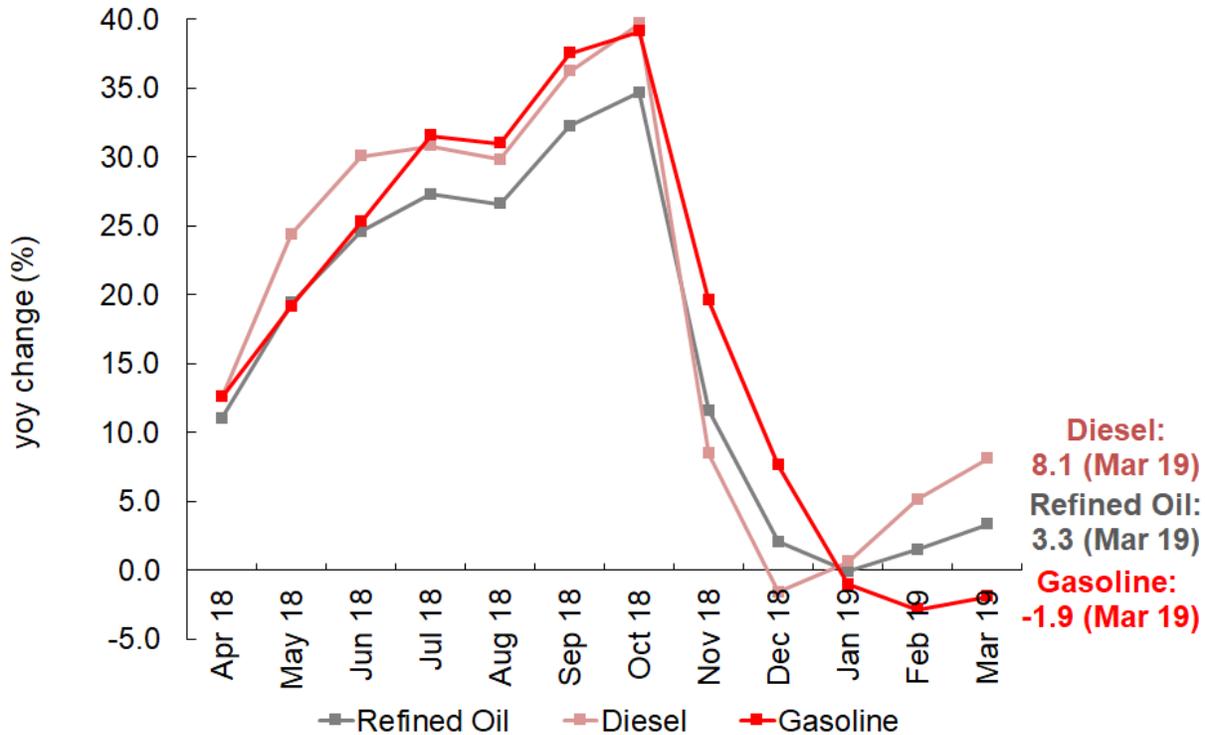
³ The index is compiled by the China Logistics Information Center (CLIC).

respectively on that day, according to an NDRC announcement.⁴ Thus, we expect the wholesale price index of refined oil products to fall in April, despite a rise in global crude prices in early to mid-April.

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



⁴ http://www.ndrc.gov.cn/xwzx/xwfb/201903/t20190329_931904.html



Source: China Logistics Information Center

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

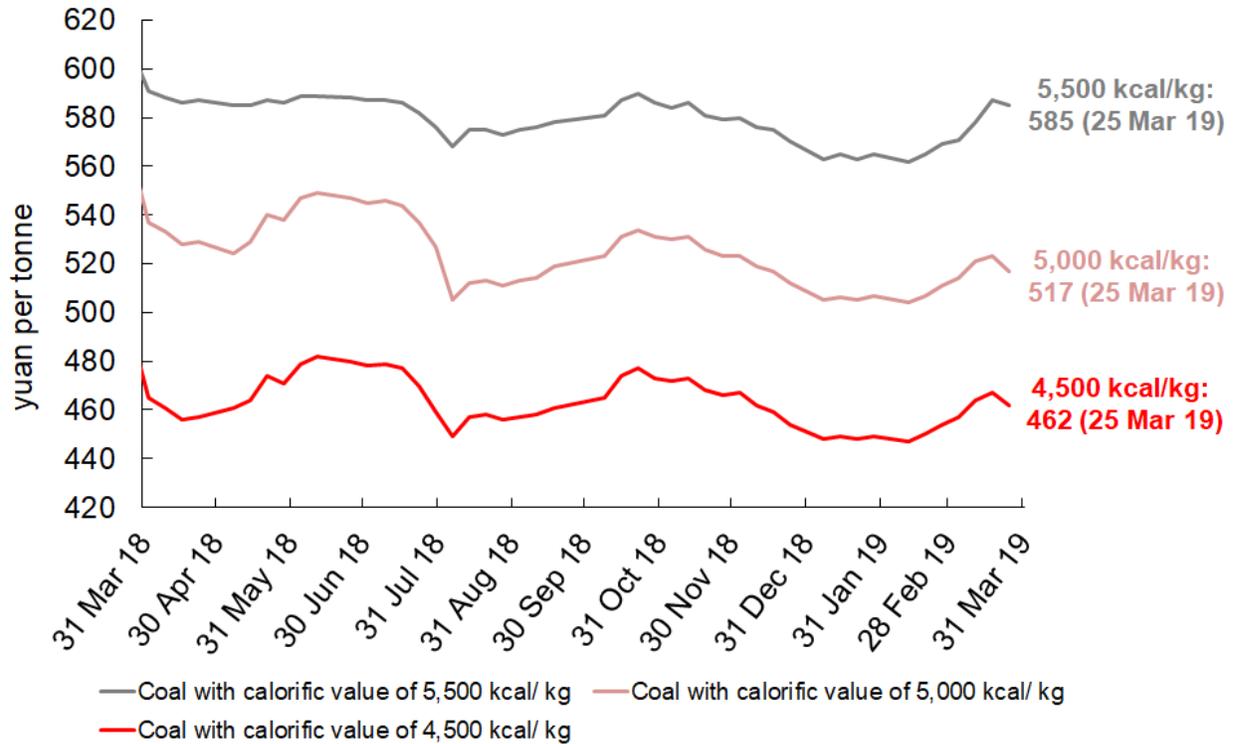
The benchmark Qinhuangdao coal prices went up during early to mid-March and eased afterwards (*see exhibit 3*). For example, the price of coal with calorific value of 5,000 kcal/kg increased from 511 yuan per tonne on 25 February to 523 yuan per tonne on 18 March, before retreating to 517 yuan per tonne on 25 March.

The rise in the coal prices in the first half of March was mainly triggered by supply disruptions amid recent coal mine accidents in Shenmu county, Shaanxi on 12 January and in XilinGol League, Inner Mongolia on 23 February. Coal prices were also supported by a stream of bullish news, including reports of an excess demand for coal in some regions in Shaanxi and Inner Mongolia, increased costs for road transport of coal, rumours of stricter restrictions on coal imports from Australia, etc. Coal prices eased during mid- to late March as the downstream demand for coal was weak in the period.

According to the latest media reports, coal supply in Shaanxi and Inner Mongolia remained tight in early April. Besides, the Datong-Qinhuangdao Railway, the major rail line transporting coal from major coal-producing regions to Qinhuangdao, began a 25-

day maintenance on 7 April, leading to a fall in coal delivery to Qinhuangdao. Therefore, we predict that the benchmark Qinhuangdao coal prices will go up in April.

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



Source: ifeng.com, cctd.com.cn

FUNG BUSINESS INTELLIGENCE

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Research Manager
williamkong@fung1937.com
(852) 2300 2404

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



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