



# China Sourcing Update

June 28, 2019

## Energy Costs

### 1. Crude prices fluctuate and then slump in May

In line with the movement of global crude prices, China's crude prices fluctuated throughout May and then slumped at the end of the month.<sup>1</sup> For instance, the Daqing<sup>2</sup> crude price dropped from US\$64.0 per barrel on 29 April to US\$58.19 per barrel on 31 May, fluctuating between the range of US\$60.54 - US\$63.98 per barrel in the month (see *exhibit 1*).

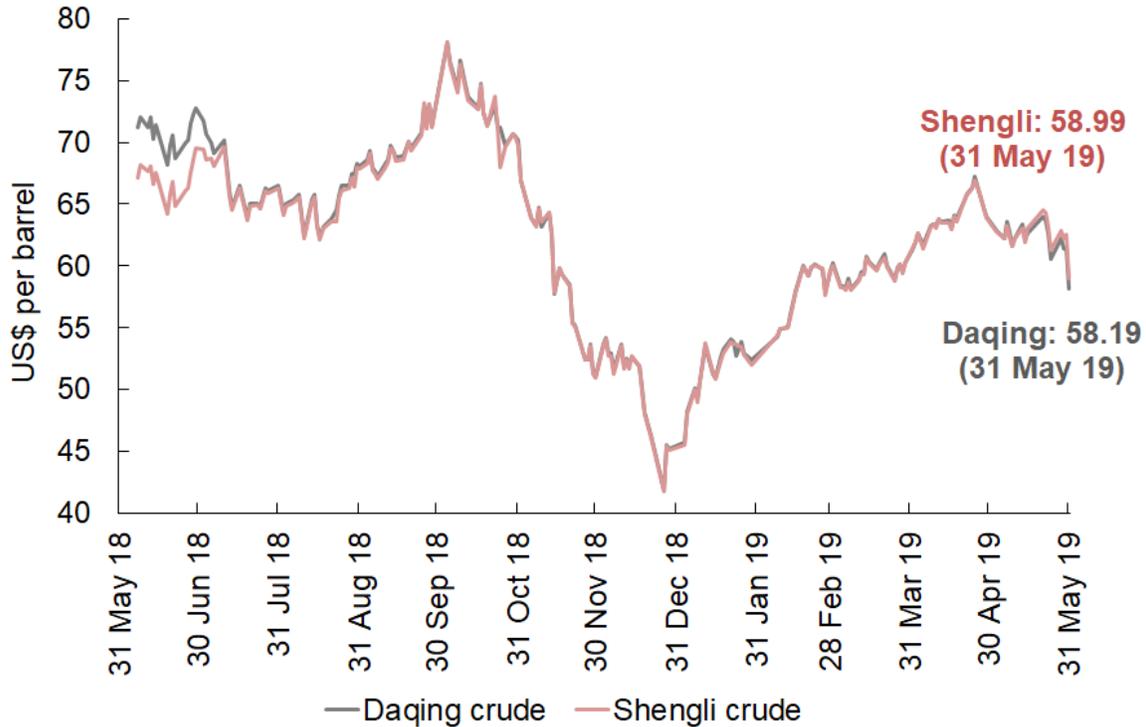
Global crude prices slumped in the month mainly due to investor expectation of an escalation of the China-US trade war, which would suppress demand for crude oil; the high level of crude oil inventories held by US firms; and lower global risk aversion amidst easing US-Iran tensions.

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

<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, May 2018 to May 2019**



Source: gcec.com.cn

## 2. Wholesale price indices of refined oil products drop in May

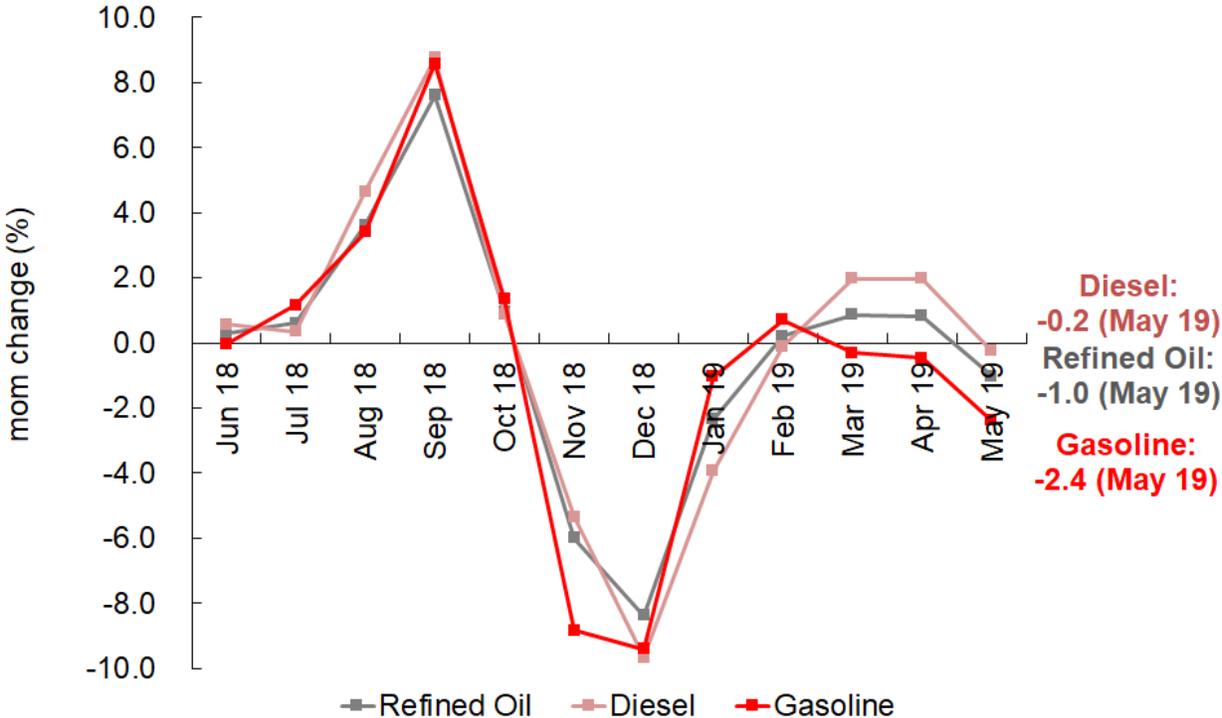
The wholesale price index of refined oil products dropped by 1.0% mom in May (see exhibit 2).<sup>3</sup> Specifically, the wholesale price index of diesel edged down by 0.2% mom, while that of gasoline declined by 2.4% mom.

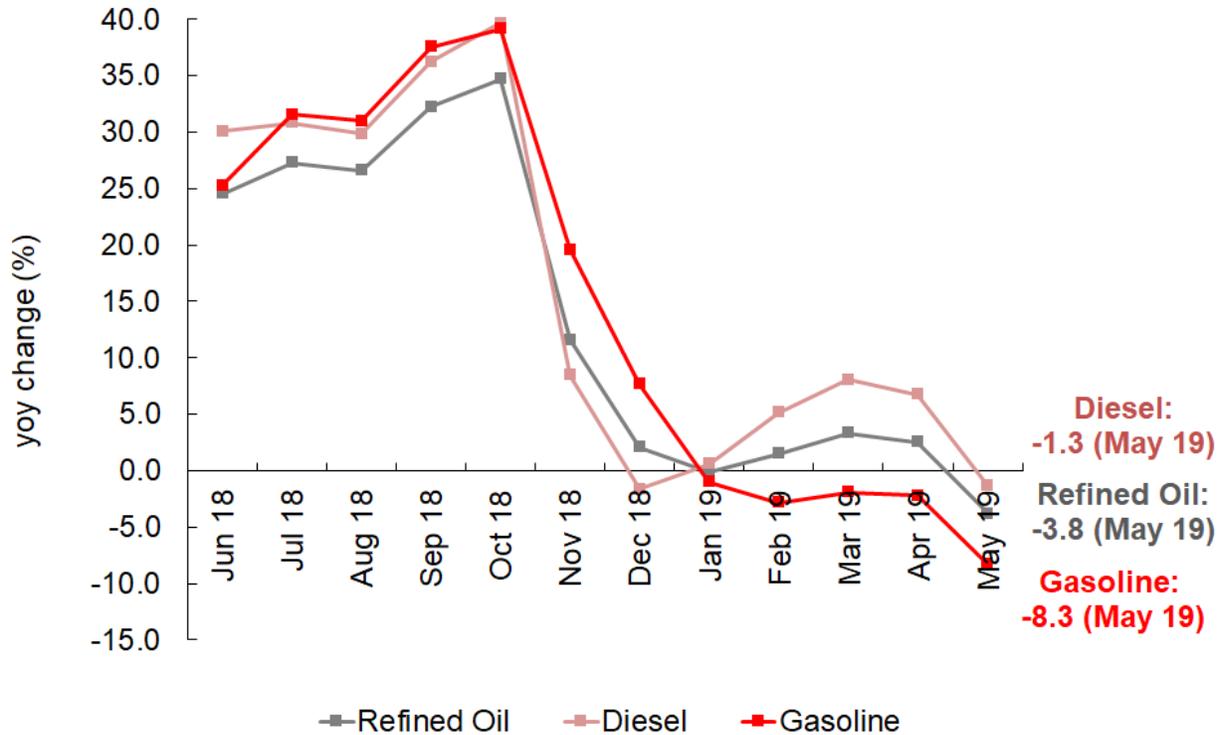
According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline are adjusted every 10 working days, based on the change in a basket of global crude prices. In response to the movements in global crude prices in May, the NDRC lowered the maximum wholesale prices of gasoline and diesel by 75 yuan per tonne on 13 May and subsequently raised the price ceilings by 50 yuan per tonne on 27 May.

<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 continue to go down in June, as the NDRC has adjusted the maximum wholesale prices of gasoline and diesel downward in June in response to the decline in global crude prices in late May.

**Exhibit 2: China’s wholesale price indices of refined oil products, June 2018 to May 2019**





Source: China Logistics Information Center

### 3. Benchmark Qinhuangdao coal prices edge down in May

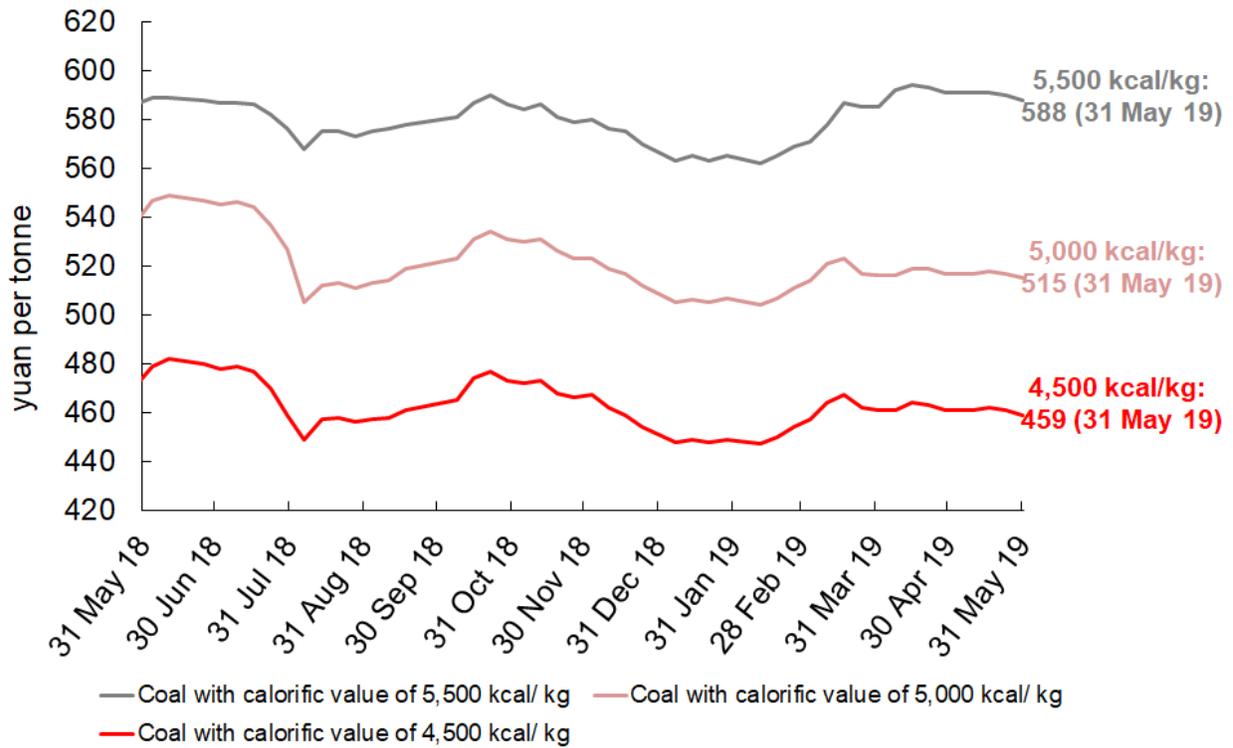
The benchmark Qinhuangdao coal prices remained stable throughout most of the month before a slight drop in late May (see exhibit 3). For example, the price of coal with calorific value of 5,500 kcal/ kg stayed at 591 yuan per tonne for the first three weeks of May, before retreating to 588 yuan per tonne in the last week of May.

The decline in the benchmark Qinhuangdao coal prices in late May was attributed to increase in coal inventory at various stages of production; the downward adjustment of coal mine-mouth prices; poor investor sentiment; and the temporary shutdown of over 2,000 cement factories nationwide, which is a major consumer of coal, in June.<sup>4</sup>

Looking ahead, we expect coal prices to stabilise in the near term with the rise in electricity consumption during the summer.

<sup>4</sup> <http://www.cdca21.com/newsinfo.aspx?cateid=25&newsid=806>

**Exhibit 3: Qinhuangdao coal prices, May 2018 to May 2019**



Source: cctd.com.cn

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