



China Sourcing Update

May 24, 2019

Raw Material Prices: Hard Goods

1. Price index of ABS resin increases slightly in April

The price index of ABS resin¹ went up by 0.6% mom in April after rising by 0.2% mom in March (see exhibit 1).

The increase in the prices of ABS resin in the month was triggered by an improved demand for ABS resin from manufacturers of home appliances, one of the major downstream markets of ABS resin.

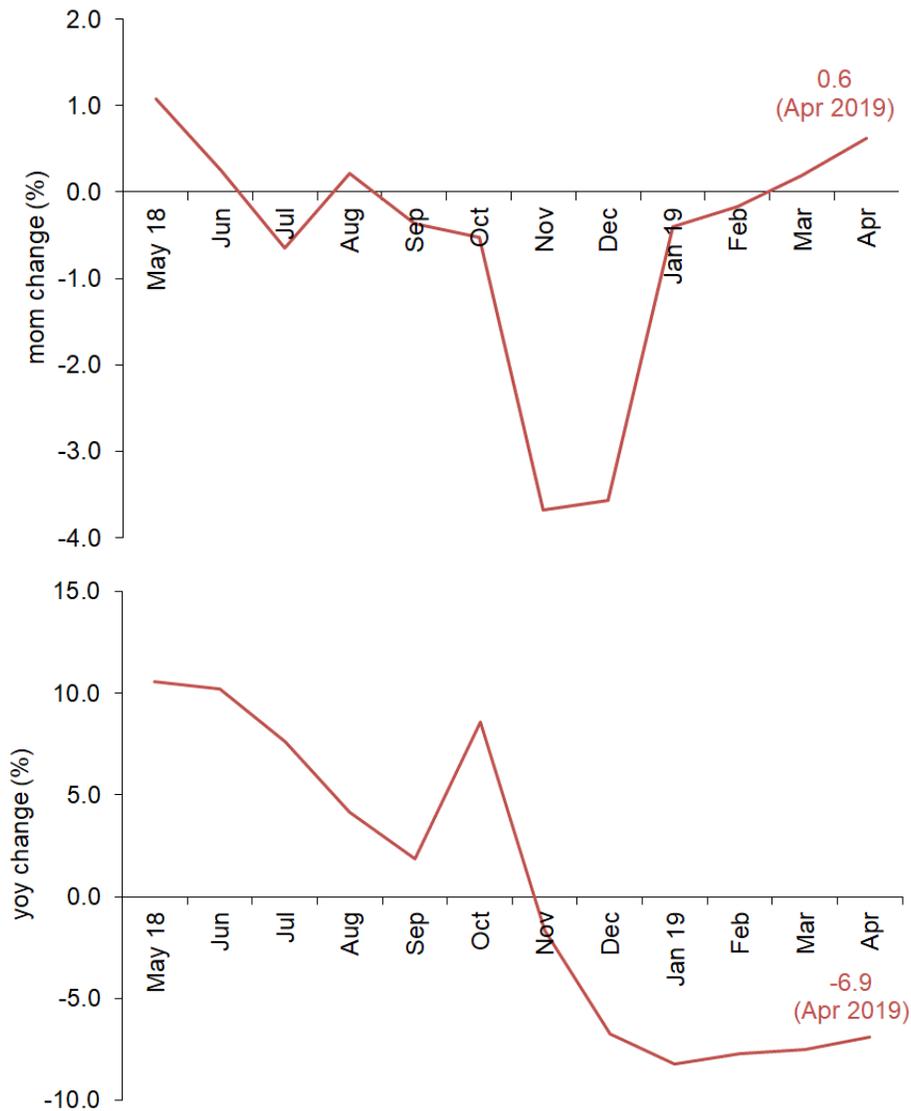
Looking ahead, we expect the prices of ABS resin to trend downward in the coming months amid the rising prospect of a full-fledged China-US trade war. The US raised the additional tariff rate on US\$200 billion of Chinese imports to 25% on 10 May, and proposed on 13 May to impose 25% additional tariffs on another US\$300 billion of Chinese imports. As both these two rounds of tariffs cover major home appliance categories from China, the demand for ABS resin in China is likely to drop.

It is noteworthy that China's additional tariffs on acrylonitrile imported from the US will also increase from the current 10% to 25% on 1 June.² However, as imported acrylonitrile from the US accounts for only around 3% of China's total usage, we expect the tariff increase to have limited impact on the production costs of ABS resin.

¹ The index is compiled by the China Logistics Information Center (CLIC). The CLIC is a sub-division of the China Federation of Logistics & Purchasing (CFLP), which is the first logistics and purchasing industry association approved by the State Council. One of the CFLP's missions is to push forward the circulation of factors of production in China.

² http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201905/t20190513_3256788.html

Exhibit 1: Price index of ABS resin, May 2018 to April 2019



Source: China Logistics Information Center

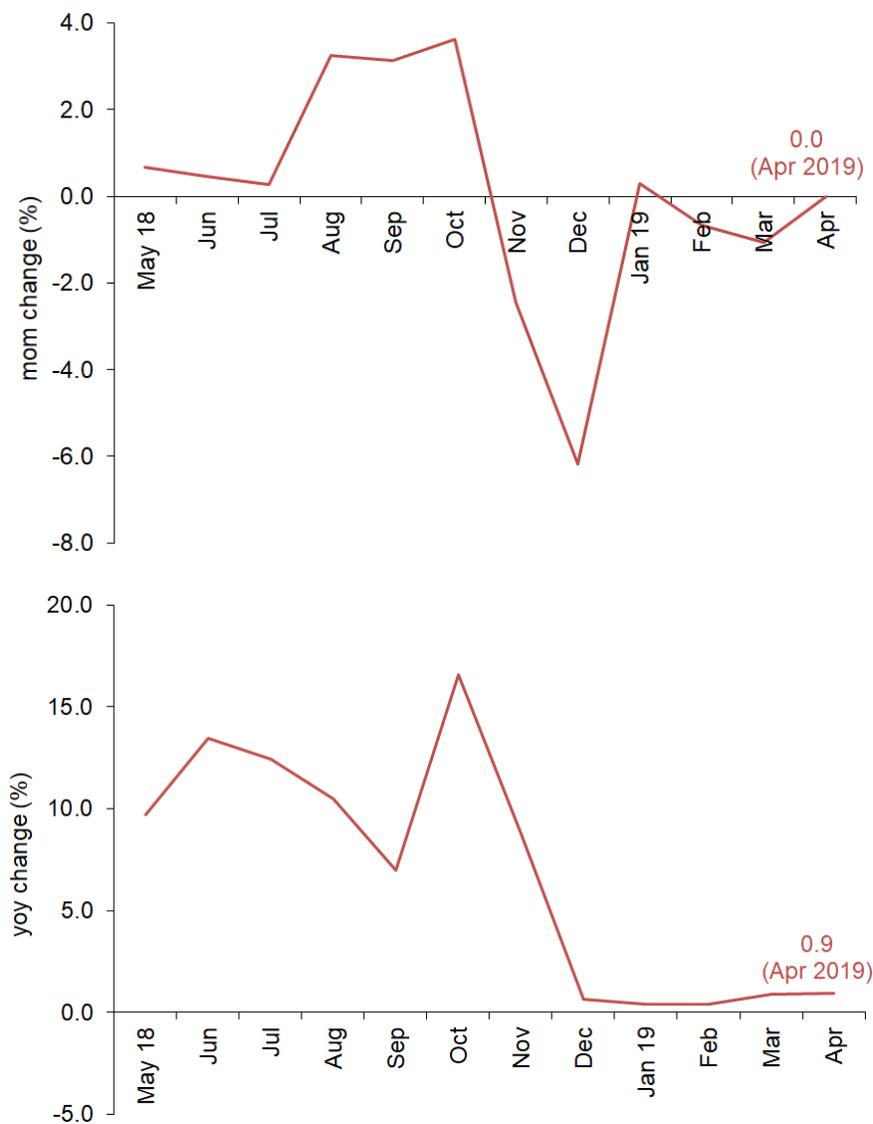
2. Price index of PP stays flat in in April

After falling by 1.1% mom in March, the price index of polypropylene (PP)³ stayed flat in April (see exhibit 2). According to the local media, PP prices increased in early April but retreated afterwards due to a weak downstream demand.

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

Going forward, the announced tariffs by China and the US on each other in recent weeks are likely to disrupt the domestic PP market. China’s additional tariffs on liquefied propane (which is the major raw material for PP) imported from the US will jump from the current 10% to 25% on 1 June. If the tariff hike does take effect, the production costs of PP are likely to increase, as liquefied propane imported from the US accounts for roughly 10% of China’s total consumption. Moreover, US extra tariffs on Chinese imports are likely to lead to a reduced demand for PP: The US raised the additional tariff rate on US\$200 billion of Chinese imports to 25% on 10 May, and proposed on 13 May to impose 25% additional tariffs on another US\$300 billion of Chinese imports.

Exhibit 2: Price index of PP, May 2018 to April 2019



Source: China Logistics Information Center

3. Price index of natural rubber drops in April

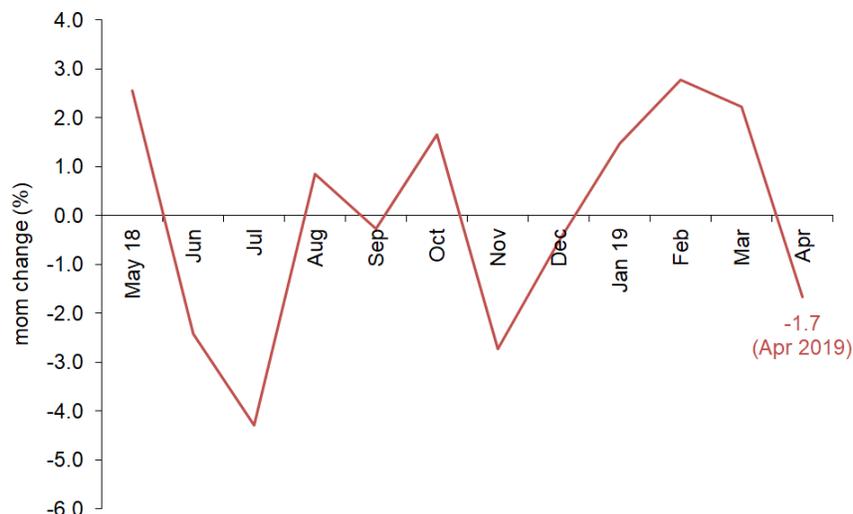
The price index of natural rubber⁴ fell by 1.7% mom in April, after rising by 2.2% mom in March (see exhibit 3).

Prices of natural rubber trended downward during early March to late April due to a sluggish downstream demand and market expectations of an increased supply of natural rubber as the rubber tapping season was underway in major rubber producing countries.

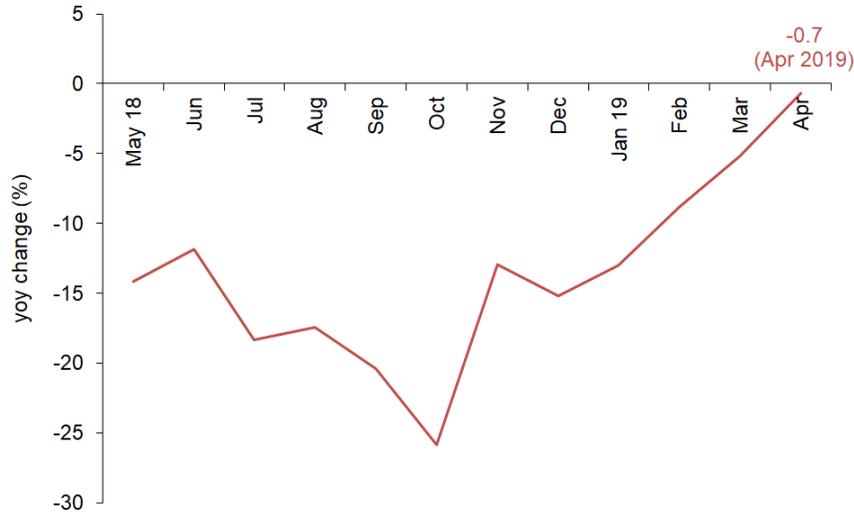
Market sentiments on natural rubber improved on two pieces of bullish news during late April to early May, even though the US raised the additional tariff rate on most rubber products from China to 25% from 10% on 10 May. First, China's customs announced on 28 April a clarification on the customs classification of rubber imports. Certain rubber imports have been subject to higher tariff rates since then, which would support the prices of natural rubber in China. Second, the US announced on 7 May that it had revoked the antidumping duty and countervailing duty orders on certain new pneumatic off-the-road tyres from China, which would likely boost Chinese exports of tyres to the US.

Looking ahead, we predict that the prices of natural rubber will increase in the near future on the back of positive market sentiments.

Exhibit 3: Price index of natural rubber, May 2018 to April 2019



⁴ The index is compiled by the China Logistics Information Center (CLIC).



Source: China Logistics Information Center

4. Price indices of non-ferrous metals edge down in April

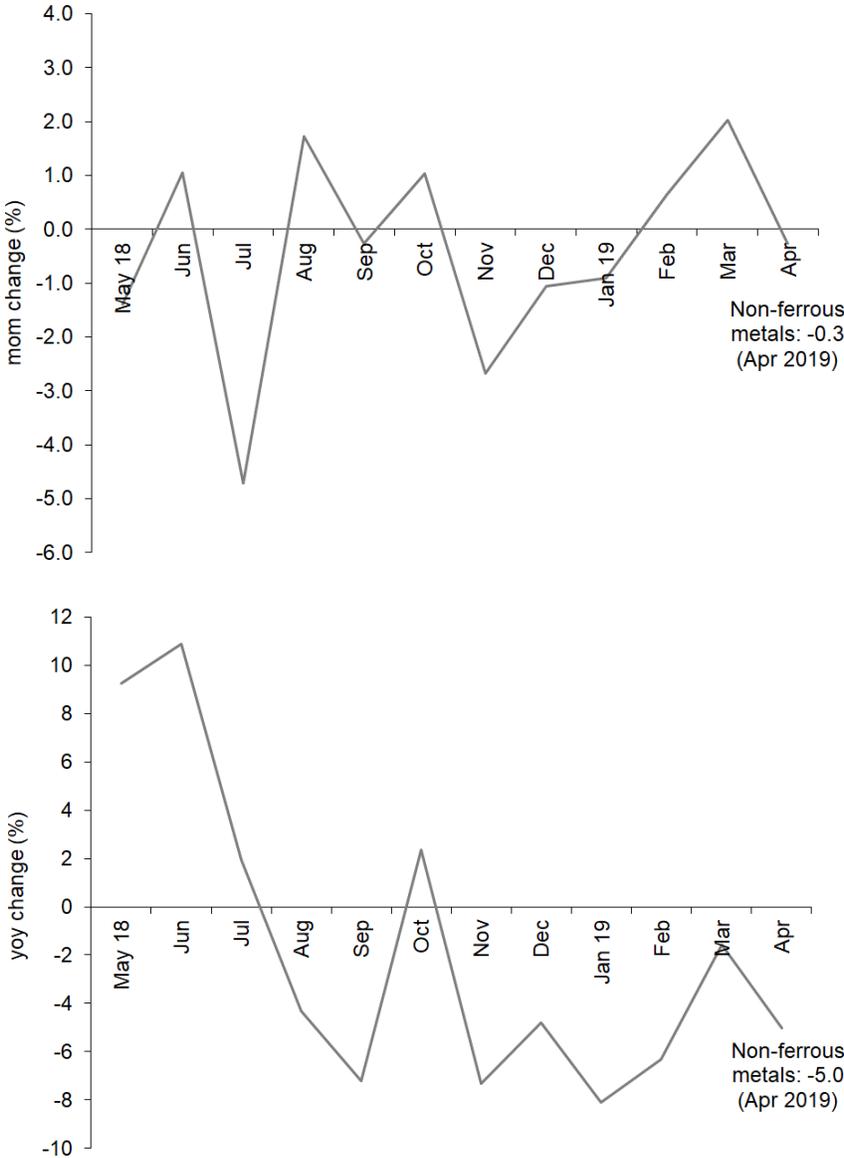
The price index of non-ferrous metals went down by 0.3% mom in April, after rising by 2.0% mom in March (see exhibits 4 & 5).⁵

The major reasons for the slight decline in the prices of non-ferrous metals in April were an appreciation of the US dollar, which dragged down the prices of commodities including non-ferrous metals in US dollar terms; and market concerns over the slowdown in the Chinese and the global economy amid the escalating China-US trade war.

Looking ahead, we expect that the prices of non-ferrous metals will stay low in the near future, as market sentiments are likely to remain weak given the heightened trade tensions between China and the US.

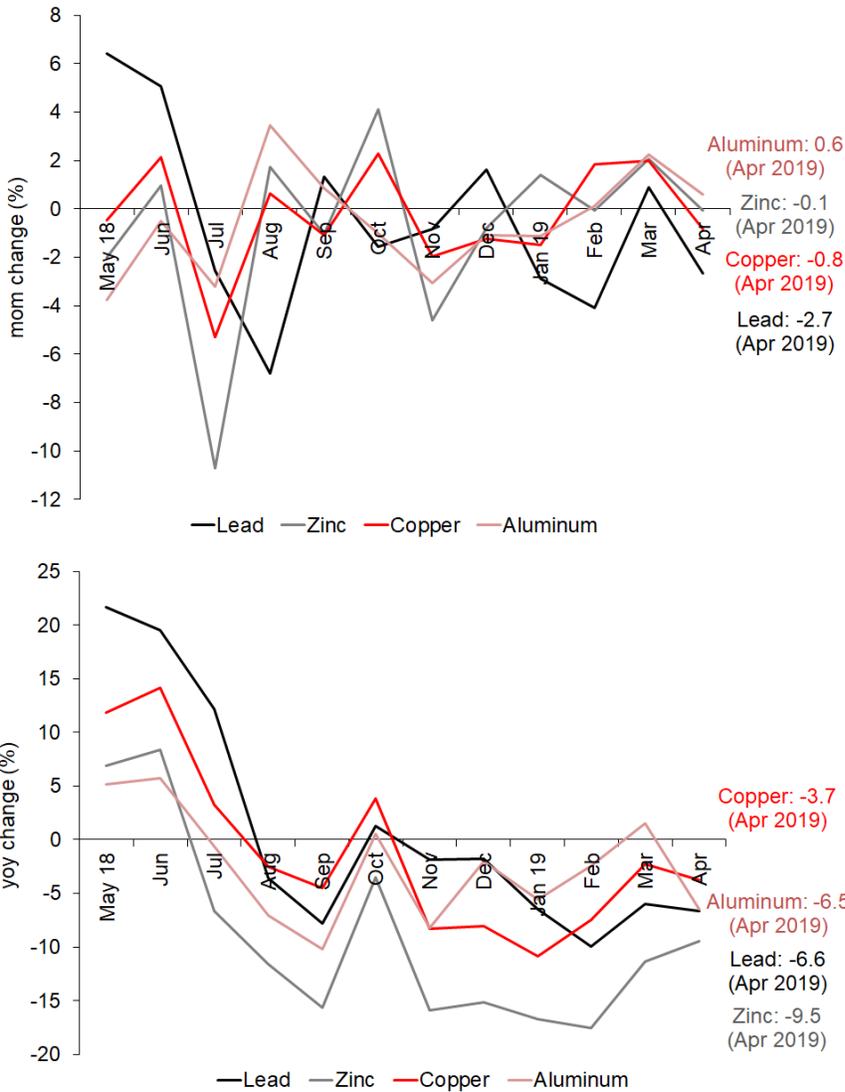
⁵ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
May 2018 to April 2019**



Source: China Logistics Information Center

Exhibit 5: Price index of copper, aluminum, lead and zinc, May 2018 to April 2019



Source: China Logistics Information Center

FUNG BUSINESS INTELLIGENCE

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