



China Sourcing Update

October 4, 2019

Energy Costs

1. Crude prices fluctuate in August

In line with the movement of global crude prices, China's crude prices fell in the first half of August and subsequently rebounded in the second half of the month.¹ For instance, the Daqing² crude price dropped from US\$57.10 per barrel on 30 July to US\$51.19 per barrel on 16 August and rebounded to US\$52.81 per barrel on 30 August (*see exhibit 1*).

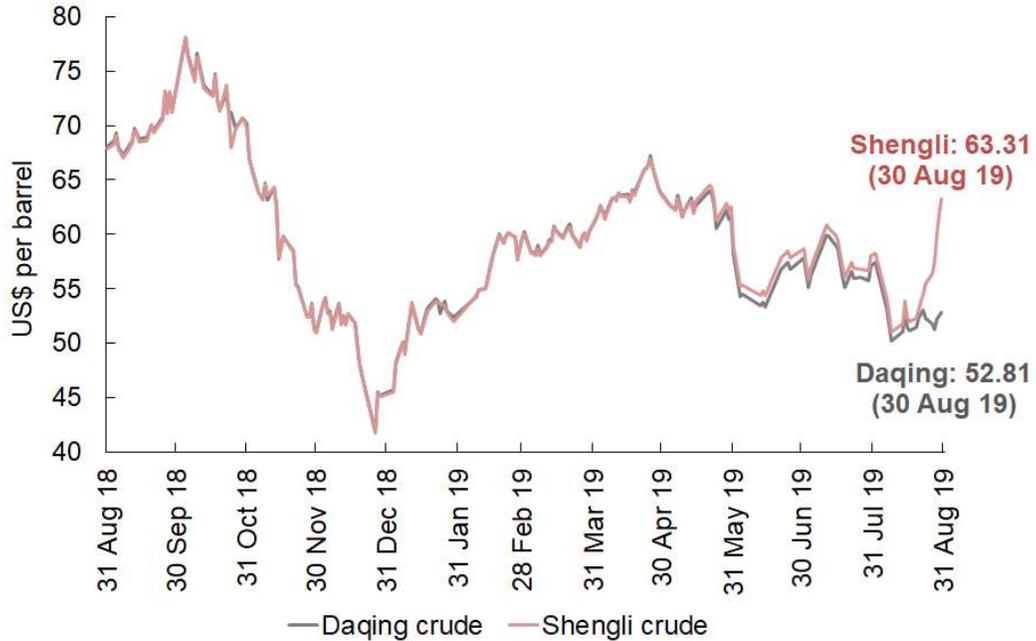
The fall in crude oil prices in the first half of the month was mainly due to an increase in the US's crude oil inventories and market expectation of a shrinking demand under worsening China-US trade relations. In the second half of August, crude oil prices rose in response to a plunge in US crude oil inventories, a reduction in crude oil output by OPEC member countries, and positive developments with regards to China-US trade negotiations.

Looking ahead, we expect that global crude prices will remain volatile in the near future, as supply cuts by the OPEC, the China-US trade war and the Brexit crisis continue to drive the global crude oil market.

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.

Exhibit 1: China's crude prices, August 2018 to August 2019



Source: gcec.com.cn

2. Wholesale price indices of refined oil products drop in August

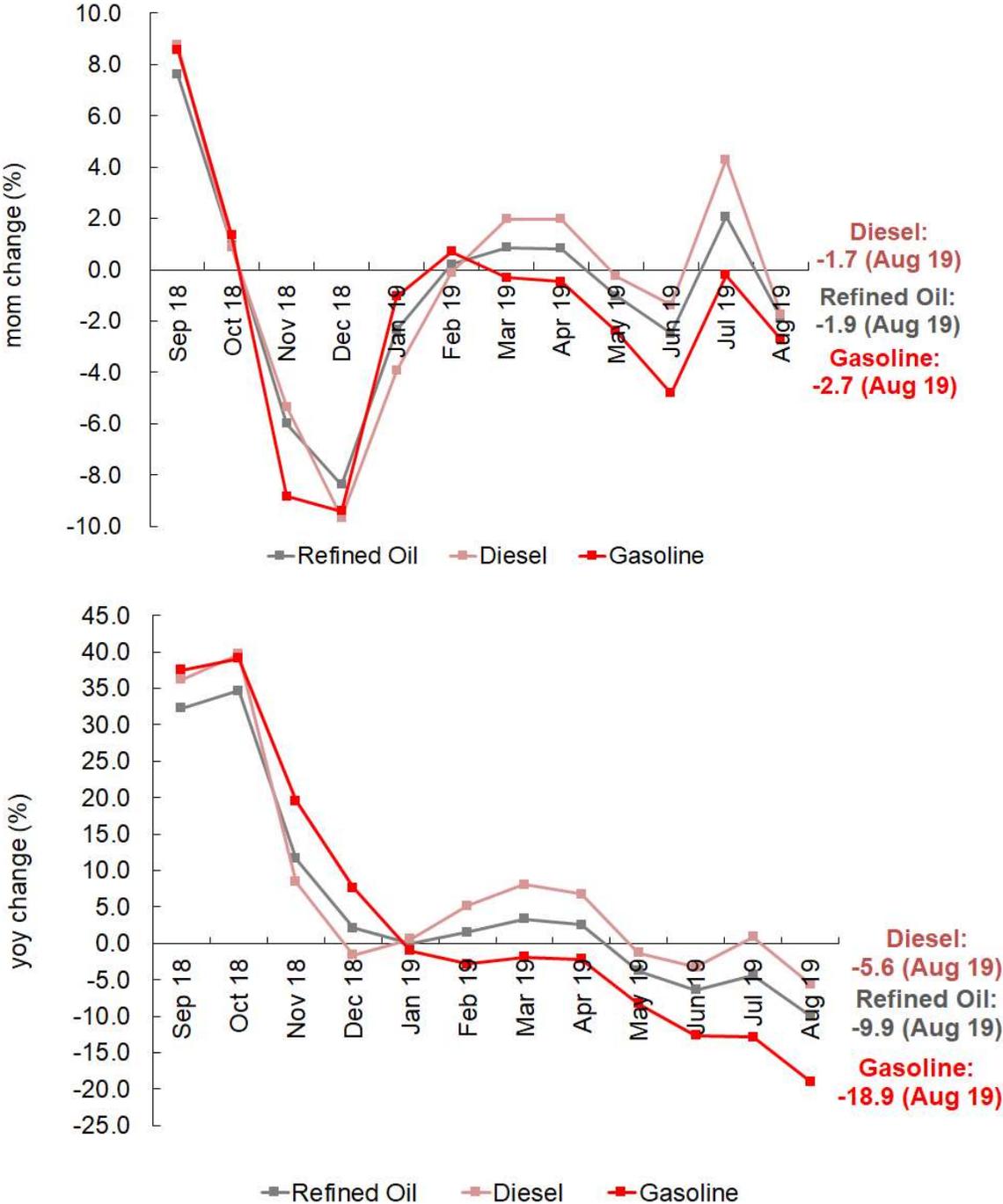
The wholesale price index of refined oil products fell by 1.9% mom in August (see exhibit 2).³ Specifically, the wholesale price index of diesel went down by 1.7% mom while that of gasoline declined by 2.7% mom in August.

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. In response to the movements in global crude prices, the NDRC lowered the maximum wholesale prices of gasoline and diesel on 20 August.

Looking ahead, we expect the wholesale price index of refined oil products to rebound in September, as the NDRC has adjusted the maximum wholesale prices of gasoline and diesel upward in September in response to the rise in global crude prices in the second half of August.

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

Exhibit 2: China's wholesale price indices of refined oil products, September 2018 to August 2019



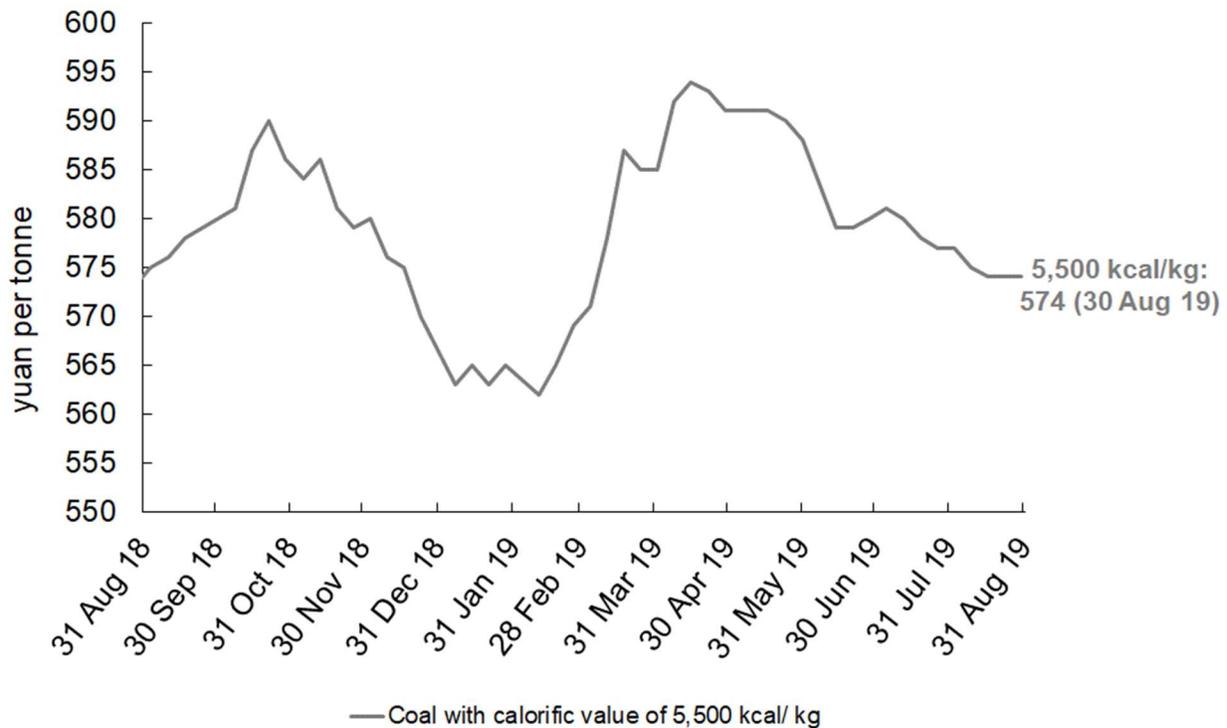
Source: China Logistics Information Center

3. Benchmark Qinhuangdao coal prices edge down in August

The benchmark Qinhuangdao coal prices continued to fall in August (see exhibit 3). The price of coal with calorific value of 5,500 kcal/ kg dropped from 577 yuan per tonne on 26 July to 574 yuan per tonne on 30 August.

Looking ahead, we expect coal prices to trend downward in the coming months as electricity consumption is expected to go down in autumn, leading to lower demand for coal.

Exhibit 3: Qinhuangdao coal prices, August 2018 to August 2019



Source: cctd.com.cn

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