



# China Sourcing Update

May 31, 2018

## Energy Costs

### 1. Crude prices stay high in late April

In line with the movement of global crude prices, China's crude prices dropped in early April, and then went up in mid-April, before hovering around the high levels in late April.<sup>1</sup> For instance, after falling from US\$62.3 per barrel on 2 April to US\$60.1 per barrel on 9 April, the Daqing<sup>2</sup> crude price rose to US\$ 66.3 per barrel on 19 April, and then stayed high and closed at US\$66.1 per barrel on 27 April (see exhibit 1).

In early April, the trade tensions between China and the US intensified, with both sides slapping each other with tit-for-tat import duties and tariff threats. Consequently, the uncertainty over the global economy and thus the global oil demand increased, causing a drop in the crude prices in early April.

The crude prices showed a strong rebound in mid-April and then stayed high in late April, due largely to two reasons. First, the geopolitical tensions in Middle East heightened again, as the US and its allies launched missile strikes against Syria in mid-April. Second, it was rumoured that Saudi Arabia, one of the biggest oil producing countries in the world, would push the crude prices to US\$80 per barrel in a bid to boost the valuation of its energy enterprise Aramco ahead of an initial public offering and to finance its ambitious economic reform programme.<sup>3</sup> Saudi Arabia's stance on the crude

<sup>1</sup> From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

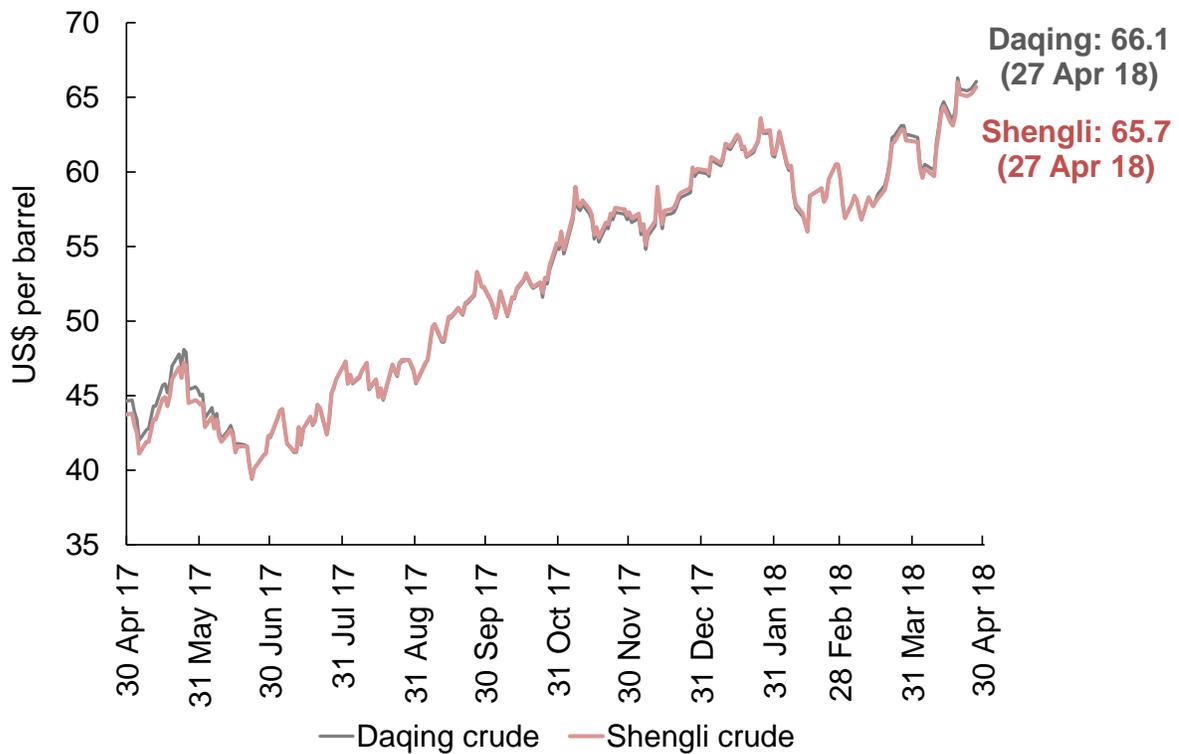
<sup>2</sup> Daqing Field is the largest oil field in China.

<sup>3</sup> <https://www.bloomberg.com/news/articles/2018-04-10/saudi-arabia-is-said-to-signal-ambition-for-80-oil-price>

prices is likely to influence the discussions between the OPEC and some non-OPEC countries about the extension of the ongoing oil production cuts.

Looking ahead, we expect global crude prices to stay high or even rise further in the near term, due largely to geopolitical tensions in the Middle East and stronger expectations of an extension to the OPEC-led production cuts into next year. Also noteworthy is that, on 8 May, the US President Donald Trump announced that the US would withdraw from the 2015 Iran nuclear deal and would impose sanctions on Iran again, which will reduce Iran’s exports of oil and thus provide support to the crude prices.

**Exhibit 1: China’s crude prices, April 2017 to April 2018**



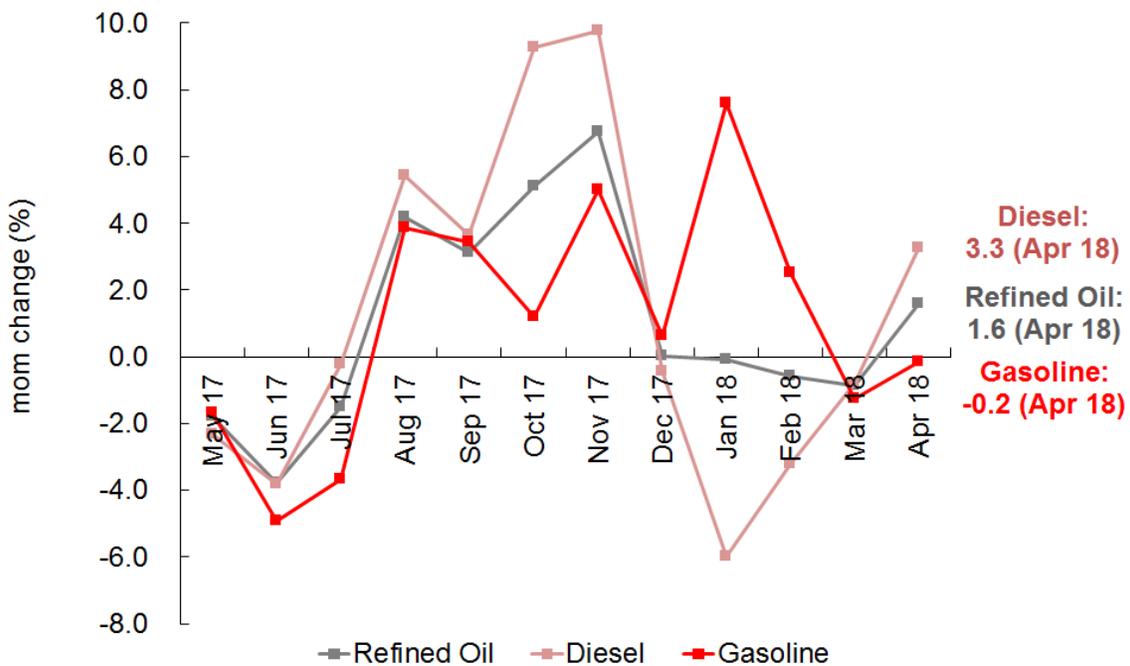
Source: ifeng.com

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

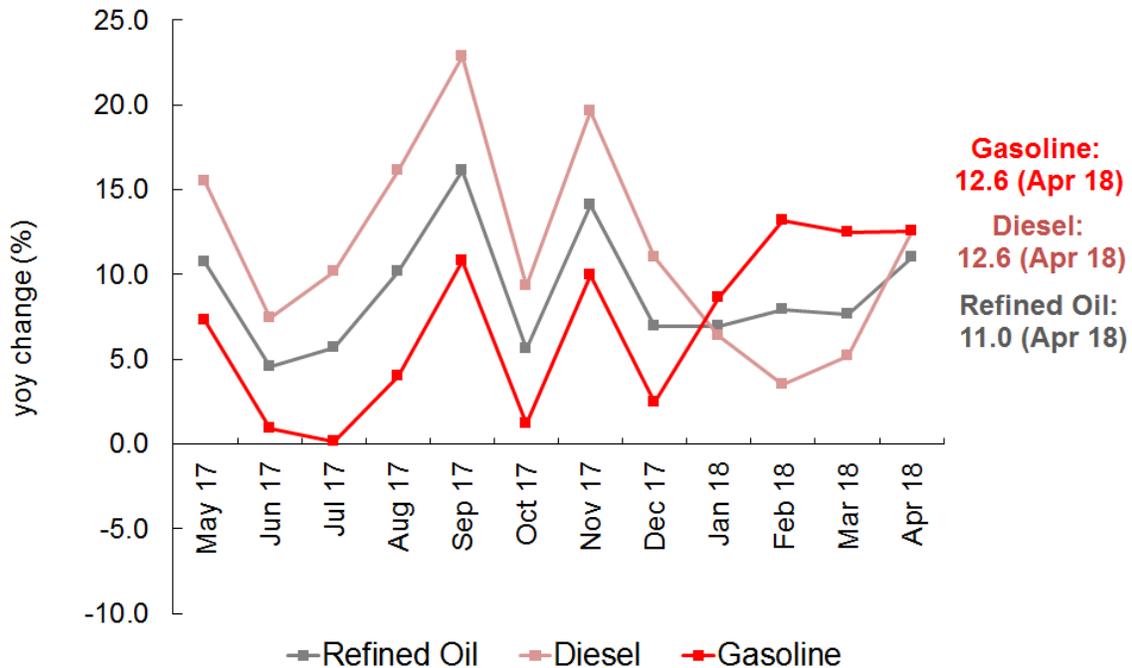
The wholesale price index of refined oil products rose by 1.6% in April (see exhibit 2).<sup>4</sup> Following a rise in global crude prices during mid-March to late April, the National Development and Reform Commission (NDRC) made upward adjustments to the maximum wholesale prices of refined oil products on 29 March, 13 April and 27 April. 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.

Looking ahead, we expect the wholesale price index of refined oil products to go up further in May. The reason is that the NDRC raised the maximum prices of diesel and gasoline on 12 May and 26 May as the global crude prices trended upward during late April to late May.

**Exhibit 2: China's wholesale price indices of refined oil products, May 2017 to April 2018**



<sup>4</sup> The index is compiled by the China Logistics Information Center (CLIC).



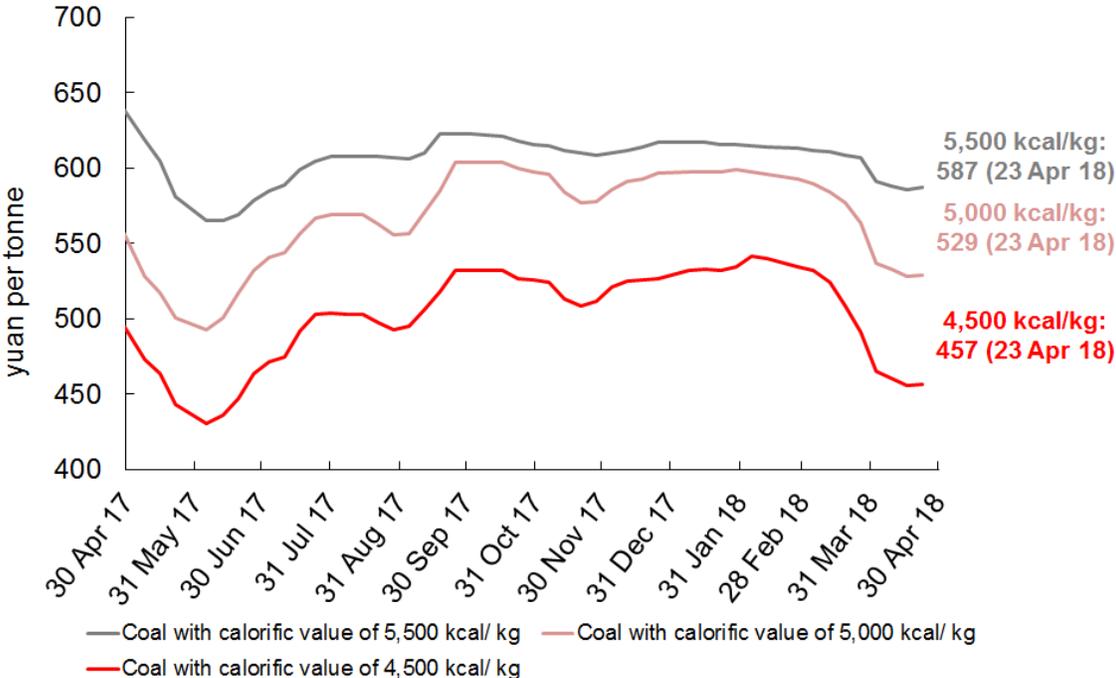
Source: China Logistics Information Center

### 3. Benchmark Qinhuangdao coal prices drop and then pick up slightly in April

The benchmark Qinhuangdao coal prices dropped in early to mid-April and rose slightly afterwards (see exhibit 3). For example, the price of coal with calorific value of 5,500 kcal/ kg went down from 607 yuan per tonne on 26 March to 586 yuan per tonne on 16 April, before showing a slight rebound to 587 yuan per tonne on 23 April. The drop in coal prices in early to mid-April was a result of a weak downstream demand and high stockpiles in major ports in the Bohai Bay Economic Rim.

Going forward, we expect that the domestic coal prices will bottom out in the near term, due to the following reasons. First, according to media reports, many ports in China have imposed restriction measures against coal imports. Second, more and more downstream enterprises have recently shown interests in purchasing coal, which may imply a recovery in the demand for coal soon.

Exhibit 3: Qinhuangdao coal prices, April 2017 to April 2018



Source: ifeng.com, cctd.com.cn

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