



China Sourcing Update

June 27, 2018

Raw Material Prices: Hard Goods

1. Price index of ABS resin rises in May

The price index of ABS resin¹ went up 1.1% mom in May, after having dropped for three consecutive months (see exhibit 1).

The increase in the prices of ABS resin in May was mainly caused by a surge in upstream costs. Boosted by a rise in crude prices, the prices of butadiene and styrene, two of the major raw materials of ABS resin, jumped in the month.

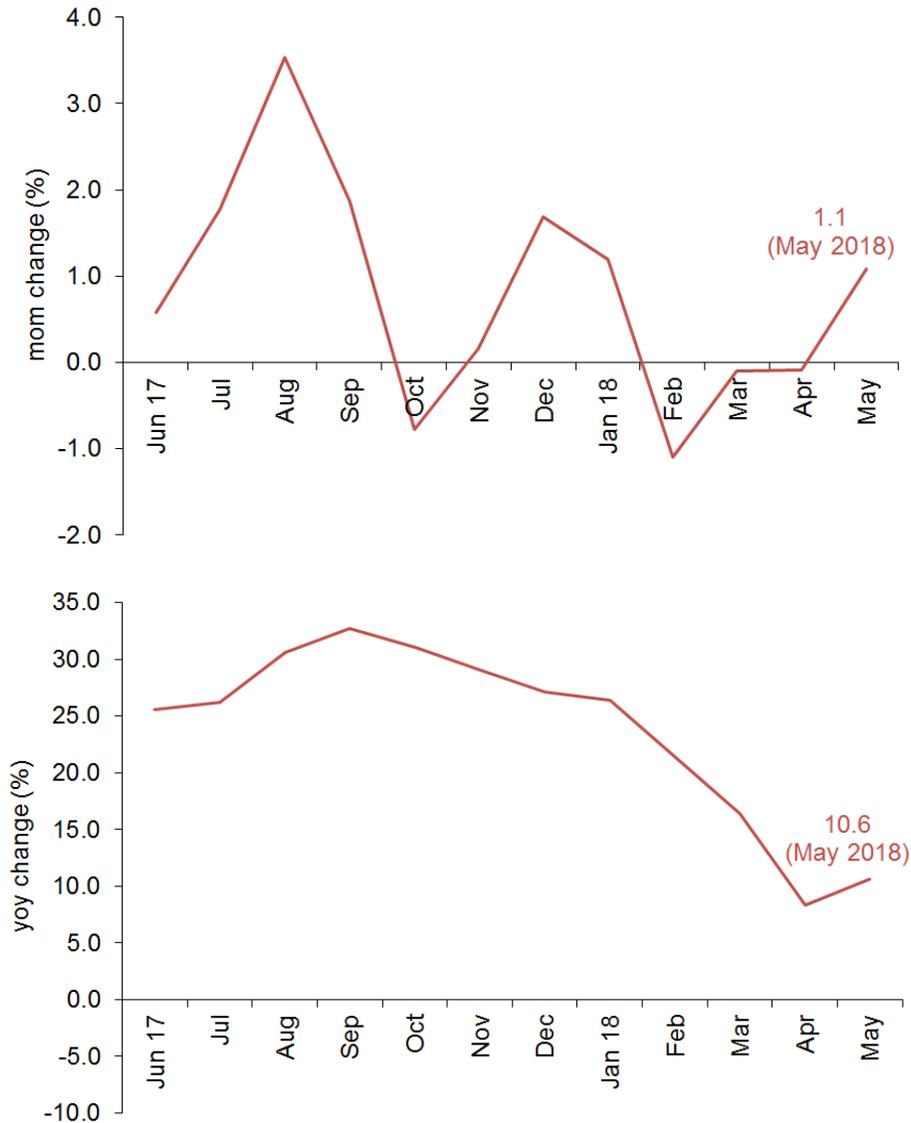
It is noteworthy that acrylonitrile (another raw material of ABS resin) imported from the US is included in the second part of a product list for 25% additional tariffs published by the Chinese government on 16 June, of which the tariff effective date will be announced later.² In our view, if the tariffs do take effect, higher prices of imported materials will likely push up the production costs of ABS resin, while the rising prospect of a China-US trade war will lead to a fall in the downstream demand for the resin.

Looking ahead, we expect the prices of ABS resin to retreat in the near term, given a decline in upstream costs during early to mid-June, and the uncertainty about a potential China-US trade war.

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/201806/P020180616034362364988.pdf>

Exhibit 1: Price index of ABS resin, June 2017 to May 2018



Source: China Logistics Information Center

2. Price index of PP goes up in May

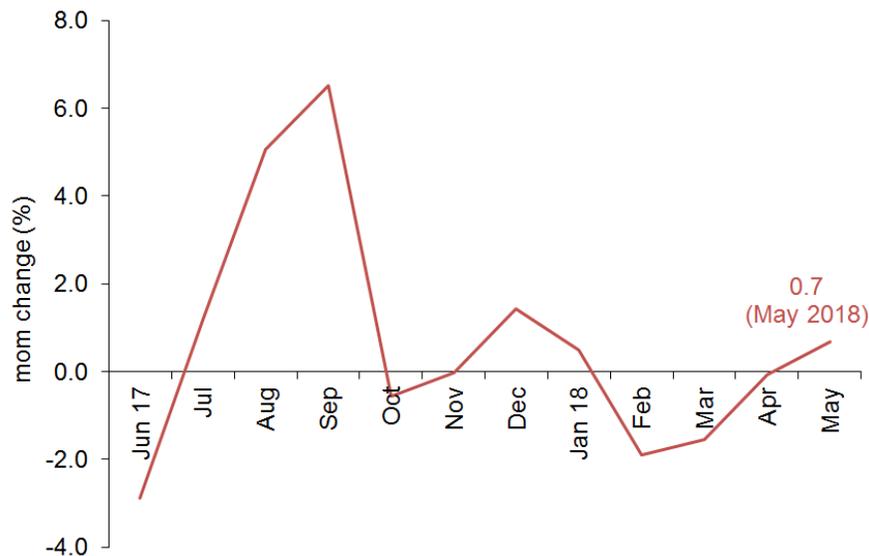
The price index of polypropylene (PP)³ rose by 0.7% mom in May, after edging down by 0.1% mom in April (see *exhibit 2*). Triggered by an increase in the prices of PP futures in China and a rise in upstream costs, the spot prices of PP climbed in the month.

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

According to latest media reports, the prices of PP futures in China dropped in mid-June amid growing trade tensions between China and the US, thus dragging down the spot prices of PP. Therefore, we expect the price index of PP to fall in the near future.

It is noteworthy that both liquefied propane and liquefied propylene (which are raw materials for PP) imported from the US are on the second part of a product list for 25% additional tariffs published by the Chinese government on 16 June, of which the tariff effective date is not announced yet.⁴ In our view, if the tariffs do come into effect, the domestic PP market will be disrupted: higher prices of imported materials will lead to higher production costs of PP, while the prospect of a trade war is likely to cause a fall in the downstream demand for PP.

Exhibit 2: Price index of PP, June 2017 to May 2018



⁴ <http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201806/P020180616034362364988.pdf>



Source: China Logistics Information Center

3. Price index of natural rubber rises in May

The price index of natural rubber⁵ went up 2.6% mom in May, after recording month-on-month drop for four consecutive months (see exhibit 3).

Rubber prices trended upward throughout the month as the domestic stock level of natural rubber continued to drop. Rubber prices increased further in late May after the China-US trade tensions seemed to ease with the publication of a joint statement on trade on 19 May by the two countries.

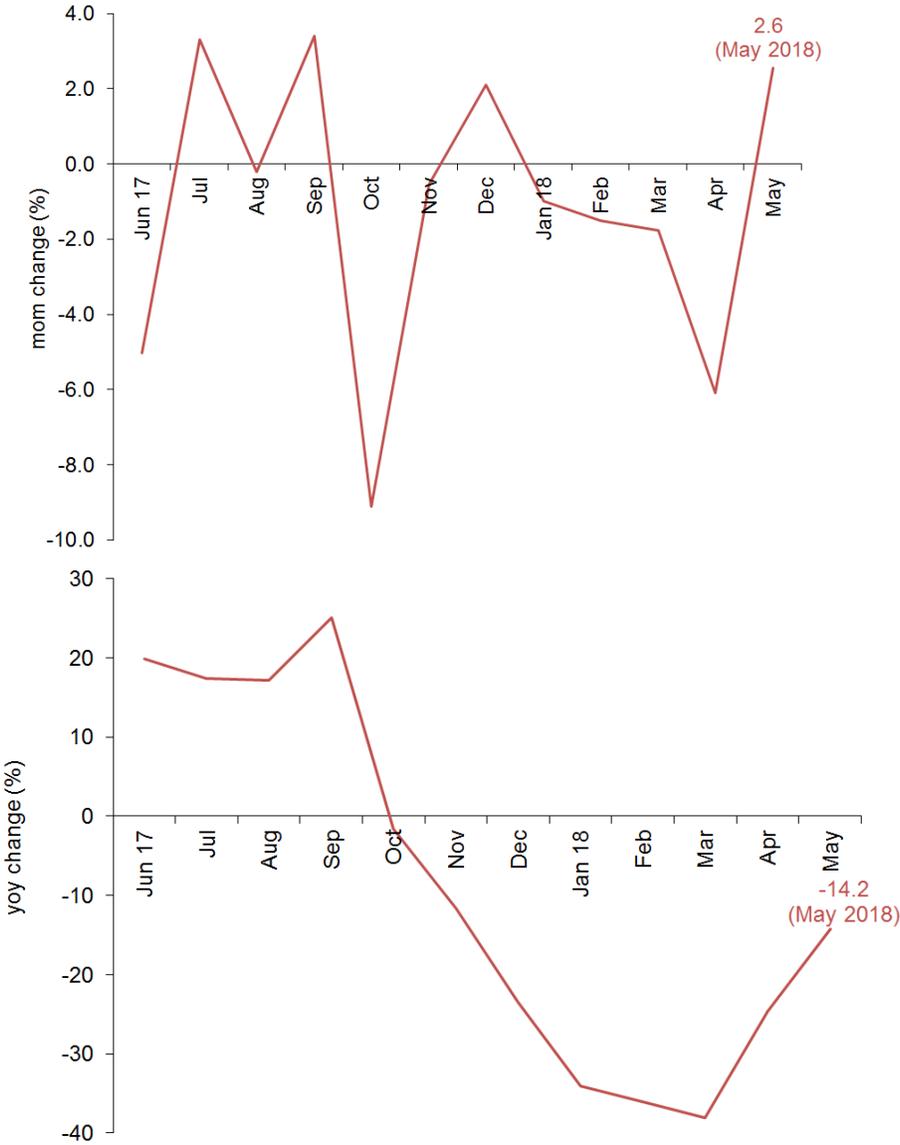
However, rubber prices fell again during early to mid-June as renewed worries about the trade disputes between China and the US dragged down global commodity markets, particularly after the two countries traded import duties and tariff threats in mid-June.

Although two categories of tyres from China are included in the product list for 25% additional tariffs released by the US government on 15 June, China's major tyre exports such as tyres for vehicles and bicycles are not on the product list. Therefore, the tariffs, which will take effect on 6 July, are not likely to greatly reduce China's export of tyres, the major downstream product of natural rubber.

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

That being said, we expect rubber prices to stay low amid market concerns over a potential China-US trade war and an increase in the supply of natural rubber during the current rubber tapping season.

Exhibit 3: Price index of natural rubber, June 2017 to May 2018



Source: China Logistics Information Center

4. Price indices of non-ferrous metals drop in May

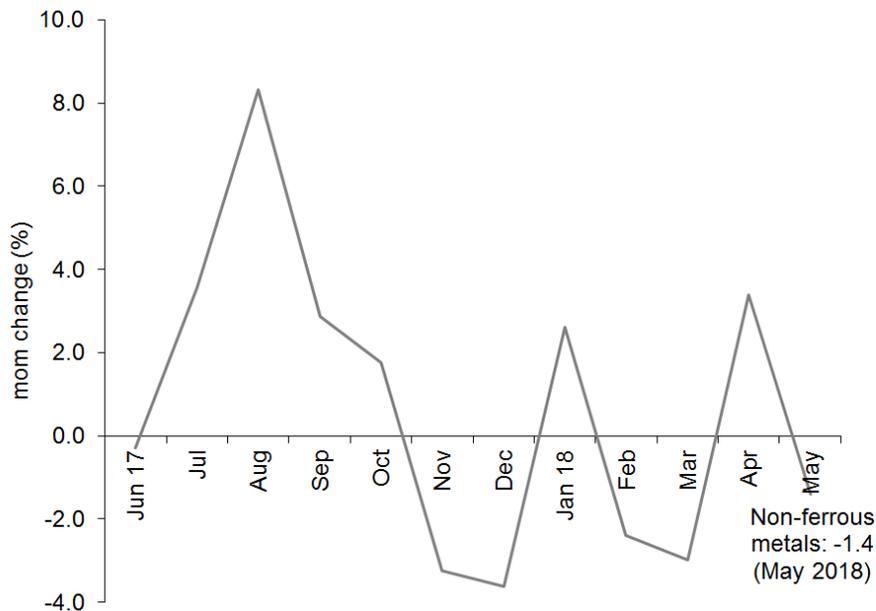
The price index of non-ferrous metals went down by 1.4% mom in May, after rising by 3.4% mom in April (see exhibits 4 & 5).⁶

The decline in non-ferrous metal prices in China in the month was led by a fall in aluminum prices, after the US government signalled in late April that it would consider lifting the sanctions on Rusal, the second largest aluminum producer in the world, if its major shareholder cedes control of the company. Meanwhile, prices of lead in China jumped in the month as the environmental inspections carried out in some regions led to a tightened domestic supply of lead.

After rising in early June, non-ferrous metal prices went down in mid-June as China-US trade tensions escalated, which put downward pressures on commodity prices including non-ferrous metal prices.

Looking ahead, we expect that the prices of non-ferrous metals will stay low in the near term, given the uncertainty surrounding the China-US trade disputes.

**Exhibit 4: Price index of non-ferrous metals,
June 2017 to May 2018**

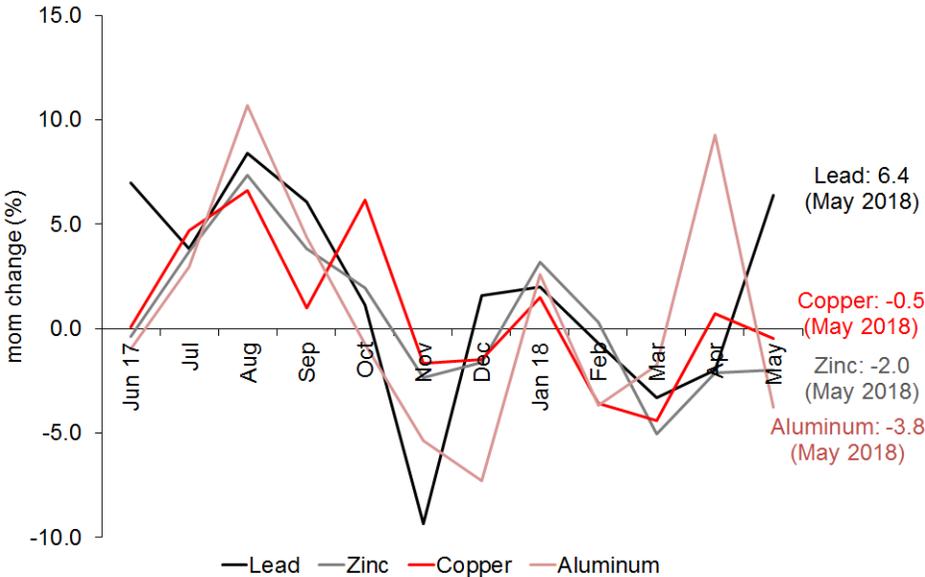


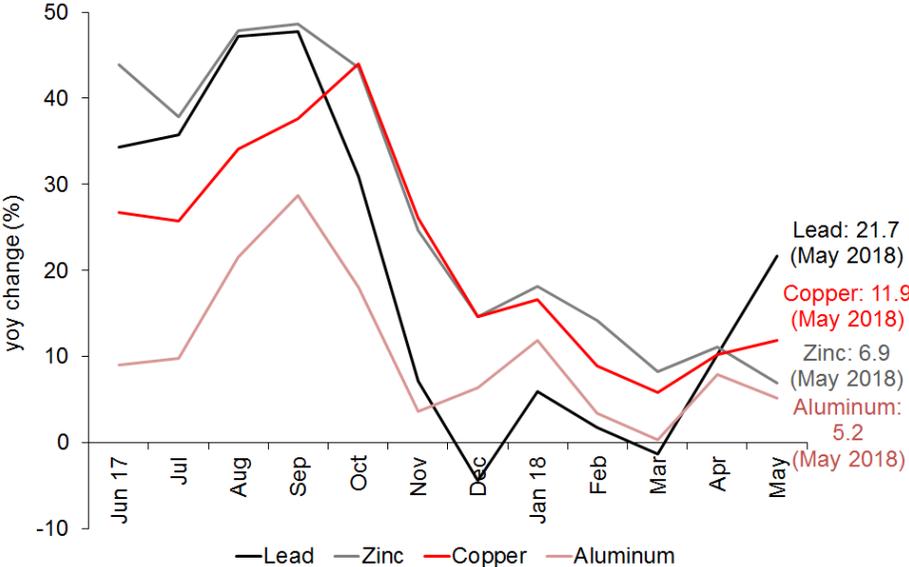
⁶ The indices are compiled by the China Logistics Information Center (CLIC).



Source: China Logistics Information Center

Exhibit 5: Price index of copper, aluminum, lead and zinc, June 2017 to May 2018





Source: China Logistics Information Center

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