



China Sourcing Update

September 19, 2017

Energy Costs

1. Crude prices jump during mid-August to early September

In line with the movement of global crude prices, China's crude prices fell in mid-August and rose sharply during mid-August to early September.¹ For example, the Daqing² crude price declined from US\$ 47.1 per barrel on 10 August to US\$ 44.7 per barrel on 17 August, and then soared to a six-month high of US\$ 49.7 per barrel on 8 September (see exhibit 1).

Several factors were behind the surge in global oil prices during mid-August to early September. First, there were signs of an easing oil supply glut in the US. Despite a continued rise in US oil production to 9.5 million barrels per day in August, the US commercial crude inventories fell for eight consecutive weeks as of the week ending 25 August, according to data from the US Energy Information Administration.

Second, the number of active oil rigs in the US has declined in recent weeks, indicating that the growth in US production of crude oil is likely to decelerate in the coming months. According to Baker Hughes, a US-based oilfield services provider, the oil rig count in the US fell from a two-year high of 768 on 11 August to 756 on 8 September after having increased for 14 straight months.

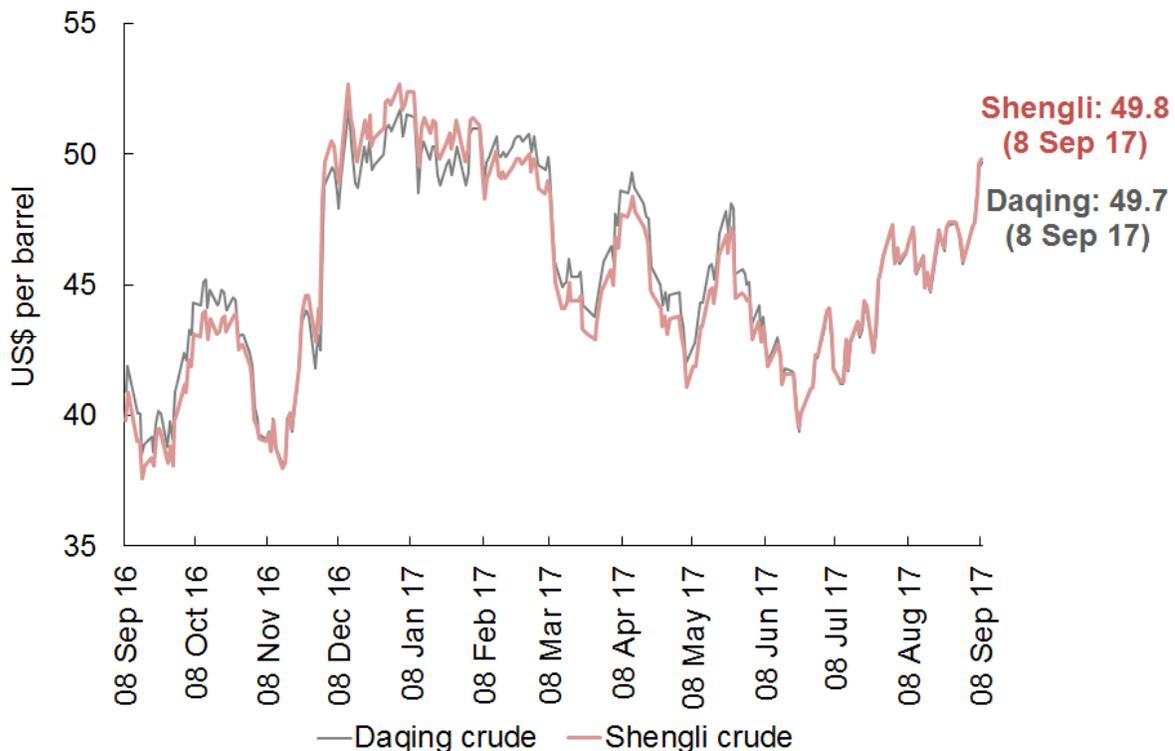
¹ From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

² Daqing Field is the largest oil field in China.

Lastly, oil prices were also supported by supply disruptions in the US caused by Hurricane Harvey as well as in Libya and Colombia.

Looking ahead, we believe that global oil prices will fluctuate around the current high levels in the near term as concerns over the global oil supply glut ease.

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



Source: ifeng.com

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

The wholesale price index of refined oil products went up by 4.2% mom in August (see exhibit 2).³ Specifically, the wholesale price index of diesel rose by 5.4% mom, while that of gasoline gained by 3.8% mom in the month.

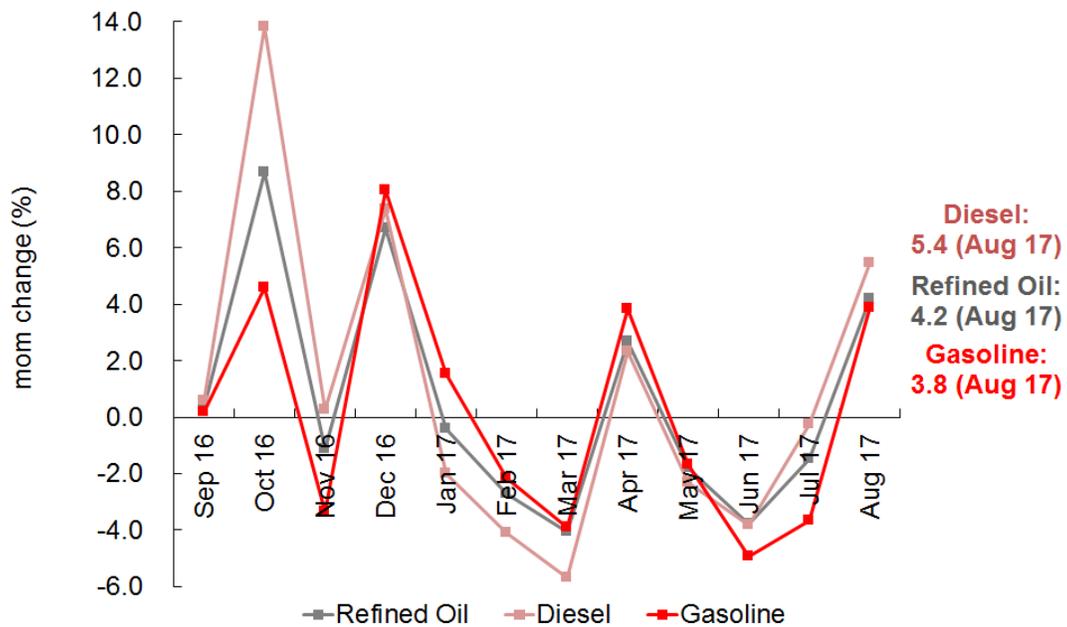
The movement of the price index in August was mainly driven by the government move to adjust the wholesale prices of refined oil products. The National Development and

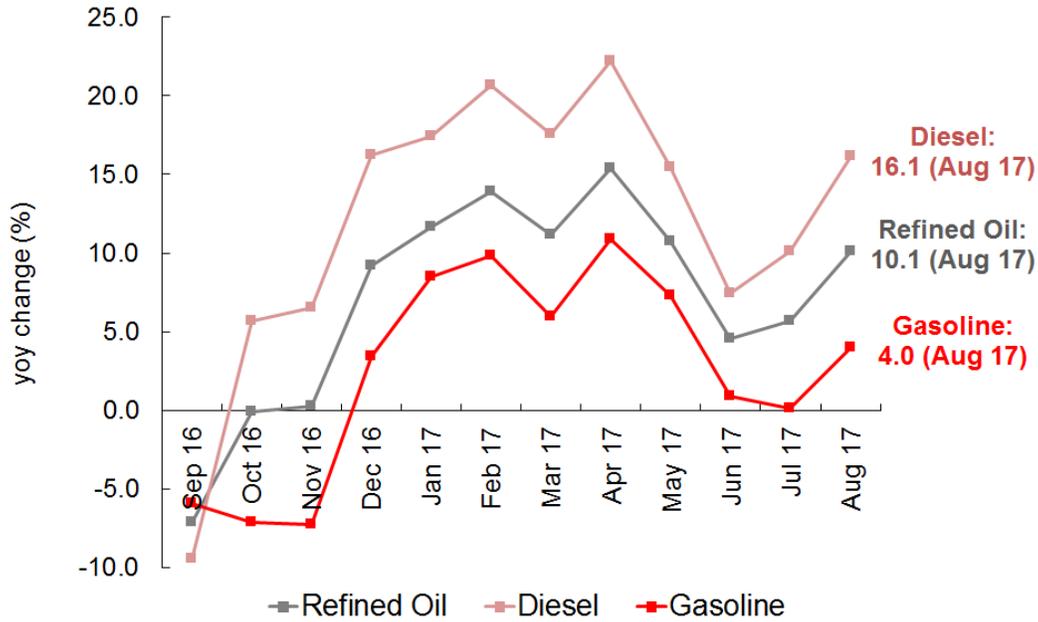
³ The index is compiled by the China Logistics Information Center (CLIC).

Reform Commission (NDRC) made an upward adjustment to the maximum wholesale prices of refined oil products on 5 August, in response to the surge in global crude prices in late July.

Looking ahead, we expect the wholesale price index of refined oil products to continue to go up in September, as the NDRC raised the maximum prices of diesel and gasoline again on 16 September following a further jump in global crude prices during mid-August to early September. 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, September 2016 to August 2017





Source: China Logistics Information Center

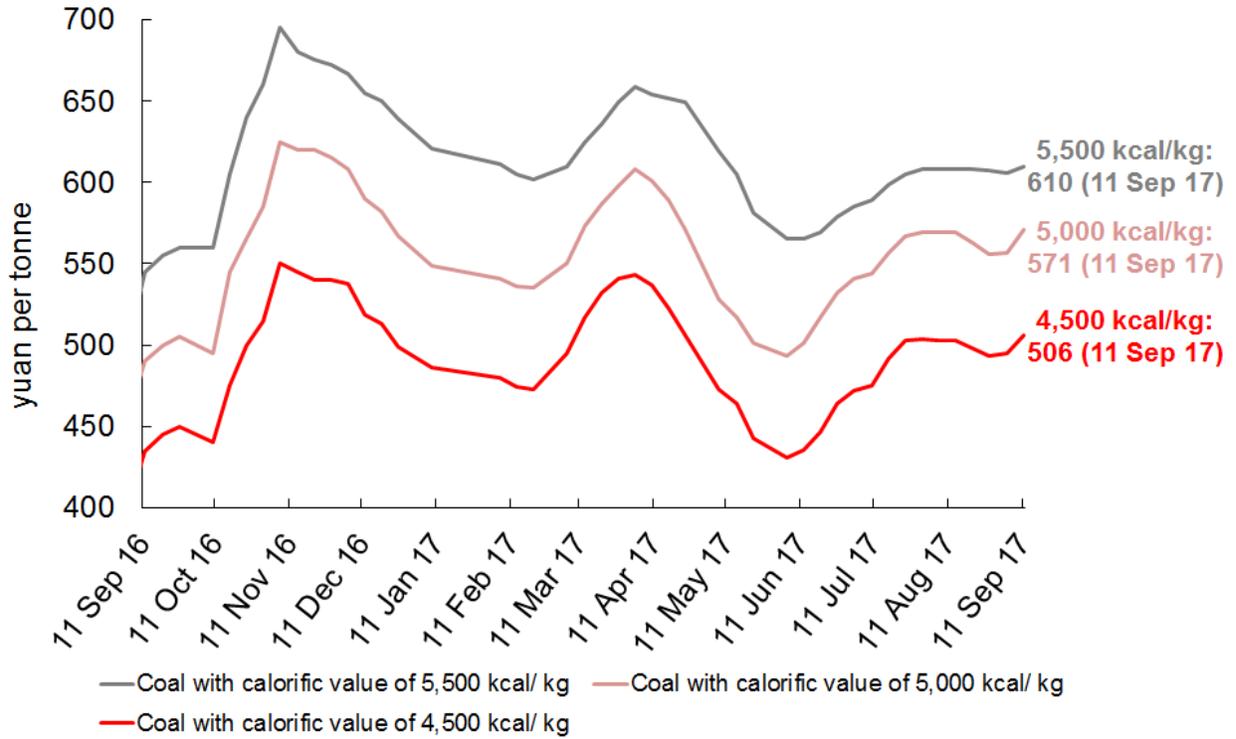
3. Benchmark Qinhuangdao coal prices go up in late August to mid-September

The benchmark Qinhuangdao coal prices rose during late August to mid-September (see exhibit 3). For instance, the price of coal with calorific value of 5,000 kcal/ kg increased from 556 yuan per tonne on 28 August to 571 yuan per tonne on 11 September.

In our view, the main reasons for the slight rise in domestic coal prices in the period were a strong demand for coal from power producers and a tight supply of coal due to ongoing safety checks on domestic coal mines.

According to the latest media reports, restrictions on coal imports have been imposed in some domestic ports by the Chinese government, in a move to limit coal imports for the rest of the year. The tightened supply of coal in the coming months is likely to lend support to domestic coal prices, in our view.

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



Source: ifeng.com, cctd.com.cn

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