China Sourcing Update

January 14, 2016

Raw Material Prices: Hard Goods

1. Price index of ABS resin drops

The price index of ABS resin[1] dropped further by 5.0% mom in November *(see exhibit 1).*

The main reason for the downtrend of the price index was the poor downstream demand for ABS resin. According to the latest report by the local media, the sales and exports of home appliances, the major downstream markets of ABS resin, are under pressure.[2] The upstream prices have also been soft. For example, the prices of butadiene and styrene, two major raw materials of ABS resin, fluctuated at low levels during November.

Looking ahead, in view of the weak downstream demand, the prices of ABS resin are likely to stay at low levels in the coming months.

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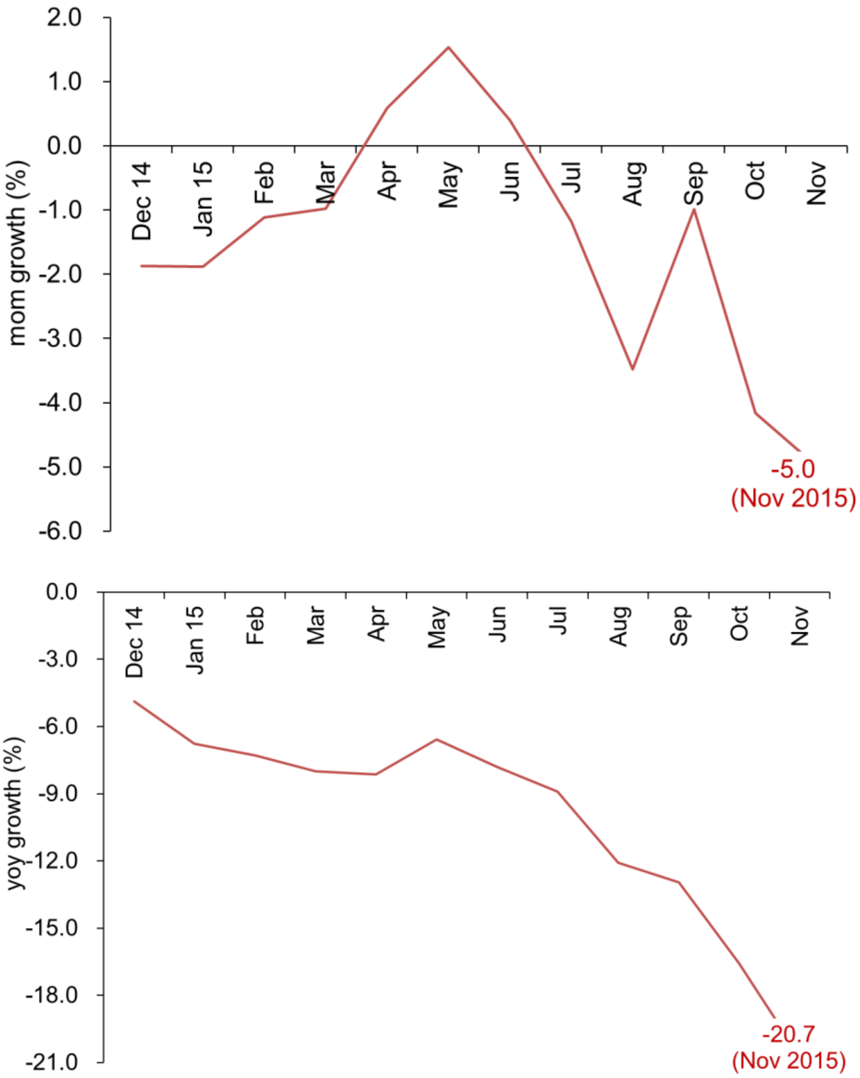
[1] The index is compiled by the China Logistics Information Center (CLIC). The CLIC is a sub-division of the China Federation of Logistics & Purchasing (CFLP), which is the first logistics and purchasing industry association approved by the State Council. One of the CFLP's missions is to push forward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

[2] http://www.100ppi.com/forecast/detail-20151229-90647.html

Exhibit 1: Price index of ABS resin, December 2014 to November 2015



Source: China Logistics Information Center

2. Price index of PP trends downward

The price index of polypropylene (PP)[3] continued to trend downward, falling by 6.5% mom in November (*see exhibit 2).*

According to the media reports, one of the reasons for the drop of the price index was that the prices of crude, a major raw material of PP, trended downward in November. Meanwhile, the downstream demand for PP stayed weak, and downstream manufacturers were only making hand-to-mouth purchases during the period.

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

Looking ahead, according to the local media, the upstream prices are likely to stay soft. We therefore expect the prices of PP to stay weak in the near term, if there are no significant improvements in downstream demand.

Exhibit 2: Price index of PP, December 2014 to November 2015

Source: China Logistics Information Center

3. Price index of natural rubber falls

The price index of natural rubber[4] plunged by 9.3% mom in November, after recording a 1.3% mom decline in October *(see exhibit 3).*

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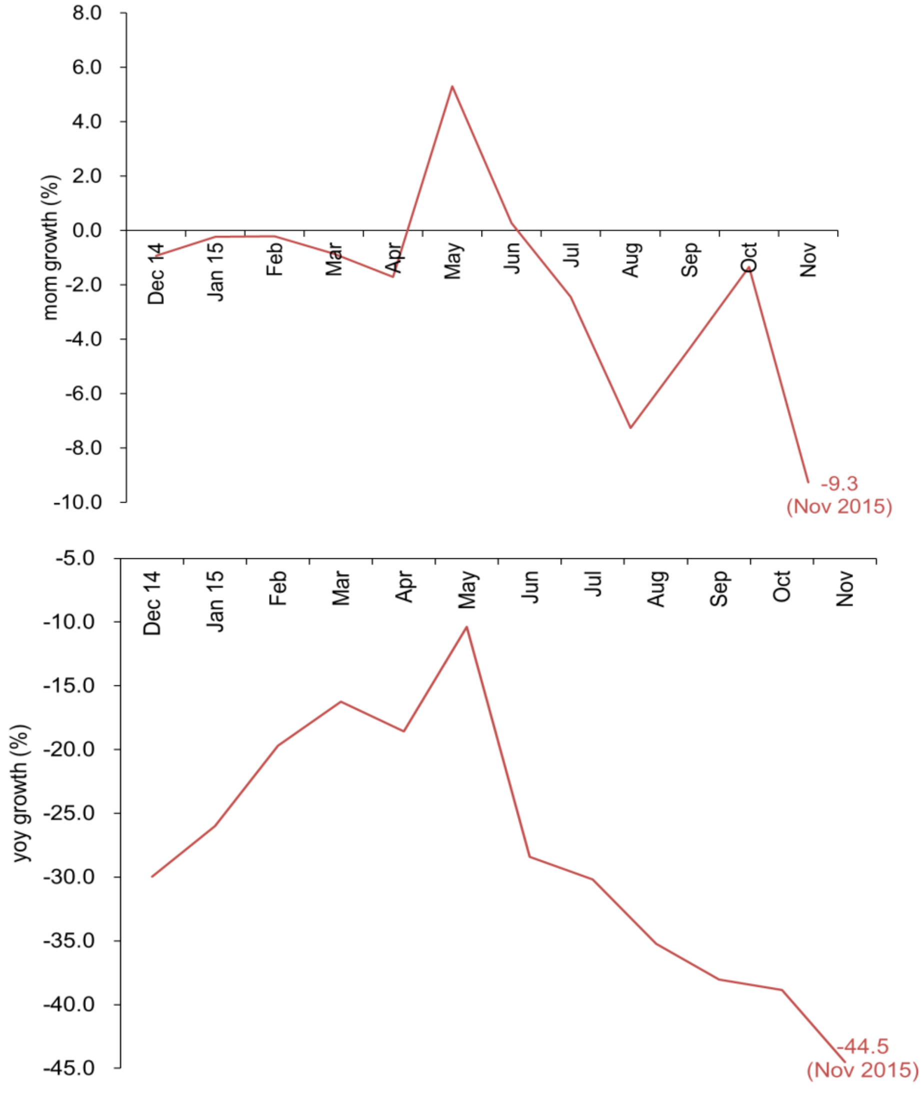
[4] The index is compiled by the China Logistics Information Center (CLIC).

The sharp drop of natural rubber prices was mainly due to oversupply in the market. According to the local media, the supply of natural rubber has been abundant, boosted by the strong rise in imports of natural rubber. According to China Customs, imports of natural rubber increased by 24% mom (or 21% yoy) in November. Meanwhile, the downstream demand for rubber has been weak. An important reason is that the sales and exports of tyres, a major downstream product of natural rubber, have stayed poor.

Going forward, we believe that the prices of natural rubber are unlikely to rebound in the coming months, as the downstream demand has shown no signs of recovery, according to the local media.

Exhibit 3: Price index of natural rubber, December 2014 to November 2015



Source: China Logistics Information Center

4. Price indices of non-ferrous metals drop in November

The price indices of copper and aluminum continued to fall, down by 7.6% mom and 7.8% mom, respectively, in November. Meanwhile, the price indices of lead and zinc, which registered a mom rise in October, dropped by 4.1% mom and 8.3% mom, respectively, in November *(see exhibits 4 & 5)*.[5] It is noteworthy that the price index of zinc registered the largest mom drop since July 2010.

We believe that the drop in the price indices of non-ferrous metals in November was largely due to the economic slowdown and weak domestic demand. Besides, the market expectations for an upcoming Fed rate hike cycle had led to the strengthening of the US dollar, which was one of the main reasons behind the drop in non-ferrous metal prices in US dollar terms. The interest rate hike expectations also weakened the speculative demand for non-ferrous metals, a type of non-interest bearing assets.

According to the local media, a number of manufacturers in aluminum and copper industries have started to reduce their capacities. Thus, we expect that the prices of aluminum and copper will pick up gradually in the coming months. Meanwhile, we expect the prices of zinc and lead to stay at low levels in the coming months. According to the local media, the oversupply of zinc is expected to continue in the near term. Also, according to the announcement by the Ministry of Finance and the State Administration of Taxation in China, starting from 1 January 2016, a 4% consumption tax has been imposed on lead-acid batteries, a major downstream product of lead.[6] The new policy is expected to suppress the downstream demand for lead.

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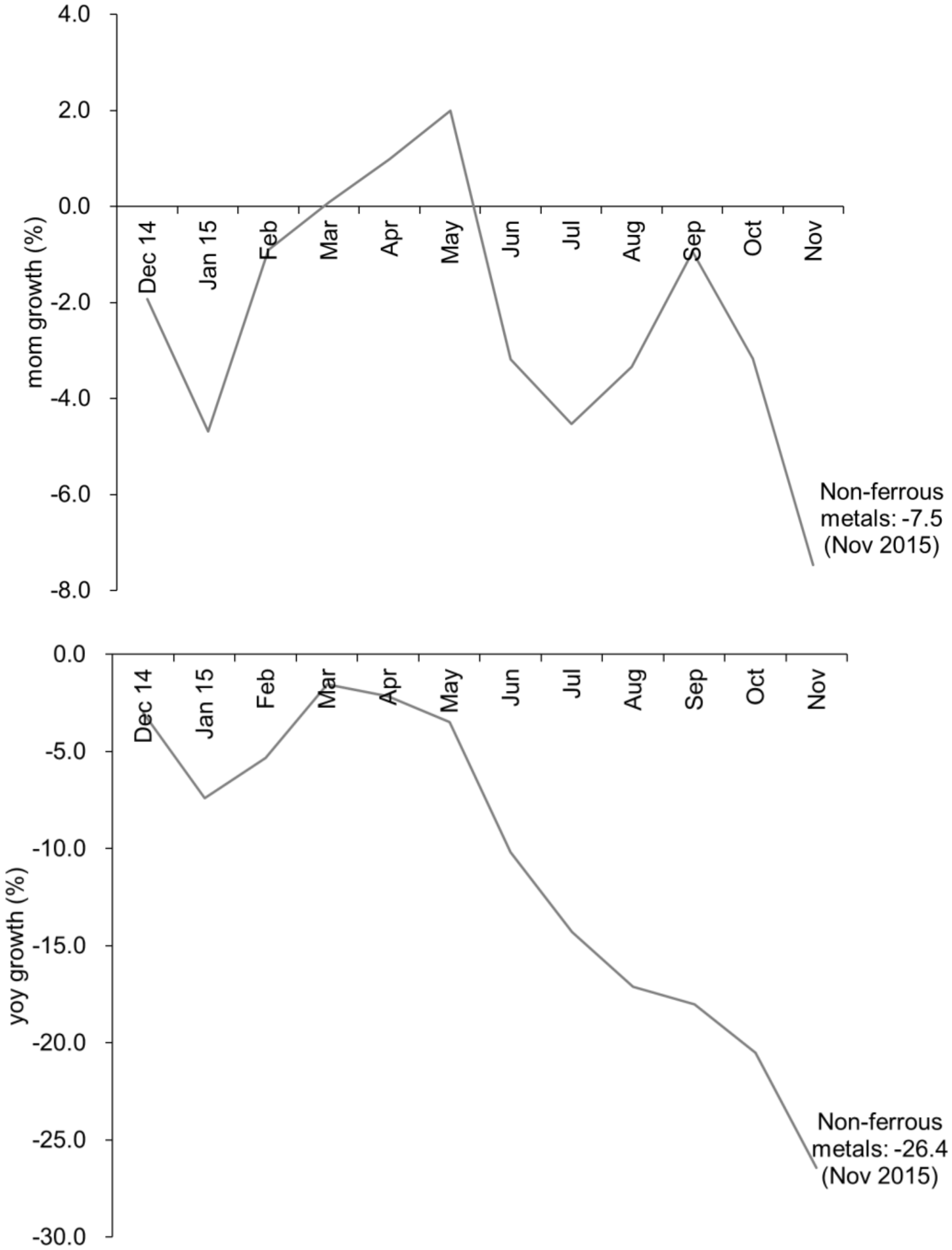
[5] The indices are compiled by the China Logistics Information Center (CLIC).

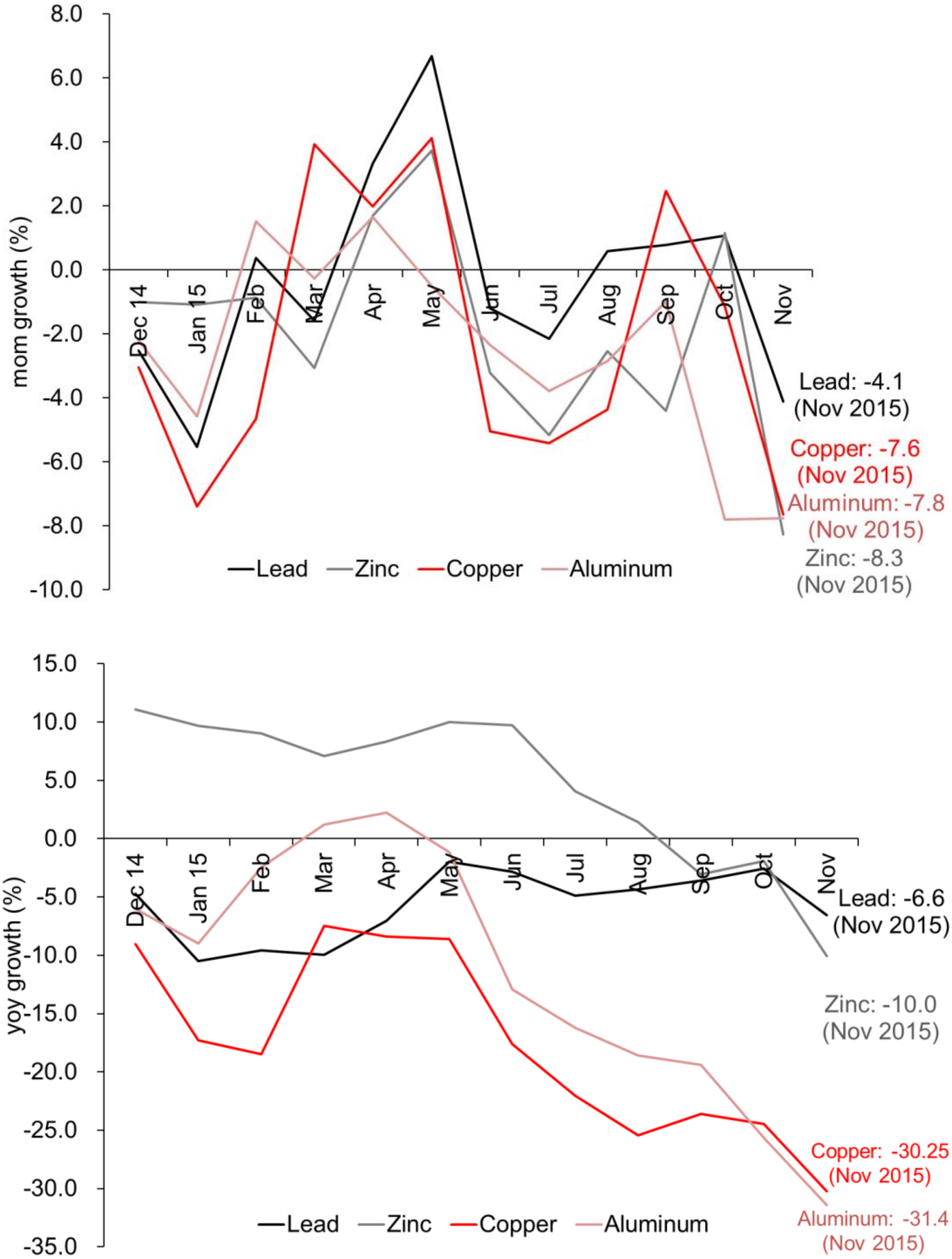
[6] http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201501/t20150127_1184863.html

Exhibit 4: Price index of non-ferrous metals, December 2014 to November 2015



Source: China Logistics Information Center

Exhibit 5: Price index of copper, aluminum, lead and zinc, December 2014 to November 2015



Source: China Logistics Information Center

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