



China Sourcing Update

May 16, 2016

Raw Material Prices: Hard Goods

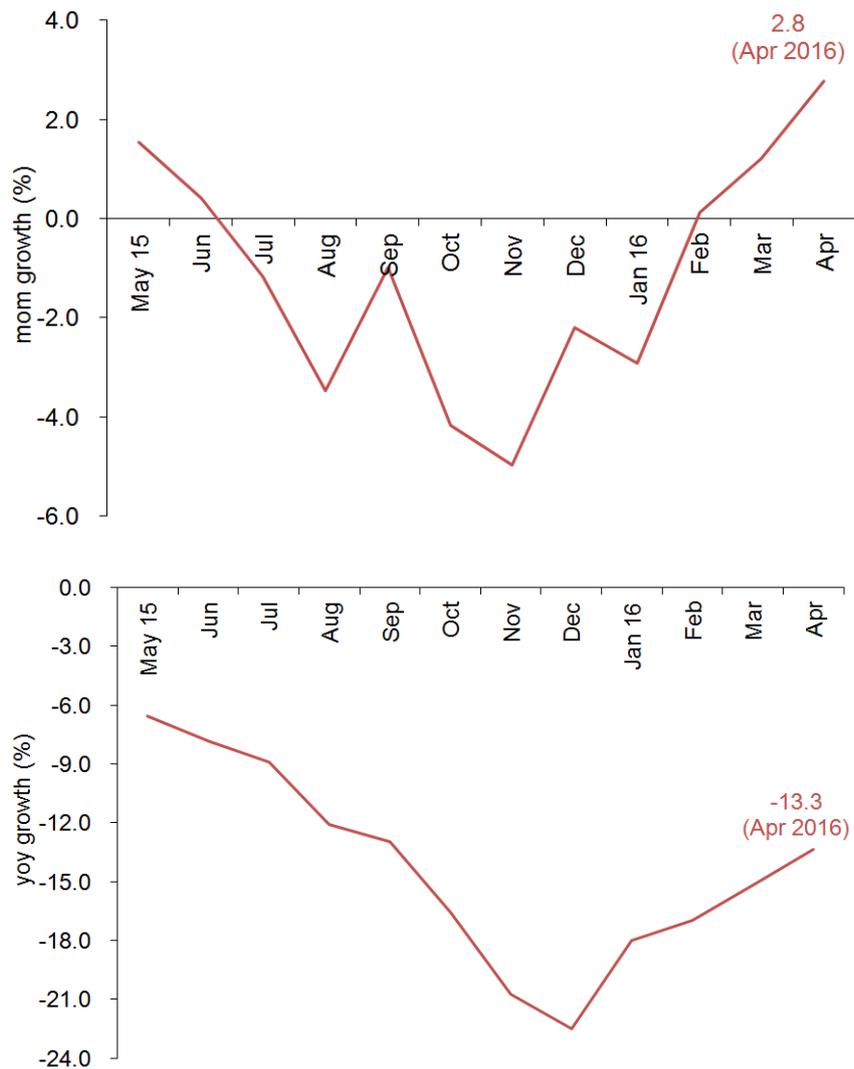
1. Price index of ABS resin rises strongly in April

The price index of ABS resin¹ rose strongly by 2.8% mom in April, posting mom gain for three consecutive months (*see exhibit 1*). According to the local media, the uptrend of the price index of ABS resin in the past few months was mainly due to the rise in upstream prices; meanwhile, the downstream demand for ABS resin was weak during the same period.

Looking ahead, the prices of major materials of ABS resin are expected to remain high in the near term, supported by the recent hike in the global crude prices. (Acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum.) In view of the weak demand for ABS resin, we expect the prices of ABS resin to move in line with the global crude prices.

¹ The index is compiled by the China Logistics Information Center (CLIC). The CLIC is a sub-division of the China Federation of Logistics & Purchasing (CFLP), which is the first logistics and purchasing industry association approved by the State Council. One of the CFLP's missions is to push forward the circulation of factors of production in China.

Exhibit 1: Price index of ABS resin, May 2015 to April 2016



Source: China Logistics Information Center

2. Price index of PP trends upward

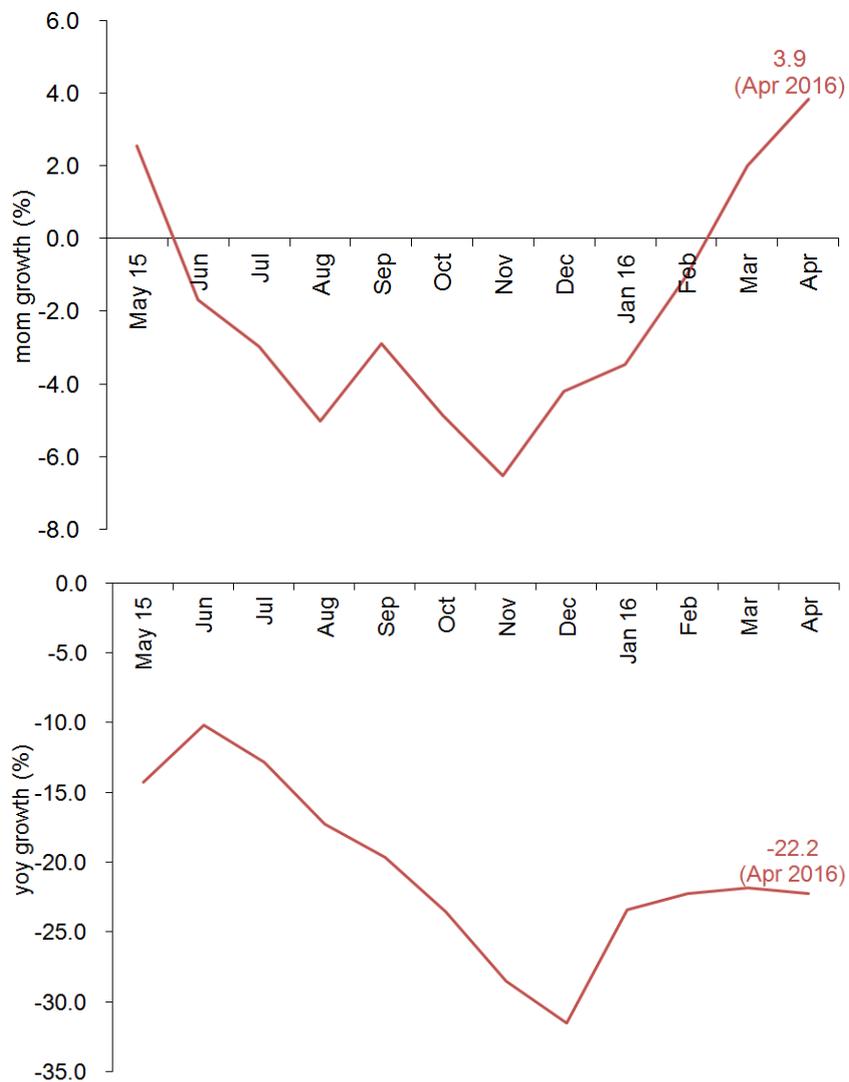
The price index of polypropylene (PP)² rose by 2.0% mom in March, the first mom gain since June last year, and further went up by 3.9% mom in April (see exhibit 2).

According to the local media, one of the main reasons behind the strong rise in PP prices in March and April was that the prices of crude, a major material of PP, trended upward during the period. For example, the Daqing crude price climbed from US\$ 28.1 per barrel on 1 March to US\$ 38.8 per barrel on 29 April.

²The index is compiled by the China Logistics Information Center (CLIC).

According to the latest media reports, most downstream manufacturers have only made hand to mouth purchases of PP recently. Going forward, we believe that the spot prices of PP will mainly depend on the movements of crude prices as well as the prices of PP futures in the near term.

Exhibit 2: Price index of PP, May 2015 to April 2016



Source: China Logistics Information Center

3. Price index of natural rubber soars

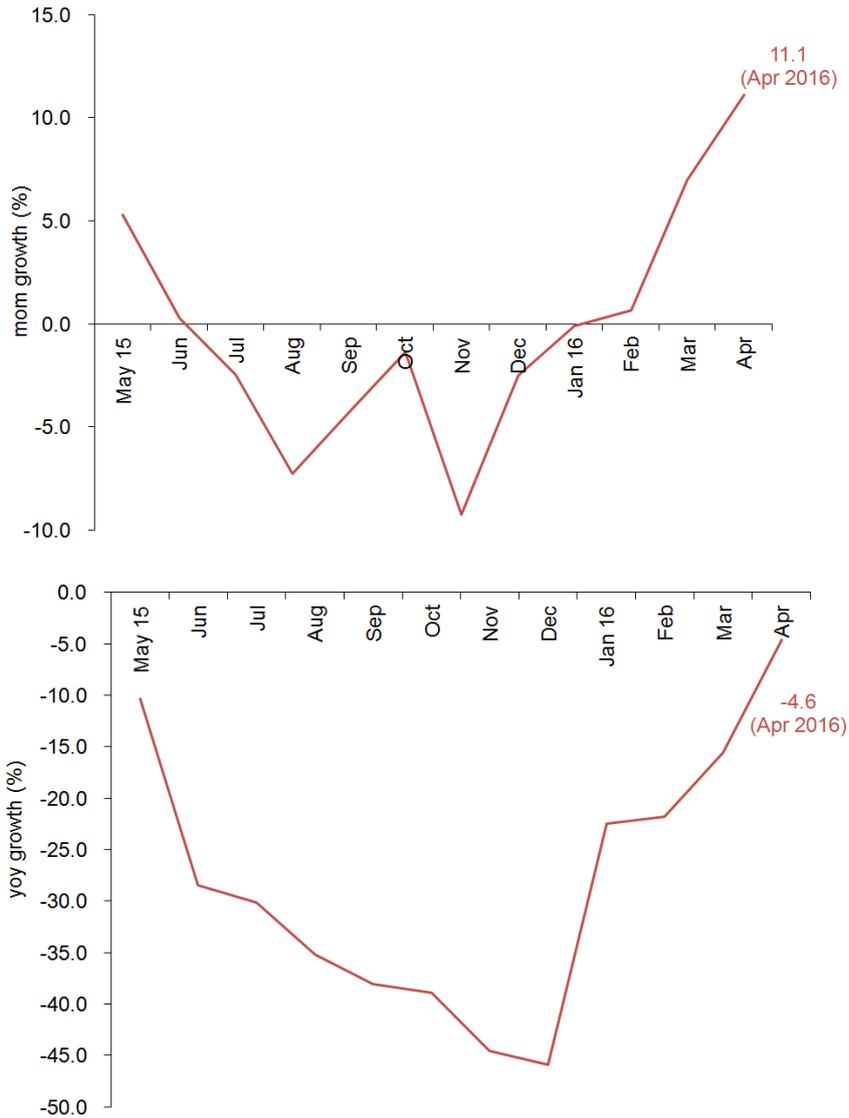
After having dropped for seven consecutive months, the price index of natural rubber³ rose by 0.7% mom in February, and further soared by 7.0% mom and 11.1% mom in March and April respectively (*see exhibit 3*). In our view, the strong rebound in the spot prices of natural rubber was triggered by the rise in the prices of natural rubber futures in China, which was highly associated with market speculations.

Going forward, we believe that the price index of natural rubber will mainly be affected by change in the speculative demand. Also noteworthy is that Thailand, Indonesia and Malaysia, three major rubber producing countries, have agreed to cut their exports of natural rubber from March to August this year.⁴ Such a move will help boost the prices of natural rubber, in our view.

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

⁴ <http://www.nst.com.my/news/2016/02/125724/rubber-producing-countries-implement-agreed-export-tonnage-scheme-march-1>

Exhibit 3: Price index of natural rubber, May 2015 to April 2016



Source: China Logistics Information Center

4. Price indices of nonferrous metals rise sharply in March and April

The price index of nonferrous metals rose sharply by 3.4% mom and 4.0% mom in March and April respectively (see exhibits 4 & 5).⁵

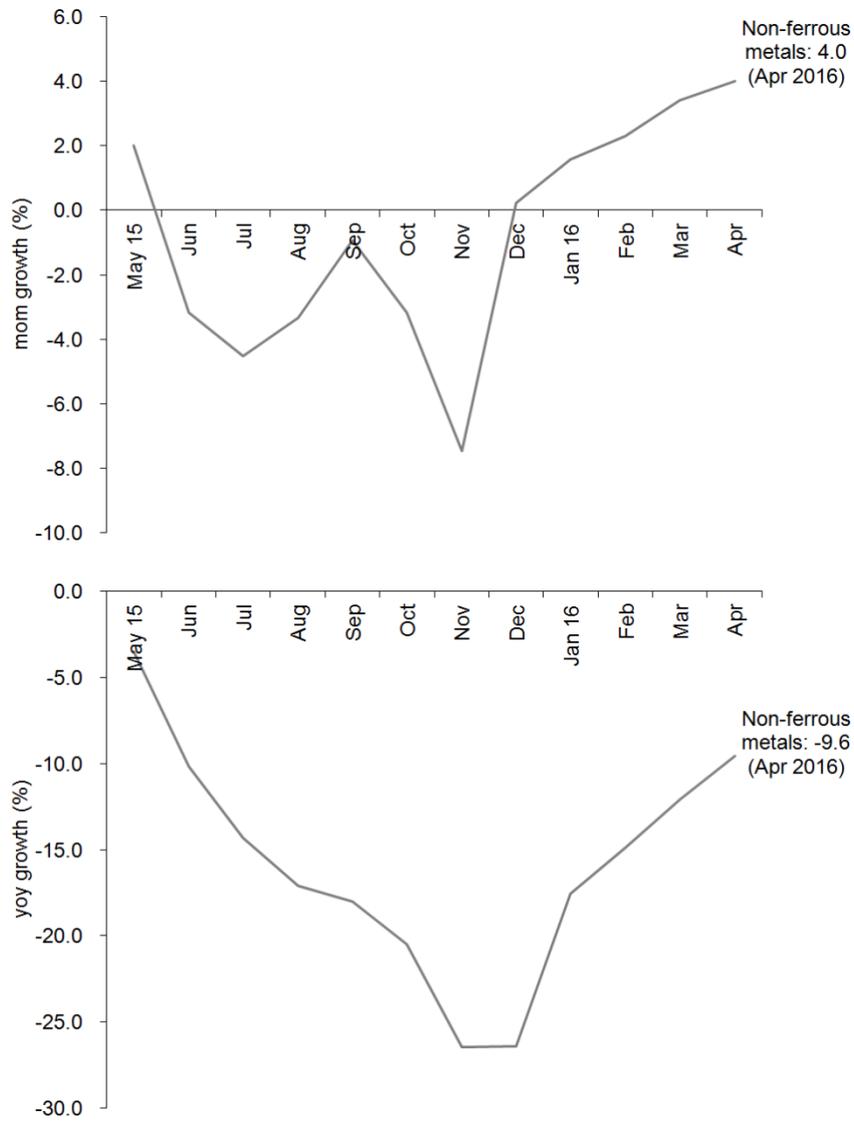
According to the local media, the main reason for the uptrend in the prices of various types of non-ferrous metal prices was the strong speculative demand, triggered by

⁵ The indices are compiled by the China Logistics Information Center (CLIC).

several factors such as the better-than-expected economic data released by China's National Bureau of Statistics, rising expectations of more stimulative policies launched by the government, and the US Federal Reserve's decision of not raising interest rates in March and April. Meanwhile, the downstream demand has recovered gradually, as more and more factories have resumed production after the Chinese New Year holidays.

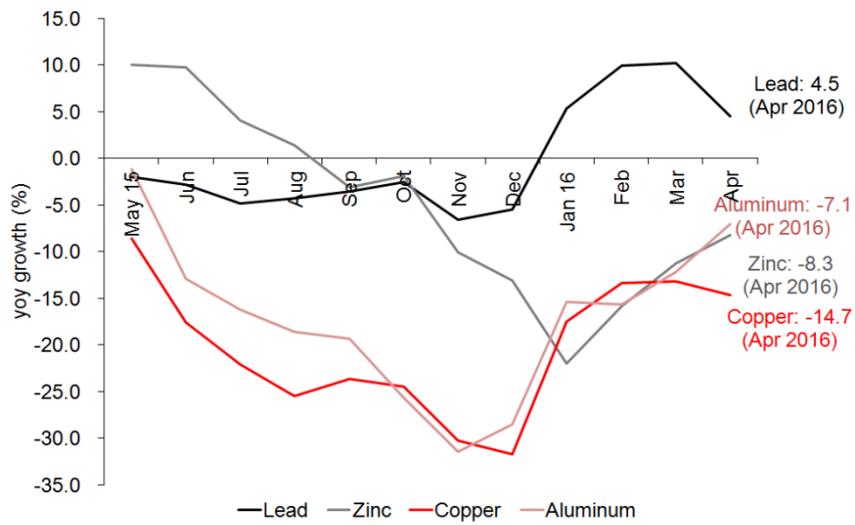
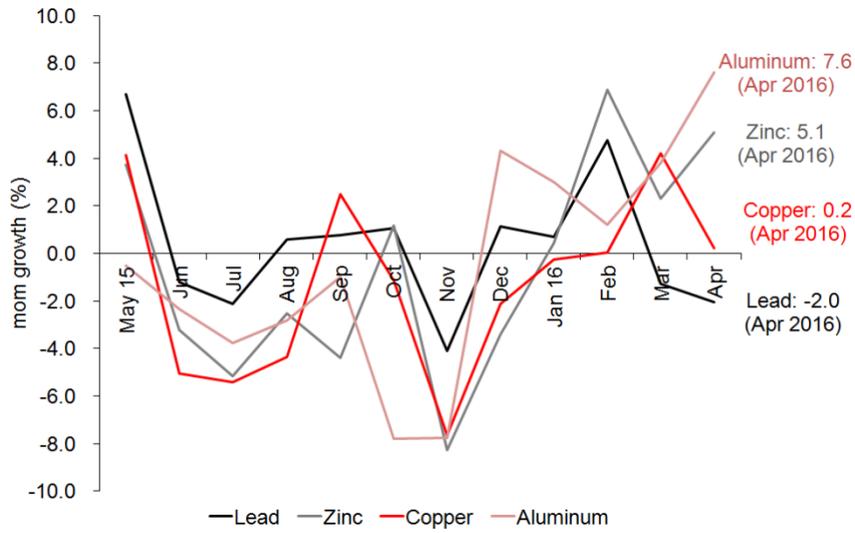
Looking ahead, we believe that the recent uptrend of prices of non-ferrous metals is unlikely to continue, as the domestic stock levels of non-ferrous metals are still high; and the overcapacity problems among the manufacturers of non-ferrous metals still prevail.

**Exhibit 4: Price index of non-ferrous metals,
May 2015 to April 2016**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,
May 2015 to April 2016**



Source: China Logistics Information Center

THE FUNG BUSINESS INTELLIGENCE CENTRE

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