



# China Sourcing Update

December 29, 2015

## Energy Costs

### 1. Crude prices drop further in December

In line with the movement of global crude prices, China's crude prices dropped in the first half of December.<sup>1</sup> For example, the Daqing<sup>2</sup> crude price fluctuated between US\$ 35.4 per barrel and US\$ 36.9 per barrel during the second half of November; afterwards, it dropped from US\$ 35.7 per barrel on 1 December to US\$ 29.6 per barrel on 14 December, the lowest level since March 2004 (see exhibit 1).

The Brent crude, the international oil benchmark, plunged from US\$ 43.84 per barrel on 3 December all the way to US\$ 36.83 per barrel on 17 December. Global oil prices plunged on 4 December after the conclusion of the 168<sup>th</sup> meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC). During the meeting, the members failed to reach an agreement to restrain production, which would leave its members to continue pumping crude oil at high levels in an already oversupplied market.

According to the *Monthly Oil Market Report* published by the OPEC on 10 December, global oil oversupply may still persist in 4Q15. The production ceiling, which was set as 30 million barrels per day, has been breached routinely by the members of the OPEC. According to secondary sources quoted by the report, the crude production from OPEC member countries averaged 31.70 million barrels per day in November, increasing by 230,000 barrels per day from the previous month. Also according to the report, the total supply excluding the OPEC crude oil production is forecast to average 63.29 million

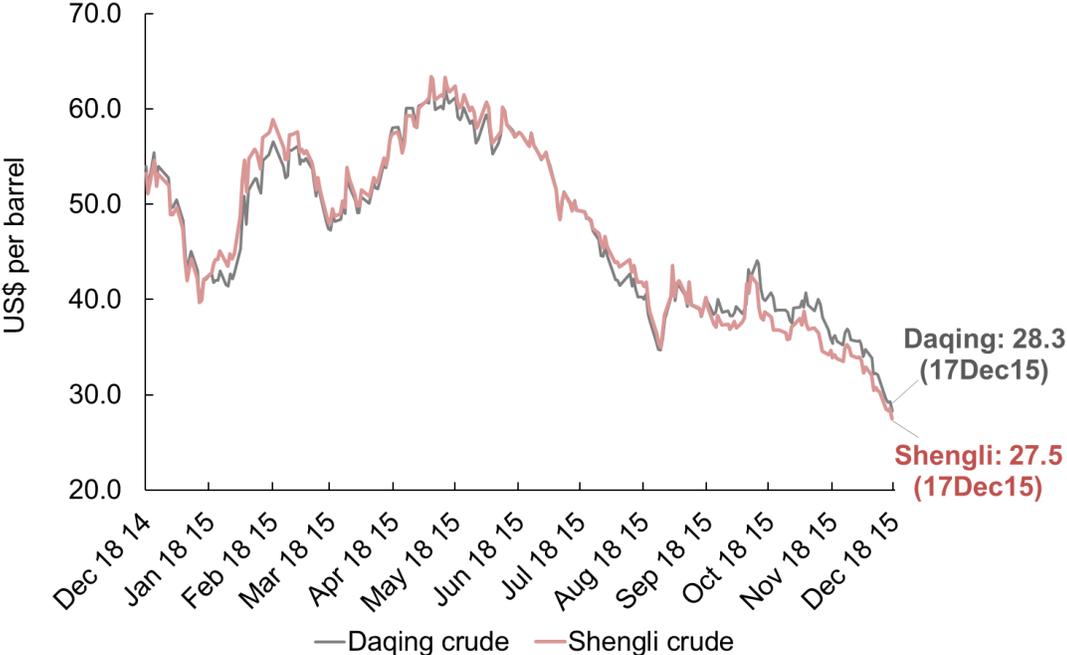
<sup>1</sup> From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

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

barrels per day in 4Q15; and the world oil demand is forecast to average 93.94 million barrels per day. Thus, based on the forecast, there will be an oversupply by about 1 million barrels per day.

Looking ahead, the crude supply from Iran is expected to emerge in the international market in the coming months, with the economic sanctions against Iran being lifted. This will add to the oversupply woes. We therefore expect the oil prices to stay at low levels in the foreseeable future.

**Exhibit 1: China’s crude prices, December 2014 to December 2015**



Source: ifeng.com

**2. Wholesale price index of refined oil products falls in November**

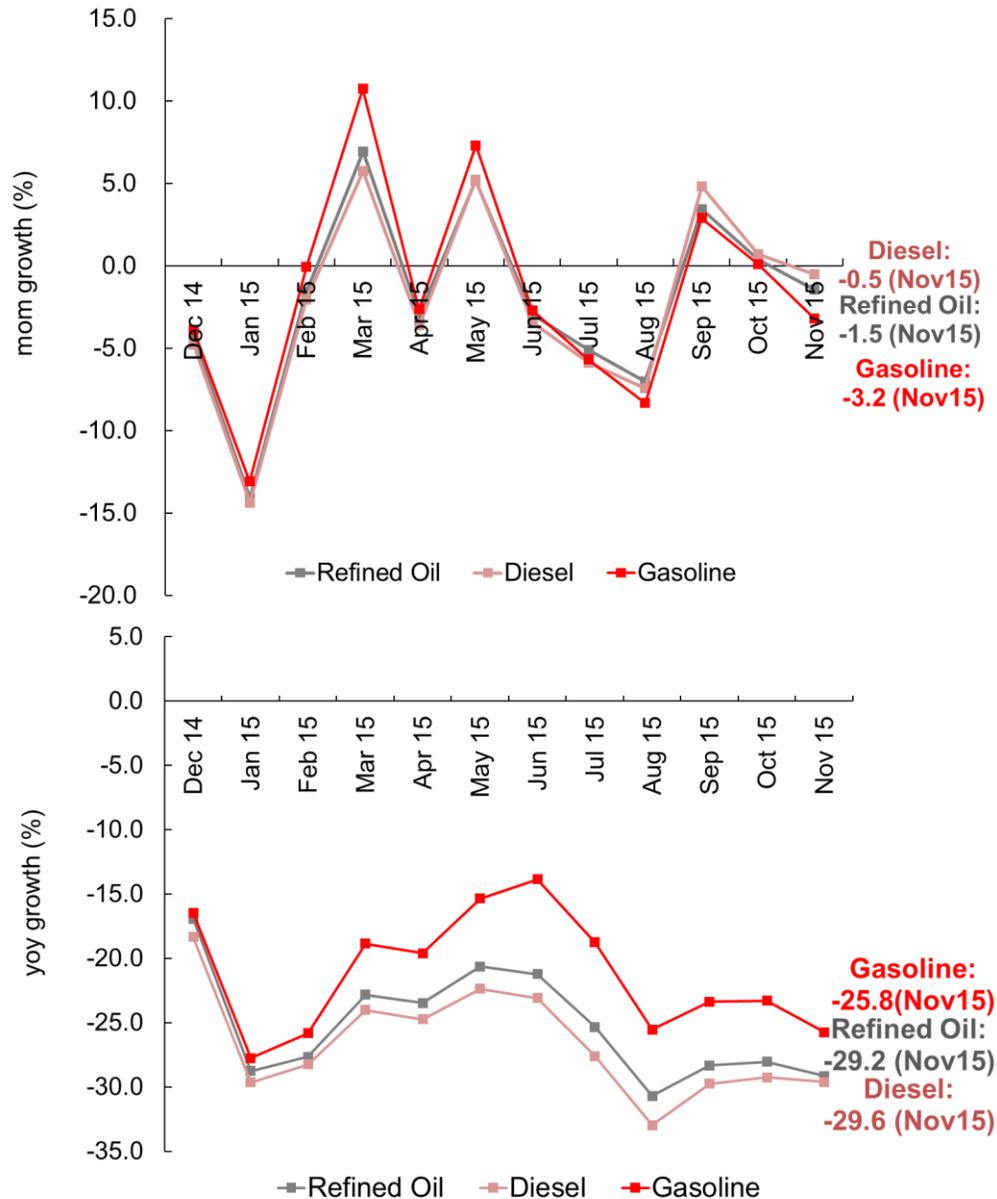
The wholesale price index of refined oil products dropped by 1.5% mom in November (see exhibit 2).<sup>3</sup>

The movement of the price index in the month was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made downward adjustments on the wholesale prices of refined oil products on 4 November and 18 November, in response to the drop in global crude prices in the second half of October and the first half of November.

<sup>3</sup> The index is compiled by the China Logistics Information Center (CLIC).

Looking ahead, the future movement of the wholesale prices of refined oil products will depend mainly on the movement of global crude prices. According to the pricing mechanism of refined oil, the fuel prices are adjusted every 10 working days, based on the change in a basket of global crude prices. If the computed amount of fuel price change is less than 50 yuan per tonne, no adjustment will be made, and the amount will be accumulated for the next round of adjustment.

**Exhibit 2: China's wholesale price indices of refined oil products, December 2014 to November 2015**



Source: China Logistics Information Center

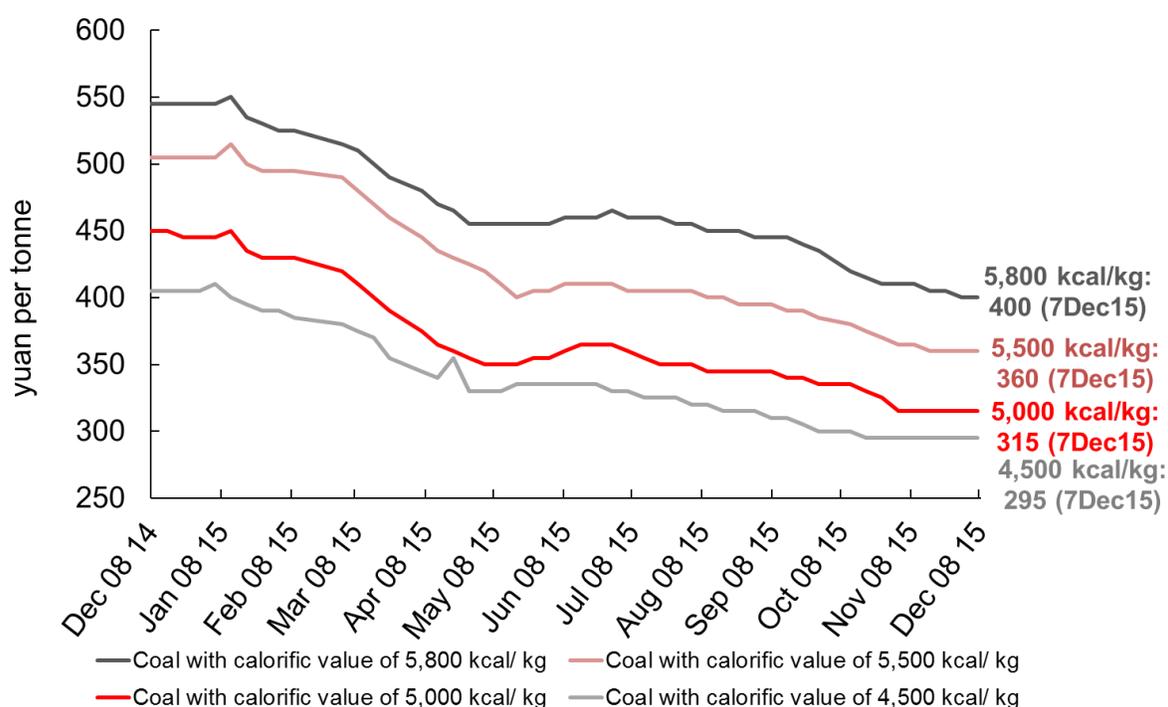
### 3. The benchmark Qinhuangdao coal prices stay stable at low levels

The benchmark Qinhuangdao coal prices have stayed low since mid-November (see *exhibit 3*). For instance, the price of coal with calorific value of 5,500 kcal/ kg stayed at 360 yuan per tonne throughout 16 November to 7 December, the lowest level since November 2004.

According to the local media, affected by the cold weather since early December, the domestic demand for coal has recovered gradually. Also, a number of major coal enterprises tried to stabilize the coal prices at current levels during November.

Looking ahead, although the overcapacity in the industry still exists and the coal inventory levels among power producers remains high, the increased demand for heating may help support the coal prices. Thus, we do not expect the domestic coal prices to drop further in the near term.

**Exhibit 3: Qinhuangdao coal prices, December 2014 to December 2015**



Source: Cqcoal.com

## THE FUNG BUSINESS INTELLIGENCE CENTRE

**The Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 46,800 people across 40 economies worldwide, generating total revenue of more than US\$24.65 billion in 2014. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

**The Fung Business Intelligence Centre (FBIC)** collects and analyses market data on sourcing, supply chains, distribution and retail. It also provides thought leadership on technology and other key issues shaping their future.

Headquartered in Hong Kong, FBIC leverages unique relationships and information networks to track and report on trends and developments in China and other Asian countries. In addition, its New York-based Global Retail & Technology research team follows broader retail and technology trends, specialising in how they intersect and building collaborative knowledge communities around the revolution occurring worldwide at the retail interface.

Since its establishment in 2000, the FBIC (formerly known as the Li & Fung Research Centre) has served as the knowledge bank and think tank for the Fung Group. Through regular research reports and other publications, it makes its market data, impartial analysis and expertise available to businesses, scholars and governments around the world. It also provides advice and consultancy services to colleagues and business partners of the Fung Group on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

## CONTACT

Helen Chin  
Vice President  
Global Sourcing

Fung Business Intelligence Centre  
10/F LiFung Tower,  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong

T: (852) 2300 2470  
F: (852) 2635 1598  
E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>



[www.fbicgroup.com](http://www.fbicgroup.com)

© Copyright 2015 The Fung Business Intelligence Centre. All rights reserved. Though the Fung Business Intelligence Centre endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of the Fung Business Intelligence Centre is prohibited.