



China Sourcing Update

December 23, 2016

Price index for US imports from China

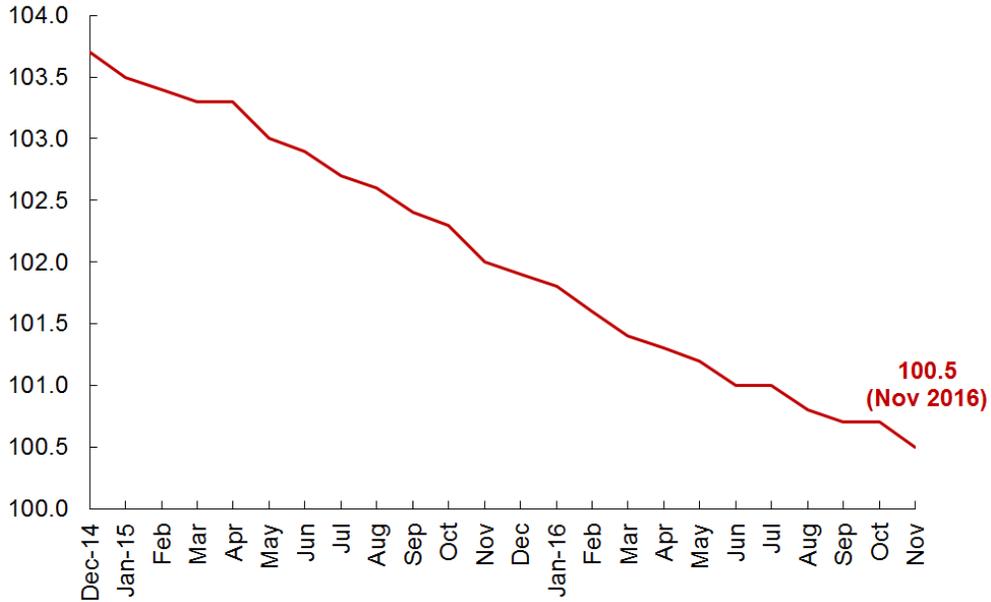
Price index for US imports from China falls again

Compiled by the US Department of Labor, the price index for US imports from China went down to 100.5 in November, the lowest level since September 2010, after staying flat in October (see *exhibit 1*).

In our view, the drop in the price index in November was mainly due to the depreciation of the Chinese yuan against the US dollar during the month; the daily fixing rate of the Chinese yuan depreciated against the US dollar by 1.8% in November. This may have more than offset the rise in ex-factory prices of Chinese products in Renminbi terms: China's producer price index of industrial products (PPI), a major indicator of ex-factory prices of industrial products, rose by 1.5% mom in the month.

Looking ahead, the ex-factory prices of Chinese products are expected to rise further in the near future. However, the daily fixing rate of the Chinese yuan depreciated against the US dollar by 0.8% from end-November to 22 December, and is likely to depreciate further in the near term. All in all, we expect the price index for US imports from China to stay low in the coming months.

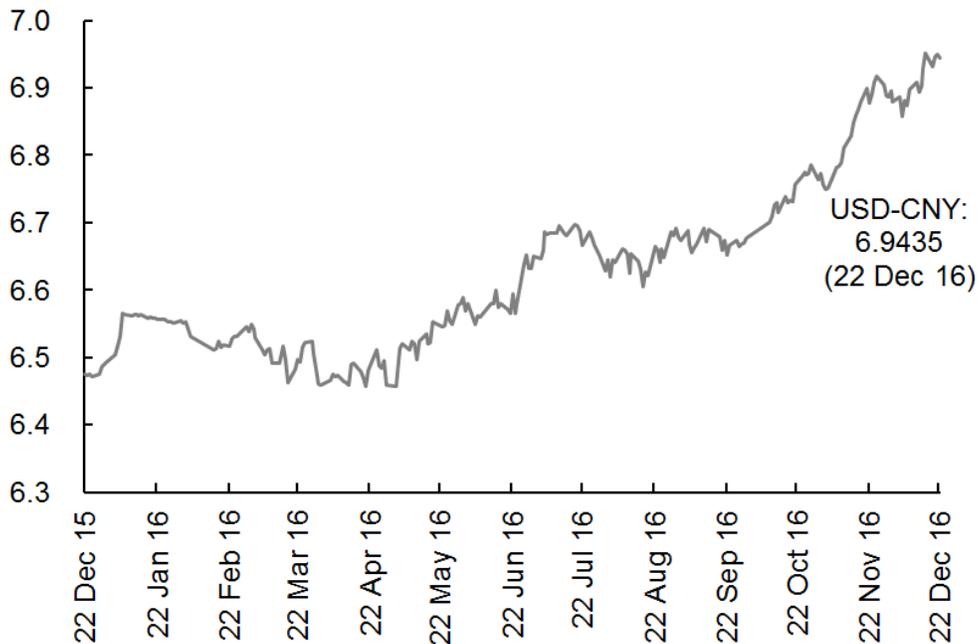
**Exhibit 1: Price index for US imports from China,
December 2014 to November 2016**



Source: US Department of Labor

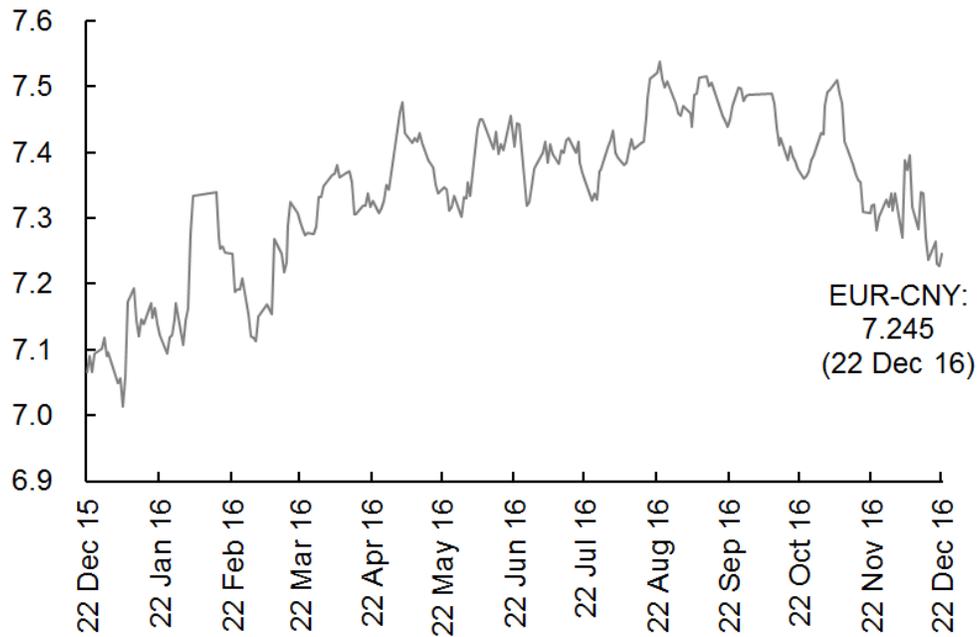
Exchange Rates

Exhibit 1: USD-CNY daily fixing rate, December 2015 to December 2016



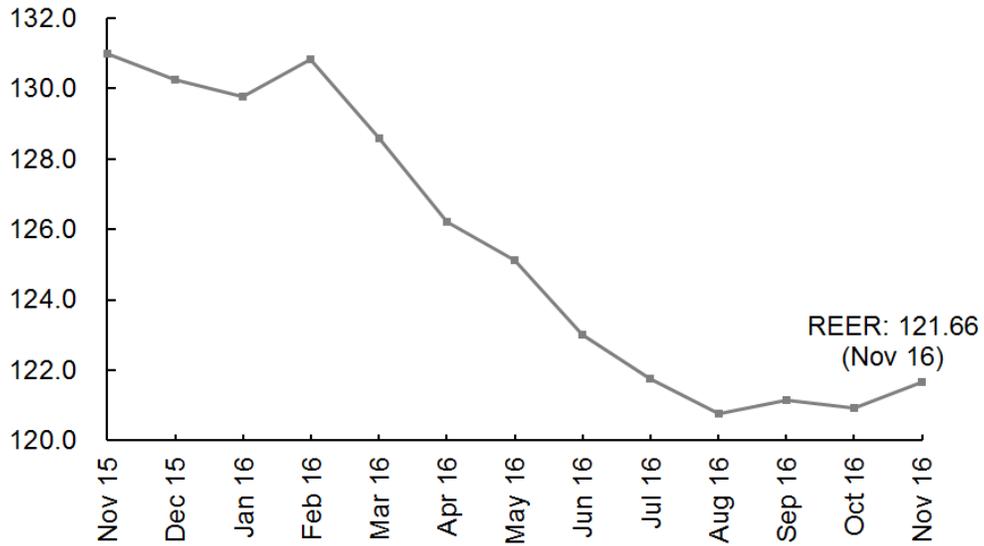
Source: State Administration of Foreign Exchange

Exhibit 2: EUR-CNY daily fixing rate, December 2015 to December 2016



Source: State Administration of Foreign Exchange

Exhibit 3: Real effective exchange rate of the Chinese yuan, November 2015 to November 2016



Source: Bank of International Settlements

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