China Sourcing Update

December 10, 2019

Energy Costs

1. Crude prices rise in October and November

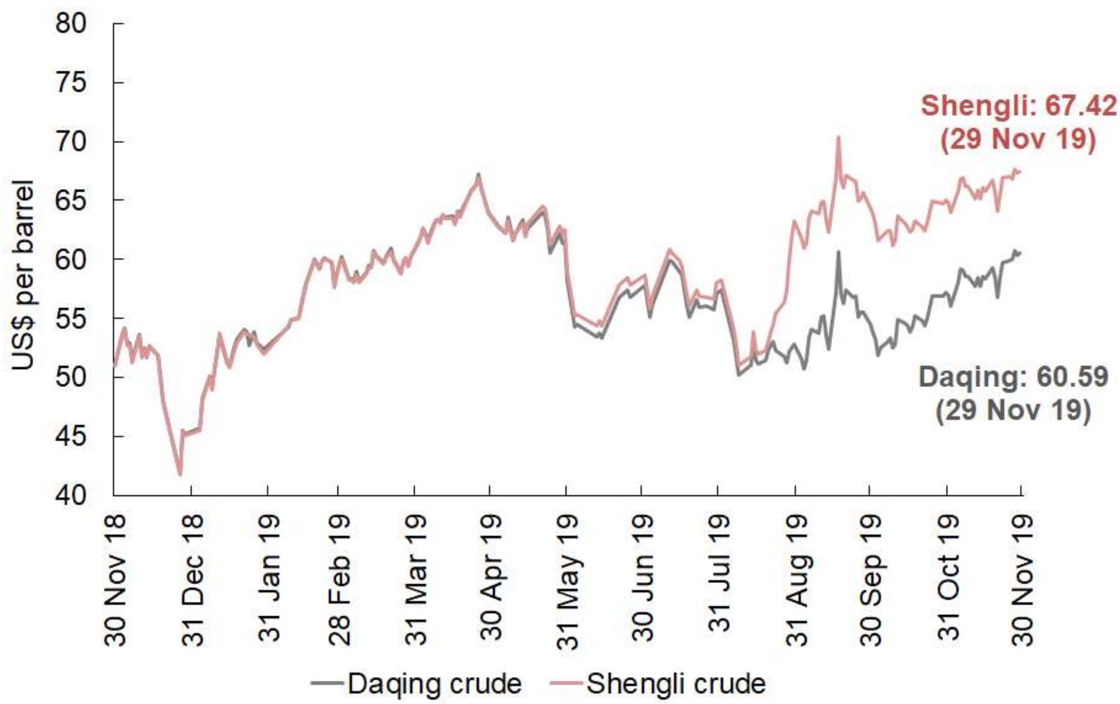
In line with the movement of global crude prices, China's crude prices surged in October and November.[1] For instance, the Daqing[2] crude price rose from US$54.51 per barrel on 30 September to US$56.95 per barrel on 31 October and US$60.59 on 29 November *(see exhibit 1)*.

The rise in crude oil prices in October and November was driven by optimism over a China-US trade deal and market expectation of a continuation of the OPEC+'s output cut. In addition, China's October import statistics, which revealed strong growth in crude import, also contributed to the hike in crude oil prices.

Looking ahead, we expect that global crude prices will remain volatile in the near future, as news arising from the December OPEC+ meeting and the China-US trade war continue to influence the global crude oil market.

[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, November 2018 to November 2019



Source: gcec.com.cn

2. Wholesale price indices of refined oil products drop in October and November

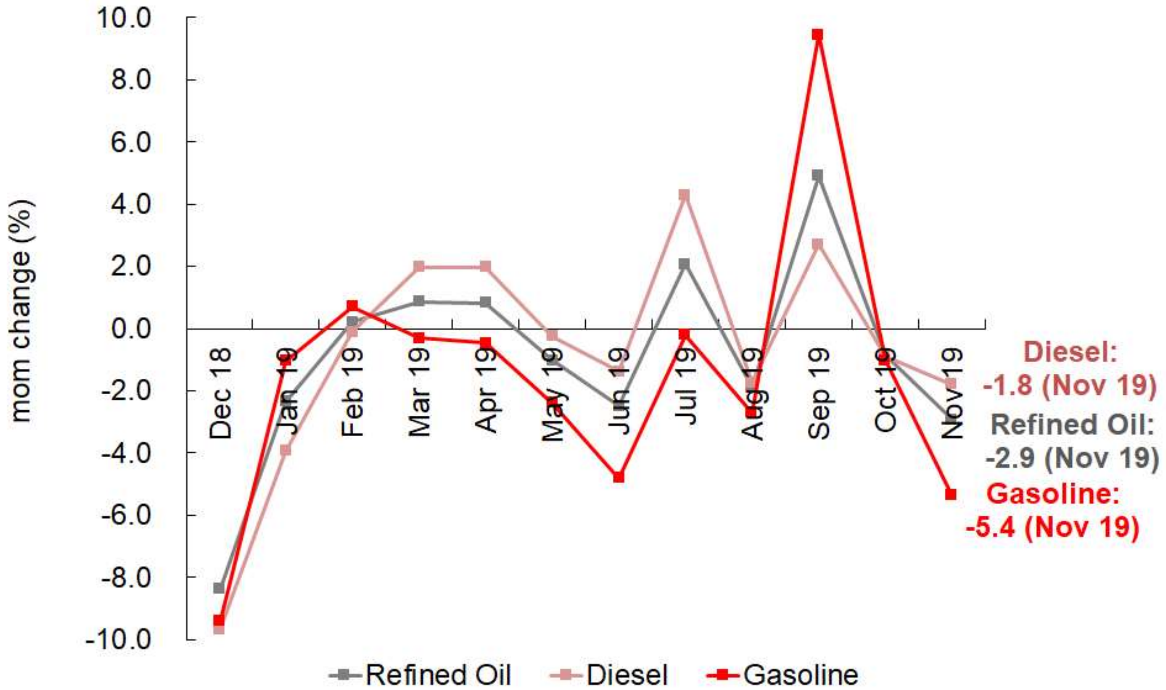
The wholesale price index of refined oil products dropped by 0.8% mom and 2.9% mom in October and November respectively *(see exhibit 2)*.[3] Specifically, the wholesale price index of diesel fell by 0.9% mom and 1.8% mom in October and November, respectively, while that of gasoline declined by 1.0% mom and 5.4% mom in October and November, respectively.

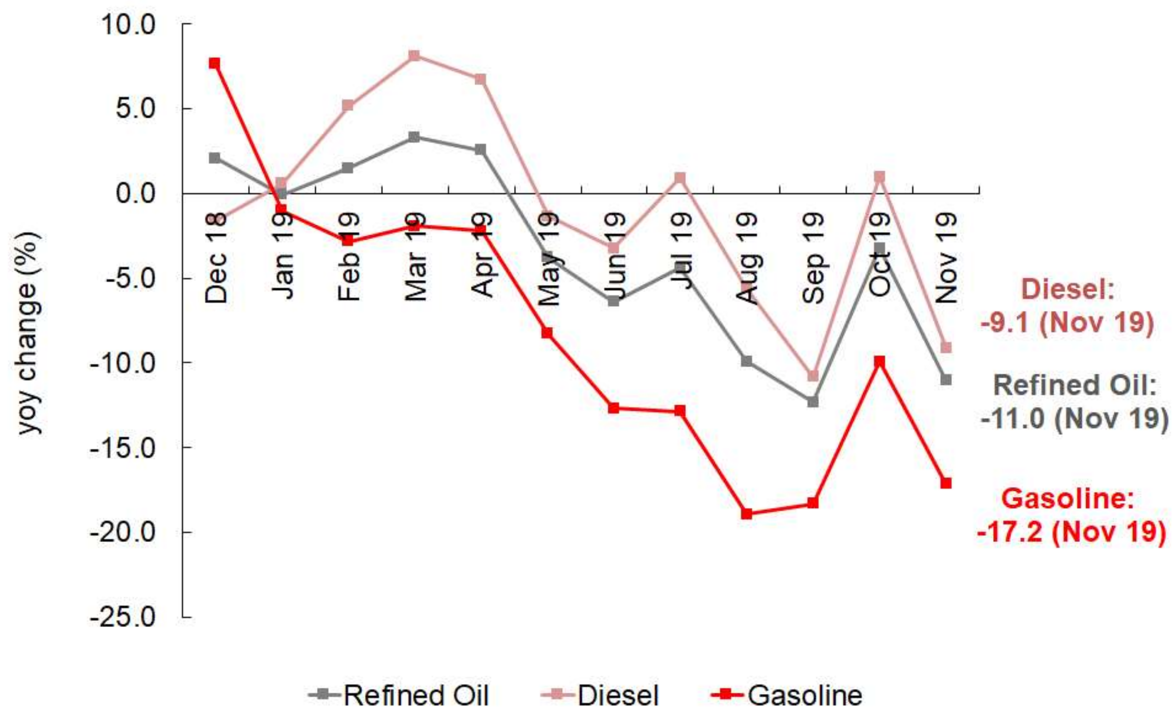
According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline are adjusted every 10 working days, based on the change in a basket of global crude prices. The NDRC lowered the maximum wholesale prices of gasoline and diesel on 21 October, leading to the decline in wholesale prices of refined oil products in October. In November, cold weather led to lower demand for diesel and gasoline, causing the wholesale price index of refined oil products to fall despite the NDRC's upward adjustments of the price ceilings during the month.

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

Looking ahead, we expect the wholesale price index of refined oil products to stay near its current level in December as people tend to drive less and construction works are paused during the cold winter months, keeping the domestic demand for gasoline and diesel low.

Exhibit 2: China's wholesale price indices of refined oil products, December 2018 to November 2019





Source: China Logistics Information Center

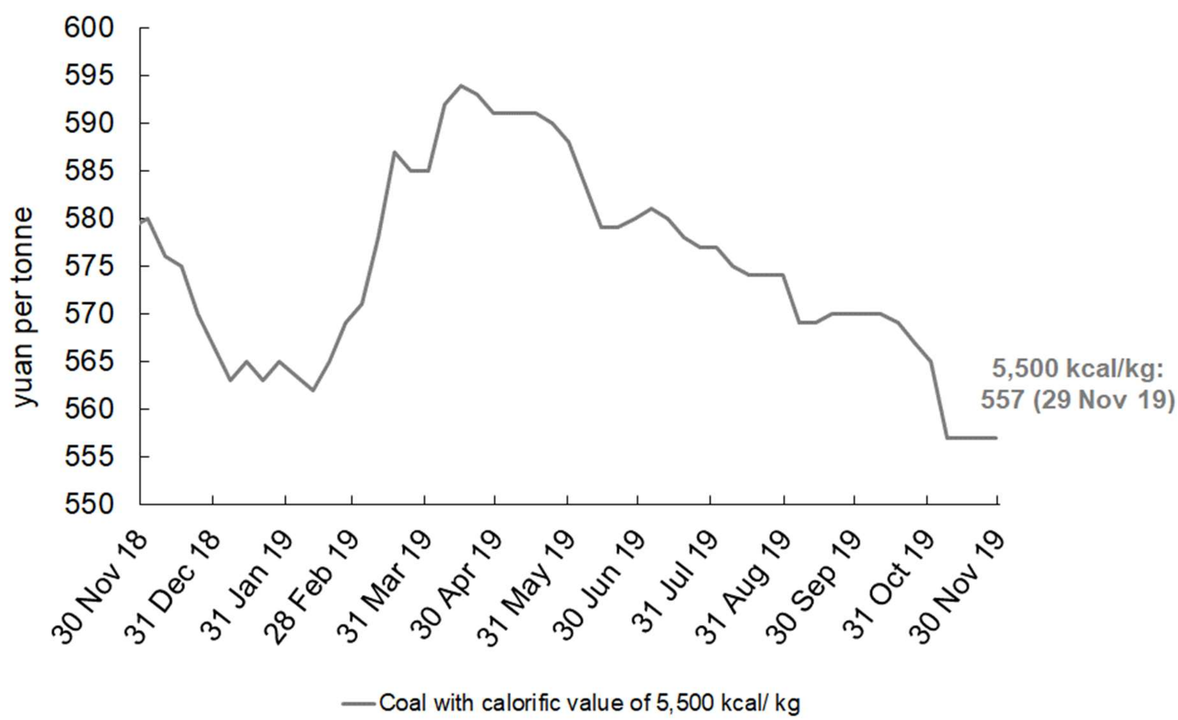
3. Benchmark Qinhuangdao coal prices fall in October and November

The benchmark Qinhuangdao coal prices continued to decline slightly in October and early November *(see exhibit 3)*. The price of coal with calorific value of 5,500 kcal/ kg dropped from 570 yuan per tonne on 27 September to 557 yuan per tonne as of 8 November and stayed flat throughout the rest of the month.

The decline in the benchmark Qinhuangdao coal prices in October and November was attributable to strong increase in supply, high level of coal inventory in the power generation industry, and weak demand due to temporary closure of downstream industries in accordance with environmental regulations.

Looking ahead, we expect coal prices to stay low as the supply and demand conditions are unlikely to change significantly in the near future. In the medium term, we expect coal prices to trend downward as the government policies continue to incentivize industries to reduce coal use.

Exhibit 3: Qinhuangdao coal prices, November 2018 to November 2019



Source: cctd.com.cn

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