China Sourcing Update

August 30, 2019

Energy Costs

**1. Crude prices fluctuate in June and July**

In line with the movement of global crude prices, China's crude prices fluctuated throughout June and July.[1] For instance, the Daqing[2] crude price dropped from US$58.19 per barrel on 31 May to US$53.29 per barrel on 14 June, went up to US$59.92 per barrel on 11 July, and then retreated to US$55.16 per barrel on 19 July, before rising to US$57.10 per barrel on 30 July *(see exhibit 1)*.

Looking ahead, we expect that global crude prices will remain volatile in the near future, as geopolitical events including the China-US trade war, US sanctions on Iran and the Brexit crisis continue to drive the global crude market.

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[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, July 2018 to July 2019
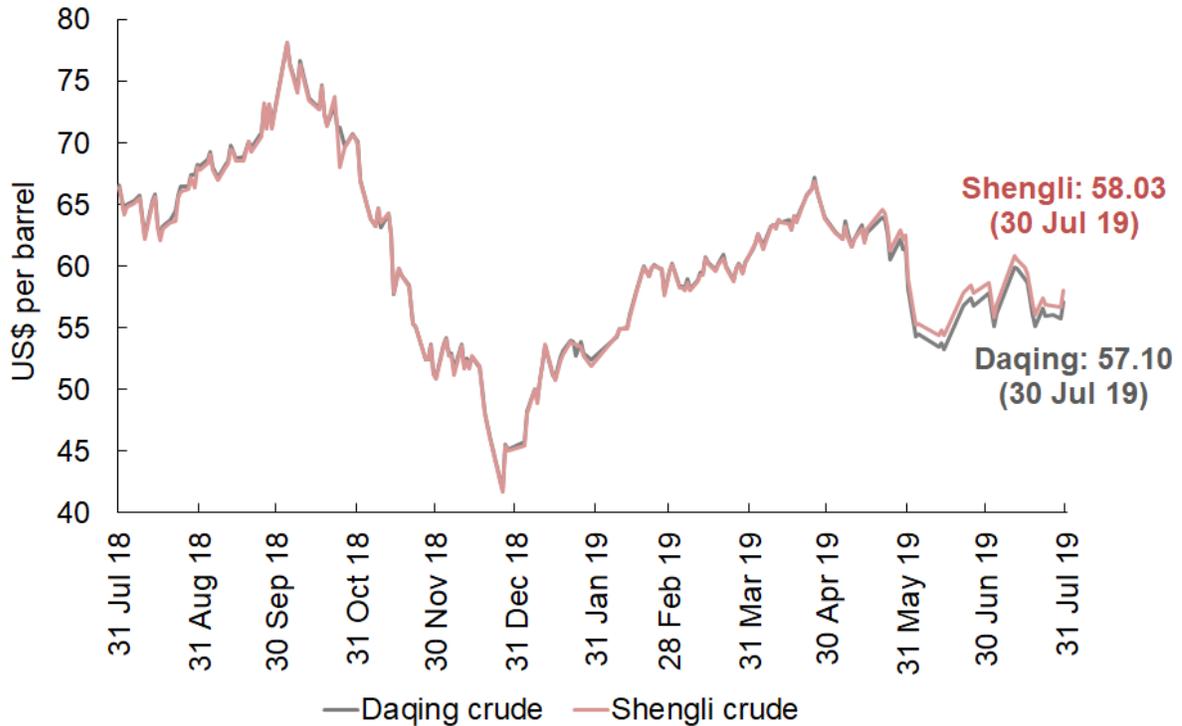
Source: gcec.com.cn

## 2. Wholesale price indices of refined oil products drop in June but pick up in July

The wholesale price index of refined oil products fell by 2.5% mom in June but rebounded by 2.1% mom in July *(see exhibit 2)*.[3] Specifically, the wholesale price index of diesel went down by 1.4% mom in June but jumped by 4.3% mom in July, while that of gasoline declined by 4.8% mom in June and by 0.2% mom in July.

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 12 June and 26 June, and subsequently raised the price ceilings on 10 July.

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

Looking ahead, we expect the wholesale price index of refined oil products to go down in August, as the NDRC has adjusted the maximum wholesale prices of gasoline and diesel downward in August in response to the decline in global crude prices in early August.

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

Diesel: 4.3 (Jul 19)

Refined Oil: 2.1 (Jul 19)

Gasoline: -0.2 (Jul 19)
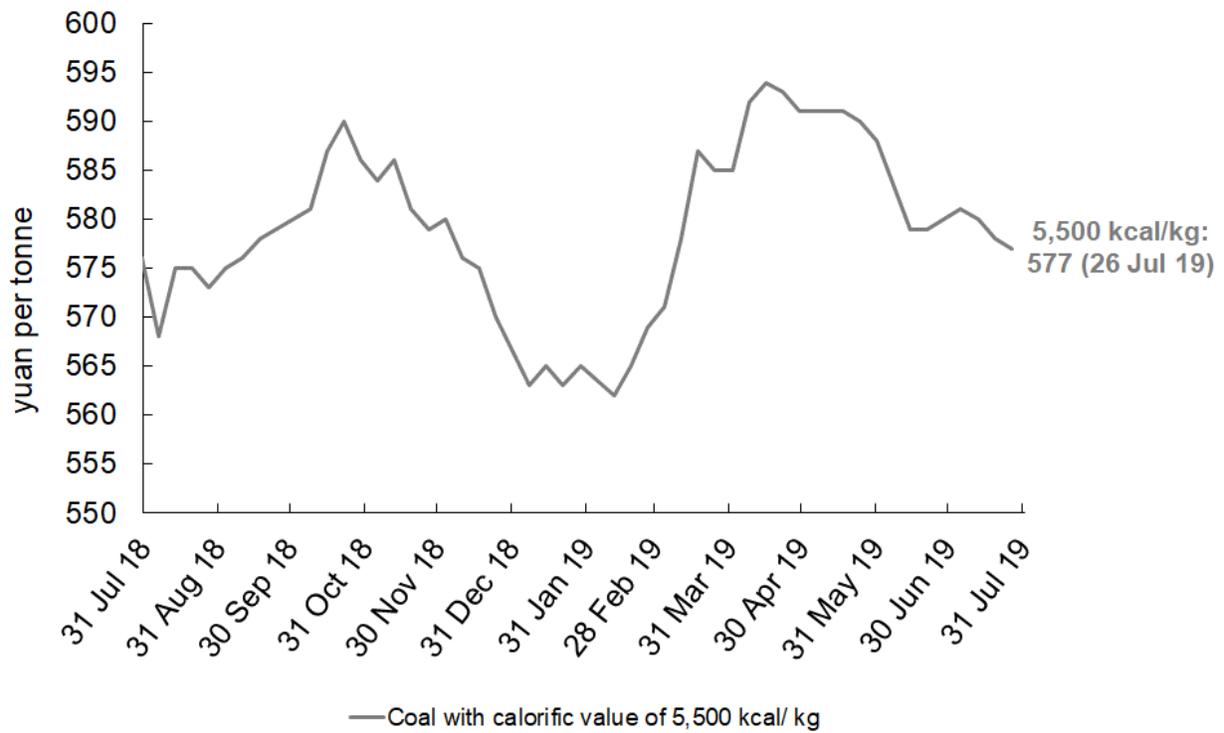
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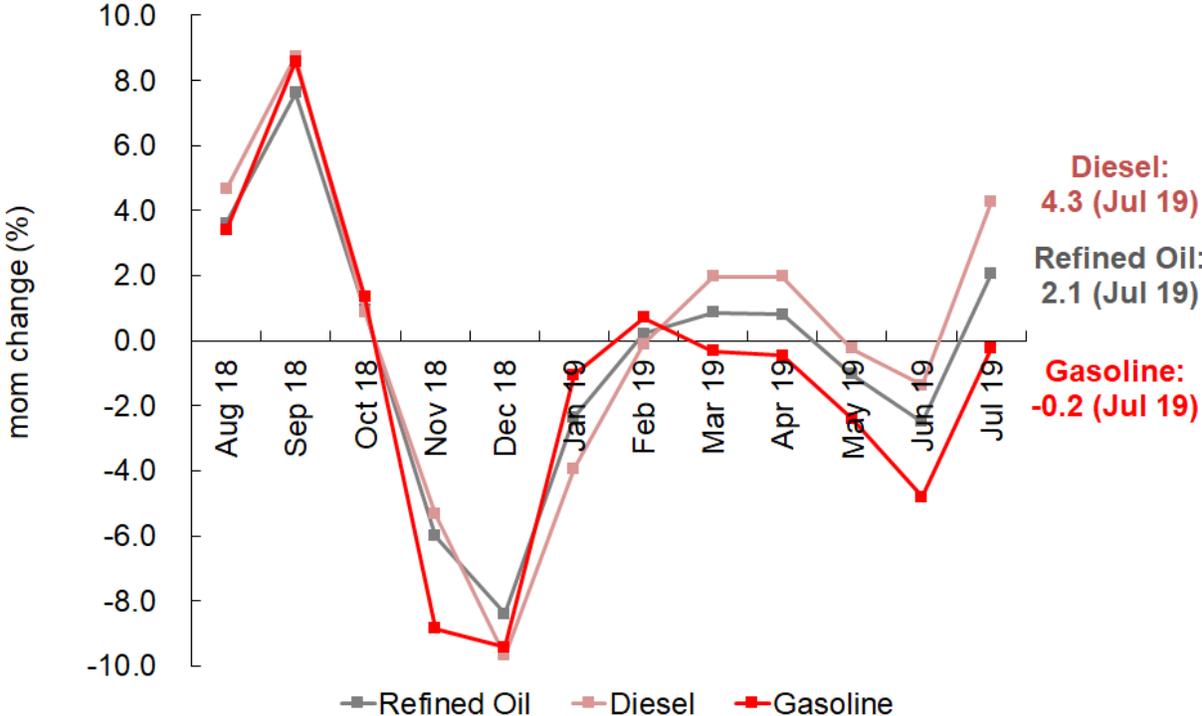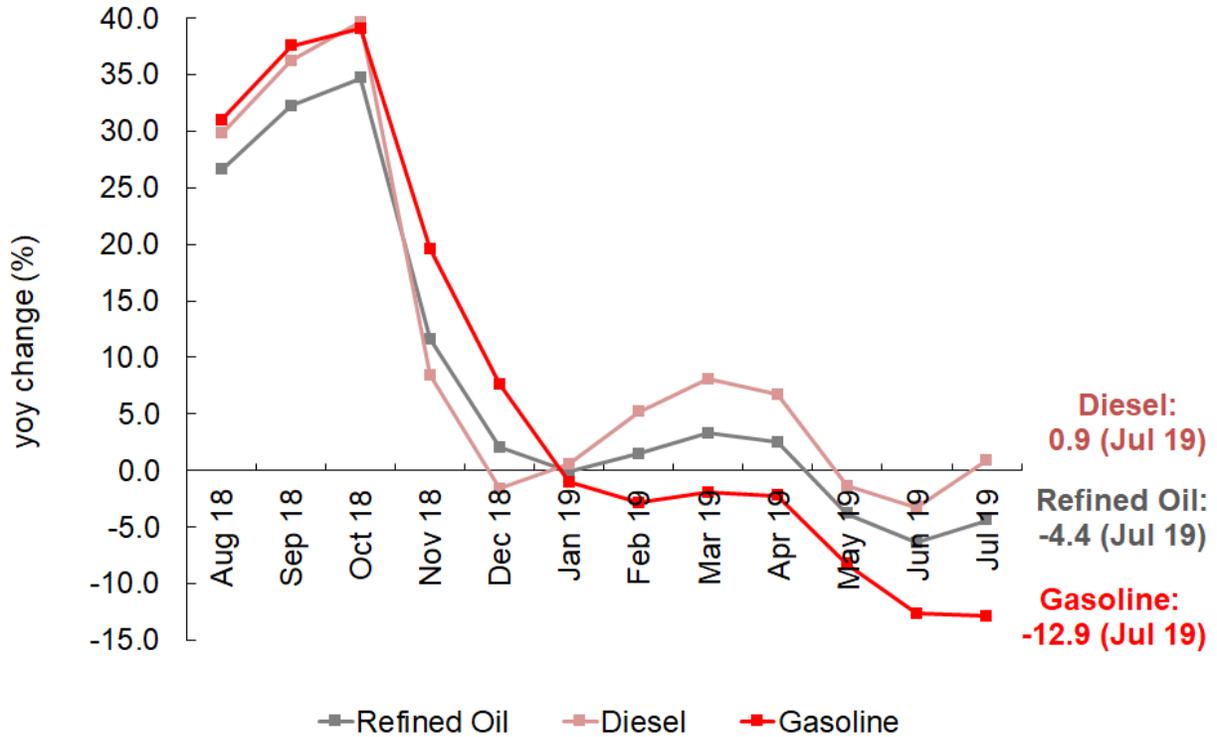
Source: China Logistics Information Center

3. Benchmark Qinhuangdao coal prices edge down in June and July

The benchmark Qinhuangdao coal prices continued to fall in June and July *(see exhibit 3)*. The price of coal with calorific value of 5,500 kcal/ kg dropped from 588 yuan per tonne on 31 May to 580 yuan per tonne on 28 June, and further to 577 yuan per tonne on 26 July.

Looking ahead, we expect coal prices to trend downward in the coming months as the supply of coal is likely to increase.

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

Coal with calorific value of 5,500 kcal/ kg

5,500 kcal/kg:
577 (26 Jul 19)

Source: cctd.com.cn

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