



# China Sourcing Update

June 15, 2017

## Energy Costs

### 1. Crude prices plunge during late May to early June

In line with the movement of global crude prices, China's crude prices went up during early to late May and slumped afterwards.<sup>1</sup> For example, after rising from US\$ 42.0 per barrel on 5 May to US\$ 48.1 per barrel on 24 May, the Daqing<sup>2</sup> crude price plummeted to US\$ 42.1 per barrel on 9 June (*see exhibit 1*).

The rise in global oil prices during early to late May was mainly due to market expectations that member countries of the Organization of the Petroleum Exporting Countries (OPEC) and Russia would extend the crude output cut beyond June 2017, and that the extended output cut would be deeper than the current one, which has reduced global crude oil production by around 1.8 million barrels per day.

Global crude prices fell sharply on 25 May after major oil producing countries announced the extension of the crude output cut into March 2018 but no deeper production cut. Crude prices slid further after the US Energy Information Administration (EIA) reported on 7 June that commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) in the US rose unexpectedly in the week ending 2 June.

A rising oil output in the US has continued to undermine the positive impacts of the output cut on crude prices. According to the EIA, the US production of crude oil

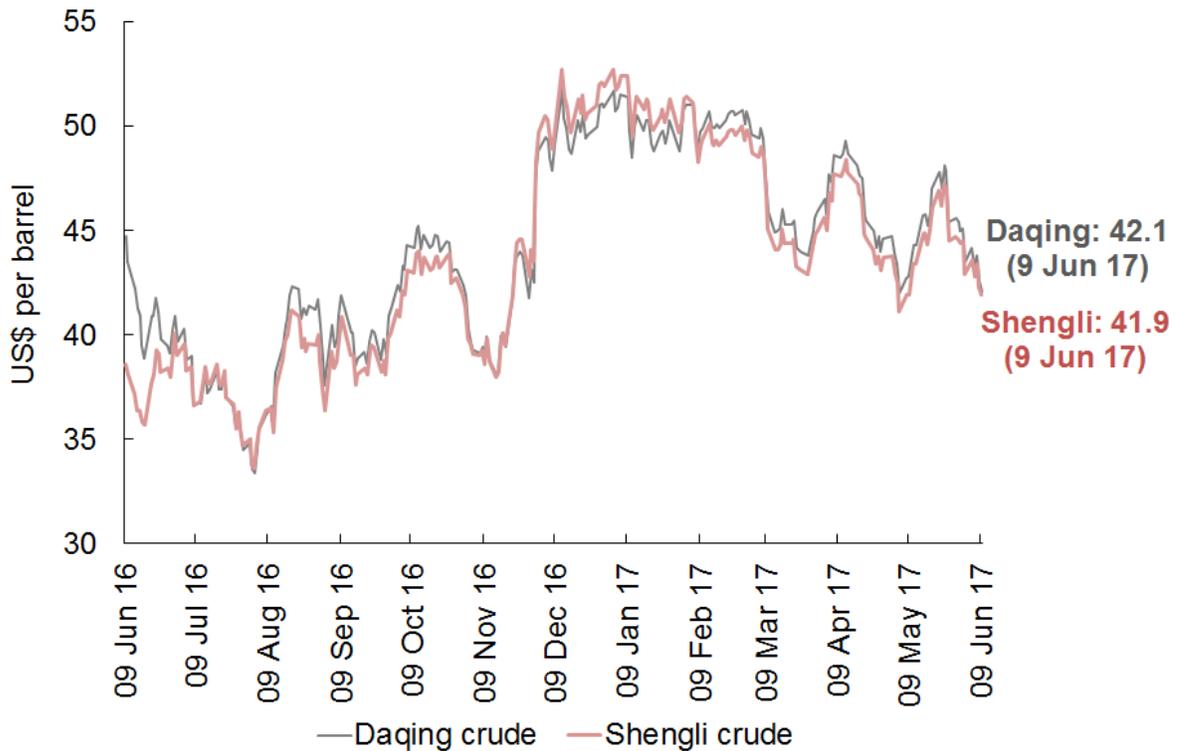
<sup>1</sup> From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

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

expanded to its recent peak of 9.34 million barrels per day in the week ending 26 May, compared with 9.29 million barrels per day in the week ending 28 April. The EIA even predicted that the US oil production will rise to a record high of 10 million barrels per day next year.

Looking ahead, we expect global oil prices to fluctuate around the current low levels in the near term as it is still doubtful as to whether the extended output cut can significantly mitigate the global supply glut of crude oil amid a rising oil production in the US.

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



Source: ifeng.com

## 2. Wholesale price index of refined oil products go down in May

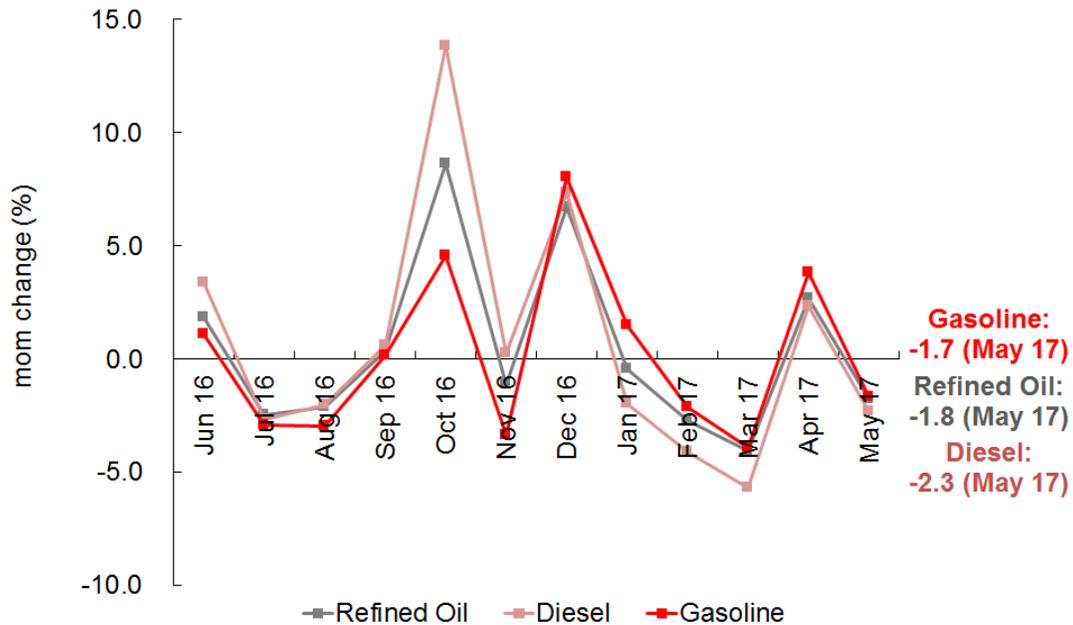
The wholesale price index of refined oil products dropped by 1.8% mom in May (see exhibit 2).<sup>3</sup> Specifically, the wholesale price index of diesel went down by 2.3% mom, while that of gasoline fell by 1.7% mom in the month.

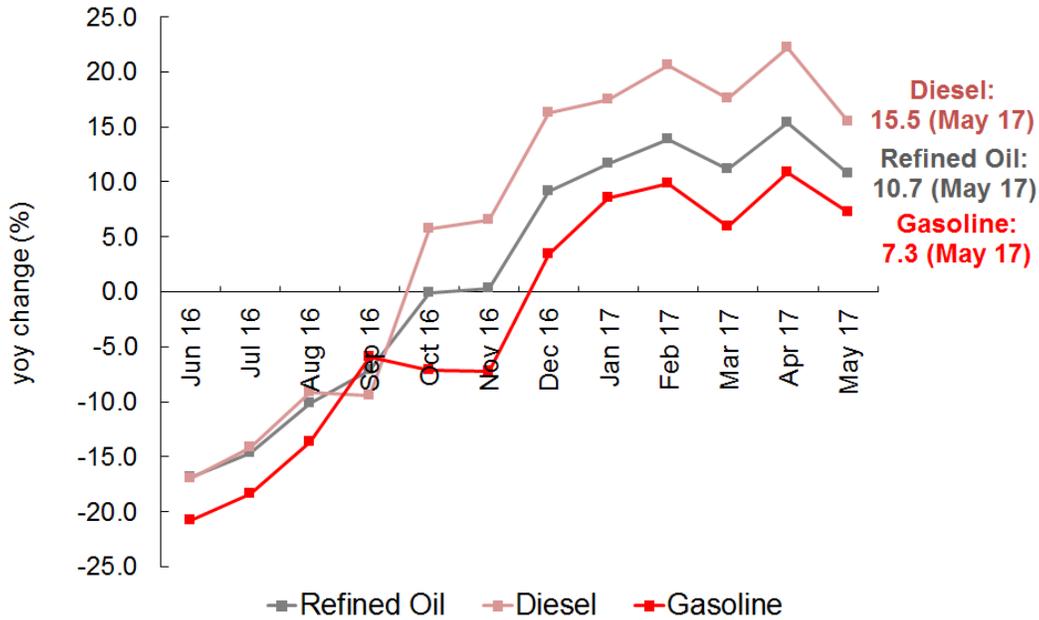
<sup>3</sup> The index is compiled by the China Logistics Information Center (CLIC).

The movement of the price index in the month was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made a downward adjustment to the maximum wholesale prices of refined oil products on 12 May, and an upward adjustment on 26 May, resulting in slightly lower average prices of refined oil products in May than in April.

Looking ahead, we expect the wholesale price index of refined oil products to fall further in June, as the NDRC lowered the maximum prices of diesel and gasoline on 10 June following a plunge in global crude prices since late May. 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.

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





Source: China Logistics Information Center

### 3. Benchmark Qinhuangdao coal prices fall during mid-May to early June

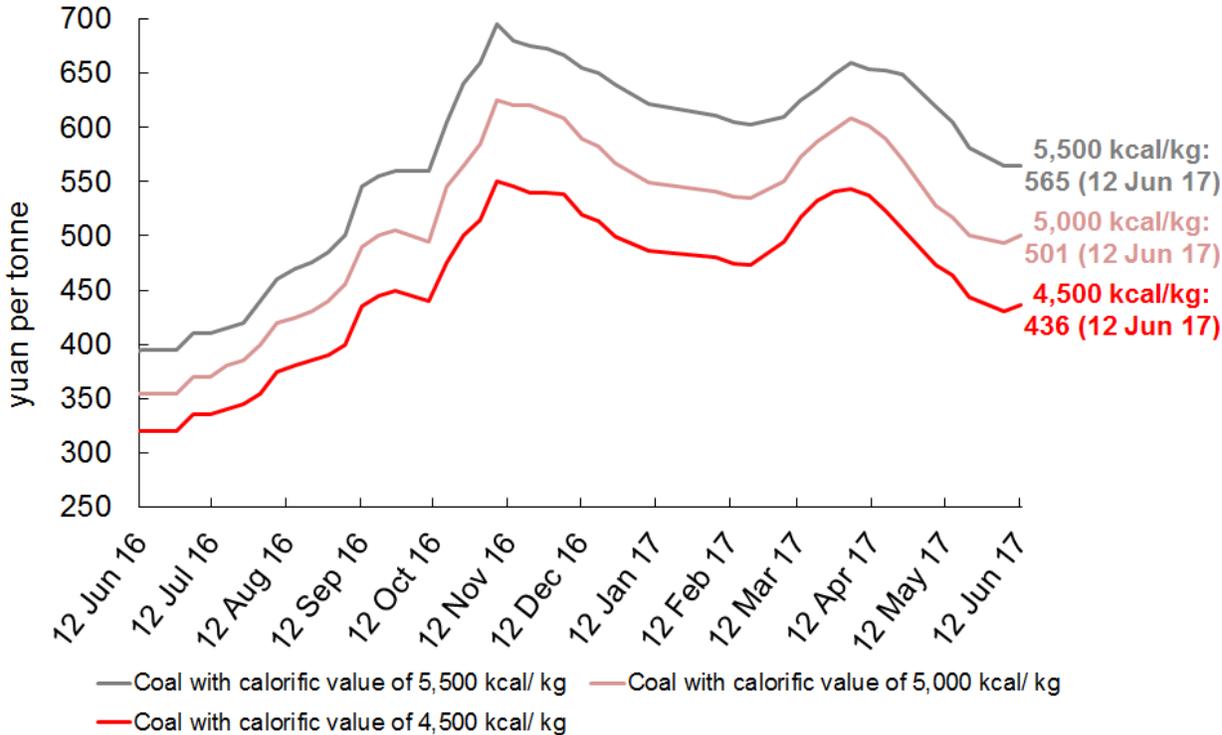
The benchmark Qinhuangdao coal prices went down during mid-May to early June and rebounded afterwards (see exhibit 3). For instance, the price of coal with calorific value of 5,000 kcal/ kg dropped from 517 yuan per tonne on 15 May to 493 yuan per tonne on 5 June, before rising to 501 yuan per tonne on 12 June.

According to media reports, the main reason for the decline in domestic coal prices during mid-May to early June was an increase in the supply of coal. The Chinese government's efforts to ensure a stable supply of coal led to a year-on-year increase in China's raw coal output by 12.1% in May.<sup>4</sup> However, domestic coal prices have rebounded since early June due to an improvement in the restocking demand for coal from power producers.

Looking ahead, we expect the domestic coal prices to stabilize in the coming months as the Chinese government is committed to ensuring a stable supply of coal.

<sup>4</sup> [http://www.stats.gov.cn/tjsj/zxfb/201706/t20170614\\_1503365.html](http://www.stats.gov.cn/tjsj/zxfb/201706/t20170614_1503365.html)

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



Source: ifeng.com, cctd.com.cn

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## CONTACT

Helen Chin  
Vice President  
[helenchin@fung1937.com](mailto:helenchin@fung1937.com)  
(852) 2300 2471

William Kong  
Research Manager  
[williamkong@fung1937.com](mailto: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](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>



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