



China Sourcing Update

January 26, 2018

Raw Material Prices: Hard Goods

1. Price index of ABS resin goes up in December

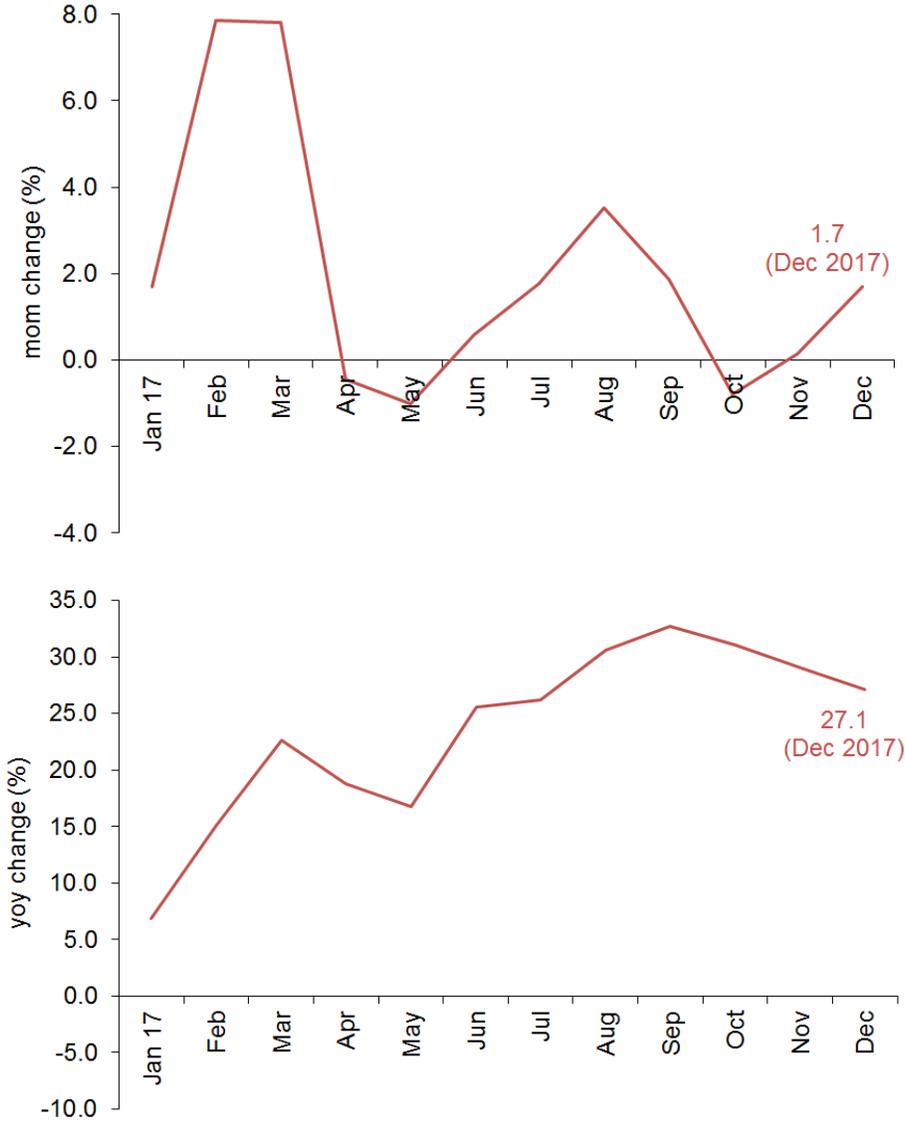
The price index of ABS resin¹ rose by 1.7% mom in December, posting month-on-month gain for two consecutive months (see *exhibit 1*).

In our view, the major factor behind the increase in the prices of ABS resin in the last couple of months was an improved demand from manufacturers of home appliances, a major downstream sector of ABS resin.

Looking ahead, we expect the prices of ABS resin to hover around the current levels in the near term as the downstream demand for the resin is likely to be stable.

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, January to December 2017



Source: China Logistics Information Center

2. Price index of PP rises in December

After staying flat in November, the price index of polypropylene (PP)² went up by 1.4% mom in December (see exhibit 2).

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

According to the local media, the increase in PP prices in the month was due largely to a tightened supply of PP, as indicated by low levels of inventory held by PP producers. Meanwhile, the downstream demand for PP remained stable.

Going forward, the restocking demand for PP from downstream manufacturers is expected to increase before the Chinese New Year, and the inventory levels of PP producers are likely to remain low. Therefore, we believe that the price index of PP will go up further in the near future.

Exhibit 2: Price index of PP, January to December 2017



Source: China Logistics Information Center

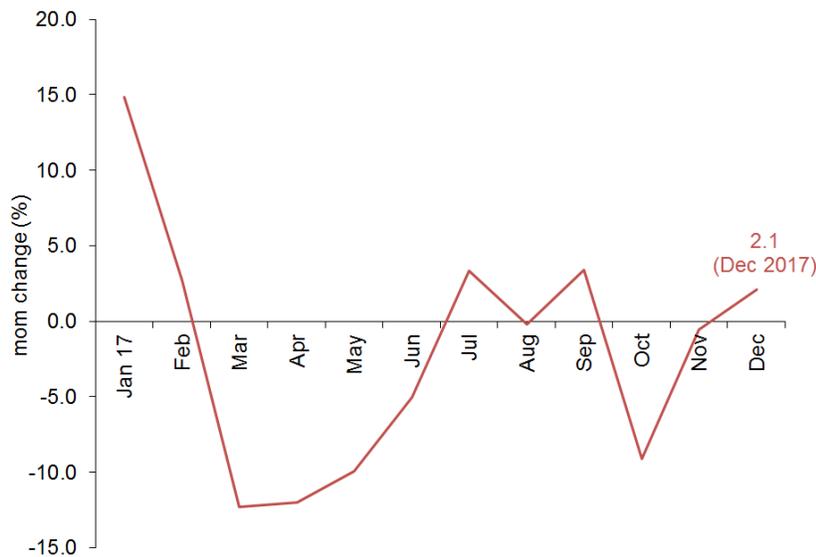
3. Price index of natural rubber rebounds in December

The price index of natural rubber³ picked up by 2.1% mom in December, after falling by 0.5% mom in November (see exhibit 3).

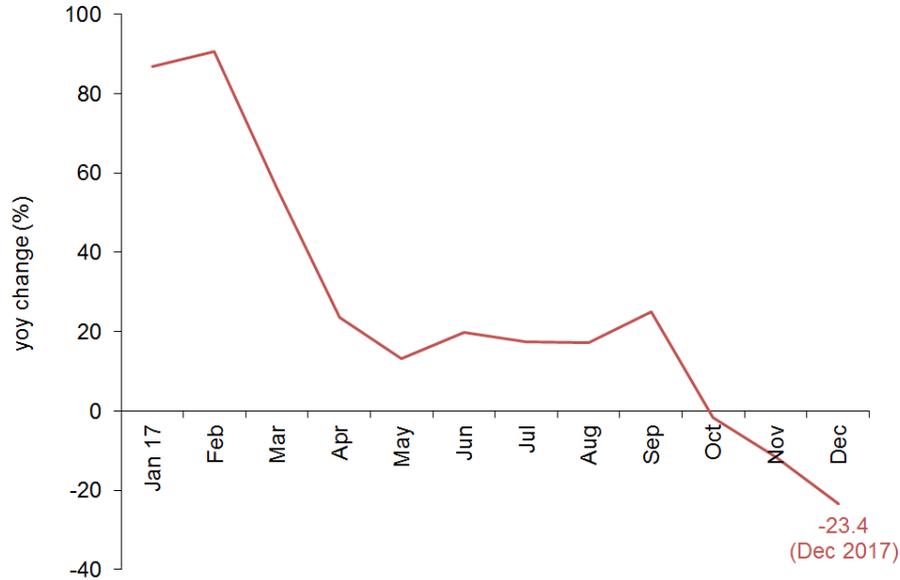
Triggered by two events that would reduce the supply of natural rubber, the prices of natural rubber rebounded in early December. On 29 November, the world's top rubber producing countries including Thailand, Indonesia and Malaysia agreed to cut rubber exports starting from December in a bid to support rubber prices. Then, on 1 December, a warehouse in a logistics park in Shandong province caught fire, damaging 36,000 tonnes of rubber products, which means an 11% reduction of rubber inventories in warehouses monitored by the Shanghai Futures Exchange.

Despite the rubber export cut mentioned above, we still believe that the supply of natural rubber is likely to remain abundant in the near term. Meanwhile, the downstream demand for natural rubber shows no signs of recovery. Therefore, we expect rubber prices to stay low in the foreseeable future.

Exhibit 3: Price index of natural rubber, January to December 2017



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



Source: China Logistics Information Center

4. Price indices of non-ferrous metals drop further in December

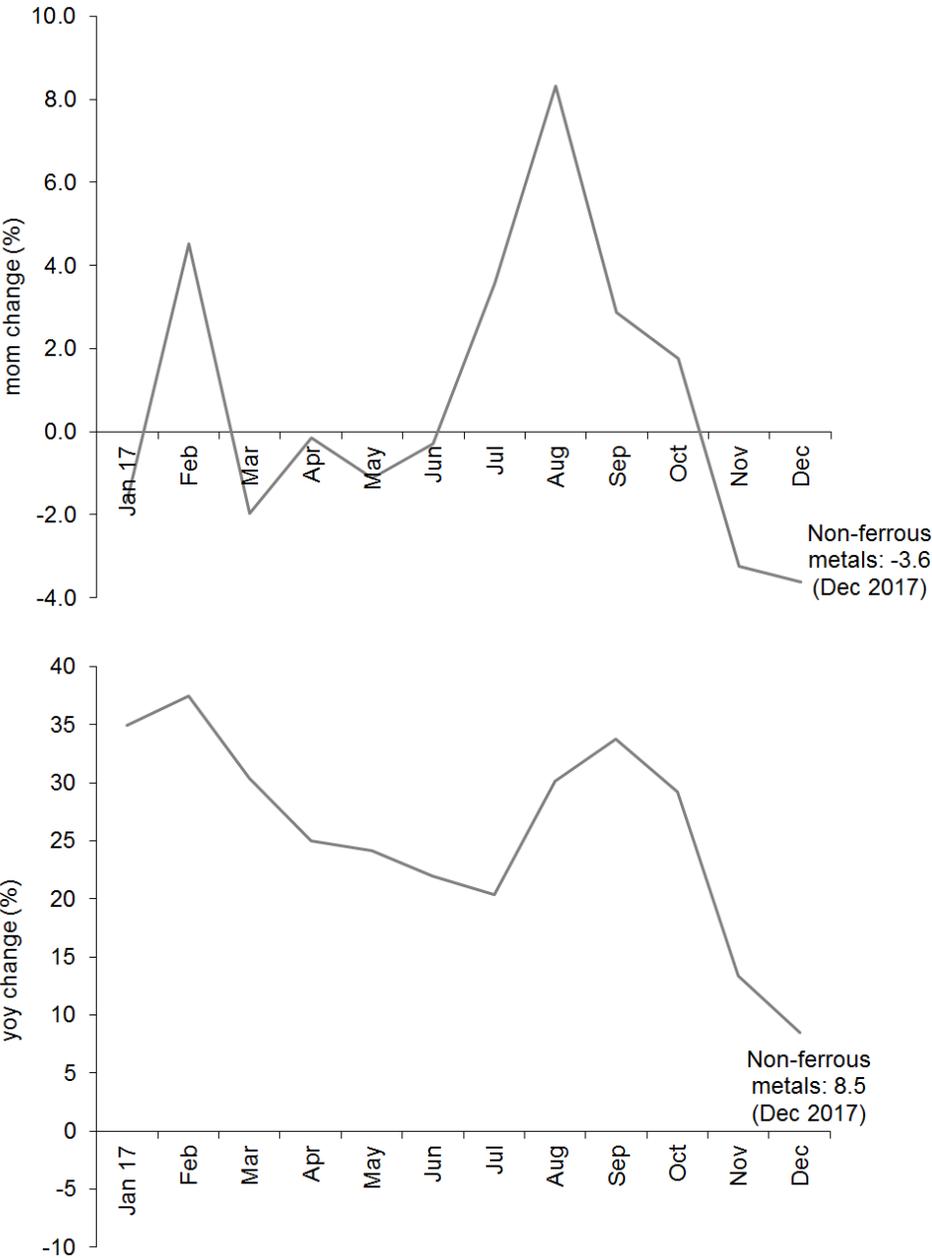
The price index of non-ferrous metals went down by 3.6% mom in December, after falling by 3.3% mom in November (see exhibits 4 & 5).⁴

The main reason for the decline in non-ferrous metal prices in China was that the strengthening of the US dollar in the first half of December, triggered by the US's stronger-than-expected economic data and an interest rate hike, dragged down global non-ferrous metal prices in the period. The fall in aluminum prices in China in the month was particularly steep as impacts of the production cuts in China's aluminum industry were weaker than expectations.

Looking ahead, we expect the price index of non-ferrous metals to rebound in the near future, as the weakening of US dollar since mid-December has pushed up global commodity prices lately.

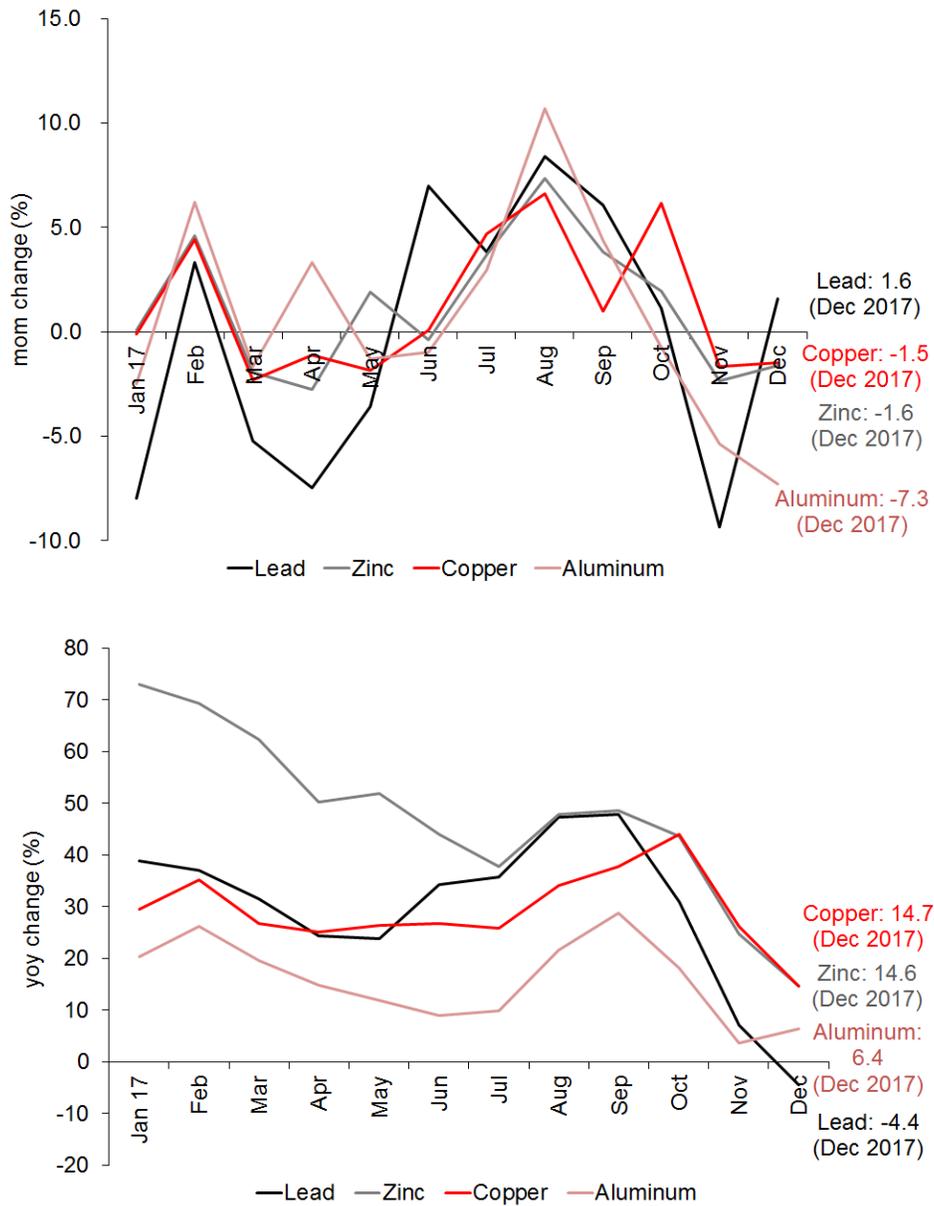
⁴ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
January to December 2017**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,
January to December 2017**



Source: China Logistics Information Center

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