



China Sourcing Update

December 14, 2017

Energy Costs

1. Crude prices fluctuate at high levels in November

In line with the movement of global crude prices, China's crude prices fluctuated at relatively high levels in November.¹ For instance, after jumping from US\$ 54.5 per barrel on 2 November to a two-year high of US\$ 58.7 per barrel on 7 November, the Daqing² crude price retreated to US\$ 55.3 per barrel on 17 November, and then rose again to close at US\$ 57.0 per barrel on 30 November (see *exhibit 1*).

Two major factors were behind the high global oil prices in the month. First, there were market fears that geopolitical tensions in the Middle East could disrupt oil supply from the region. In addition to investors' concerns over Iraqi government's actions in Kurdistan oil-producing areas and potential new US sanctions on Iran, political uncertainty in Saudi Arabia pushed oil prices higher in early November as dozens of princes, ministers and senior officials were detained as part of an anti-corruption campaign in the country.

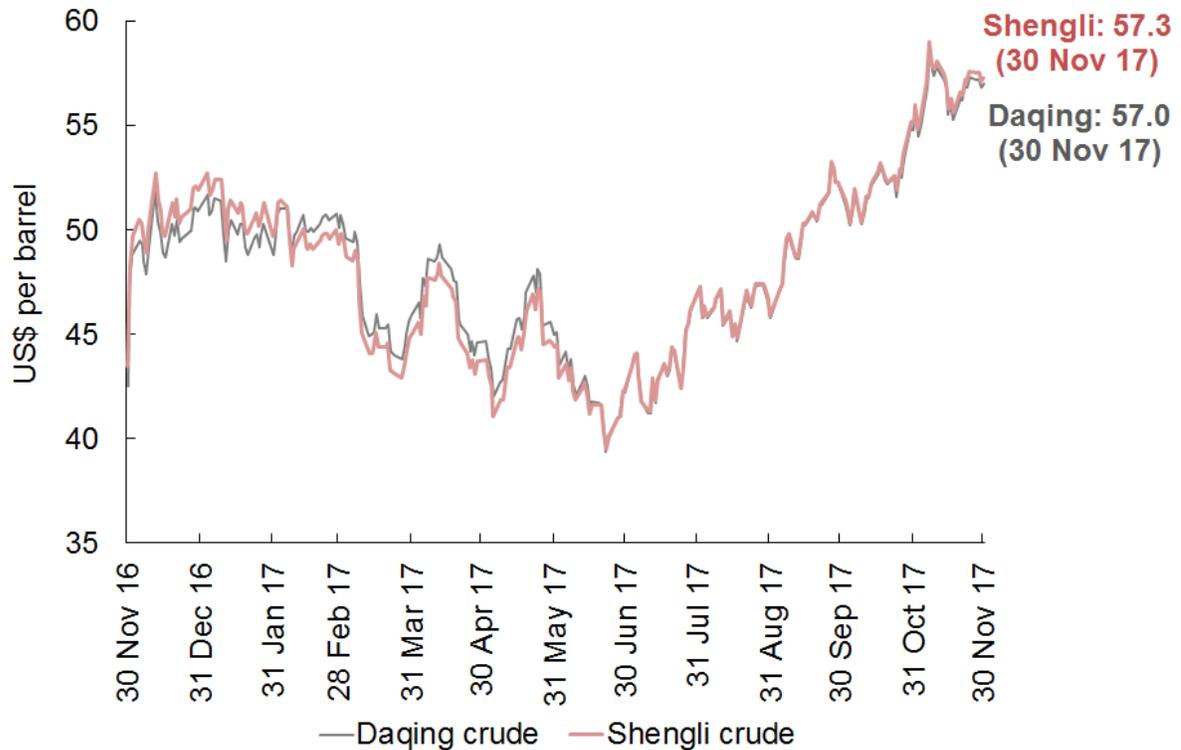
Second, market expectations of an extension of the oil production cuts led by the Organization of the Petroleum Exporting Countries (OPEC) supported oil prices in the month. On 30 November, the OPEC and Russia finally agreed to extend the output cuts through the end of 2018, further easing market fears over an oil supply glut.

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.

Looking ahead, we expect global oil prices to stay high in the near future as concerns over the global oil supply glut continue to wane.

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



Source: ifeng.com

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

The wholesale price index of refined oil products surged by 6.8% mom in November (see exhibit 2).³ Specifically, the wholesale price index of diesel soared by 9.8% mom, while that of gasoline went up by 5.0% mom in the month.

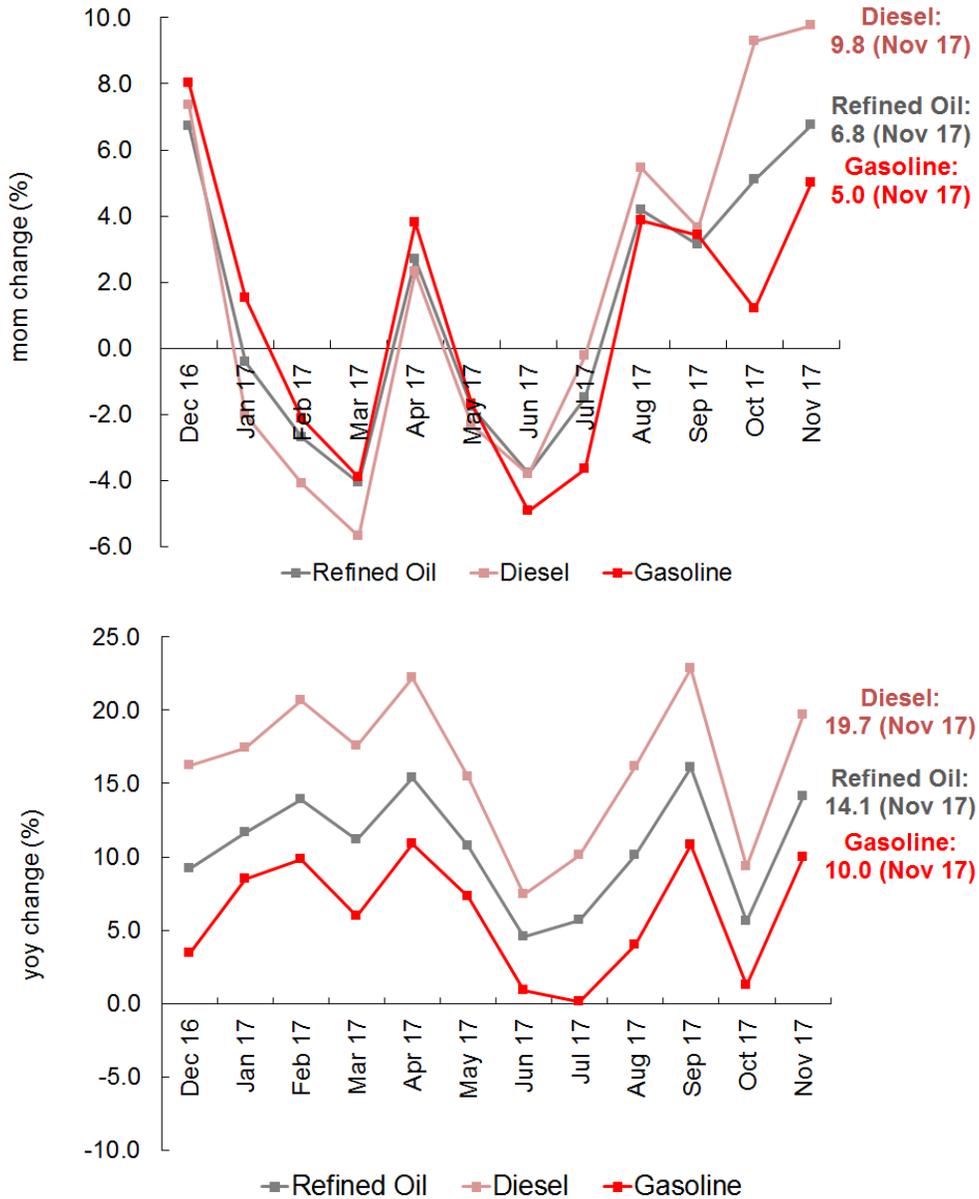
The movement of the price index in the month was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made upward adjustments to the maximum wholesale prices of refined oil products on 3 November and 17 November, in response to the jump in global crude prices during mid-October to early November. According to the pricing

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

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 December, given the high global crude prices in recent weeks.

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



Source: China Logistics Information Center

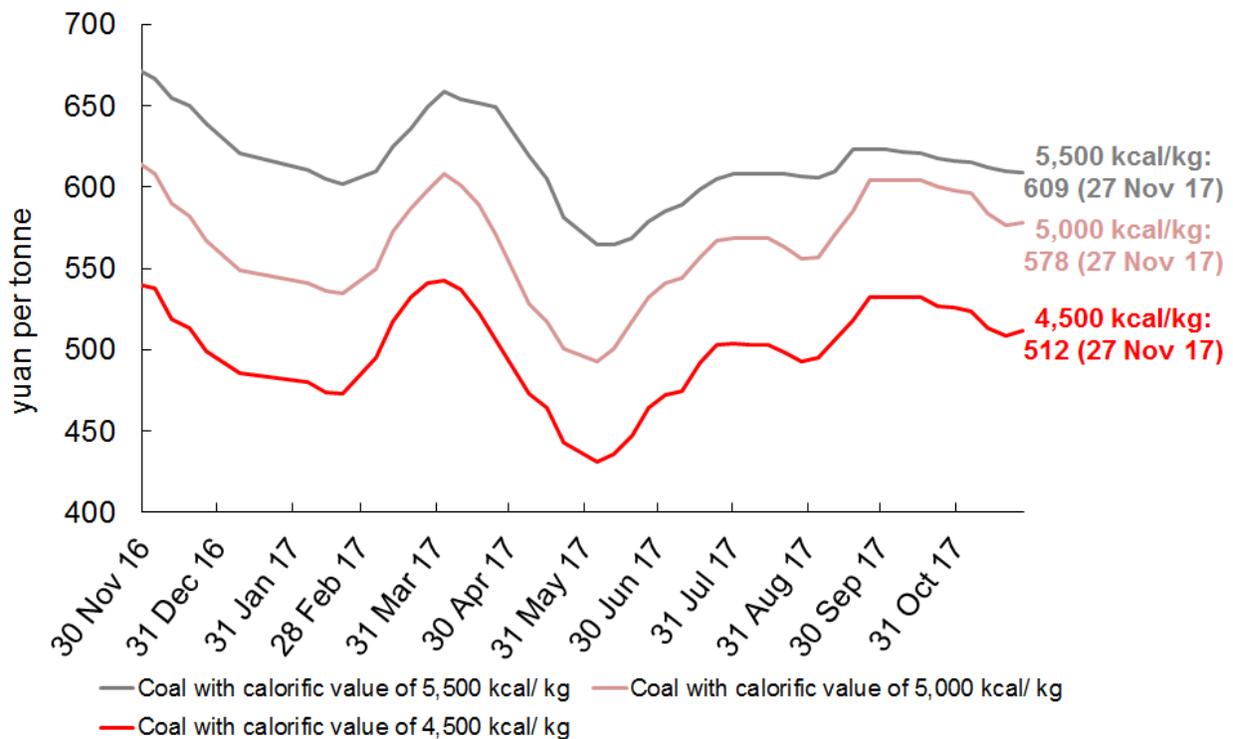
3. Benchmark Qinhuangdao coal prices fall slightly in November

The benchmark Qinhuangdao coal prices edged down in November (see exhibit 3). For example, the price of coal with calorific value of 5,500 kcal/ kg declined from 616 yuan per tonne on 30 October to 609 yuan per tonne on 27 November.

In our view, the slight drop in domestic coal prices in the month was mainly attributable to a fall in the restocking demand for coal from power producers amid weak power consumption and high levels of coal inventory among power producers.

Going forward, the demand for coal from power producers is likely to recover in the coming months as the weather will get colder and thus the demand for heating will increase. Therefore, we believe that domestic coal prices will pick up in the near term.

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



Source: ifeng.com, cctd.com.cn

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