



China Sourcing Update

April 27, 2018

Energy Costs

1. Crude prices rise in March

In line with the movement of global crude prices, China's crude prices fluctuated within a narrow range during early to mid-March and went up afterwards.¹ For instance, after hovering around US\$58.0 per barrel in the first half of March, the Daqing² crude price surged to US\$63.1 per barrel on 26 March, before retreating a bit to US\$62.5 per barrel on 29 March (*see exhibit 1*).

There were two main reasons behind the rise in oil prices in the second half of March. First, it was rumoured that the US would impose sanctions on Iran again, which would probably in turn greatly reduce Iran's exports of oil. Second, the US oil crude inventories dropped unexpectedly: the US Energy Information Administration (EIA) reported on 21 March that commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) in the US fell by 2.6 billion barrels in the week ending 16 March.

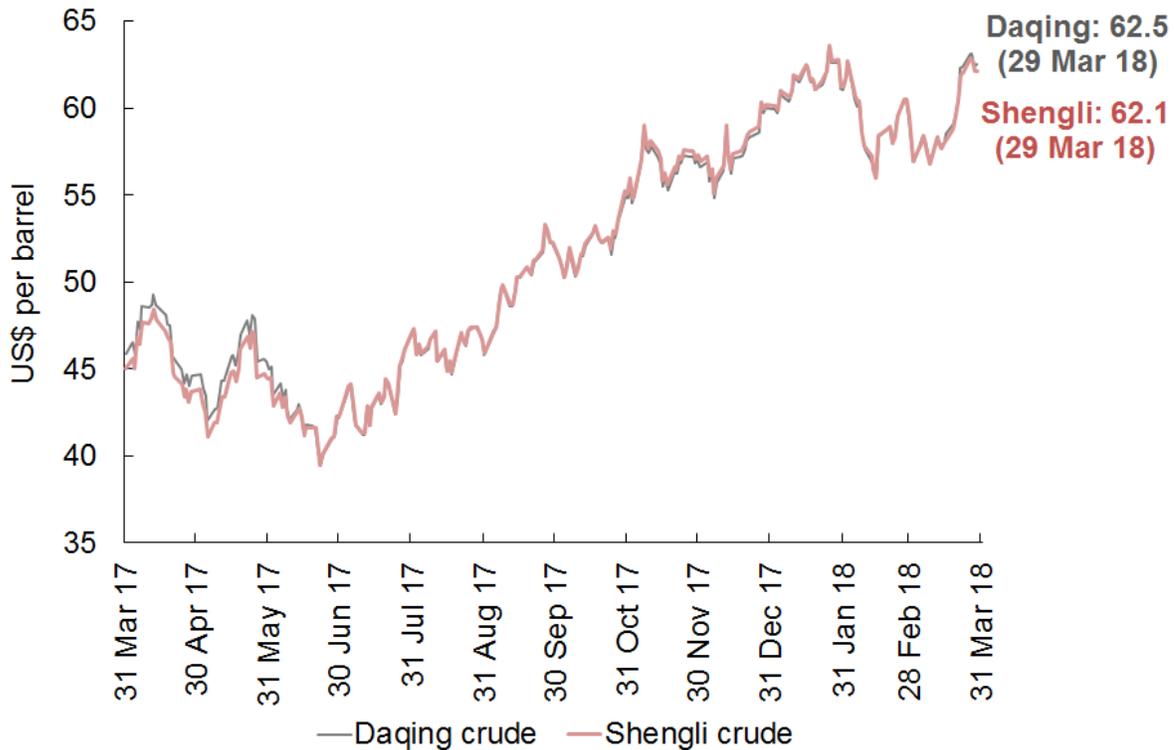
Looking ahead, we expect global crude prices to stay high or even rise further in the near term, due largely to speculations about the US imposition of sanctions on Iran, rising geopolitical tensions in the Middle East and stronger expectations of an extension to the OPEC-led production cuts into next year. According to media reports, Kuwait Oil Minister Bakheet Al-Rashidi said that the OPEC and some non-OPEC countries would

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.

discuss in June whether their ongoing agreement of oil production cuts, which would expire at the end of this year, would continue in 2019.

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



Source: ifeng.com

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

The wholesale price index of refined oil products fell by 0.9% in March, posting month-on-month drop for three consecutive months (see exhibit 2).³ Specifically, the wholesale price index of diesel slid 0.8% mom, while that of gasoline fell by 1.3% mom in March.

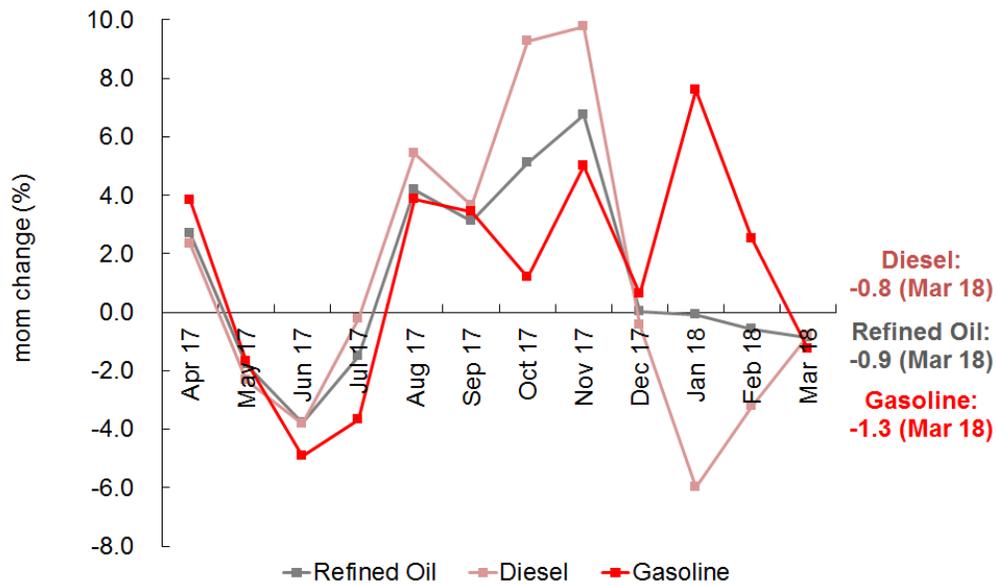
The National Development and Reform Commission (NDRC) made downward adjustments to the maximum wholesale prices of refined oil products on 1 March following a drop in global crude prices during mid- to late February. According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline

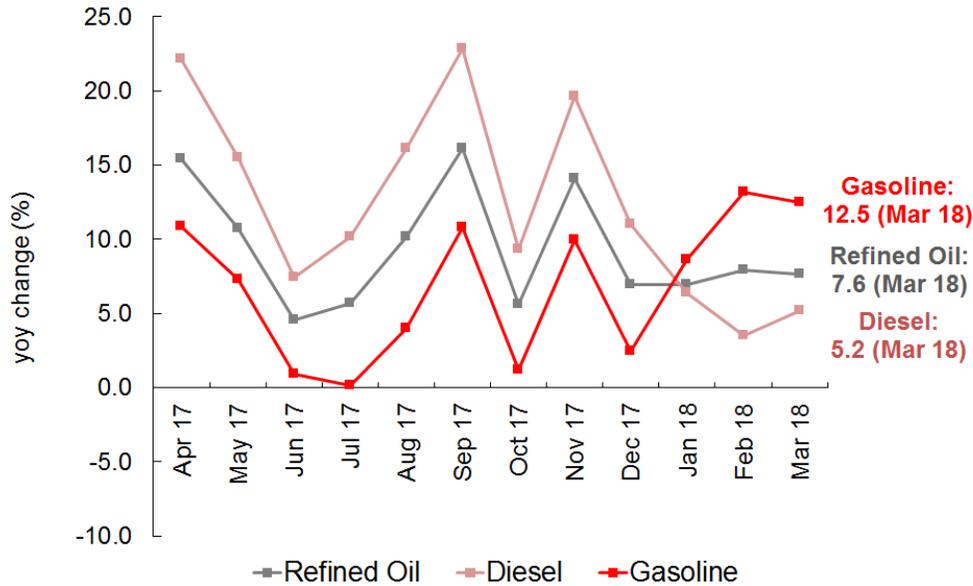
³ The index is compiled by the China Logistics Information Center (CLIC).

are adjusted every 10 working days, based on the change in a basket of global crude prices.

Looking ahead, we expect the wholesale price index of refined oil products to go up in April, as the NDRC raised the maximum prices of diesel and gasoline on 29 March and 13 April as the global crude prices trended upward during mid-March to mid-April.

Exhibit 2: China's wholesale price indices of refined oil products, April 2017 to March 2018





Source: China Logistics Information Center

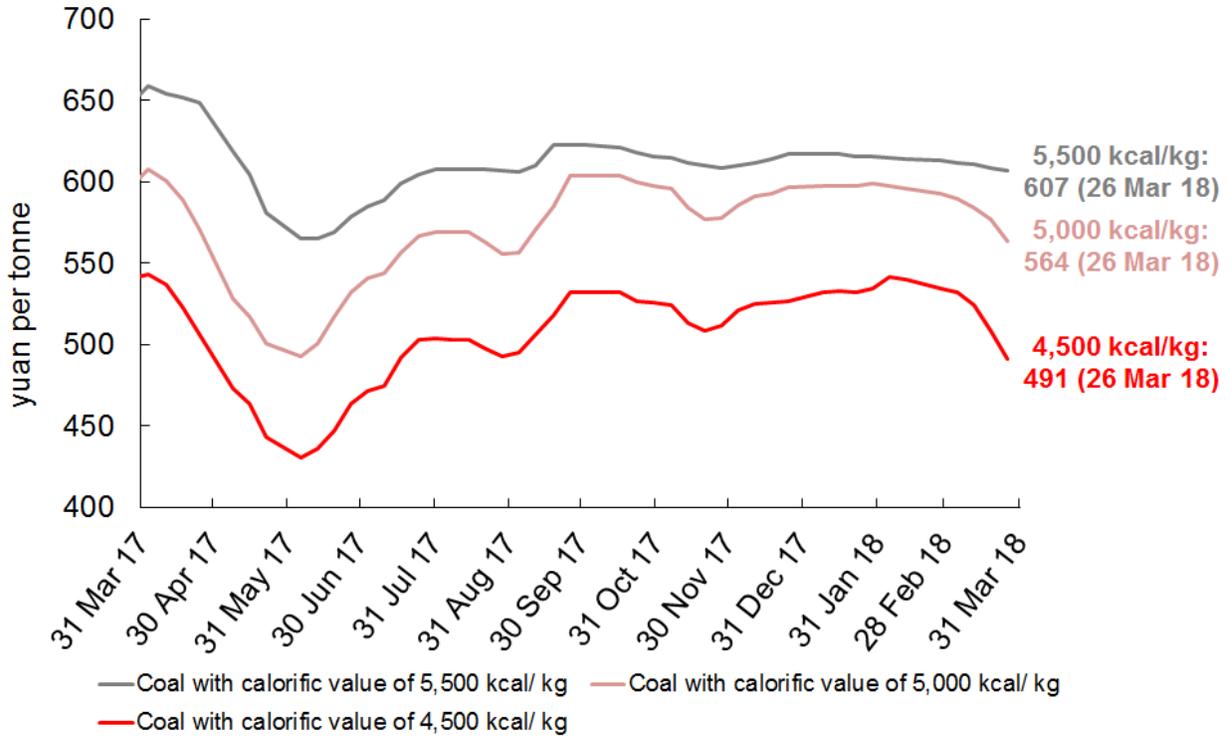
3. Benchmark Qinhuangdao coal prices drop in March

The benchmark Qinhuangdao coal prices fell in March (see exhibit 3). For example, the price of coal with calorific value of 5,500 kcal/ kg went down from 613 yuan per tonne on 26 February to 607 yuan per tonne on 26 March, while the price of coal with calorific value of 4,500 kcal/ kg dropped to 491 yuan per tonne on 26 March, compared to 535 yuan per tonne on 26 February.

Coal prices trended downward in the month due to the following reasons. First, a seasonal drop in heating demand and a quicker delivery of coal after the Chinese New Year Holidays resulted in a rise in inventory levels of coal of power producers. Consequently, the demand for coal from power producers moderated during the period. Second, the fall in the prices of imported coal put downward pressure on the prices of domestic coal. Third, there were rumours that the long-term contract prices of coal would be adjusted downward in April.

Going forward, as the demand for coal is likely to stay weak, we expect domestic coal prices to trend further downward in the near future.

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



Source: ifeng.com, cctd.com.cn

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