China Sourcing Update

October 20, 2017

Energy Costs

1. Crude prices jump in September

In line with the movement of global crude prices, China's crude prices shot up in September.[1] For example, the Daqing[2] crude price soared from US$ 45.8 per barrel on 31 August to a two-year high of US$ 53.2 per barrel on 26 September, before retreating a bit to US$ 52.2 per barrel on 29 September *(see exhibit 1)*.

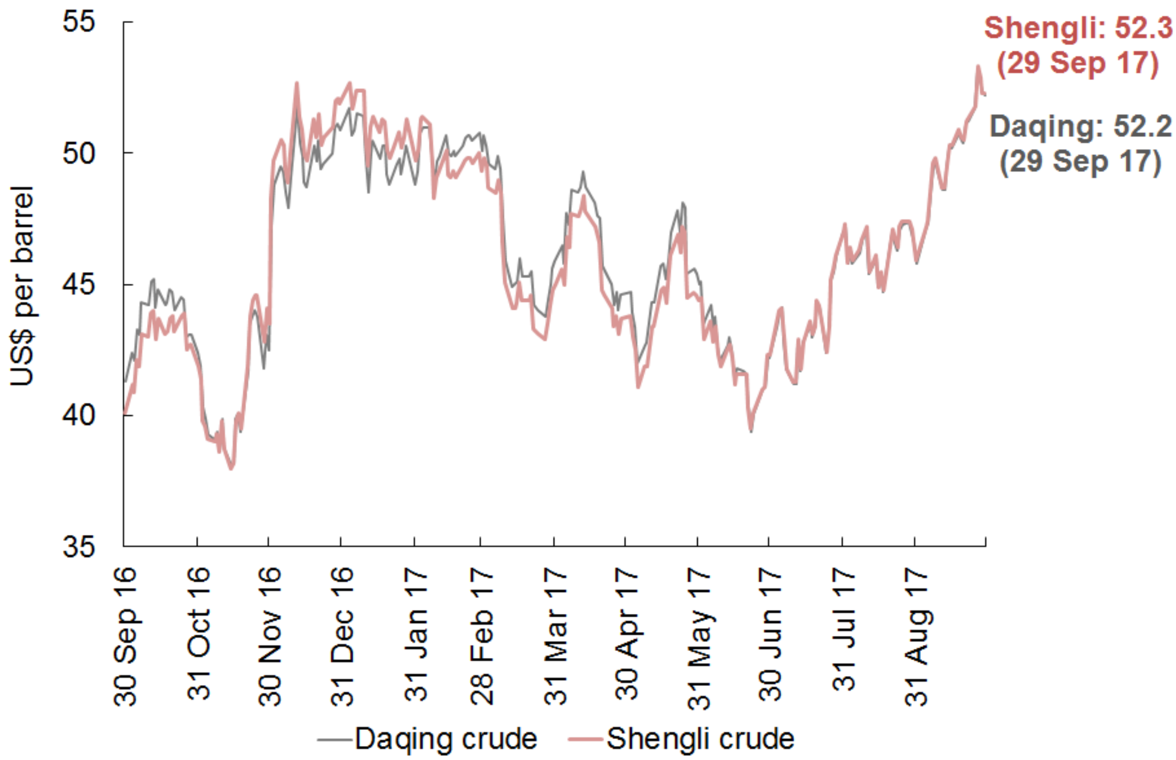
The surge in global oil prices in the month was mainly triggered by a decline in the global crude supply and expectations of a stronger global crude demand. According to the monthly report of the Organization of the Petroleum Exporting Countries (OPEC) released on 12 September, OPEC's oil production declined for the first time in four months in August. A report published by the International Energy Agency (IEA) on 13 September confirmed the same trend – global crude production fell in August. Both the OPEC and the IEA also revised upward their estimates for global oil demand growth in 2017, which helped ease the market fears over an oil supply glut.

Moreover, oil prices were also boosted by tensions between Turkey and Iraq, a major oil producer, in late September, as Turkey threatened to shut down an oil pipeline from Iraq's Kurdistan region, in order to pressure the region over its independence referendum held on 25 September.

[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.

Looking ahead, we expect global oil prices to fluctuate around the current high levels in the near future as concerns over the global oil supply glut continue to ease.

Exhibit 1: China's crude prices, September 2016 to September 2017



Source: ifeng.com

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

The wholesale price index of refined oil products rose by 3.1% mom in September *(see exhibit 2)*.[3] Specifically, the wholesale price index of diesel advanced by 3.7% mom, while that of gasoline gained by 3.4% mom in the month.

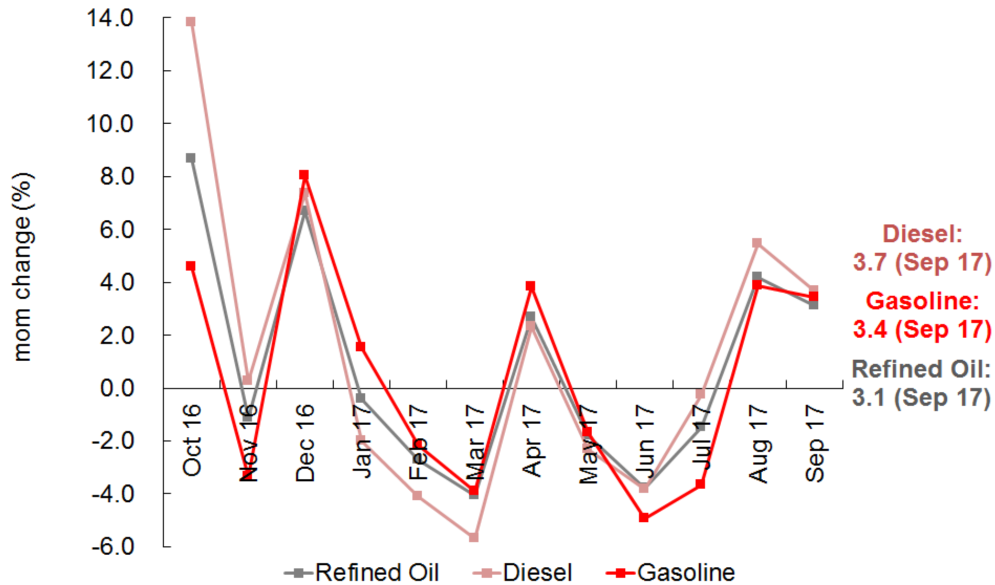
The movement of the price index in September was mainly driven by the government moves to adjust the wholesale prices of refined oil products. The National Development and Reform Commission (NDRC) made upward adjustments to the maximum wholesale prices of refined oil products on 16 September and 30 September, in response to the surge in global crude prices in the month. According to the pricing mechanism for

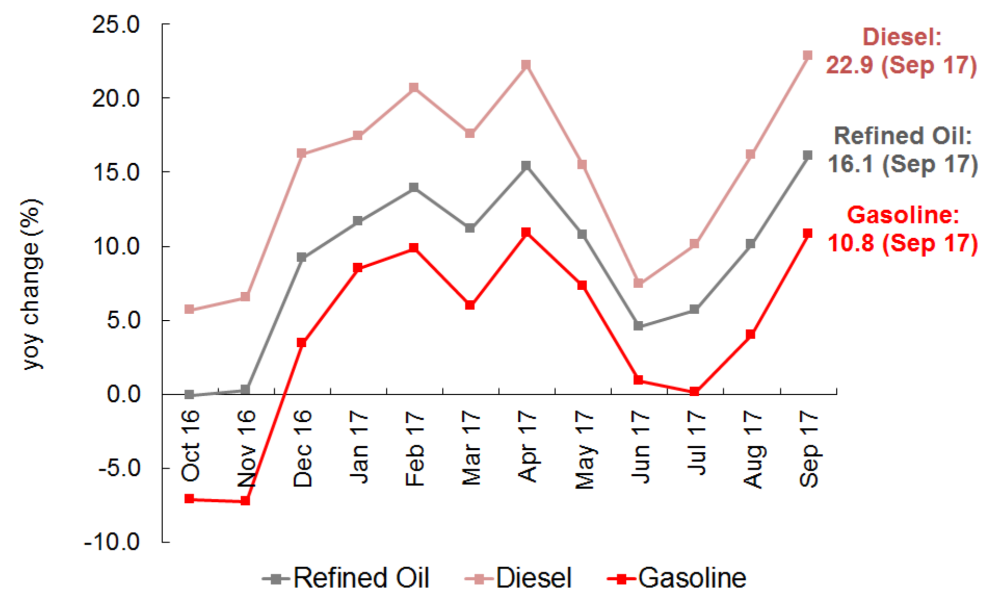
[3] The index is compiled by the China Logistics Information Center (CLIC).

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.

Looking ahead, we expect the wholesale price index of refined oil products to rise further in October, further reflecting the wholesale price increases made on 30 September.

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





Source: China Logistics Information Center

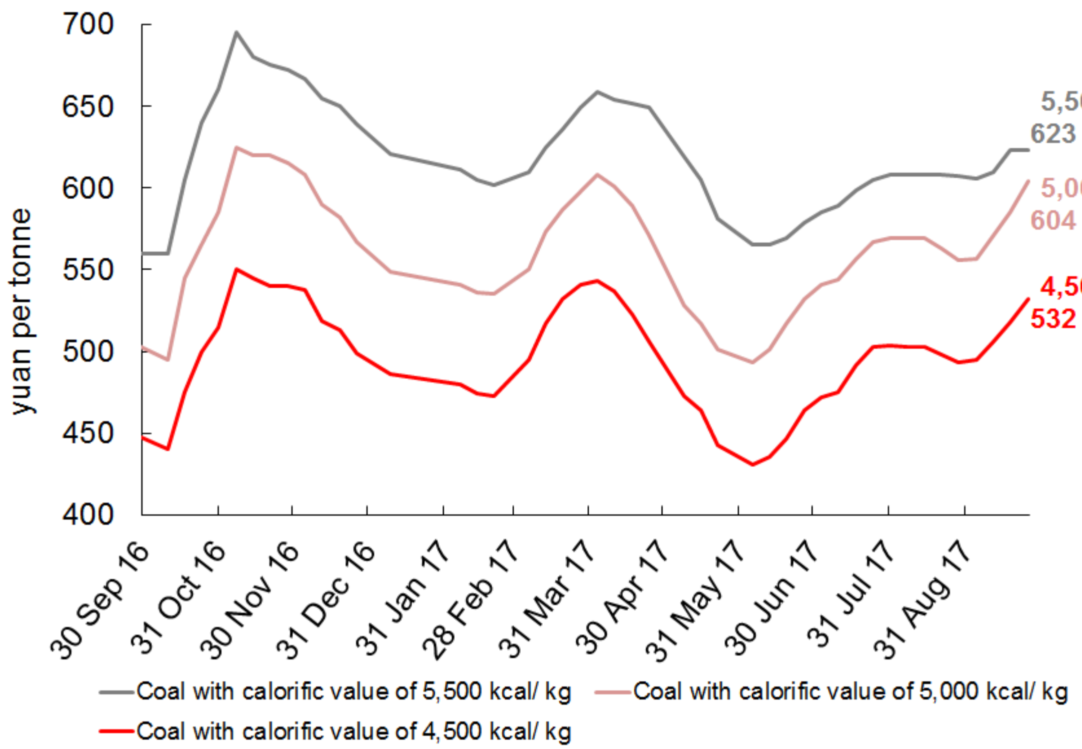
3. Benchmark Qinhuangdao coal prices rise in September

The benchmark Qinhuangdao coal prices went up in September *(see exhibit 3)*. For instance, the price of coal with calorific value of 5,500 kcal/ kg increased from 607 yuan per tonne on 28 August to 623 yuan per tonne on 25 September.

In our view, the rise in domestic coal prices in the month was mainly caused by a stronger restocking demand for coal from power producers, and a tightened supply of coal due to ongoing safety checks on domestic coal mines and the imposition of restrictions on coal imports in some ports.

Going forward, the domestic supply of coal is expected to remain tight in the coming months. Therefore, we believe that domestic coal prices will stay high in the near term.

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



Source: ifeng.com, cctd.com.cn

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The **Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs 39,900 people across 40 economies worldwide, generating total revenue of over US$22.5 billion in 2016. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Research Manager
williamkong@fung1937.com
(852) 2300 2404

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com

Fung Biz Intel | Fung Biz Intel | Fung Biz Intel | Fung Biz Intel | Fung Biz Intel