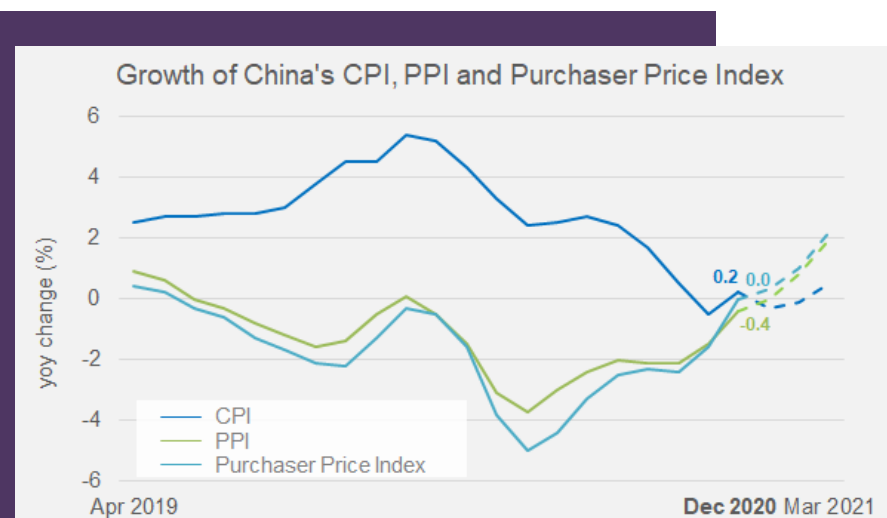


China Sourcing Update

Major Price Indicators

CPI returns to growth while factory gate deflation continues to ease in December



Key indicators

- Year-on-year growth in CPI picked up to 0.2% in December, returning to positive territory.
- Factory gate deflation eased as the year-on-year growth in PPI improved to minus 0.4% in December.
- Year-on-year growth rate of the purchaser price index of industrial products improved to 0.0% in December, ending 18 consecutive months of deflation in upstream prices.

Our forecasts

- We project that, on a year-on-year basis, China's CPI growth will fall into negative territory again in the first two months of 2021, given a high base for comparison in the same period last year.
- Both the year-on-year growth and month-on-month growth of PPI will continue to go up in the near future, given an improving industrial demand and a recent jump in domestic prices of production inputs.
- As the demand for production inputs is likely to improve further and a recent rise in global commodity prices continues to put upward pressure on domestic input prices, both the year-on-year growth and month-on-month growth in input prices will pick up in the coming months.

Helen Chin

Vice President

E: helenchin@fung1937.com

William Kong

Senior Research Manager

E: williamkong@fung1937.com

Fung Business Intelligence

1/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>



1. CPI returns to growth in December

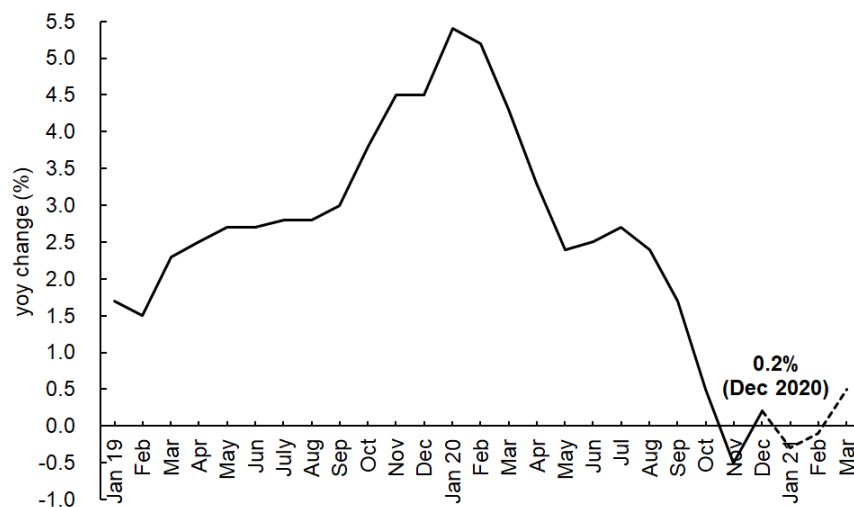
The year-on-year growth rate of China’s consumer price index (CPI)¹ picked up from an 11-year low of minus 0.5% in November to 0.2% in December (see exhibits 1 & 2). The rebound in CPI growth in December was attributed to a rise in food prices, particularly vegetable prices, caused mainly by the recent cold weather: The year-on-year growth in food inflation rose from minus 2.0% in November to 1.2% in December.

For 2020, China’s CPI growth was 2.5% yoy, down from 2.9% yoy for 2019, and was below the government’s target of 3.5% set for the year.

Looking ahead, we expect food prices to continue to go up in the near future amid the cold weather and a higher seasonal demand before the Chinese New Year. However, the CPI growth, on a year-on-year basis, is likely to fall into negative territory again in the first two months of 2021, given a high base for comparison in the same period last year.

Exhibit 1: China’s CPI growth and forecasts, January 2019 to March 2021

| FY20 | Jan 20 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------|--------|------|------|------|------|------|------|------|------|------|-------|------|
| 2.5% | 5.4% | 5.2% | 4.3% | 3.3% | 2.4% | 2.5% | 2.7% | 2.4% | 1.7% | 0.5% | -0.5% | 0.2% |



Source: National Bureau of Statistics

Exhibit 2: China’s CPI growth by commodity, July to December 2020

| | Jul 20 | Aug | Sep | Oct | Nov | Dec |
|-----------------------------------|--------|------|------|------|------|------|
| Clothing | -0.5 | -0.5 | -0.4 | -0.3 | -0.3 | -0.1 |
| Household articles and services | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| Education, culture and recreation | 0.3 | 0.0 | 0.7 | 1.1 | 1.0 | 0.9 |

Source: National Bureau of Statistics

¹ The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household.

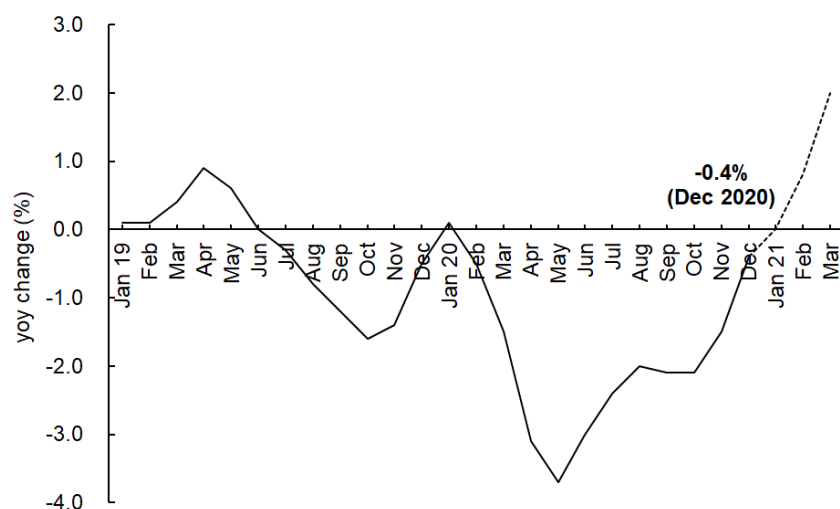
2. Ex-factory prices of industrial products go up month-on-month in December

China's factory gate deflation eased markedly in December as the year-on-year growth in the producer price index of industrial products (PPI) improved from minus 1.5% in November to minus 0.4% in December (see exhibits 3 & 4). On a month-on-month basis, the PPI went up by 1.1% in December. The rise in the PPI in the month was mainly attributed to an increase in ex-factory prices in the crude oil, natural gas, chemical, and metals industries amid a jump in global crude and commodity prices.

Going forward, the demand for industrial products is likely to continue to improve as both the domestic and global economy are set to recover further. Besides, a recent jump in domestic prices of production inputs, boosted by a rise in global crude and commodity prices, will also add cost pressures on manufacturers. Therefore, we expect that both the year-on-year growth and month-on-month growth of the PPI will continue to go up in the near future.

Exhibit 3: China's PPI growth and forecasts, January 2019 to March 2021

| FY20 | Jan 20 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| -1.8% | 0.1% | -0.5% | -1.5% | -3.1% | -3.7% | -3.0% | -2.4% | -2.0% | -2.1% | -2.1% | -1.5% | -0.4% |



Source: National Bureau of Statistics

Exhibit 4: China's PPI growth by selected industry, July to December 2020

| | yoy growth (%) | | | | | |
|--|----------------|------|------|------|------|------|
| | Jul 20 | Aug | Sep | Oct | Nov | Dec |
| Textile | -6.0 | -5.8 | -6.0 | -5.4 | -4.7 | -3.8 |
| Textile wearing apparel and ornament | -1.3 | -1.5 | -1.7 | -1.6 | -1.6 | -1.5 |
| Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products | -1.4 | -0.9 | -1.0 | -1.1 | -1.1 | -0.8 |

Source: National Bureau of Statistics

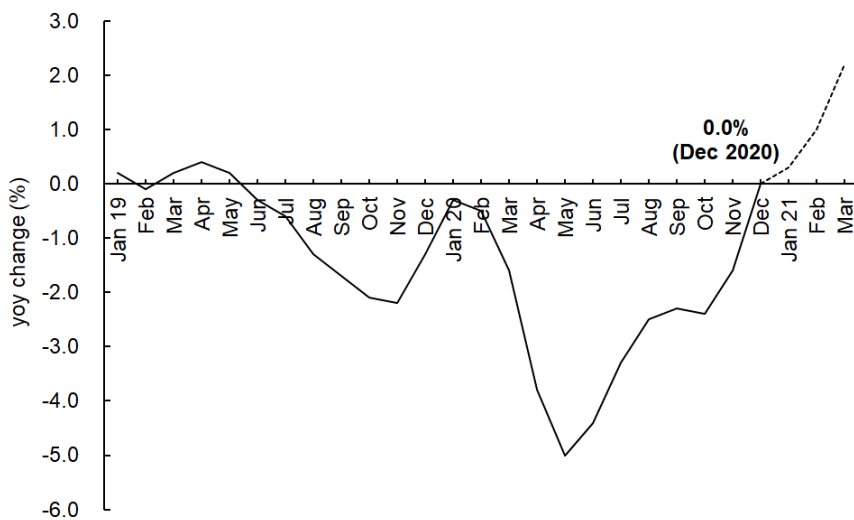
3. Domestic prices of production inputs rise month-on-month in December

The year-on-year growth rate of the purchaser price index of industrial products went up from minus 1.6% in November to 0.0% in December, ending 18 consecutive months of deflation in upstream prices (see exhibits 5 & 6). On a month-on-month basis, the purchaser price index climbed 1.5% in December, after rising by 0.7% in November.

Going forward, as domestic manufacturing production has continued to expand, the demand for production inputs is expected to improve further in the near future. Moreover, a recent rise in global commodity prices has put upward pressure on domestic input prices lately. Therefore, we predict that both the year-on-year growth and month-on-month growth in input prices will continue to go up in the coming months.

Exhibit 5: Growth and forecasts of China’s purchaser price index of industrial products, January 2019 to March 2021

| FY19 | Jan 20 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| -0.7% | -0.3% | -0.5% | -1.6% | -3.8% | -5.0% | -4.4% | -3.3% | -2.5% | -2.3% | -2.4% | -1.6% | 0.0% |



Source: National Bureau of Statistics

Exhibit 6: China’s purchaser price index of industrial products by selected commodity, July to December 2020

| | yoy growth (%) | | | | | |
|---------------------------------------|----------------|------|------|------|------|------|
| | Jul 20 | Aug | Sep | Oct | Nov | Dec |
| Fuel and power | -10.8 | -9.8 | -9.3 | -9.9 | -8.4 | -6.6 |
| Non-ferrous metal materials and wires | -0.3 | 2.9 | 2.9 | 3.0 | 4.0 | 7.5 |
| Chemical raw materials | -8.9 | -8.4 | -7.8 | -7.0 | -4.6 | -1.8 |
| Wood and pulp | -2.1 | -1.4 | -0.8 | -0.8 | -0.7 | -0.9 |
| Textile raw materials | -3.9 | -3.9 | -3.8 | -2.9 | -2.1 | -1.5 |

Source: National Bureau of Statistics

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises over 30,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

© Copyright 2021 Fung Business Intelligence. All rights reserved.

Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.