



# China Sourcing Update

June 21, 2018

## Energy Costs

### 1. Crude prices surge in May

In line with the movement of global crude prices, China's crude prices rose sharply in May.<sup>1</sup> For instance, the Daqing<sup>2</sup> crude price went up from US\$ 64.8 per barrel on 2 May to US\$ 71.5 per barrel on 22 May, the highest level since November 2014, before retreating a bit to US\$71.0 per barrel on 24 May (see *exhibit 1*).

The jump in crude prices in the month was mainly triggered by the geopolitical instability in Iran and Venezuela. On 8 May, US President Donald Trump announced the US withdrawal from the 2015 Iran nuclear deal and the re-imposition of economic sanctions on the oil sector of Iran starting from November, which will reduce Iran's exports of oil. Moreover, there were growing fears that Venezuela's crude output would drop after the country held a controversial presidential election on 20 May, which further aggravated Venezuela's political crisis. These geopolitical events raised market concerns that the global supply of oil will be squeezed, thus pushing up crude prices.

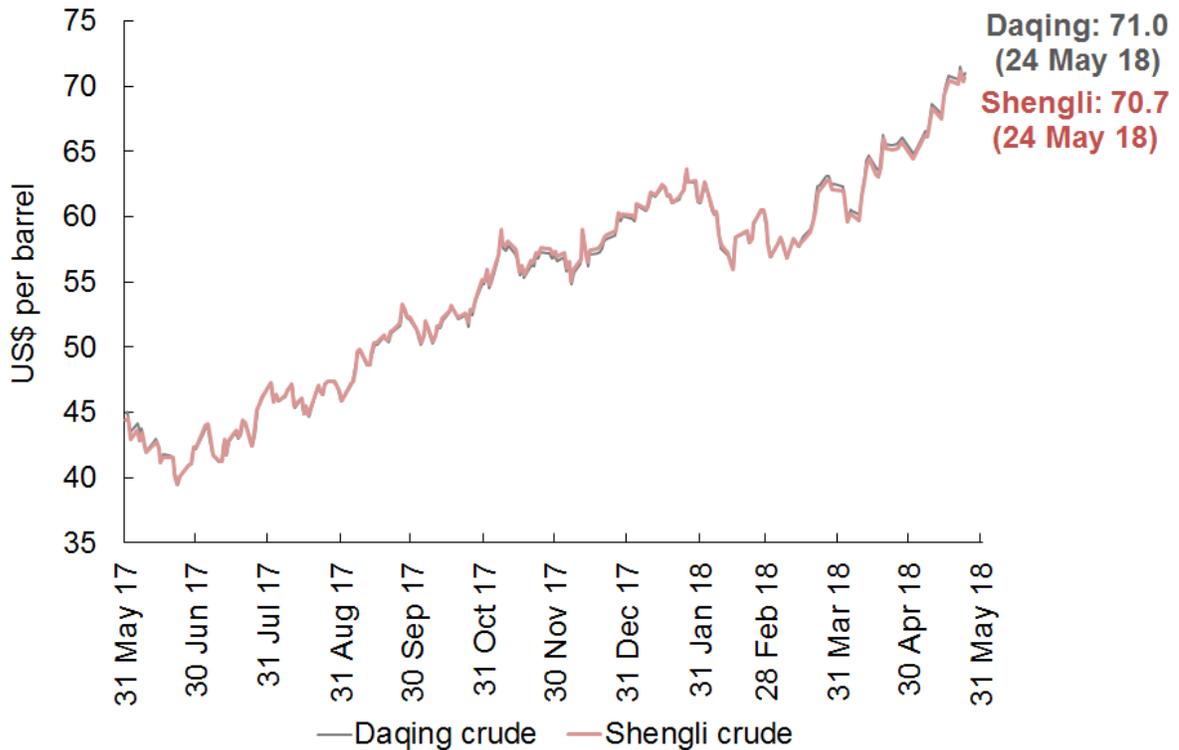
OPEC members and some non-OPEC oil producing countries will meet on 22 June to discuss a potential extension of the current oil output cuts into next year. The meeting comes as the US is reportedly pushing for oil producing countries to raise crude output to offset the impact of the forthcoming US sanctions on Iran.

<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.

Looking ahead, we expect global crude prices to stay high in the near term, as the uncertainty over future global crude supply persists amid the geopolitical instability mentioned above.

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



Source: ifeng.com

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

The wholesale price index of refined oil products rose by 5.5% in May (see exhibit 2).<sup>3</sup> Specifically, the wholesale price index of diesel jumped by 7.9% mom, while that of gasoline climbed 4.1% mom in the month.

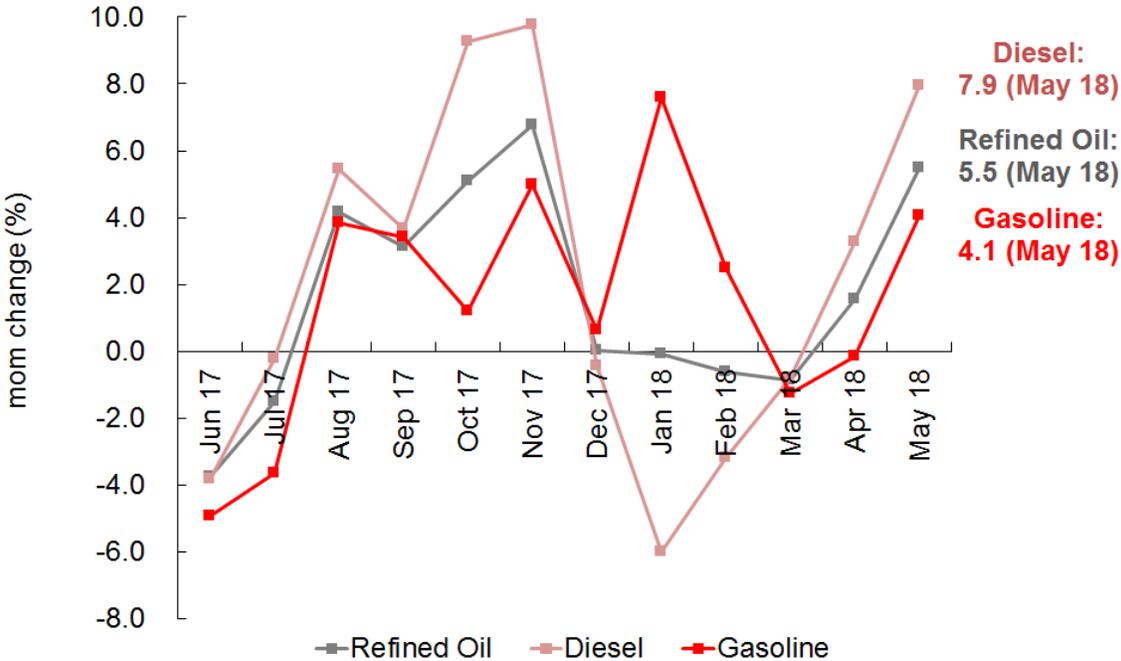
Following a rise in global crude prices during early to late May, the National Development and Reform Commission (NDRC) made upward adjustments to the maximum wholesale prices of refined oil products on 12 May and 26 May. According to the pricing mechanism for refined oil products, the maximum prices of diesel and

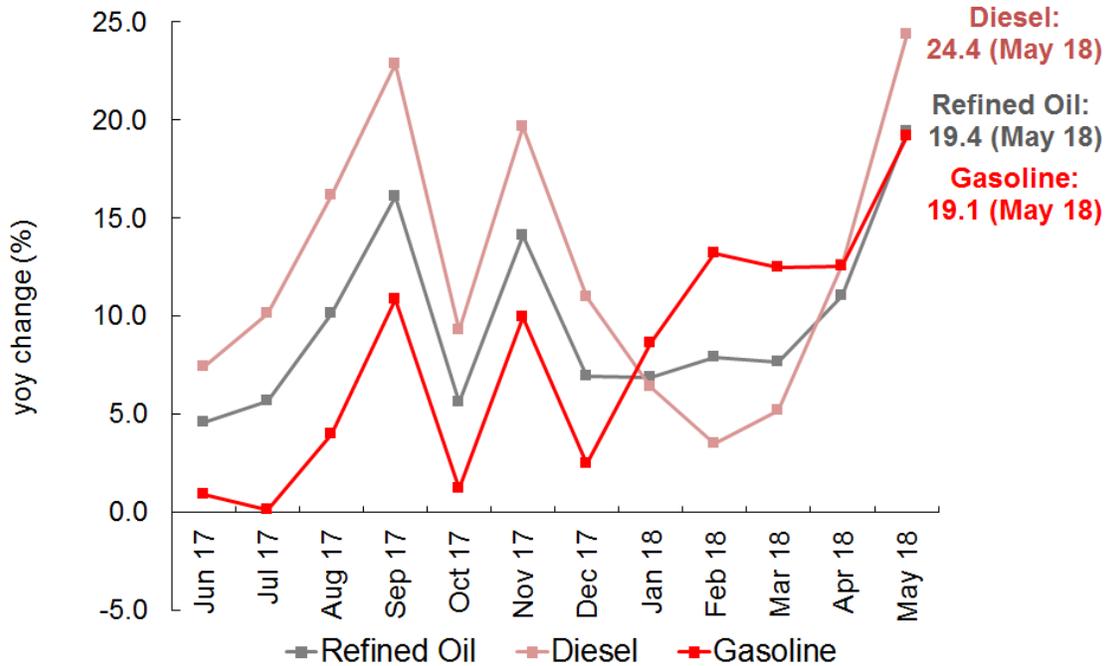
<sup>3</sup> The index is compiled by the China Logistics Information Center (CLIC).

gasoline 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 drop in June, as the NDRC lowered the maximum prices of diesel and gasoline on 9 June in response to a fall in global crude prices during late May to early June.

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





Source: China Logistics Information Center

### 3. Benchmark Qinhuangdao coal prices bottom out in May

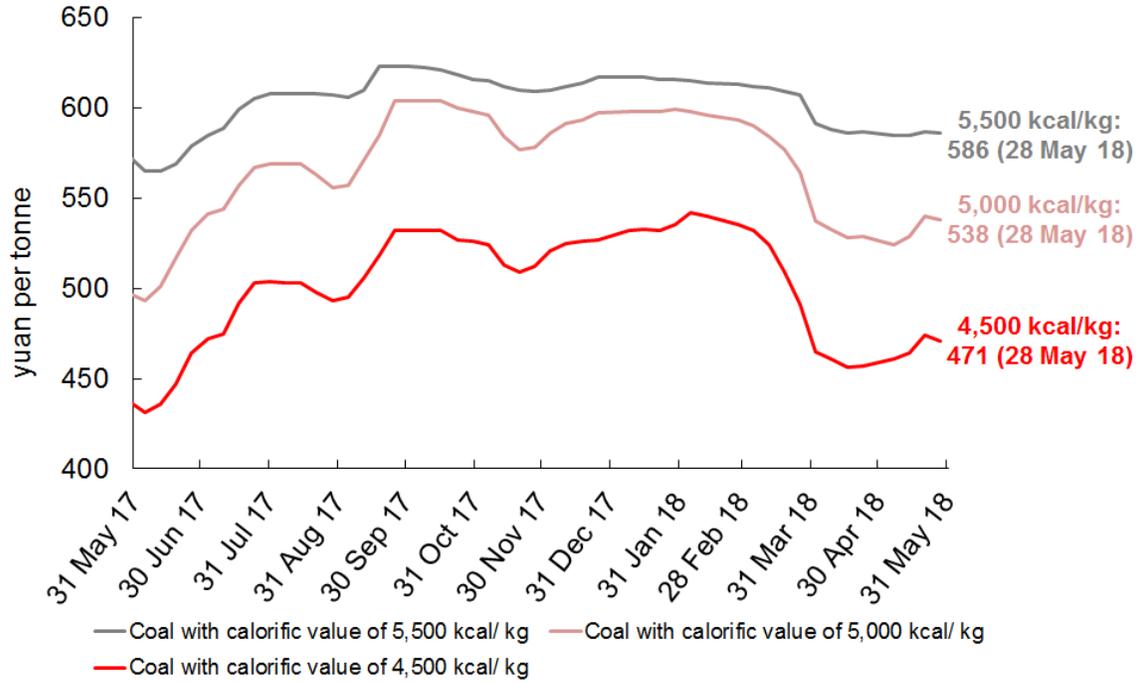
The benchmark Qinhuangdao coal prices dropped in early May and rose afterwards (see exhibit 3). For example, the price of coal with calorific value of 5,000 kcal/ kg went down from 529 yuan per tonne on 23 April to 524 yuan per tonne on 7 May, before rebounding to 538 yuan per tonne on 28 May.

The pick-up in coal prices since early May was triggered by an increased demand for coal from power producers, boosted by the hot weather in various parts of China; and a rise in the prices of imported coal.

China's NDRC announced on 18 May a series of measures to increase the domestic supply of coal and to cool down the coal market.<sup>4</sup> That being said, we expect that domestic coal prices will stay high in the near term as the demand for coal from power producers is likely to stay strong in the current high season for power consumption.

<sup>4</sup> [http://www.gov.cn/xinwen/2018-05/18/content\\_5291935.htm](http://www.gov.cn/xinwen/2018-05/18/content_5291935.htm)

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



Source: ifeng.com, cctd.com.cn

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