



# China Sourcing Update

September 21, 2017

## Raw Material Prices: Hard Goods

### 1. Price index of ABS resin continues to go up in August

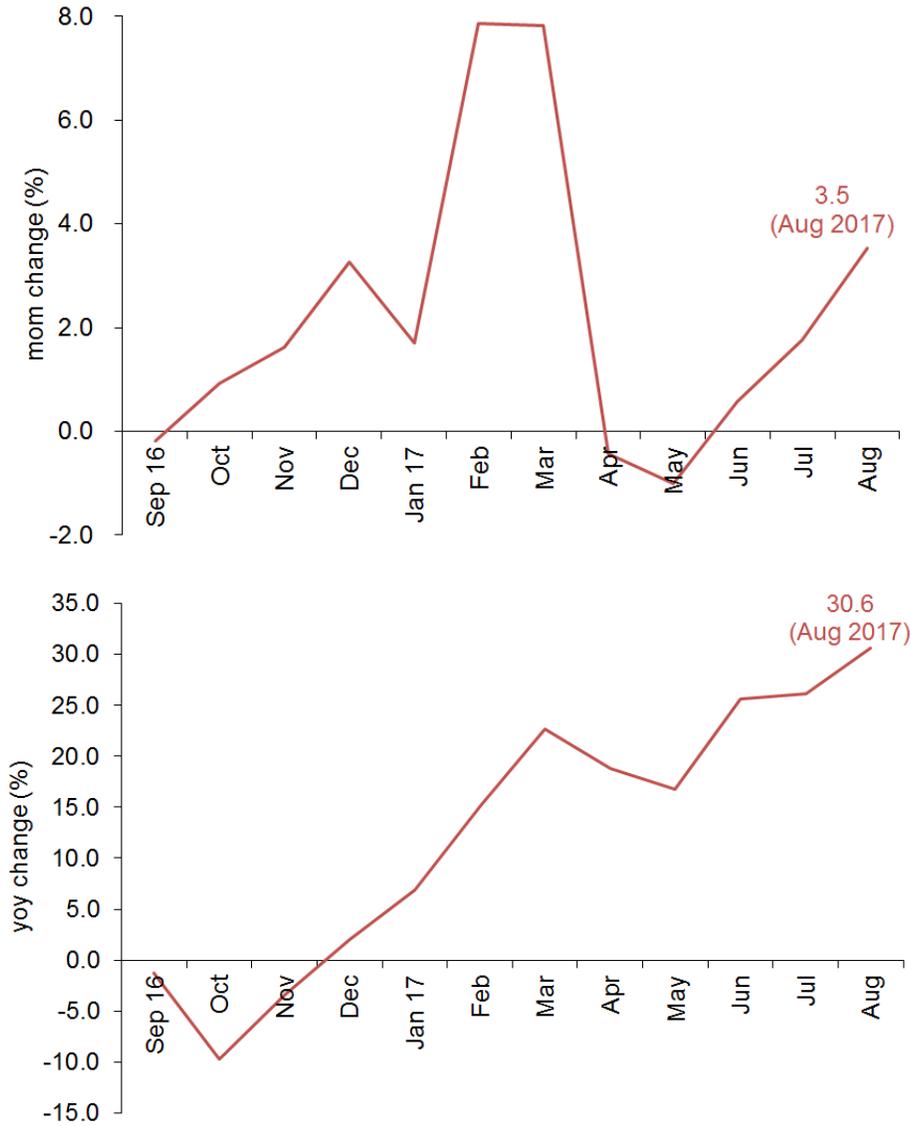
The price index of ABS resin<sup>1</sup> rose by 3.5% mom in August, recording month-on-month gain for three consecutive months (see exhibit 1).

The increase in the prices of ABS resin in the month was mainly attributable to a surge in upstream costs. The prices of acrylonitrile, butadiene and styrene, the three major raw materials of ABS resin, all soared by more than 10% in the month. Moreover, a tightened supply of ABS resin due to the environmental examinations on ABS resin producers conducted by the Chinese government also pushed up the prices of the resin.

Looking ahead, we expect that the prices of ABS resin will go up further in the near future, as upstream costs continued to rise in early September and the downstream demand for the resin is likely to be strong during the high season for ABS resin consumption in September and October.

<sup>1</sup> 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, September 2016 to August 2017**



Source: China Logistics Information Center

## 2. Price index of PP rises further in August

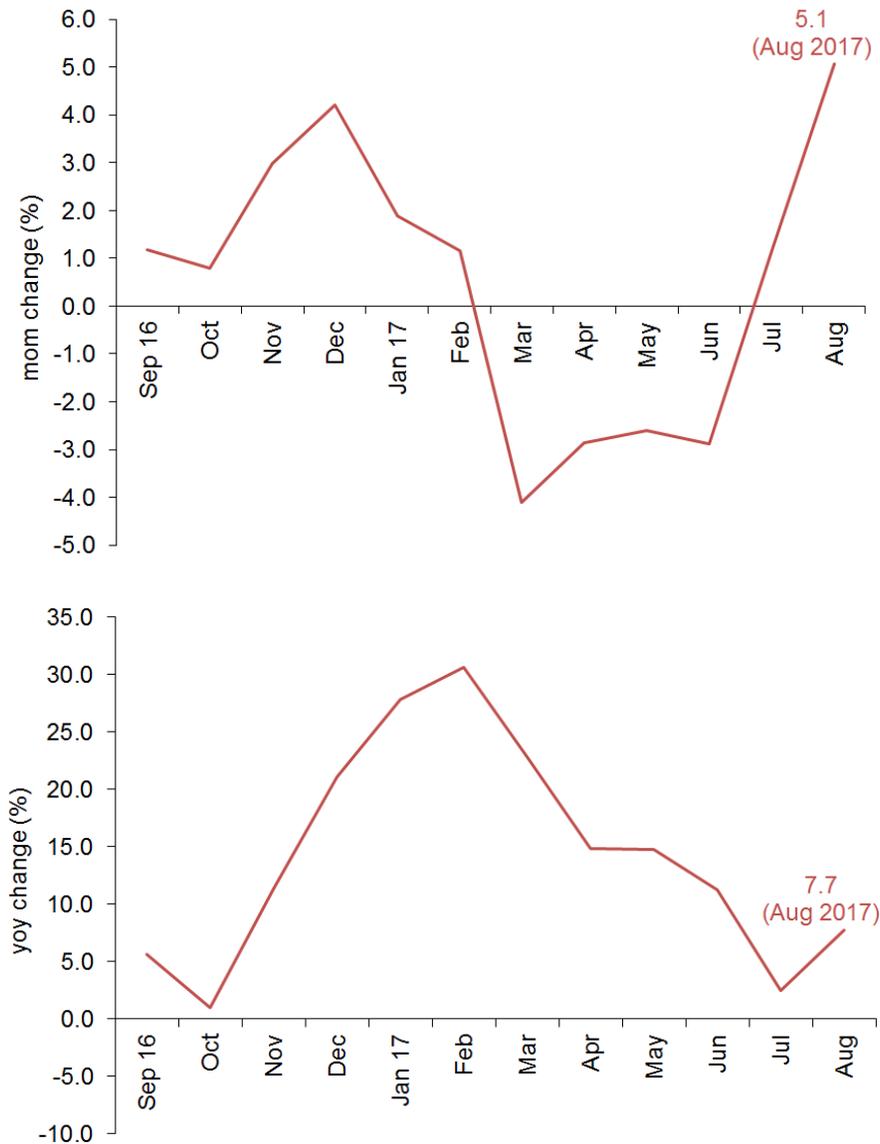
The price index of polypropylene (PP)<sup>2</sup> went up by 5.1% mom in August, recording month-on-month gain for two consecutive months (see exhibit 2).

<sup>2</sup> The index is compiled by the China Logistics Information Center (CLIC).

The main reasons for the increase in the price index of PP in August were a rise in the prices of PP futures in China and a tightened supply of PP indicated by a drop in the inventory levels held by PP producers.

Going forward, the downstream demand for PP is likely to improve as the industry has entered high season. Thus, we expect the price index of PP to continue to rise in the foreseeable future.

**Exhibit 2: Price index of PP, September 2016 to August 2017**



Source: China Logistics Information Center

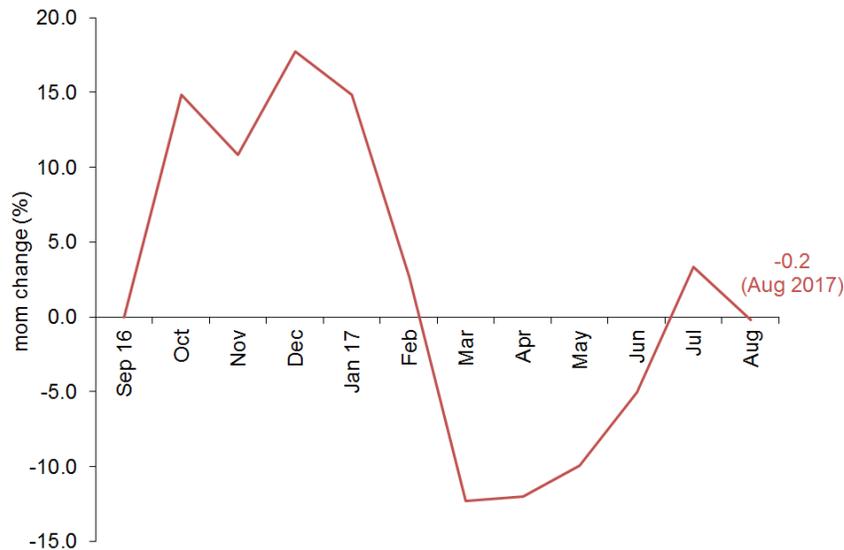
### 3. Price index of natural rubber drops slightly in August

The price index of natural rubber<sup>3</sup> fell by 0.2% mom in August, after rising by 3.3% mom in July (see exhibit 3).

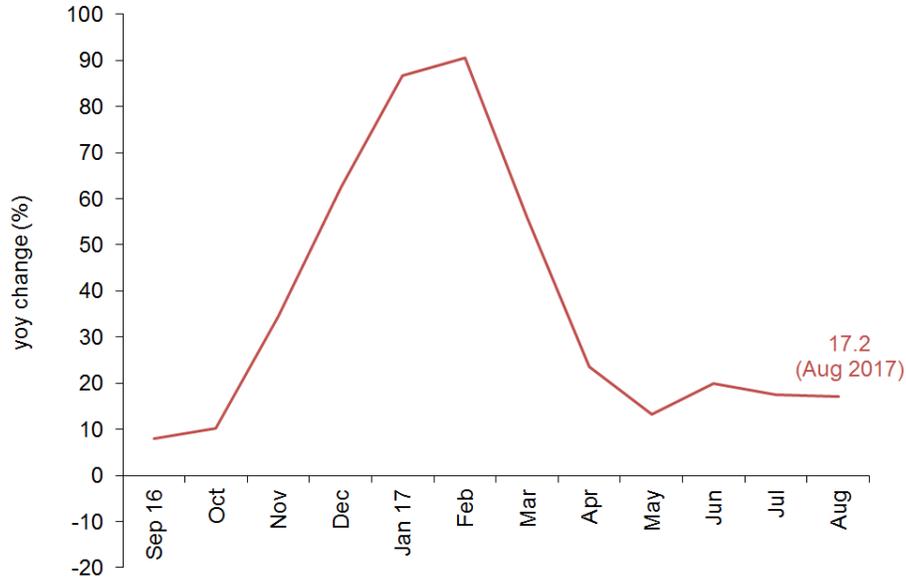
According to the local media, while the supply of natural rubber from other major rubber producing countries was abundant in the month, the domestic supply was tight due to continuous rains in rubber producing provinces and the environmental examinations conducted on rubber processing plants. Meanwhile, the downstream demand for natural rubber from tyre manufacturers remained weak.

As the rubber tapping season is underway in China and other major rubber producing countries, the supply of natural rubber is expected to improve in the coming couple of months. Meanwhile, the downstream demand for natural rubber shows no signs of recovery. Therefore, we expect rubber prices to stay soft in the near term.

**Exhibit 3: Price index of natural rubber, September 2016 to August 2017**



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



Source: China Logistics Information Center

#### 4. Price indices of non-ferrous metals soar in August

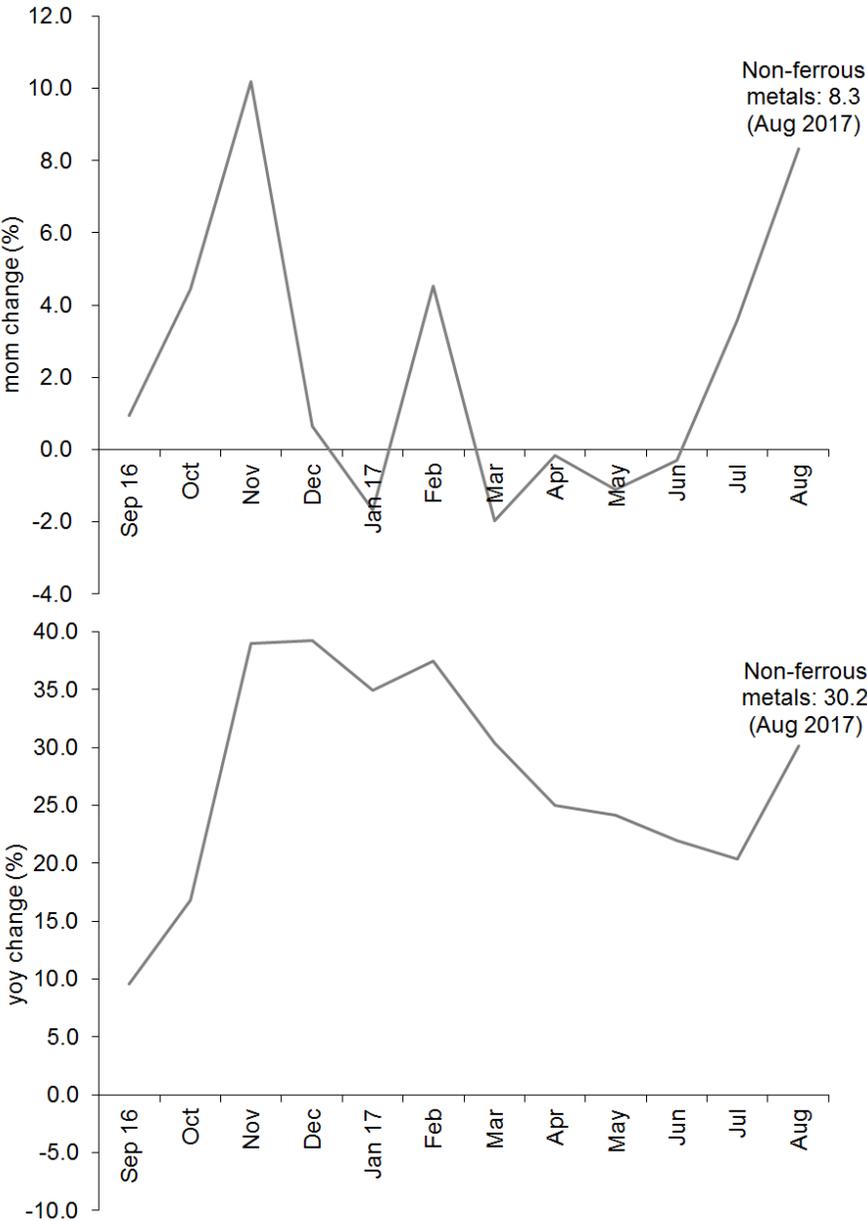
The price index of non-ferrous metals surged by 8.3% in August, after rising by 3.6% mom in July (see exhibits 4 & 5).<sup>4</sup>

In our view, the jump in non-ferrous metal prices in China in the month was mainly due to the environmental examinations carried out in the secondary non-ferrous metal industry, which led to a reduced supply of the metals; a depreciation of the US dollar, which boosted the prices of commodities including non-ferrous metals in US dollar terms; and China's deeper-than-expected cuts in aluminum production capacity.

Looking ahead, we believe that the price index of non-ferrous metals will rise further in the near future, as the positive factors mentioned above are expected to persist in the near future.

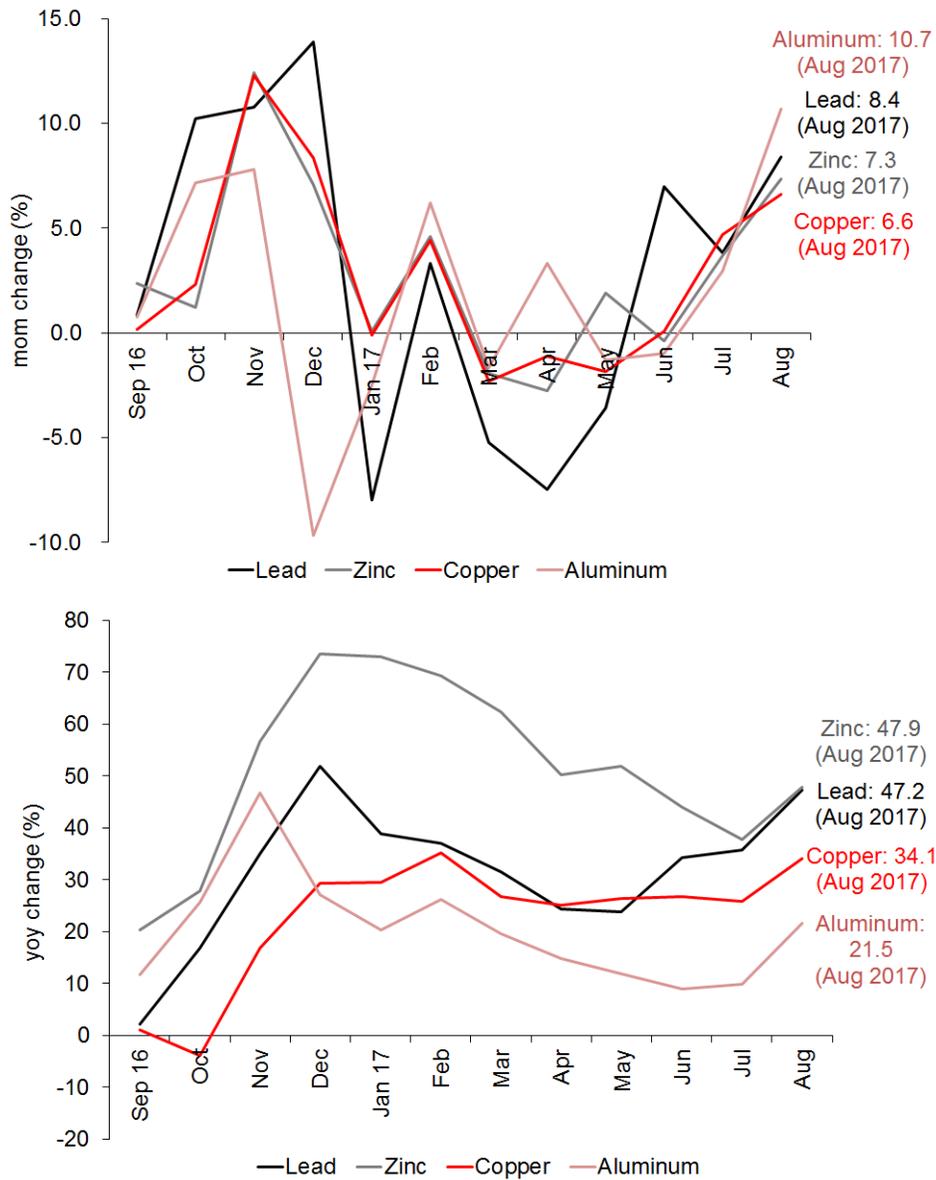
<sup>4</sup> The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,  
September 2016 to August 2017**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,  
September 2016 to August 2017**



Source: China Logistics Information Center

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