



China Sourcing Update

November 4, 2019

Energy Costs

1. Crude prices surge and then retreat in September

In line with the movement of global crude prices, China's crude prices surge in the first half of September and subsequently retreat in the second half of the month.¹ For instance, the Daqing² crude price rose from US\$52.81 per barrel on 30 August to US\$60.69 per barrel on 17 September before retreating to US\$54.51 per barrel on 30 September (see *exhibit 1*).

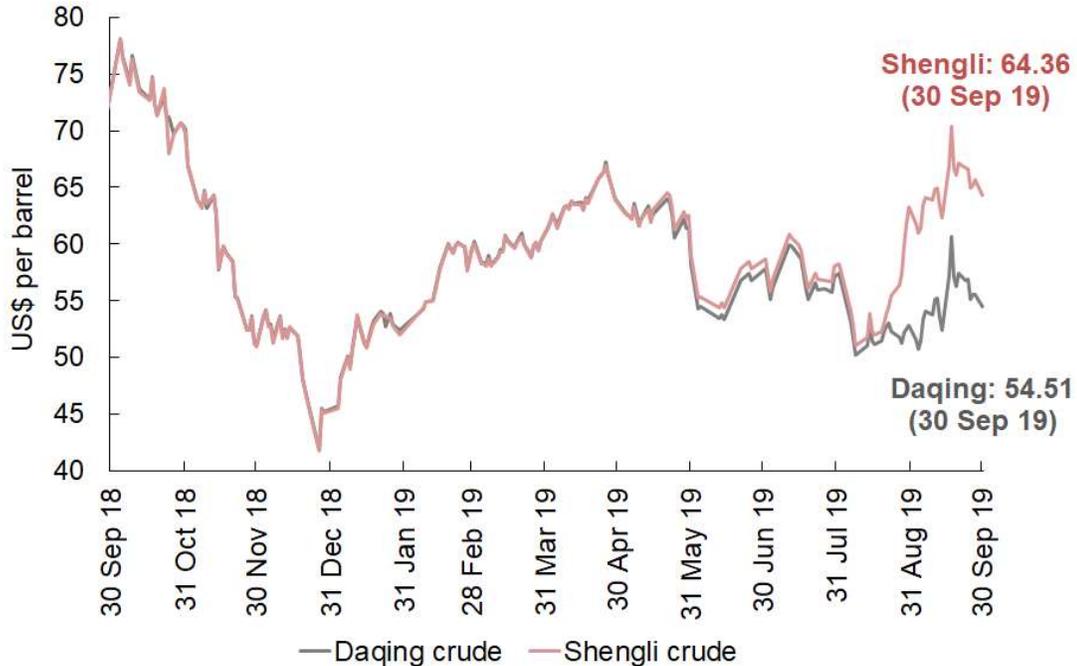
The spike in crude oil prices during the month was mainly due to market expectation of a reduction in supply. During the month, Russia reaffirmed its commitment to cut crude oil production, while Iraq and Nigeria agreement to trim output at an OPEC+ meeting. In addition, attacks on critical oil infrastructure in Saudi Arabia in mid-September caused a plummet in crude oil output in mid-September, leading to a spike in crude oil prices.

Looking ahead, we expect that global crude prices will remain volatile in the near future, as supply cuts by the OPEC, the China-US trade war and the Brexit crisis continue to drive the global crude oil market.

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, September 2018 to September 2019



Source: gcec.com.cn

2. Wholesale price indices of refined oil products rose in September

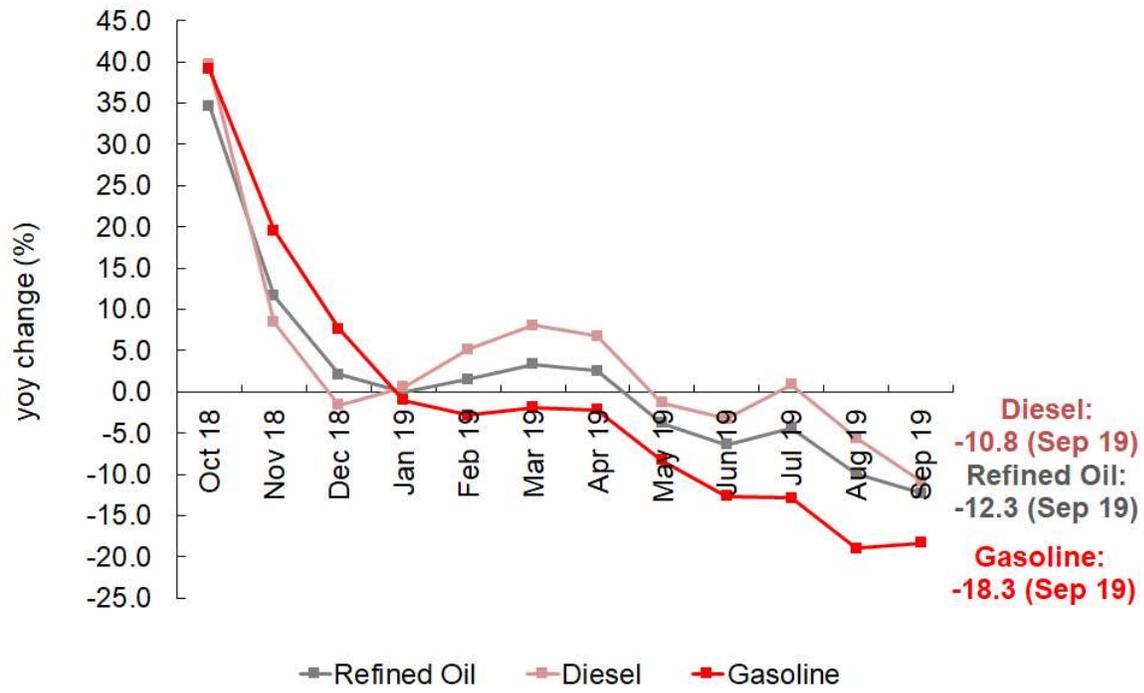
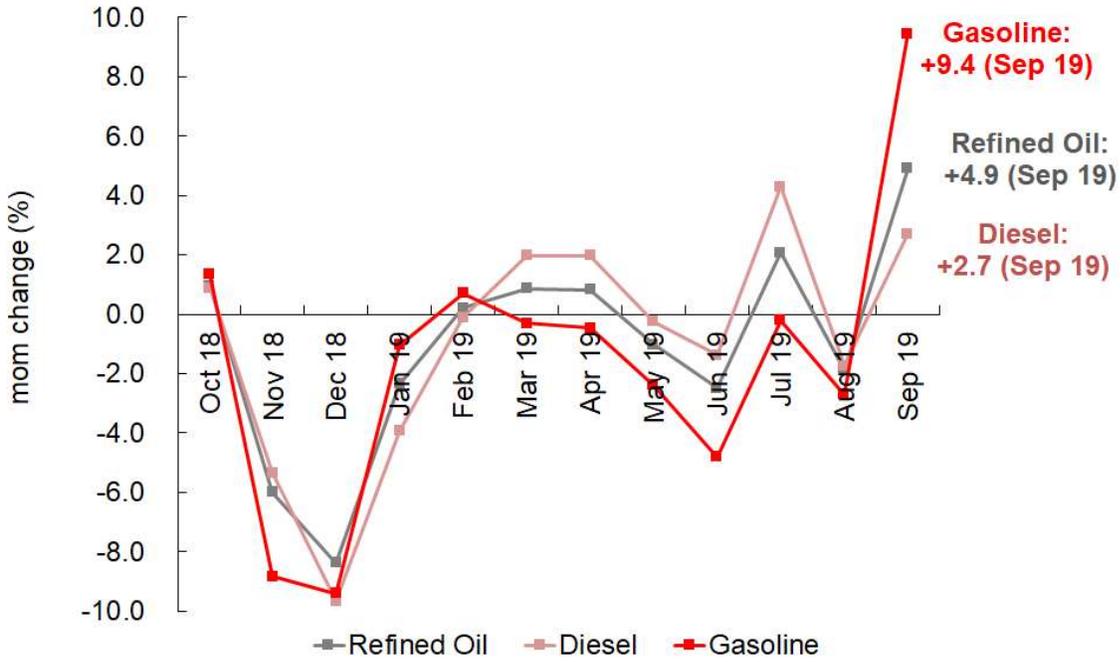
The wholesale price index of refined oil products rose by 4.9% mom in September (see *exhibit 2*).³ Specifically, the wholesale price index of diesel rose by 2.7% mom while that of gasoline jumped by 9.4% mom in September.

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 the movements in global crude prices, the NDRC raised the maximum wholesale prices of gasoline and diesel on 3 September and 18 September.

Looking ahead, we expect the wholesale price index of refined oil products to retreat in October, as the NDRC has lowered the maximum wholesale prices of gasoline and diesel in October in response to the fall in global crude prices in October.

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

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



Source: China Logistics Information Center

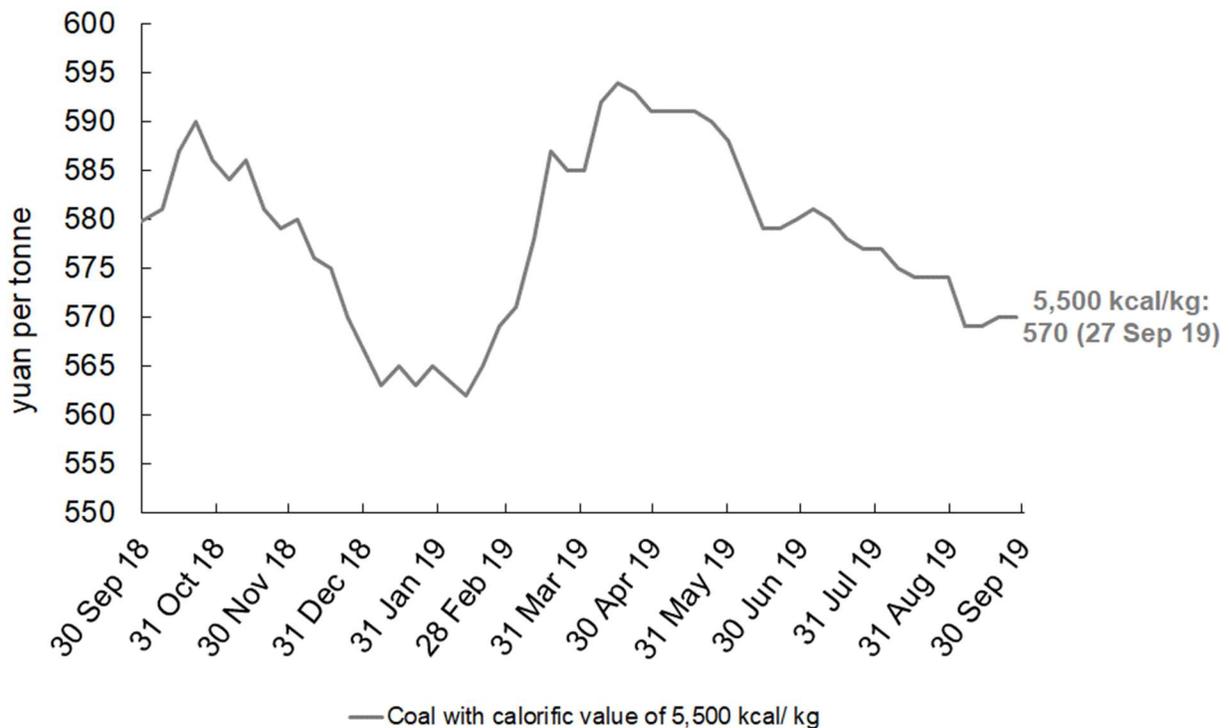
3. Benchmark Qinhuangdao coal prices edge down in September

The benchmark Qinhuangdao coal prices continued to decline slightly in September (see exhibit 3). The price of coal with calorific value of 5,500 kcal/ kg dropped from 574 yuan per tonne on 30 August to 570 yuan per tonne on 27 September.

The decline in the benchmark Qinhuangdao coal prices in September was attributed to falling coal consumption, high level of coal inventory in the power generation industry, and relatively stable supply.

Looking ahead, we expect coal prices to trend downward in the near future as the government continues to encourage households and industries to reduce coal use. According to the National Energy Administration, China aims to shut down a total of 8.66 gigawatts of obsolete coal-fired power capacity by the end of this year.⁴

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



Source: cctd.com.cn

⁴ <https://www.reuters.com/article/uk-china-coal-power/china-aims-to-shut-87-gw-of-coal-power-by-year-end-regulator-idUSKBN1WF05O>

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