



# China Sourcing Update

March 19, 2019

## Raw Material Prices: Hard Goods

### 1. Price index of ABS resin falls slightly in February

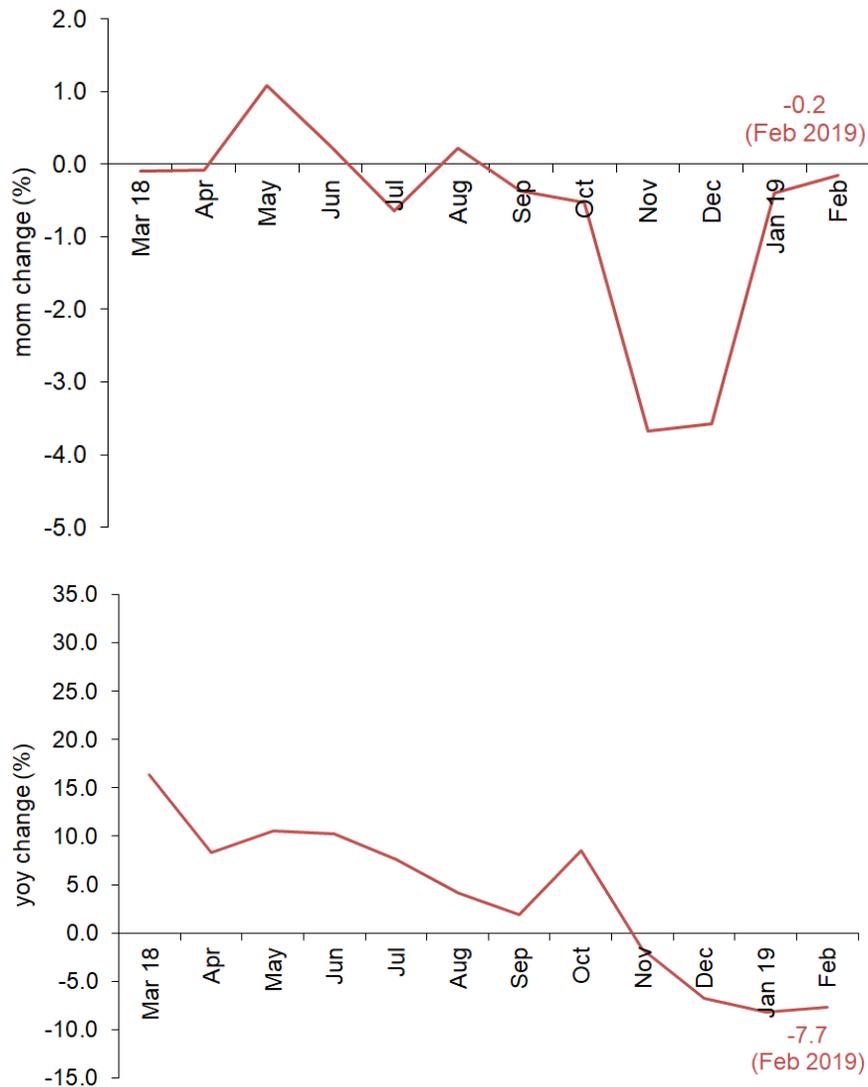
The price index of ABS resin<sup>1</sup> fell by 0.2% mom in February, after dropping by 0.4% mom in January (*see exhibit 1*). According to media reports, downstream manufacturers resumed their operations after the Chinese New Year holidays. Nevertheless, the downstream demand for ABS resin remained weak in mid- to late February.

Latest media reports indicate that the downstream demand has stayed weak lately. Meanwhile, the global crude prices have trended slightly upward in recent weeks.<sup>2</sup> All in all, we expect that the prices of ABS resin will stay at around the current levels in the near term.

<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.

<sup>2</sup> Acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum.

**Exhibit 1: Price index of ABS resin, March 2018 to February 2019**



Source: China Logistics Information Center

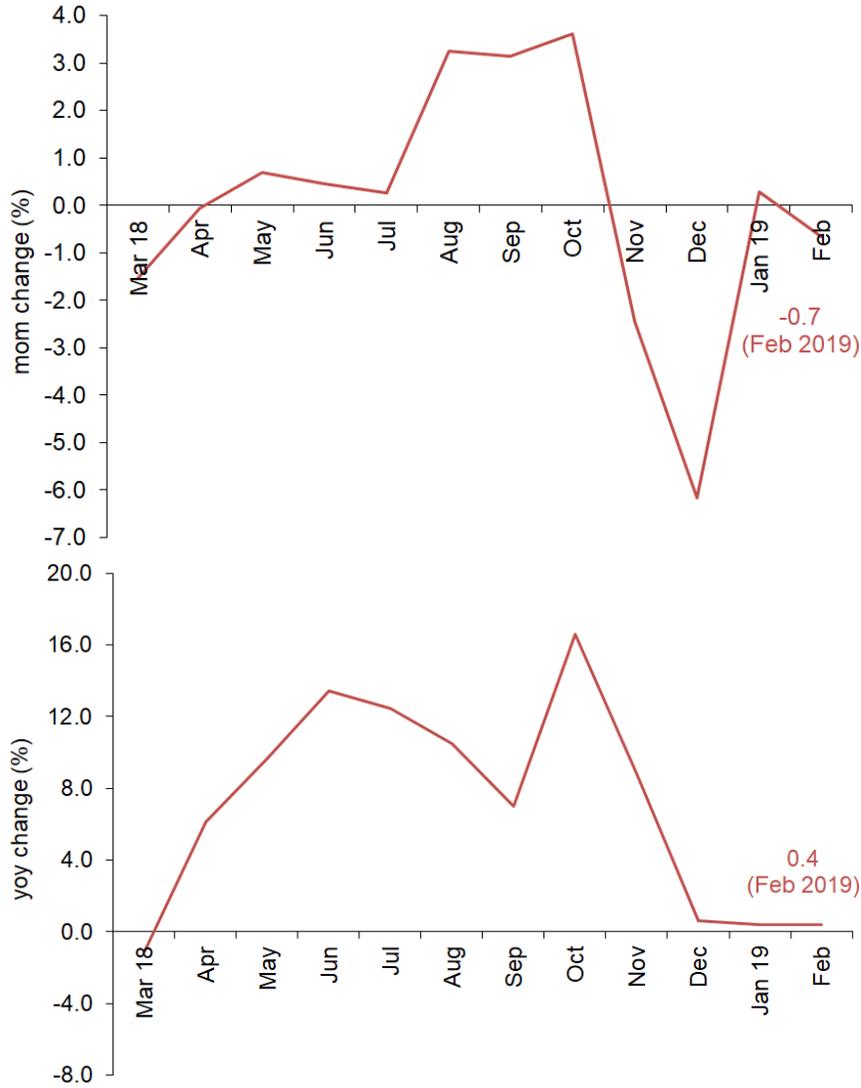
## 2. Price index of PP drops in February

The price index of polypropylene (PP)<sup>3</sup> dropped by 0.7% mom in February, after gaining 0.3% mom in January. (see exhibit 2). In our view, the fall in the PP prices in February is mainly attributed to a drop in prices of propylene, the major raw material of PP, in the month.

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

In recent week, the prices of propylene have rebounded and the downstream demand for PP has remained sluggish. Going forward, we expect the prices of PP to bottom out in the near future.

**Exhibit 2: Price index of PP, March 2018 to February 2019**



Source: China Logistics Information Center

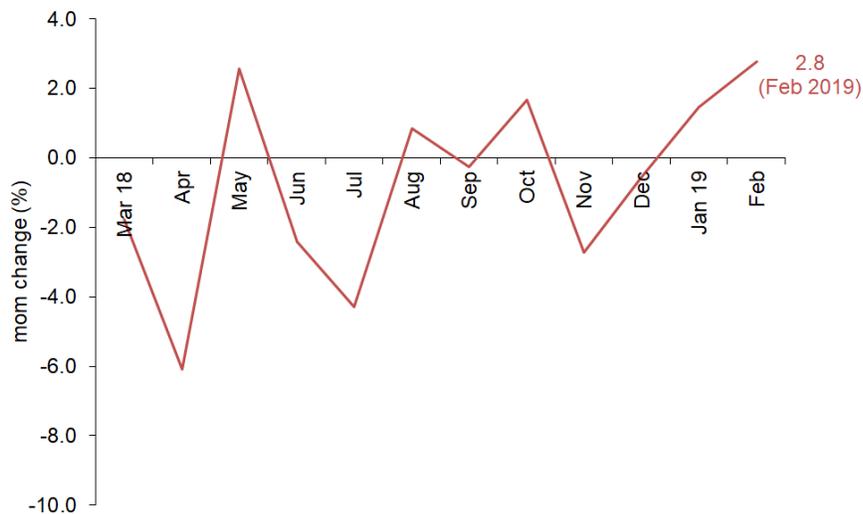
### 3. Price index of natural rubber rises in February

The price index of natural rubber<sup>4</sup> increased further by 2.8% mom in February, after rising by 1.5% mom in January (see exhibit 3).

In our view, the main reason behind the rise in the prices of natural rubber in February was that market sentiments improved on some bullish news. First, on 22 February, Thailand, Malaysia and Indonesia jointly announced to reduce their natural rubber exports by a combined 200,000 to 300,000 metric tonnes. Second, on 24 February, US President Donald Trump announced that he would extend the 1 March deadline for China-US trade negotiations and delay the scheduled tariff increase on US\$200 billion of Chinese imports.

According to latest media reports, with low inventories of natural rubber, tyre manufacturers in China have started their restocking activities. As the domestic demand for natural rubber is likely to strengthen, we predict that the prices of natural rubber will stay around the current levels or even trend upward in the near term.

**Exhibit 3: Price index of natural rubber, March 2018 to February 2019**



<sup>4</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 in February

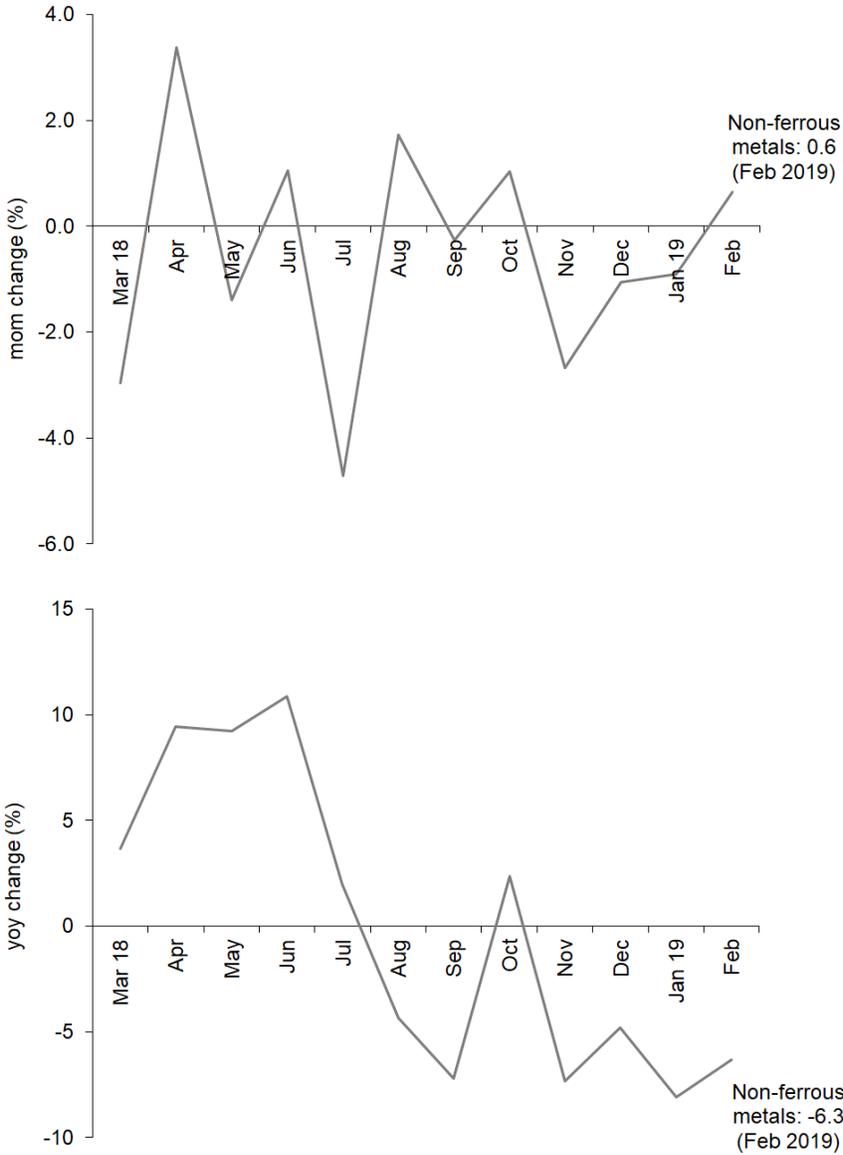
The price index of non-ferrous metals rose by 0.6% mom in February, after dropping by 0.9% mom in January (see exhibits 4 & 5).<sup>5</sup>

We believe that the main reason for the rise in the prices of non-ferrous metals in the month was an improvement in market sentiments due mainly to the positive news about the China-US trade negotiations during the period. After four days of high-level trade negotiations between China and the US concluded on 24 February, US President Donald Trump, citing ‘substantial progress’ in ‘productive’ trade talks, announced that he would extend the 1 March deadline for trade negotiations and delay the scheduled tariff increase on US\$200 billion of Chinese imports.

Looking ahead, we expect that the prices of non-ferrous metals will rise further in the near term, as market sentiments are set to improve further on the recent Chinese government’s announcement of the introduction of stimulus policies. On 5 March, the Chinese government announced to reduce the taxes on and the social insurance contributions of enterprises by almost two trillion yuan this year.

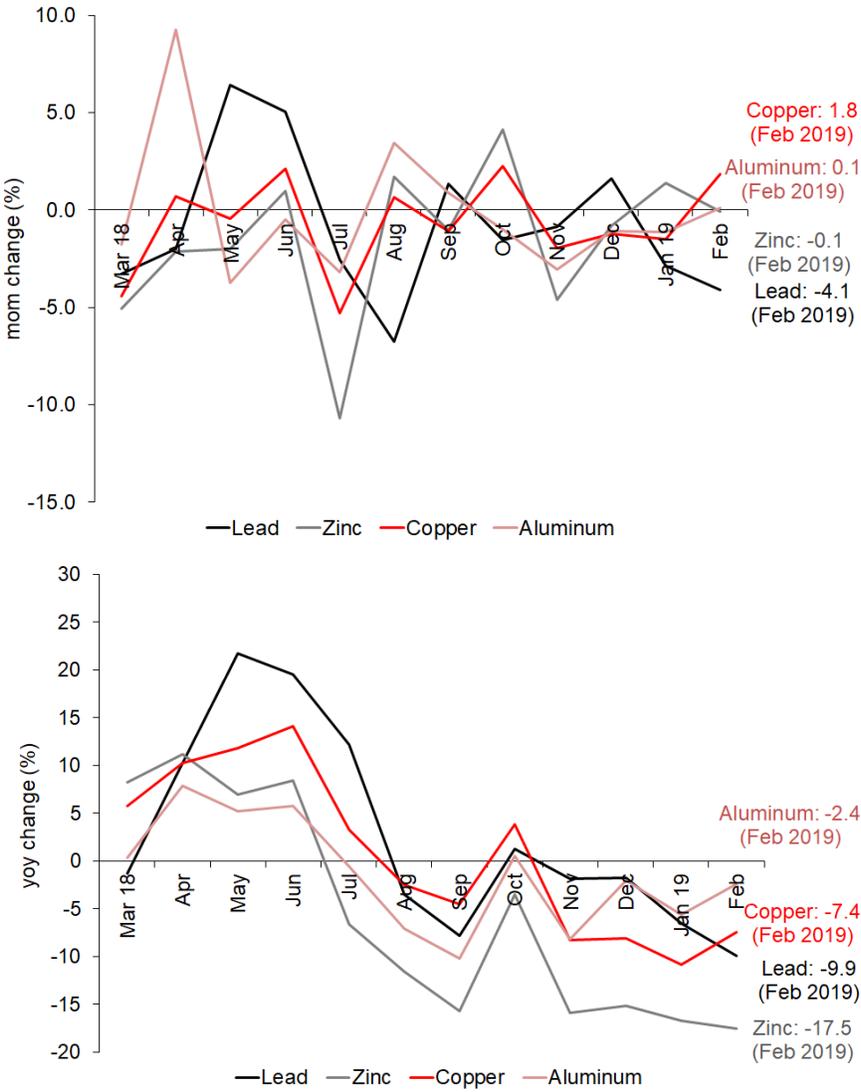
<sup>5</sup> The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,  
March 2018 to February 2019**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,  
March 2018 to February 2019**



Source: China Logistics Information Center

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**CONTACT**

Helen Chin  
Vice President  
[helenchin@fung1937.com](mailto:helenchin@fung1937.com)  
(852) 2300 2471

Timothy Cheung  
Senior Research Manager  
[timothycheung@fung1937.com](mailto:timothycheung@fung1937.com)  
(852) 2300 2477

Global Sourcing  
Fung Business Intelligence  
10/F LiFung Tower  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong

T: (852) 2300 2470  
F: (852) 2635 1598  
E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>



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