



China Sourcing Update

May 19, 2017

Energy Costs

1. Crude prices fluctuate sharply during mid-April to mid-May

In line with the movement of global crude prices, China's crude prices plummeted during mid-April to early May and picked up afterwards.¹ For example, the Daqing² crude price fell from US\$ 49.3 per barrel on 12 April to US\$ 42.0 per barrel on 5 May, the lowest level since late November 2016, before rebounding to US\$ 45.8 per barrel on 16 May (see exhibit 1).

The main reasons for the plunge in global oil prices during mid-April to early May were the easing of geopolitical tensions over Syria and North Korea, and investors' renewed concerns about the global oil supply glut. A rising oil output in the US continued to undermine the positive impacts of the output cut led by member countries of the Organization of the Petroleum Exporting Countries (OPEC) and Russia on crude prices. According to the US Energy Information Administration (EIA), the US production of crude oil expanded to its recent peak of 9,293,000 barrels per day in the week ending 28 April 2017, compared with 9,235,000 barrels per day in the week ending 7 April 2017.

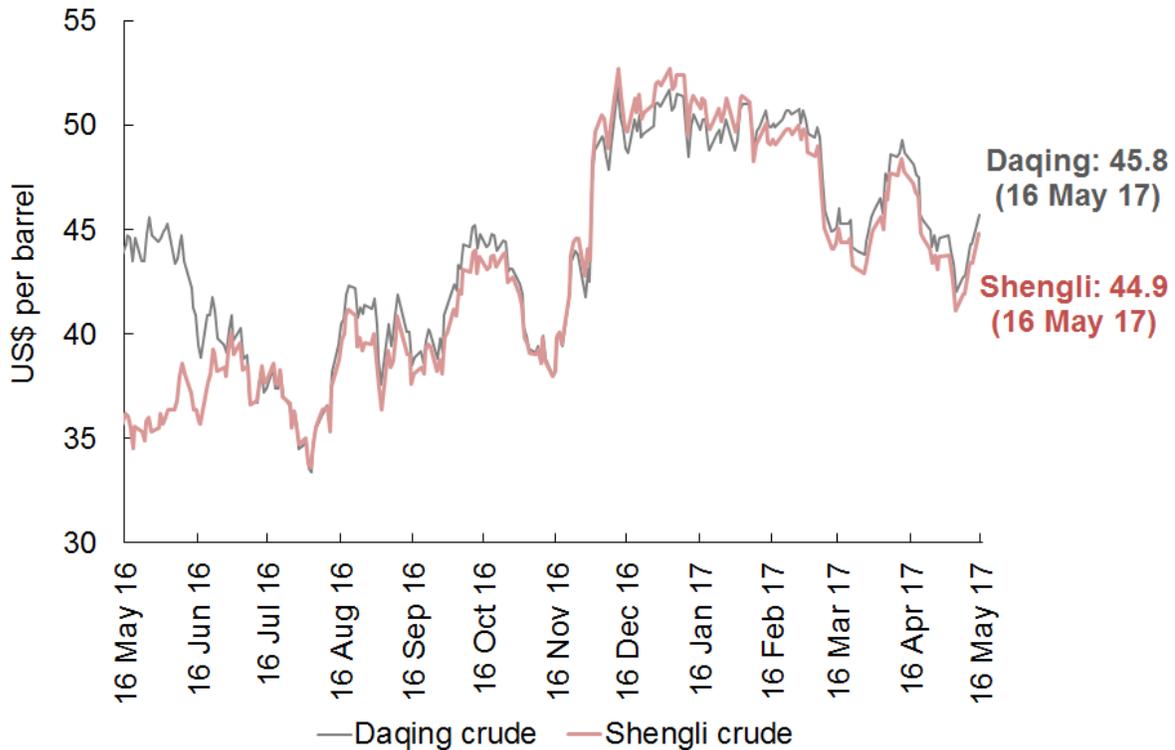
Crude prices rebounded sharply during early to mid-May as member countries of the OPEC and Russia suggested that the oil output cut could be extended into March 2018, and data from the EIA showed that commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) in the US fell more than expected as at 5 May.

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.

Going forward, we expect global oil prices to fluctuate around the current low levels in the near future as it is still doubtful as to whether the oil output cut can significantly mitigate the global supply glut of crude oil amid a rising oil production in the US.

Exhibit 1: China's crude prices, May 2016 to May 2017



Source: ifeng.com

2. Wholesale price index of refined oil products rises in April

The wholesale price index of refined oil products gained 2.7% mom in April (see exhibit 2).³ Specifically, the wholesale price index of diesel went up by 2.3% mom, while that of gasoline rose by 3.8% mom in the month.

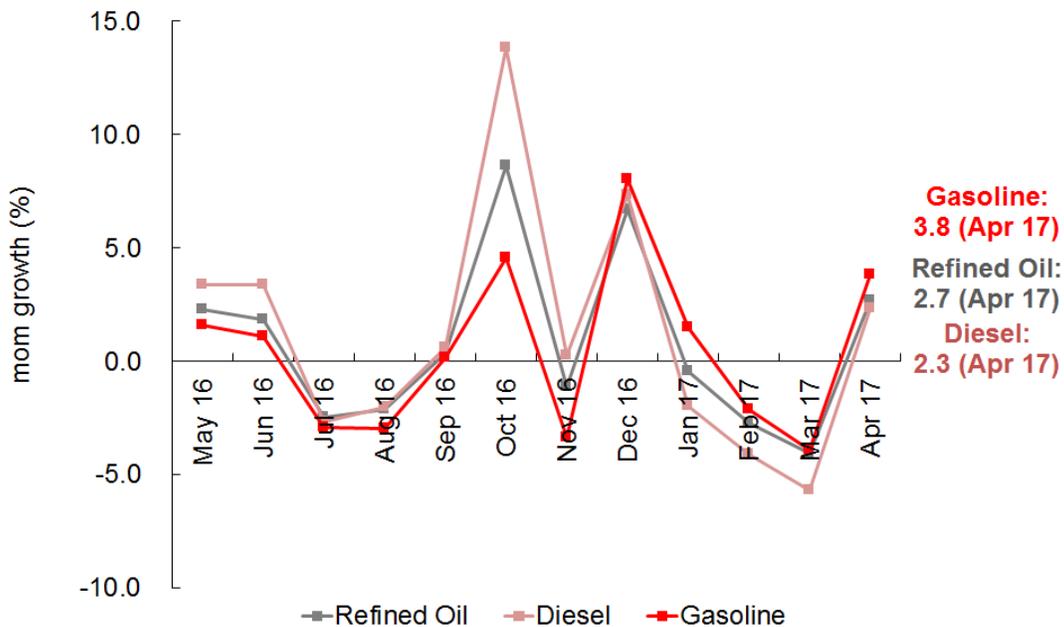
The movement of the price index in April was mainly driven by the government move to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made an upward adjustment to the maximum wholesale

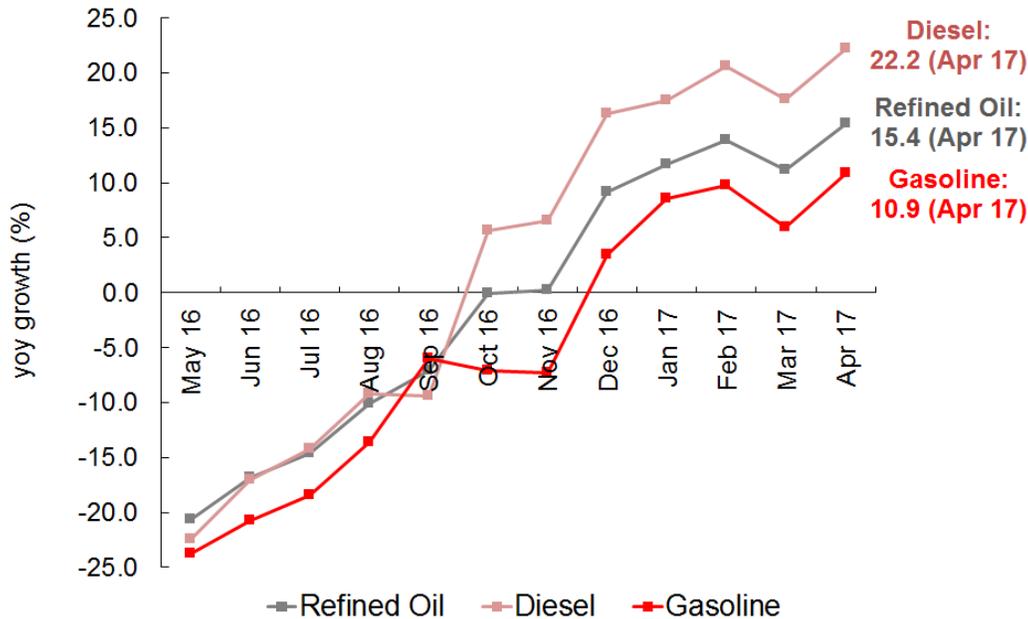
³ The index is compiled by the China Logistics Information Center (CLIC).

prices of refined oil products on 13 April, in response to the rise in global crude prices during early to mid-April.

Looking ahead, we expect the wholesale price index of refined oil products to fall in May, as the NDRC lowered the maximum prices of diesel and gasoline on 12 May following a plunge in global crude prices during mid-April to early May. According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline are adjusted every 10 working days, based on the change in a basket of global crude prices.

Exhibit 2: China's wholesale price indices of refined oil products, May 2016 to April 2017





Source: China Logistics Information Center

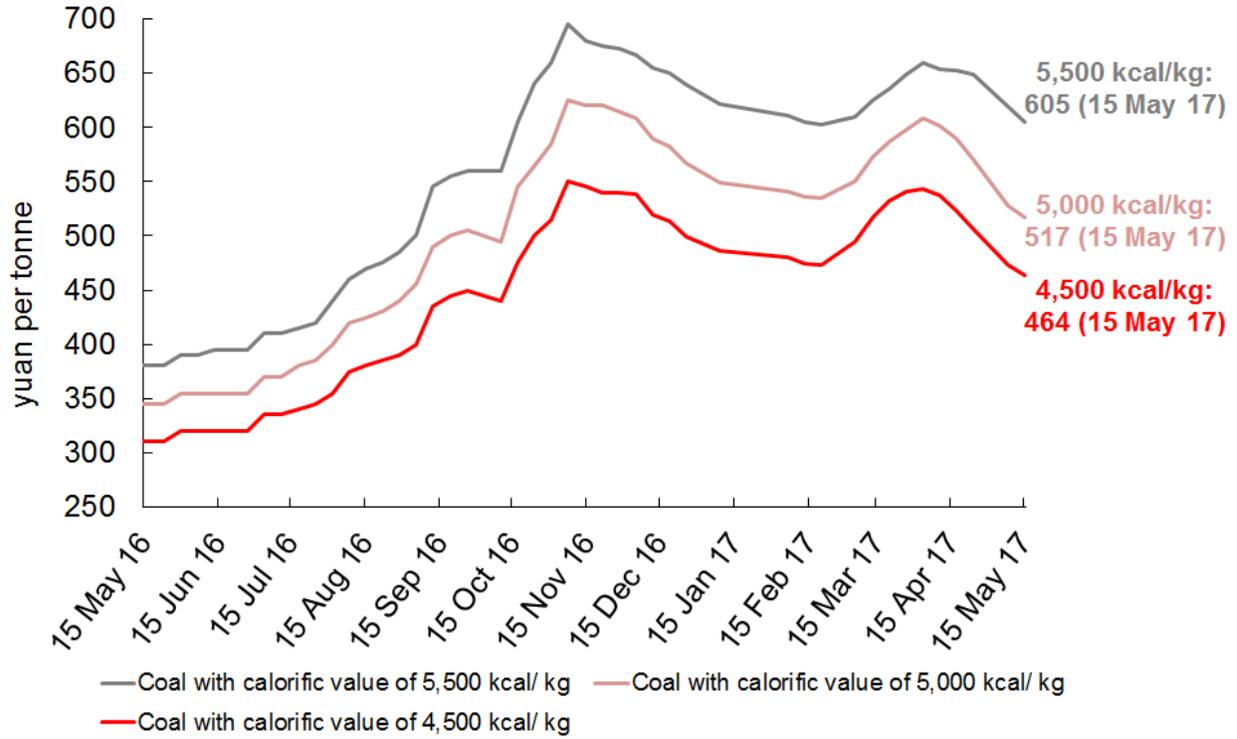
3. Benchmark Qinhuangdao coal prices drop during early April to mid-May

The benchmark Qinhuangdao coal prices went down during early April to mid-May (see exhibit 3). For instance, the price of coal with calorific value of 5,500 kcal/ kg dropped from 659 yuan per tonne on 3 April to 605 yuan per tonne on 15 May.

According to the local media, the decline in domestic coal prices in the period was mainly attributable to a rise in the supply of coal as more and more coal mines resumed operation after safety checks, and a fall in the restocking demand for coal from power producers.

After a teleconference with coal producers on 25 April, the NDRC released a statement that pledges to take measures to ensure a stable supply of coal and drive coal prices to return to a reasonable range. As the Chinese government is committed to lowering coal prices, we expect the domestic coal prices to fall further in the coming months.

Exhibit 3: Qinhuangdao coal prices, May 2016 to May 2017



Source: ifeng.com, cctd.com.cn

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