China Sourcing Update

February 21, 2020

Editor's note: *China is presently experiencing widespread economic disruption owing to the coronavirus disease 2019 (COVID-19) outbreak and stringent government measures to contain it. While comparisons are inevitable with the economic toll taken by another coronavirus, SARS (2002-03), the difference for China, now, is that its economic fundamentals are more robust, its technology more advanced, its services more diverse, and its consumers more resilient, as illustrated by its thriving e-commerce sector. For these and other reasons we believe the COVID-19 outbreak, while currently a jolt to China and the world, will not leave a long-term scar on the Chinese economy.*

Energy Costs

1. Crude prices slump in January after a four-month rising streak

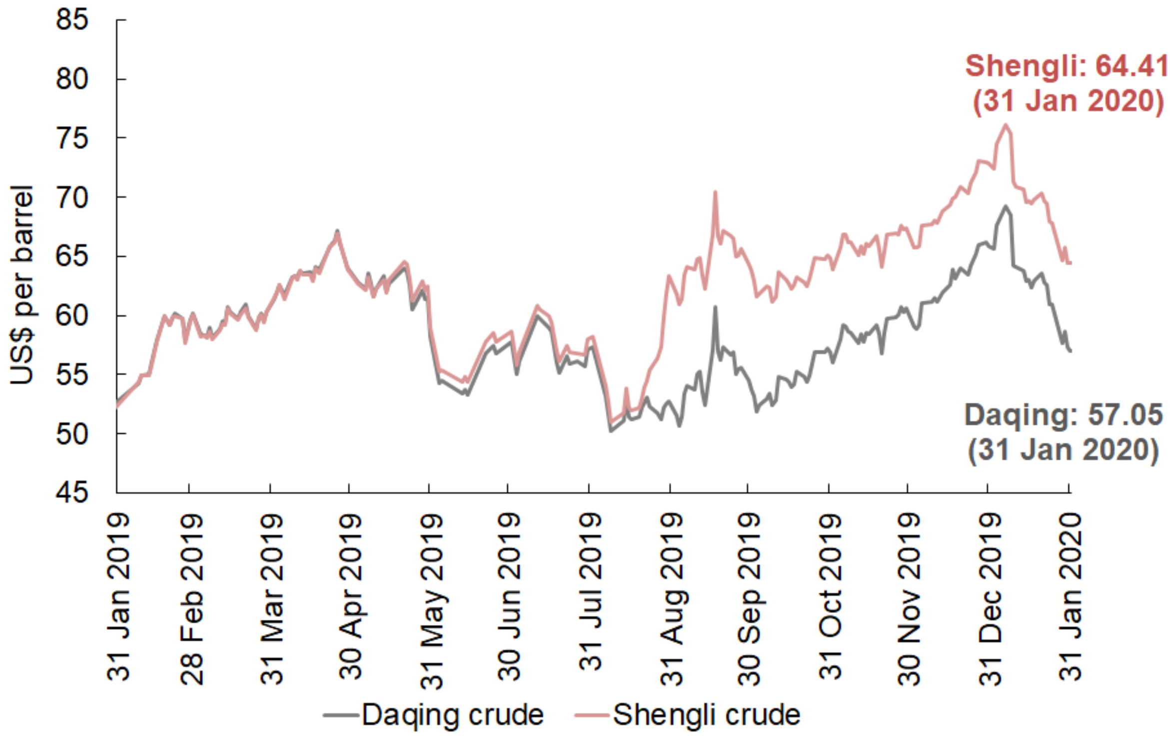
In line with the movement of global crude prices, China's crude prices plunged by more than 10% in January, after a four-month rising streak from September to December 2019.[1] For instance, the Daqing[2] crude price fell from US$65.91 per barrel on 31 December to US$57.05 per barrel on 31 January *(see exhibit 1)*.

Crude prices posted strong gains in the first week of January on rising US-Iran tensions, but quickly retreated as geopolitical tensions eased. The plunge in crude prices from 23 January onward was driven by the novel coronavirus outbreak (COVID-19) in China. Airlines' suspension or reduction of flights to China in response to the outbreak caused a fall in demand for fuels. The temporary slowdown of economic activities, including prolonged Chinese New Year factory closures, in China has led to a dent in fuel demand as well as worries over the knock-on effect on the global economy.

[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.

We expect that global crude prices will remain volatile in the near future as economic activities are disrupted by the COVID-19 outbreak and government measures to contain it. However, we expect crude prices to stabilize in the medium term as OPEC+ is likely to curb the price fall with additional production cut.

Exhibit 1: China's crude prices, January 2019 to January 2020



Source: gcec.com.cn

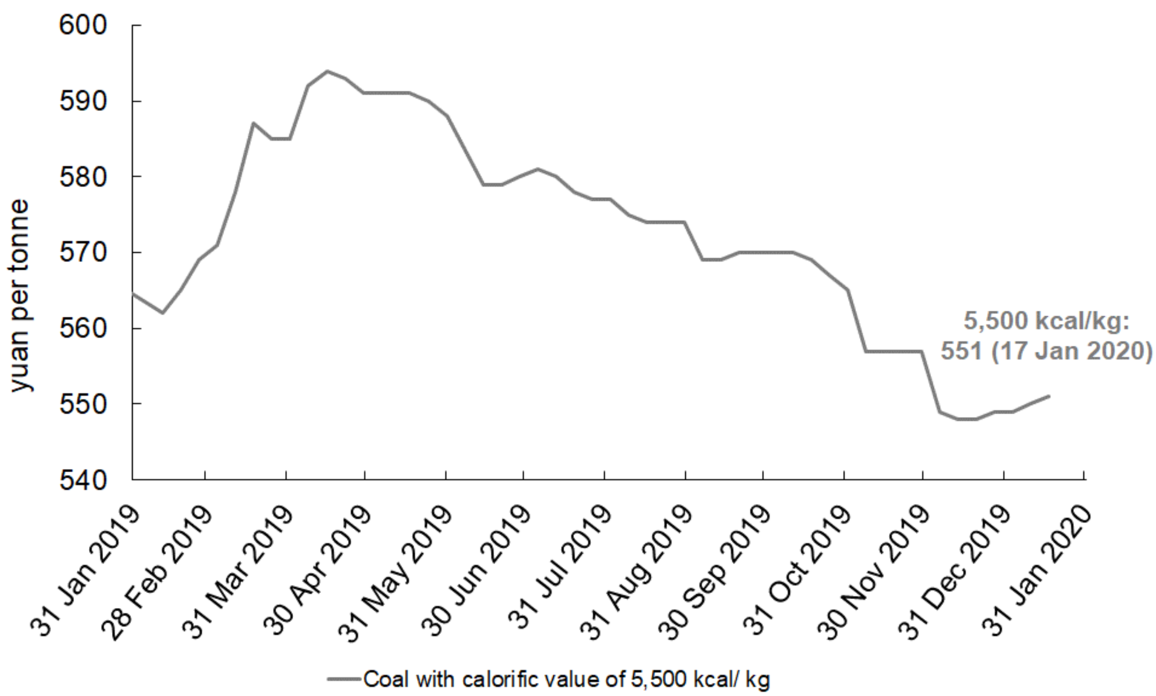
2. Benchmark Qinhuangdao coal prices edge up in January

The benchmark Qinhuangdao coal prices edged up in January after a nine-month downward streak *(see exhibit 3)*. The price of coal with calorific value of 5,500 kcal/ kg rose from 549 yuan per tonne on 27 December to 557 yuan per tonne as of 17 January.

The increase in the benchmark Qinhuangdao coal prices in January was attributable to low coal inventories at major ports, snowfalls which affected production at coal mines, and a slight rebound in demand.

Looking ahead, we expect coal prices will hold up in the near future due to the temporary dent in supply from China's coal mines due to the COVID-19 outbreak. Although the outbreak also causes a reduction in demand for coal, the supply shock is likely to dominate as China accounts for nearly half of the world's coal production. In the medium term, we expect coal prices to retreat as operation of coal mines in China fully resumes.

Exhibit 2: Qinhuangdao coal prices, January 2019 to January 2020



Source: cctd.com.cn

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises 42,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world’s foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Li & Fung Limited (SEHK: 00494), Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys “R” Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Denise Cheung
Senior Research Manager
denisecheungwy@fung1937.com
(852) 2300 2463

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

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

FUNG BUSINESS INTELLIGENCE