



# China Sourcing Update

July 27, 2018

## Energy Costs

### 1. Crude prices fall and then rise in June

In line with the movement of global crude prices, China's crude prices dropped during early to mid-June, and went up afterwards.<sup>1</sup> For instance, the Daqing<sup>2</sup> crude price declined from US\$72.0 per barrel on 8 June to US\$68.2 per barrel on 18 June, before rising to US\$72.8 per barrel on 29 June (*see exhibit 1*).

The fall in crude prices during early to mid-June was mainly attributable to market concerns that OPEC members and some non-OPEC oil producing countries would agree to large production increases in their meeting on 22 June. However, crude prices jumped after the major oil producers agreed to ramp up crude output only modestly. Although these countries agreed to raise output from July by about 1 million barrels per day, the real increase will be less because several countries will not be able to raise output due to capacity constraints.

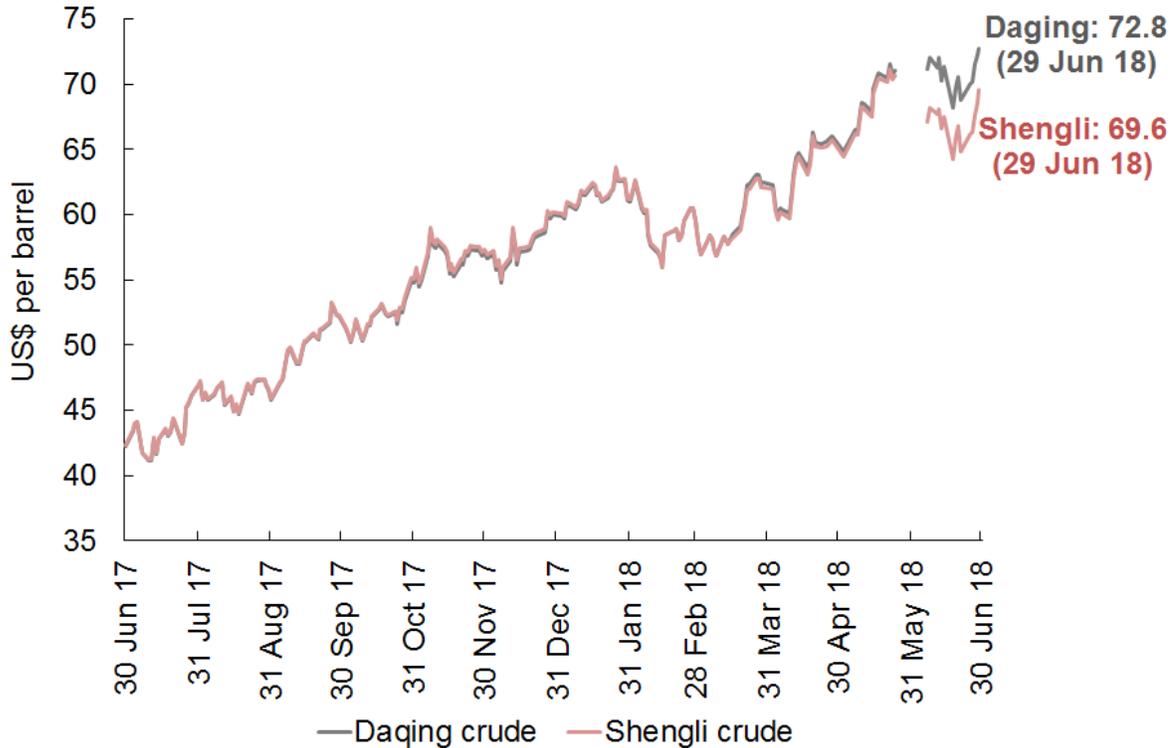
Oil prices went up further after the US reiterated on 26 June that all countries must stop imports of Iranian crude oil by 4 November, which raised market fears that the global supply of oil will be squeezed.

Looking ahead, we expect that global crude prices are unlikely to go up further in the near term as major oil producing countries started to increase crude output in July.

<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.

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



Source: ifeng.com, gcec.com.cn

## 2. Wholesale price index of refined oil products goes up in June

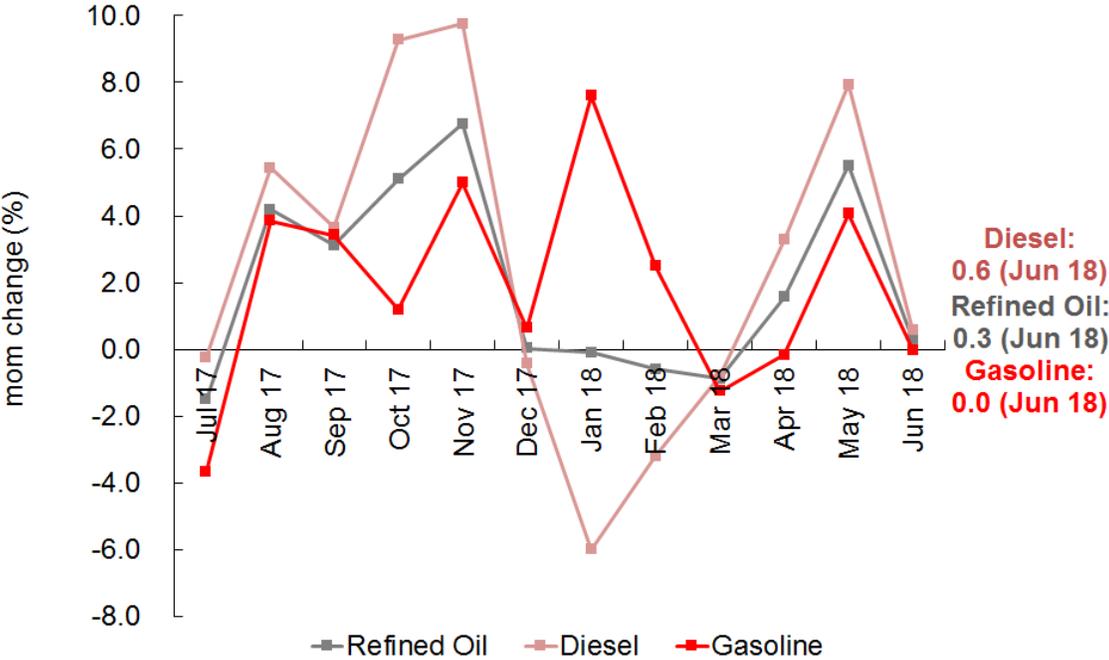
The wholesale price index of refined oil products edged up by 0.3% in June (see *exhibit 2*).<sup>3</sup> Specifically, the wholesale price index of diesel advanced by 0.6% mom, while that of gasoline stayed flat compared with the previous month.

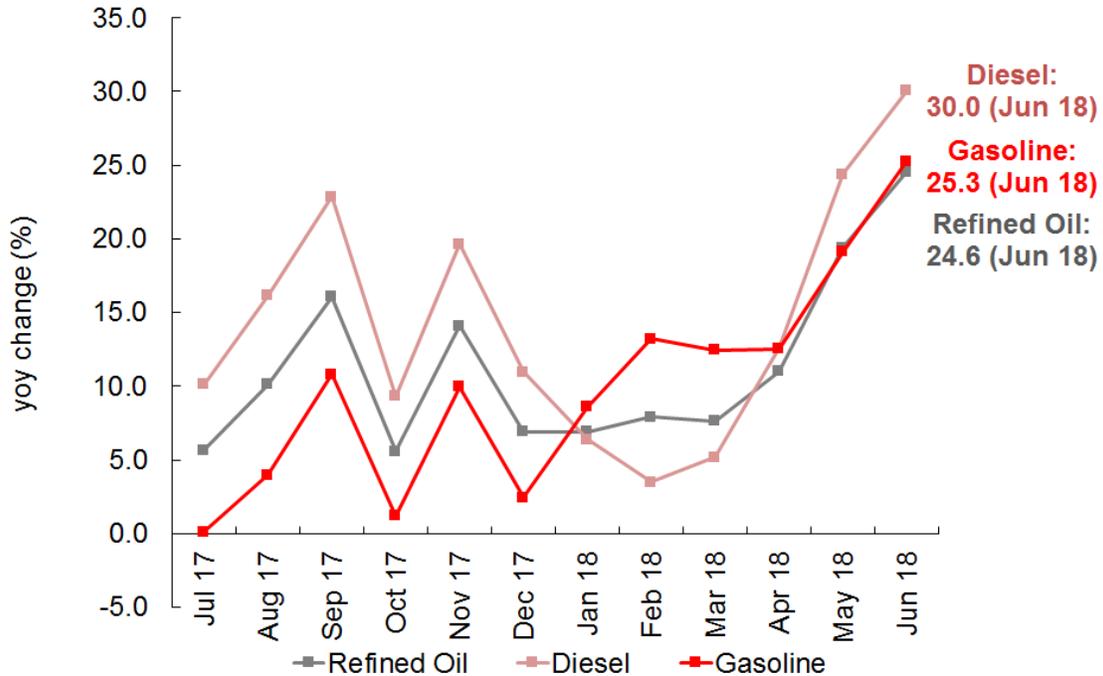
The National Development and Reform Commission (NDRC) made an upward adjustment to the maximum wholesale prices of refined oil products on 26 May, and downward adjustments on 9 June and 26 June, resulting in slightly higher average prices of refined oil products in June than in May. According to the 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.

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

Looking ahead, we expect the wholesale price index of refined oil products to increase in July, as the NDRC raised the maximum prices of diesel and gasoline on 10 July in response to higher global crude prices during late June to early July.

**Exhibit 2: China’s wholesale price indices of refined oil products, July 2017 to June 2018**





Source: China Logistics Information Center

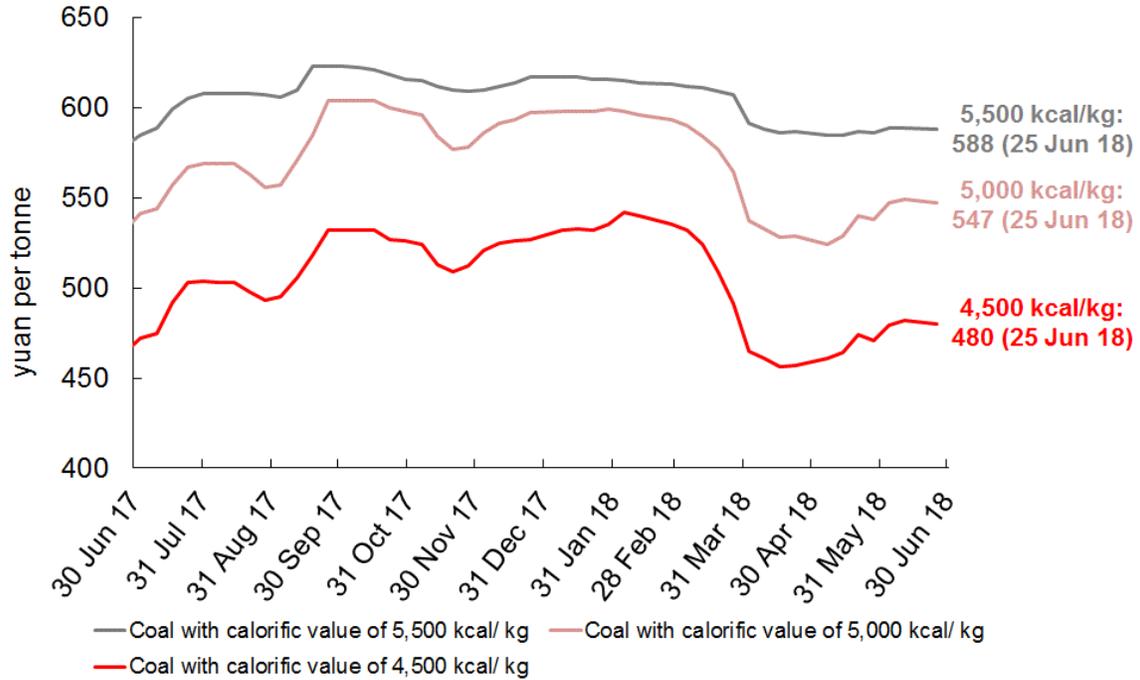
### 3. Benchmark Qinhuangdao coal prices climb in June

The benchmark Qinhuangdao coal prices rose in the first half of June and retreated afterwards (see exhibit 3). For example, the price of coal with calorific value of 5,000 kcal/ kg went up from 538 yuan per tonne on 28 May to 549 yuan per tonne on 11 June, before dropping a bit to 547 yuan per tonne on 25 June.

The increase in coal prices during early to mid-June was mainly attributable to a strong demand for coal from power producers, boosted by the hot weather in various parts of China; and a tightened domestic supply of coal amid environmental inspections carried out by the central government in major coal producing provinces. Coal prices declined slightly in the second half of the month as the high levels of coal inventory among power producers caused them to reduce their purchases of coal.

Looking ahead, we expect that domestic coal prices will fluctuate around the current high levels in the coming couple of months, as the demand for coal from power producers is likely to be strong in the high season for power consumption in July and August.

Exhibit 3: Qinhuangdao coal prices, June 2017 to June 2018



Source: ifeng.com, cctd.com.cn

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