

China Sourcing Update

September 26, 2018

Raw Material Prices: Hard Goods

1. Price index of ABS resin goes up slightly in August

The price index of ABS resin¹ edged up by 0.2% mom in August, after dropping by 0.7% mom in July (see exhibit 1).

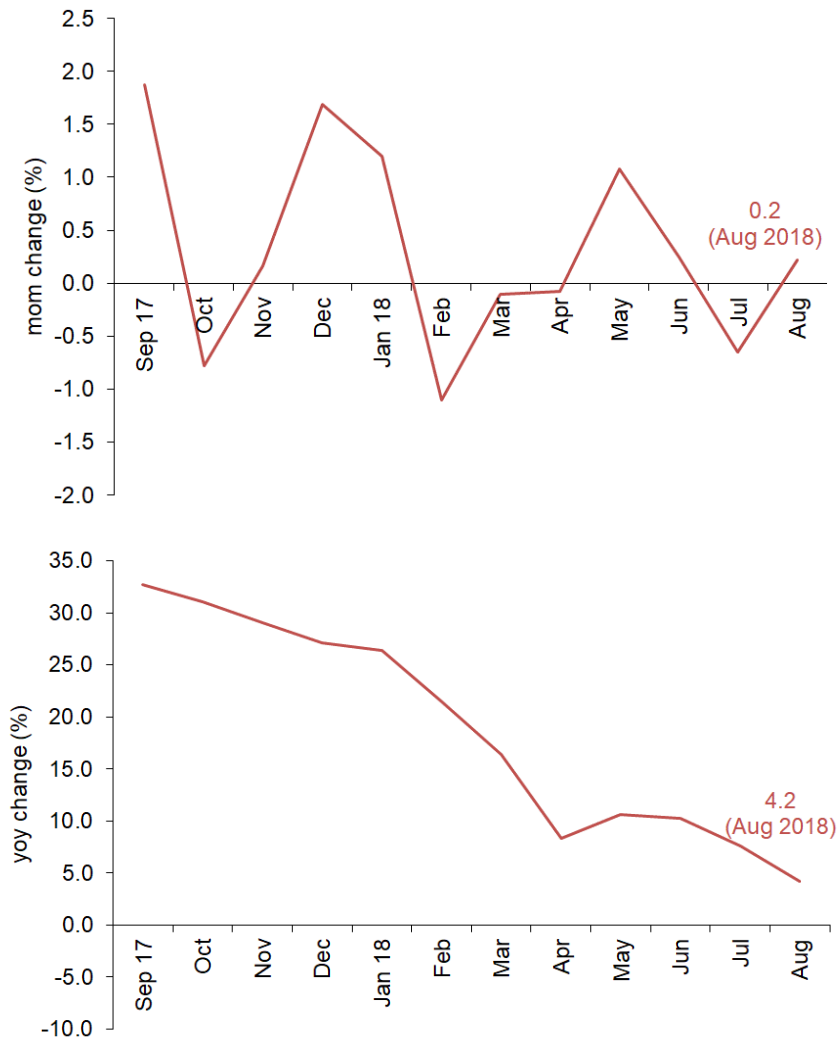
Prices of ABS resin rose in early August as the prices of acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, increased in the period. Afterwards, a weakening in demand and an excess supply dragged down the prices of ABS resin, despite that upstream costs remained high.

It is noteworthy that China's 25% additional tariffs on acrylonitrile imported from the US came into effect on 23 August.² As the US accounts for more than 20% of China's imports of acrylonitrile, the tariffs would lead to higher prices of imported acrylonitrile, which are likely to further push up the production costs of ABS resin. Meanwhile, the restocking demand from manufacturers of home appliances, a major downstream sector of ABS resin, is likely to decline in the coming months as the high season for air-conditioner sales has passed. All in all, we expect the prices of ABS resin to trend downward in the near future.

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://www.mofcom.gov.cn/article/ae/ai/201808/20180802773926.shtml>

Exhibit 1: Price index of ABS resin, September 2017 to August 2018



Source: China Logistics Information Center

2. Price index of PP climbs in August

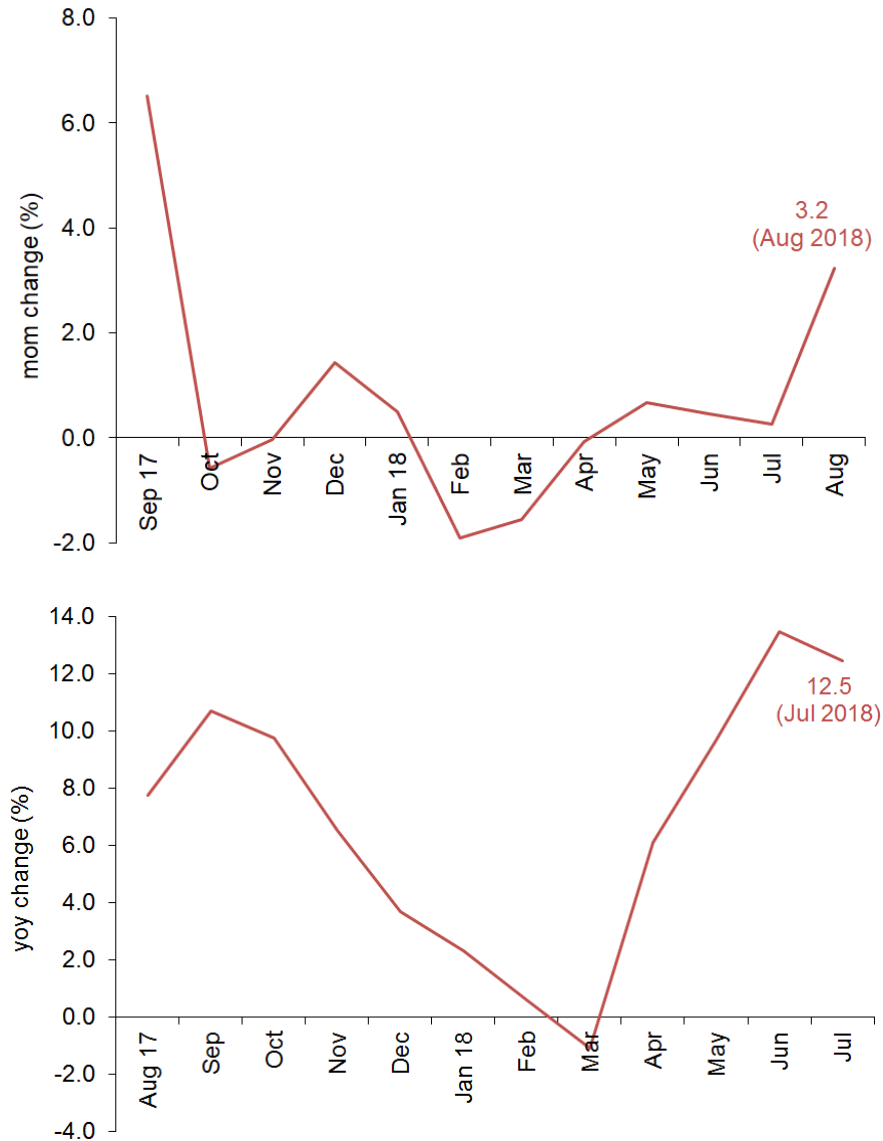
The price index of polypropylene (PP)³ jumped by 3.2% mom in August, posting month-on-month rise for four consecutive months (see exhibit 2).

Triggered by a surge in the prices of PP futures in China, the spot prices of PP went up in early August. Afterwards, the spot prices of PP retreated amid a fall in the prices of PP futures and a sluggish downstream demand for PP.

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

China's imposition of 25% additional tariffs on liquefied propane (which is the major raw material for PP) imported from the US kicked in on 23 August.⁴ As the US accounts for more than 25% of China's imports of liquefied propane, the tariffs would push up the production costs of PP. Meanwhile, the downstream demand for PP is likely to improve in the high season in September and October. All in all, we expect the prices of PP to rise further in the near term.

Exhibit 2: Price index of PP, September 2017 to August 2018



Source: China Logistics Information Center

⁴ <http://www.mofcom.gov.cn/article/ae/ai/201808/20180802773926.shtml>

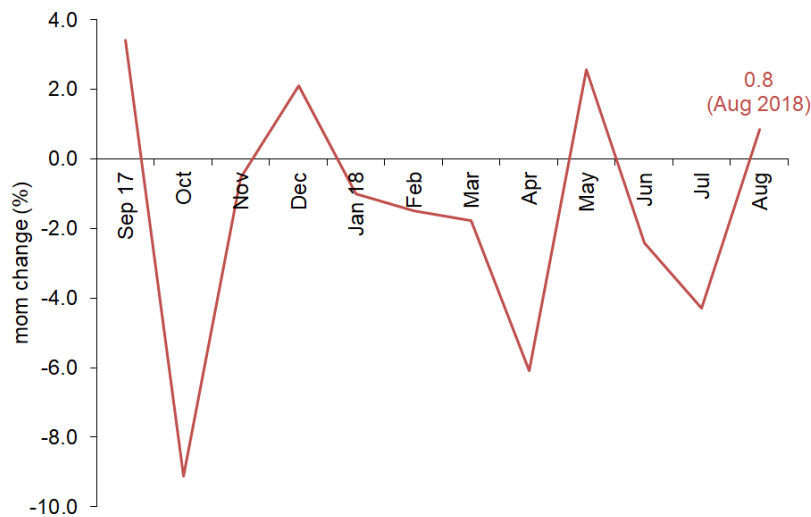
3. Price index of natural rubber picks up in August

The price index of natural rubber⁵ rebounded by 0.8% mom in August, after having fallen for two consecutive months (see exhibit 3).

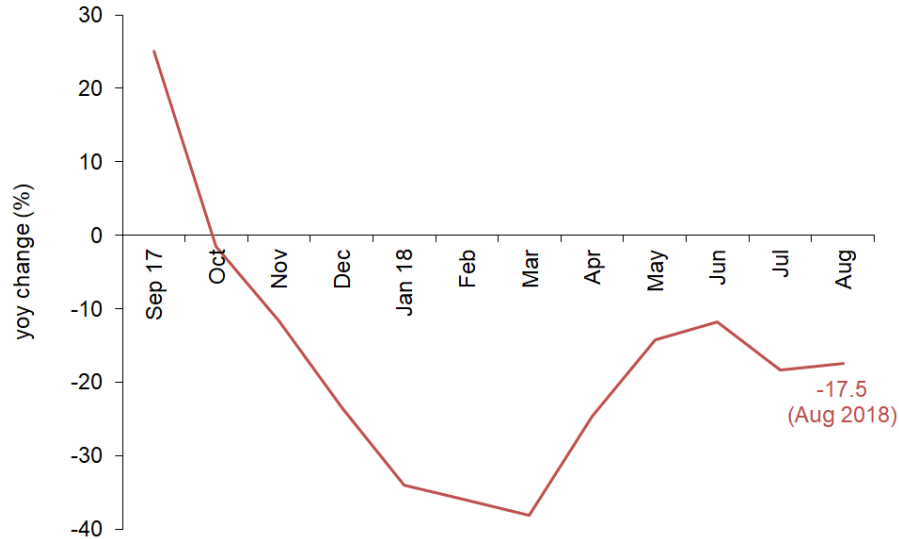
Rubber prices stayed low throughout early to mid-August as market concerns about the China-US trade war persisted. Rubber prices then rose on 21-22 August on news of massive floods hitting Kerala, the biggest rubber producing area in India. It was expected that lower rubber output and thus higher imports by India, the second largest consumer of rubber in the world, could support global rubber prices.

On 24 September, the US administration started to impose 10% additional tariffs on US\$200 billion worth of Chinese goods, including most rubber products from China. As the downstream demand for natural rubber is likely to fall sharply, we expect rubber prices to stay low in the coming months.

Exhibit 3: Price index of natural rubber, September 2017 to August 2018



⁵ The index is compiled by the China Logistics Information Center (CLIC).



Source: China Logistics Information Center

4. Price indices of non-ferrous metals rebound in August

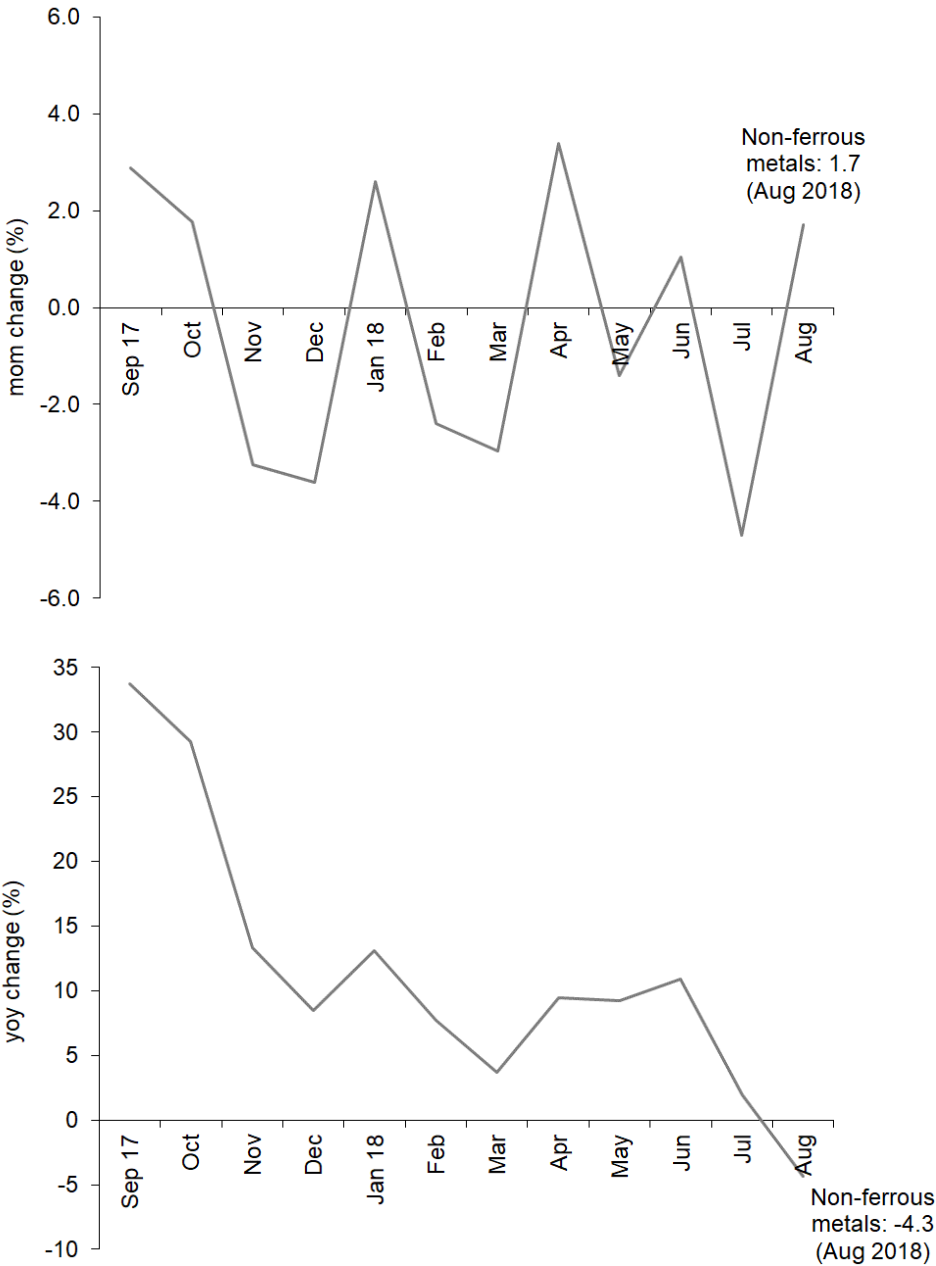
The price index of non-ferrous metals picked up by 1.7% mom in August, after plunging by 4.7% mom in July (see exhibits 4 & 5).⁶

There are two main reasons for the rise in non-ferrous metal prices (except lead) in China in August. First, the Chinese government announced to speed up infrastructure investment, which gave a boost to non-ferrous metal prices. Second, the weakening of the US dollar in the second half of the month helped support non-ferrous metal prices. Meanwhile, prices of lead in China fell in the month amid an increased domestic supply and a sluggish downstream demand.

Looking ahead, we expect that the uptrend of the prices of non-ferrous metals will not continue in the coming months, given the uncertainty surrounding the China-US trade war.

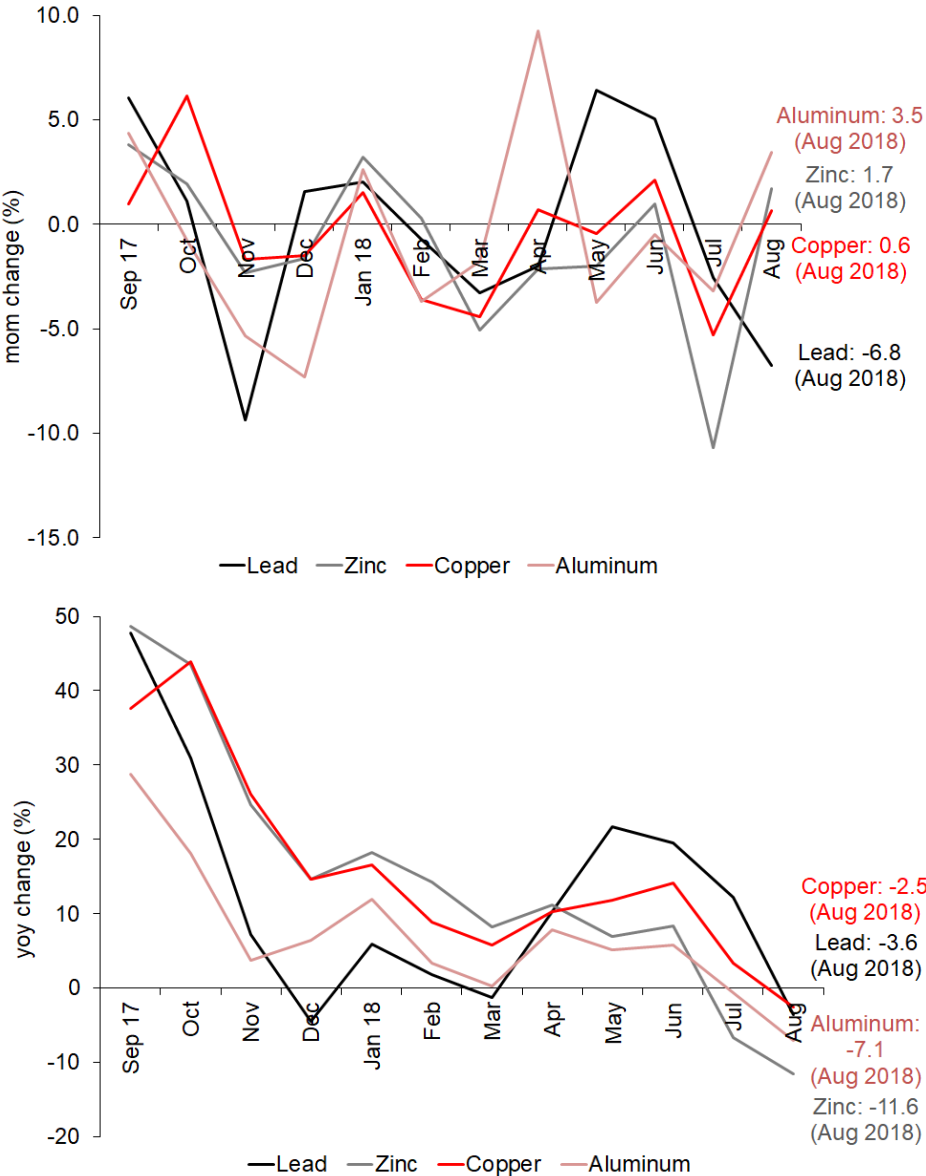
⁶ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
September 2017 to August 2018**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,
September 2017 to August 2018**



Source: China Logistics Information Center

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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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