



China Sourcing Update

March 27, 2018

Energy Costs

1. Crude prices tumble and then rebound in February

In line with the movement of global crude prices, China's crude prices plunged during early to mid-February and picked up afterwards.¹ For instance, after falling from US\$ 62.6 per barrel on 2 February to US\$ 56.0 per barrel on 14 February, the Daqing² crude price rose to US\$ 59.5 per barrel on 28 February 2018 (see exhibit 1).

In early February, the Dow Jones Industrial Average suffered two 1,000-point drops within four days after concerns over a faster pace of interest rate hikes triggered a sharp rise in the US bond yields. The increased volatility in global financial markets led to more risk aversion and thus capital outflow from commodities, causing the drop in global crude prices in the first half of February.

Crude prices rebounded in the second half of the month as global financial markets stabilized. An unanticipated fall in the US crude inventories also supported oil prices. The US Energy Information Administration (EIA) reported on 22 February that commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) in the US dropped unexpectedly in the week ending 16 February.

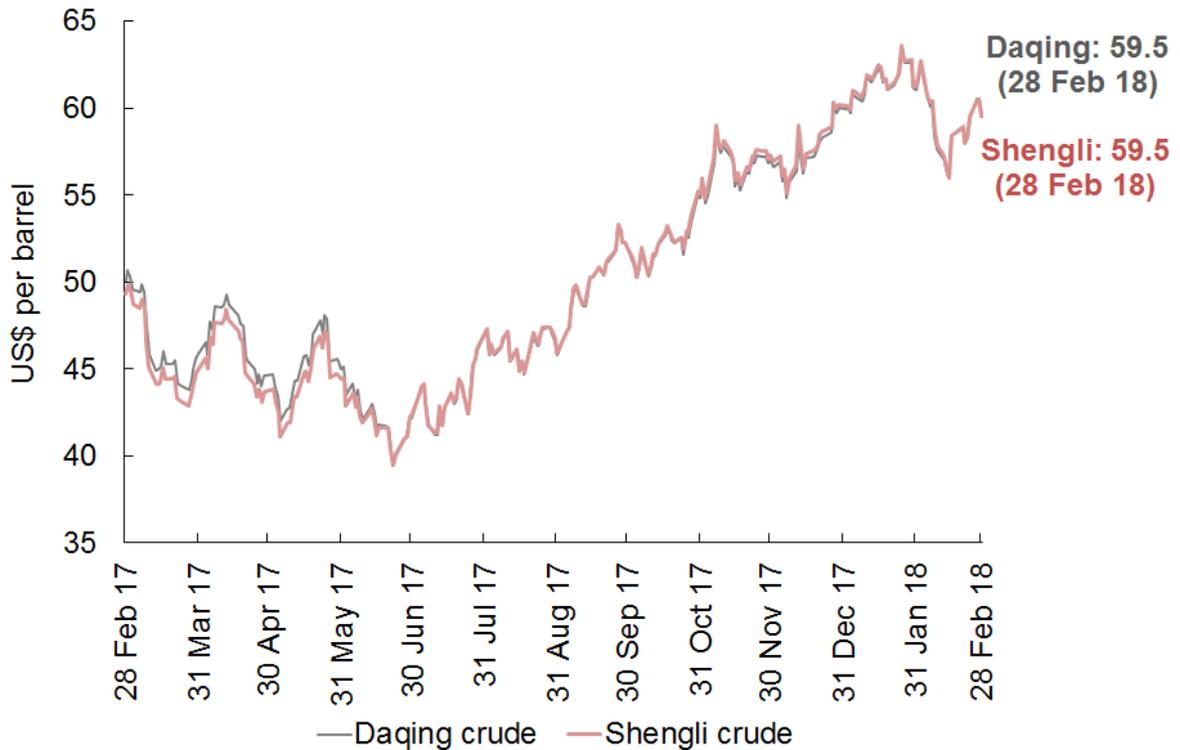
According to latest media reports, there have been rumours of an extension to the OPEC-led production cuts into next year. Meanwhile, the rising US oil output, which has

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.

reached a record-high level in February, will continue to put downward pressures on crude prices. All in all, we expect global crude prices to fluctuate around the current levels in the foreseeable future.

Exhibit 1: China's crude prices, February 2017 to February 2018



Source: ifeng.com

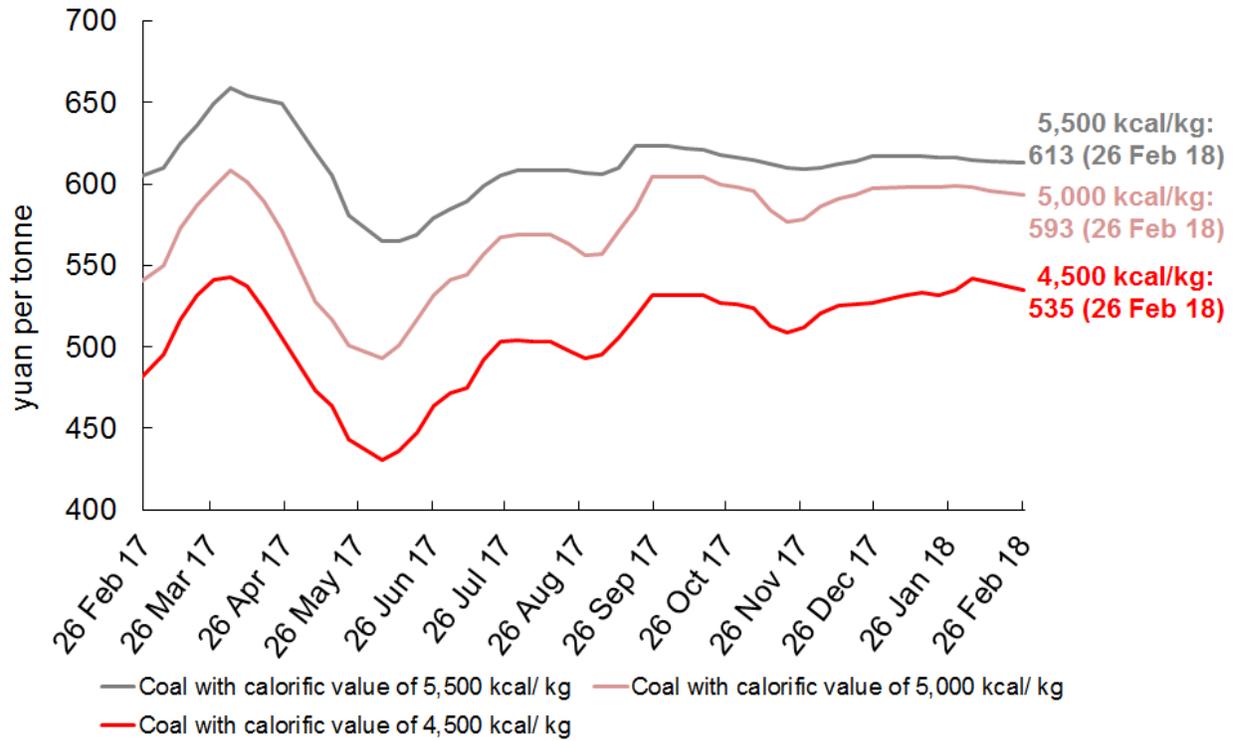
2. Benchmark Qinhuangdao coal prices edge down in February

The benchmark Qinhuangdao coal prices dropped slightly in February. For example, the price of coal with calorific value of 5,500 kcal/ kg fell from 616 yuan per tonne on 29 January to 613 yuan per tonne on 26 February (see exhibit 2).

Domestic coal prices went down slightly in the month as the restocking demand for coal from power producers declined during and around the Chinese New Year holidays, in our view.

Going forward, the demand for coal from power producers is likely to slow further in the coming low season. Therefore, we expect that domestic coal prices will continue to fall in the foreseeable future.

Exhibit 2: Qinhuangdao coal prices, February 2017 to February 2018



Source: ifeng.com, cctd.com.cn

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