

China Sourcing Update

Energy Costs

Crude prices drop in September and October after a four-month rising streak

In line with the movement of global crude prices, China's crude prices went down in September and October, after a four-month rising streak from May to August¹. For instance, the Daqing² crude price fell from US\$39.35 per barrel on 31 August to US\$32.21 on 30 October (see exhibit 1).

The drop in crude prices was driven by the surge in global new COVID-19 cases in the third quarter of 2020. In October, Europe and other countries introduced new lockdown measures to prevent the spread of COVID-19. This resulted in sluggish demand for crude oil, which put downward pressure on oil prices.

Suppressed by the pandemic, there is still room for the global crude prices to fall. Meanwhile, the market has recently reported new developments in the new COVID-19 vaccines. Looking ahead, we expect that global and China's crude prices will be affected by the progress of the vaccines and will remain volatile within a narrow range in the near future.

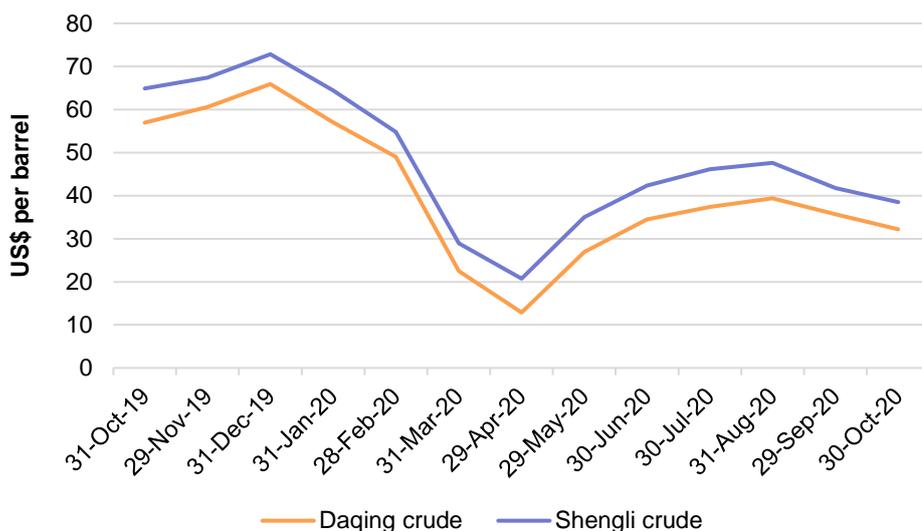
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Exhibit 1: China's crude price, October 2019 to October 2020



Source: gcec.com.cn

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.

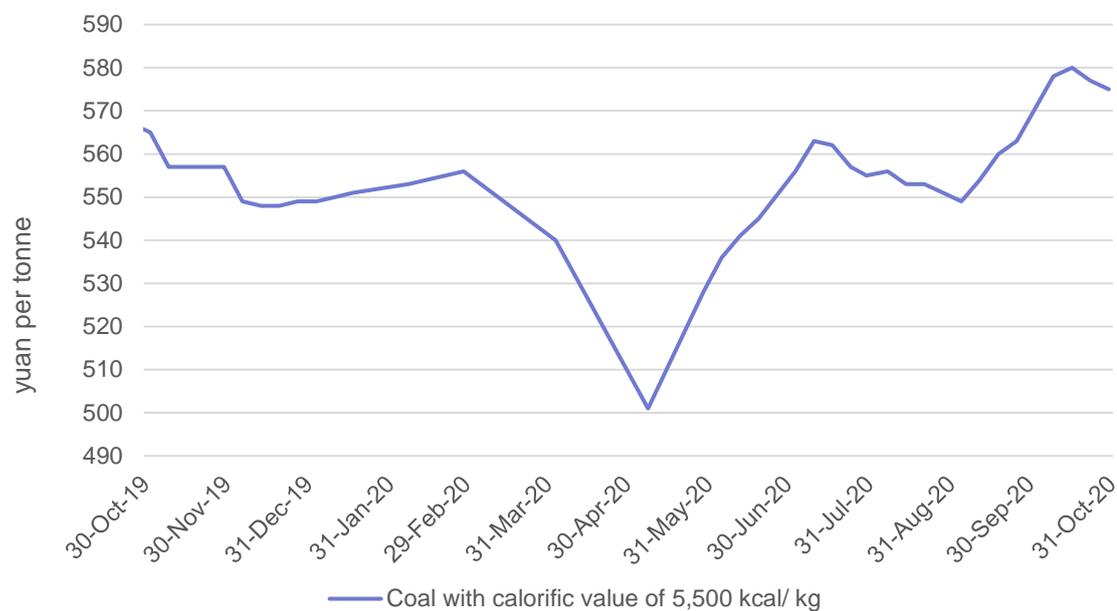
Benchmark Qinhuangdao coal prices stay high in October

The benchmark Qinhuangdao coal prices have rebounded since May and stayed high in October (see exhibit 2). The price of coal with calorific value of 5,500 kcal/kg climbed from 501 yuan per tonne on 8 May to 578 yuan per tonne on 9 October and closed at 575 yuan per tonne as of 30 October.

The increase in the benchmark Qinhuangdao coal prices in September and early October was attributable to low coal inventories at major ports and the coming of peak season for coal consumption. A slight decrease in coal prices was recorded in mid-October, as large-scale enterprises consumed more hydropower and new energy rather than coal, especially those enterprises in the coastal provinces.

Looking ahead, we expect coal prices to stay high as the downstream companies have expressed their concerns over a potential shortage of coal due to an expected spike in demand for coal. The high downstream demand would be attributable to low coal inventories, a decline in hydropower production and an increase in daily consumption of coal for winter heating.

Exhibit 2: Qinhuangdao coal prices, October 2019 to October 2020



Source: National Bureau of Statistics of China & cctd.com.cn

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