



China Sourcing Update

April 20, 2017

Energy Costs

1. Crude prices rise during late March to mid-April

In line with the movement of global crude prices, China's crude prices went up markedly during late March to mid-April.¹ For example, the Daqing² crude price rose from a four-month low of US\$ 43.8 per barrel on 27 March to US\$ 48.7 per barrel on 13 April (see *exhibit 1*).

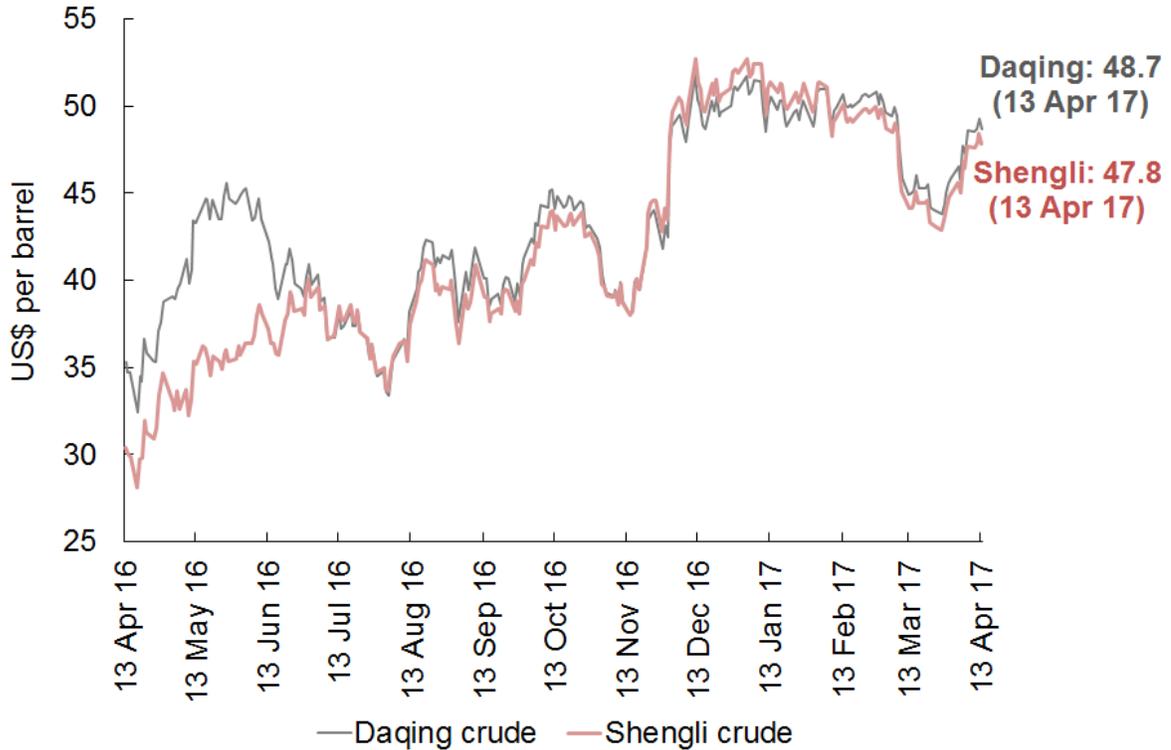
The increase in global oil prices in late March was mainly attributable to the speculation that member countries of the Organization of the Petroleum Exporting Countries (OPEC) plan to extend the crude output cut beyond June. After North Korea conducted a missile test on 4 April and the US fired missiles at a Syrian government airbase on 6 April, crude prices went up further amid growing geopolitical tensions.

Looking ahead, several bearish factors for global crude prices are in play, including a rising oil rig count and a near record-high level of commercial crude oil inventories in the US. That being said, we expect global oil prices to stay high in the near future as investors largely focus on the geopolitical risks over Syria and North Korea.

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, April 2016 to April 2017



Source: ifeng.com

2. Wholesale price index of refined oil products falls in March

The wholesale price index of refined oil products dropped by 4.1% mom in March (see exhibit 2).³ Specifically, the wholesale price index of diesel fell by 5.7% mom, while that of gasoline went down by 3.9% mom in the month.

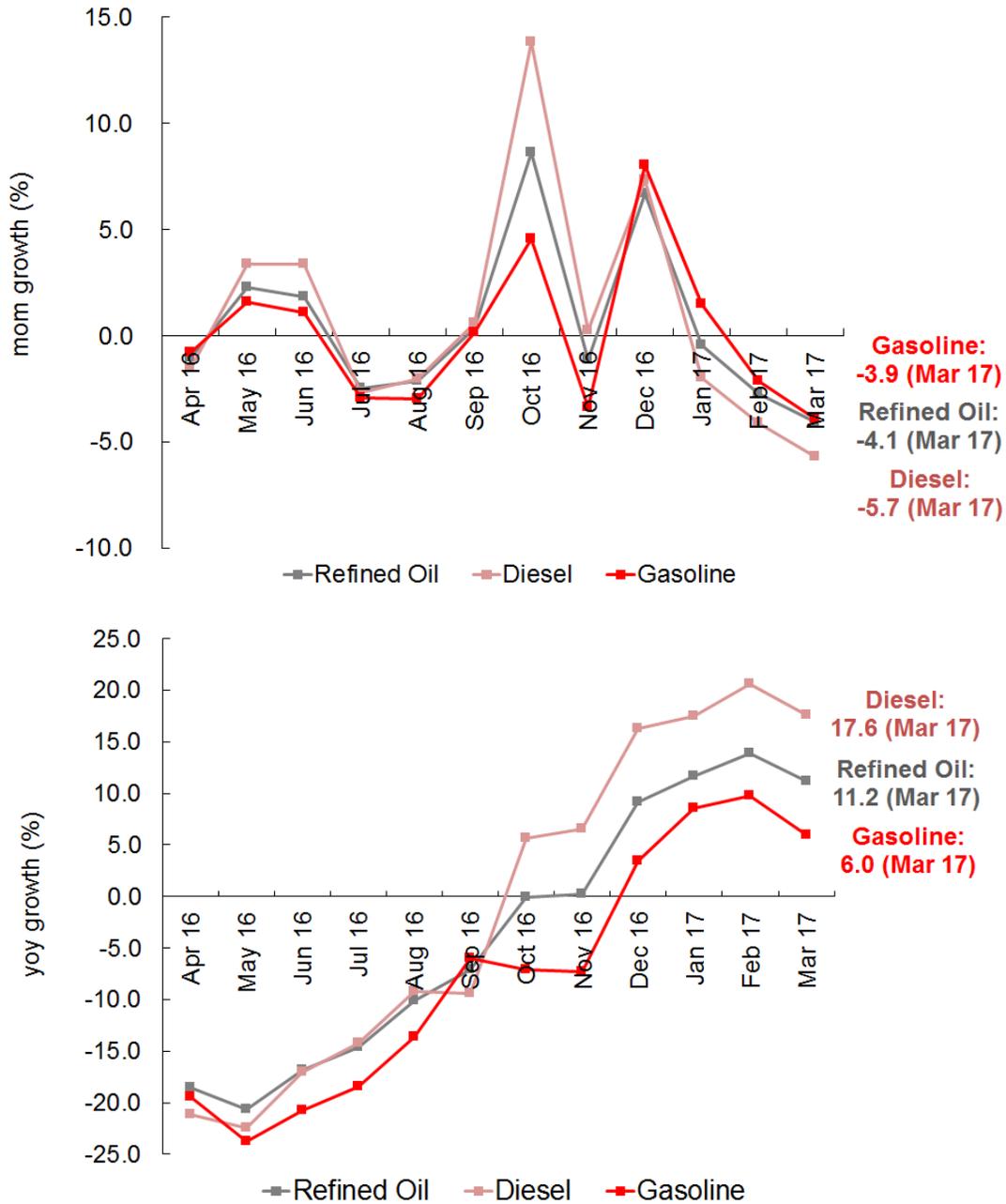
The movement of the price index in March was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made downward adjustments to the maximum wholesale prices of refined oil products on 15 March and 29 March, in response to the plunge in global crude prices in the month.

Looking ahead, we expect the wholesale price index of refined oil products to rebound in April, as the NDRC raised the maximum prices of diesel and gasoline on 13 April

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

following a surge in global crude prices since late March. 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.

Exhibit 2: China's wholesale price indices of refined oil products, April 2016 to March 2017



Source: China Logistics Information Center

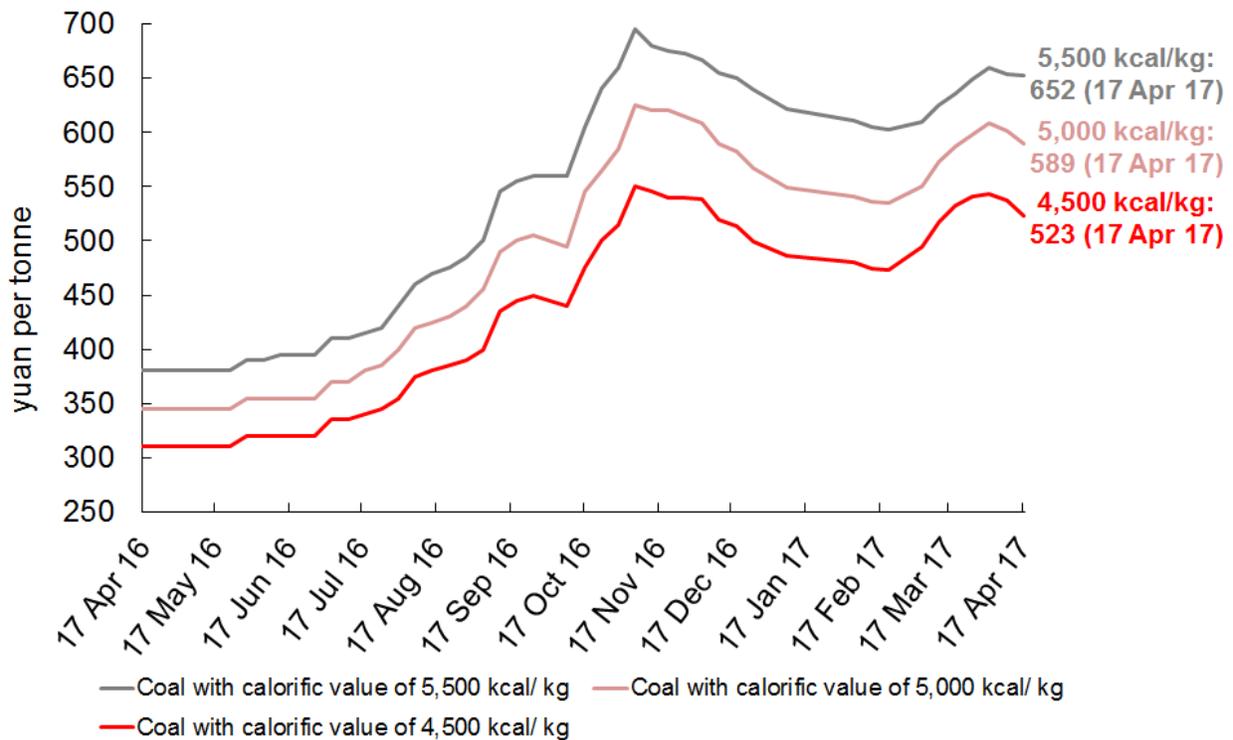
3. Benchmark Qinhuangdao coal prices rise during mid-March to early April

The benchmark Qinhuangdao coal prices went up during mid-March to early April and dropped slightly afterwards (see exhibit 3). For instance, the price of coal with calorific value of 5,500 kcal/ kg rose from 625 yuan per tonne on 13 March to 659 yuan per tonne on 3 April, before retreating a bit to 652 yuan per tonne on 17 April.

According to media reports, the rise in domestic coal prices in the period was mainly triggered by a decline in the supply of coal due to ongoing safety checks on domestic coal mines, and a strong restocking demand for coal from power producers.

Going forward, the domestic supply of coal is expected to remain tight in the rest of the year, as the nationwide safety checks on coal mines will continue till year-end and the Chinese government plans to cut at least 150 million tonnes of coal production capacity in 2017. Thus, we expect the domestic coal prices to fluctuate around the current high levels in the coming months.

Exhibit 3: Qinhuangdao coal prices, April 2016 to April 2017



Source: ifeng.com, cctd.com.cn

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