



# China Sourcing Update

January 27, 2017

## Raw Material Prices: Hard Goods

### 1. Price index of ABS resin goes up further in December

The price index of ABS resin<sup>1</sup> rose by 3.3% mom in December, posting month-on-month gain for three consecutive months (see *exhibit 1*).

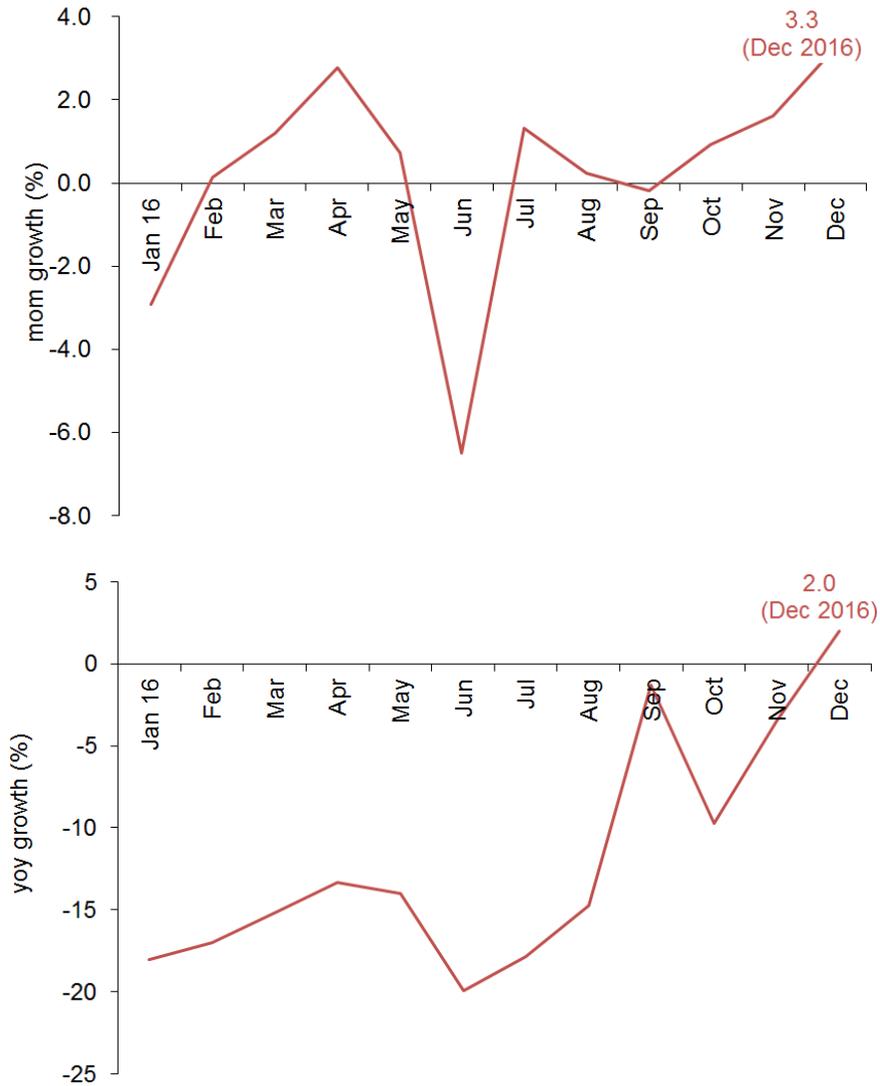
In our view, the rise in prices of ABS resin in the month was due largely to a tight supply of ABS resin and high crude prices (acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum).

Looking ahead, the upstream costs of ABS resin are expected to stay high in the near future; meanwhile, the downstream demand for ABS resin is likely to be weak, as most factories will suspend operations during the period around the Chinese New Year (i.e. from mid-January to mid-February). All in all, we expect the prices of ABS resin to peak soon.

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<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, January to December 2016**



Source: China Logistics Information Center

## 2. Price index of PP rises further

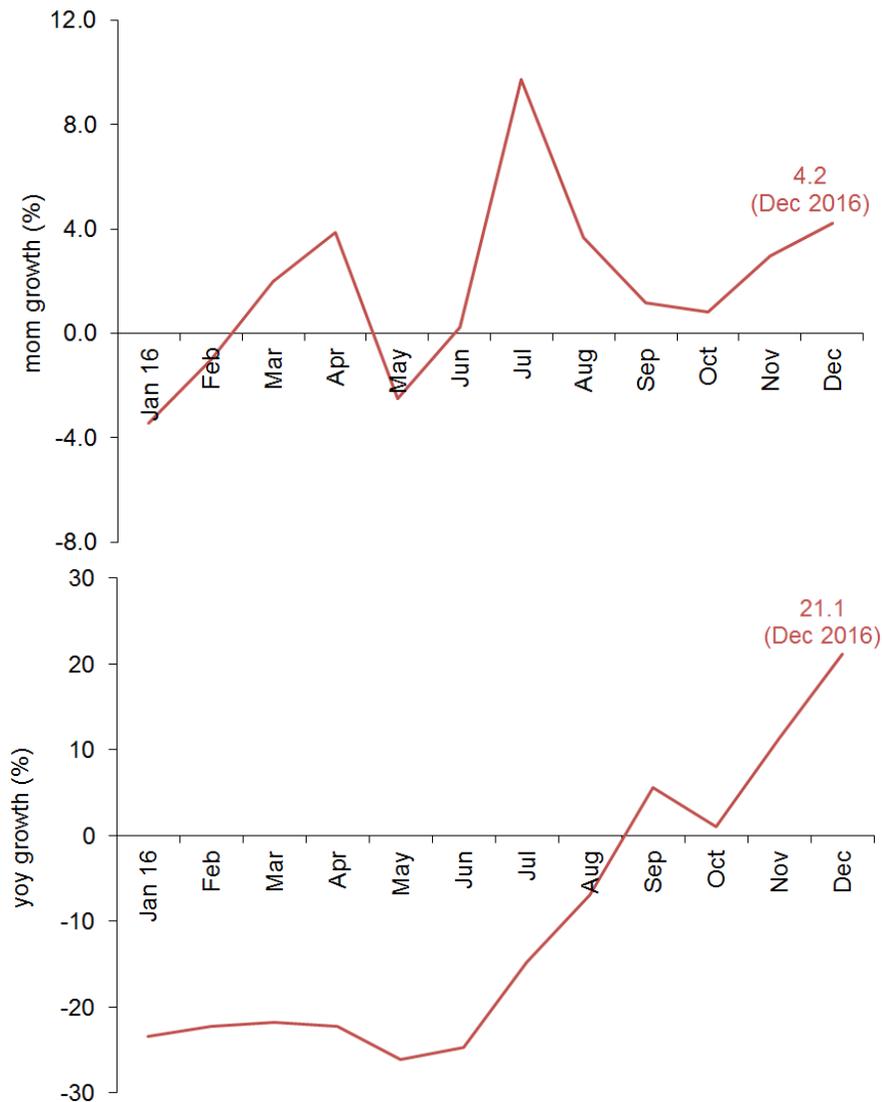
The price index of polypropylene (PP)<sup>2</sup> went up by 4.2% mom in December, posting month-on-month gain for seven consecutive months (see exhibit 2).

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

The main reasons for the rise in the price index of PP in the month were that some PP producers raised the prices of their products, and the prices of PP futures in China surged during the period.

Going forward, the supply of PP is expected to increase in the near term; and the downstream demand for PP is likely to drop, as a lot of downstream manufacturers will suspend their production starting from mid-January. Therefore, we believe that the overall prices of PP will fall in the foreseeable future.

**Exhibit 2: Price index of PP, January to December 2016**



Source: China Logistics Information Center

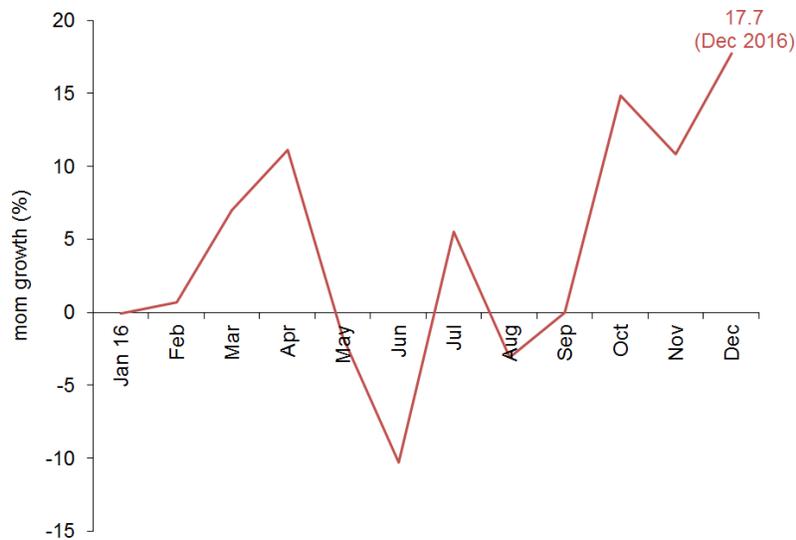
### 3. Price index of natural rubber continues to soar

The price index of natural rubber<sup>3</sup> jumped by 17.7% mom in December, after rising by 10.9% mom in November (see exhibit 3).

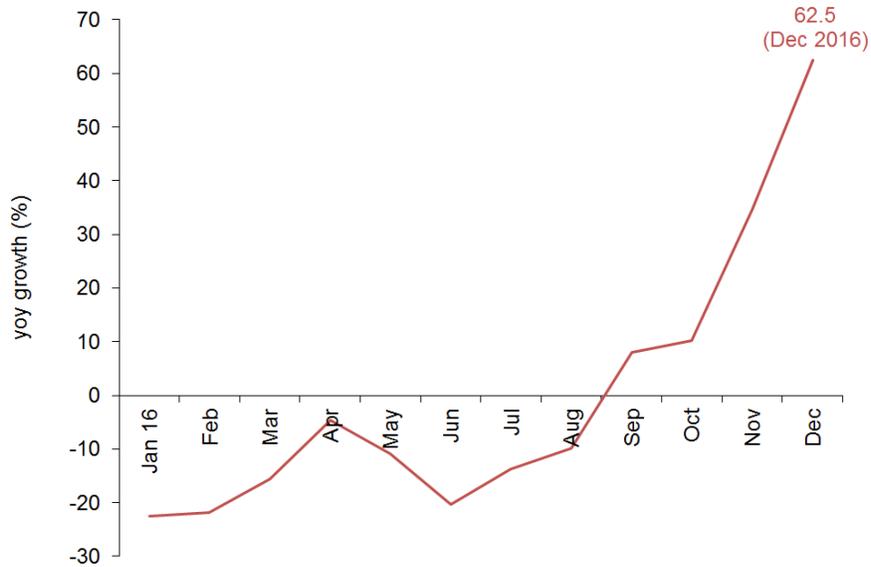
According to media reports, the surge in spot prices of natural rubber in the month was mainly caused by a hike in the prices of natural rubber futures in China, and a reduced supply from major rubber producing countries such as Thailand which led to an increase in the import prices of natural rubber.

Looking ahead, the downstream demand for natural rubber is likely to fall, as most tyre manufacturers will suspend operations starting from mid-January. That being said, we expect that the price index of natural rubber will stay high in the foreseeable future, as the supply of natural rubber is likely to remain tight in the near term.

**Exhibit 3: Price index of natural rubber, January to December 2016**



<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 go up further

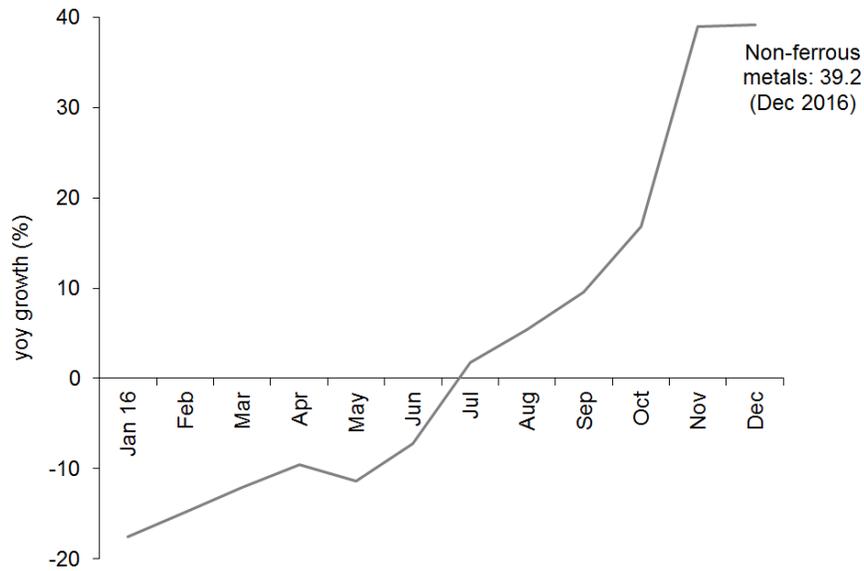
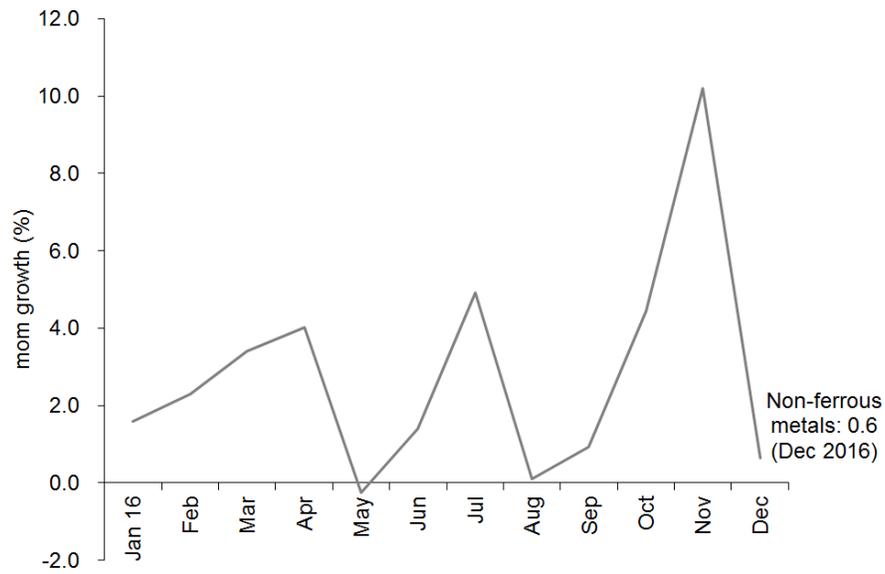
The price index of non-ferrous metals rose by 0.6% mom in December, posting month-on-month gain for seven consecutive months (see exhibits 4 & 5).<sup>4</sup>

According to the local media, the main reason for the rise in non-ferrous metal prices in China in the month was a rise in global oil prices, which helped improve investors' sentiments on non-ferrous metals and other commodities. Moreover, the surge in the prices of lead futures in the London Metal Exchange pushed up the spot prices as well as the futures prices of lead in China.

Looking ahead, the downstream purchases of non-ferrous metals are likely to be limited in the near future, as most factories will suspend operations during the period around the Chinese New Year. Moreover, a faster pace of interest rate hikes by the US Federal Reserve in 2017 is likely to boost the US dollar and drag down non-ferrous metal prices. Thus, we expect the prices of non-ferrous metals to fall in the coming months.

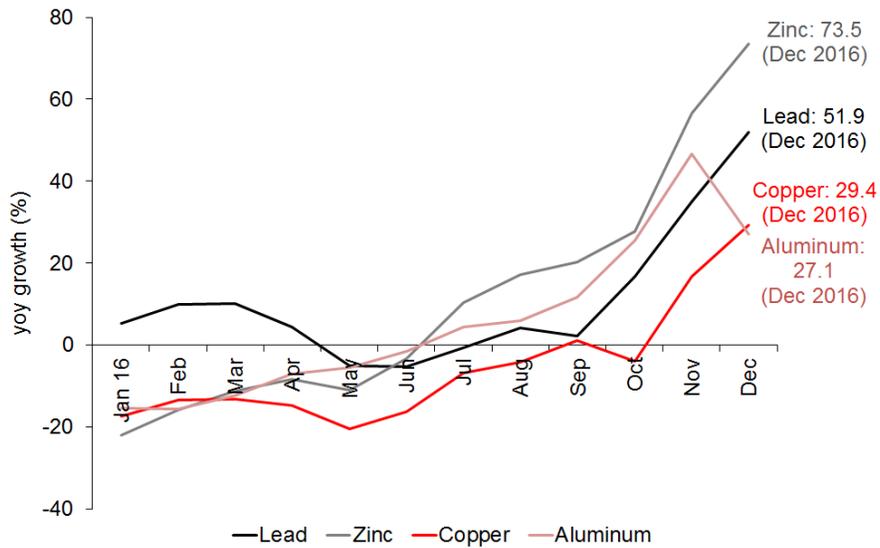
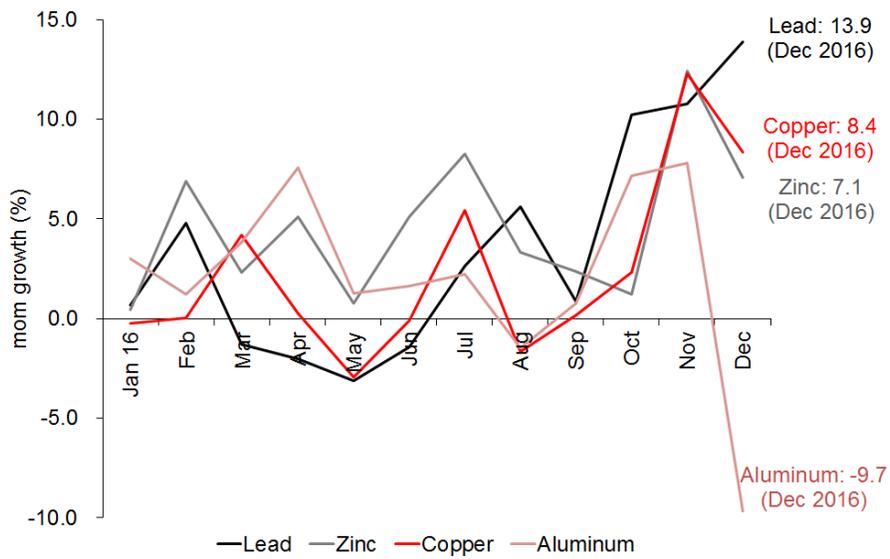
<sup>4</sup> The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,  
January to December 2016**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc, January to December 2016**



Source: China Logistics Information Center

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