

China Sourcing Update

February 23, 2016

Raw Material Prices: Hard Goods

1. Price index of ABS resin drops

The price index of ABS resin¹ dropped further by 2.2% mom in December (see *exhibit 1*).

The main reason for the downtrend of the price index was the poor downstream demand for ABS resin. According to the local media, the demand for home appliances, one of the major downstream markets of ABS resin, has been shrinking; hence, manufacturers of home appliances have reduced their purchases of ABS resin.²

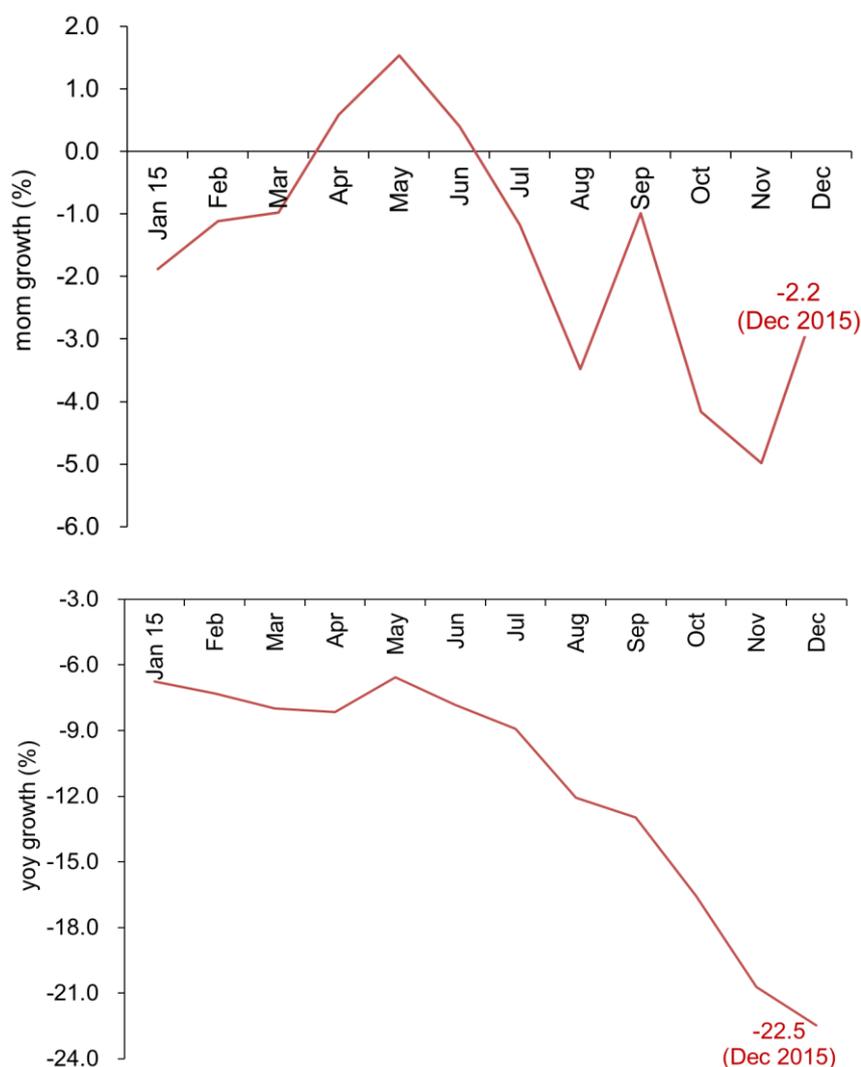
The upstream prices have also been soft. For example, the prices of styrene, a major raw material of ABS resin, was trending downward in December.

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

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-20151211-89247.html>

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



Source: China Logistics Information Center

2. Price index of PP trends downward

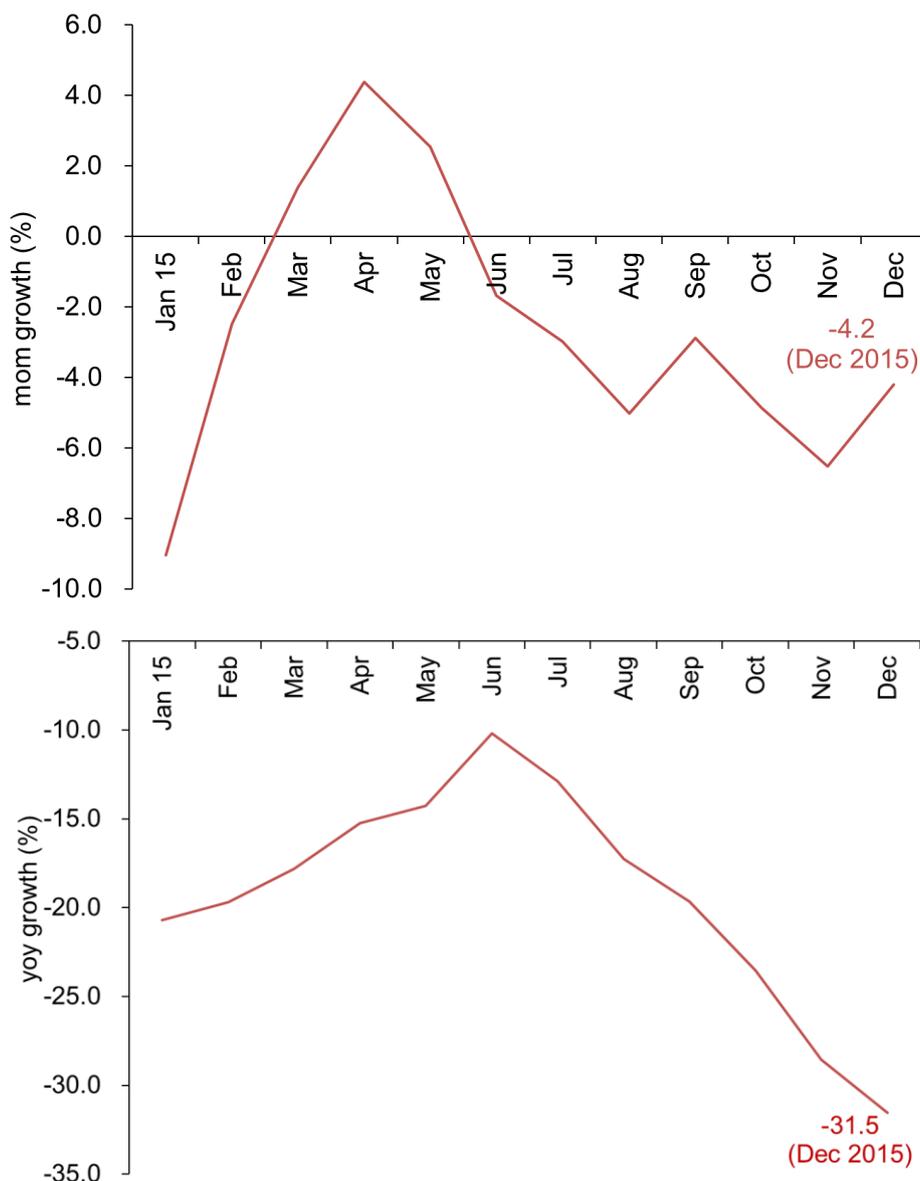
The price index of polypropylene (PP)³ continued to trend downward, falling by 4.2% mom in December (see exhibit 2).

According to the media reports, one of the reasons for the drop of the PP price index in December was that the prices of crude, a major raw material of PP, trended downward in the month. Meanwhile, running at low operating rates, downstream manufacturers only made hand-to-mouth purchases.

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

Looking ahead, the domestic demand for ABS resin is expected to stay weak this month, as most factories suspended operations during the Chinese New Year holidays. We therefore expect the prices of PP to mainly depend on the prices of crude oil in the near term.

Exhibit 2: Price index of PP, January to December 2015



Source: China Logistics Information Center

3. Price index of natural rubber falls

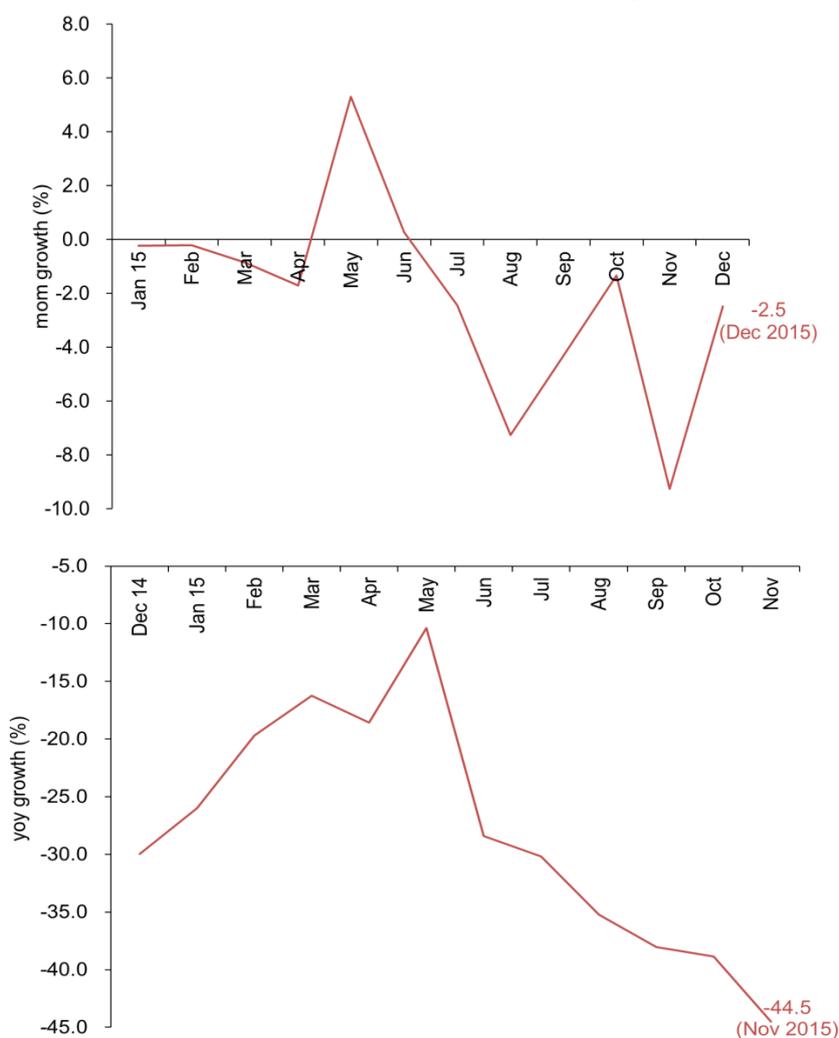
The price index of natural rubber⁴ dropped further by 2.5% mom in December, after recording a 9.3% mom decline in November (see exhibit 3).

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

According to the local media, the supply of natural rubber stayed abundant in December, boosted by the strong rise in imports of natural rubber. According to China Customs, imports of natural rubber increased by 15.4% mom (or 5.5% yoy) in December. Meanwhile, the downstream demand for rubber has been weak. According to the local media, an important reason is that the domestic sales and the exports of tyres, one of the major downstream products of natural rubber, have stayed poor; and the inventories of tyres have been increasing.

Going forward, as most factories suspended operations during the Chinese New Year holidays, the downstream demand is likely to stay weak this month. Thus, we believe that the prices of natural rubber are unlikely to rebound in the near term.

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



Source: China Logistics Information Center

4. Price indices of aluminum and lead rebound

The price indices of aluminum and lead rebounded, up by 4.3% mom and 1.1% mom, respectively in December. Meanwhile, the price indices of copper and zinc continued to fall, dropping by 2.1% mom and 3.4% mom, respectively, in the same month (see exhibits 4 & 5).⁵

We believe that the fall in the price indices of copper and zinc was mainly due to the weak downstream demand and the continued problems of oversupply. For example, while the domestic stock level of copper had remained high, imports of copper increased by 2.8% mom (or 26.6% yoy) in December, according to China Customs.⁶ Meanwhile, the downstream demand for copper remained weak, as a number of downstream manufacturers planned to suspend production during the Chinese New Year holidays.

The price index of aluminum was boosted by the announcement of production cut at the meeting held by the China Nonferrous Metals Industry Association on 10 December in Kunming. 14 major electrolytic aluminum enterprises, accounting for around 75% of domestic capacity, attended the meeting to discuss the supply side reform of the industry, and announced the realized production cut of around 4.9 million tons in 2015.⁷ The rebound of the lead price index was also due to the industry's production cut. According to local media, the lead-smelting enterprises maintained their operating rates below 60% in 2015.⁸

Looking forward, the downstream demand for non-ferrous metals is expected to stay weak, largely due to the economic slowdown and the weak domestic demand. Also, as most factories suspended operations during the Chinese New Year holidays, the downstream purchases for non-ferrous metals are expected to be limited this month. Thus, we expect the price indices of non-ferrous metals to fluctuate around the current low levels in the coming month.

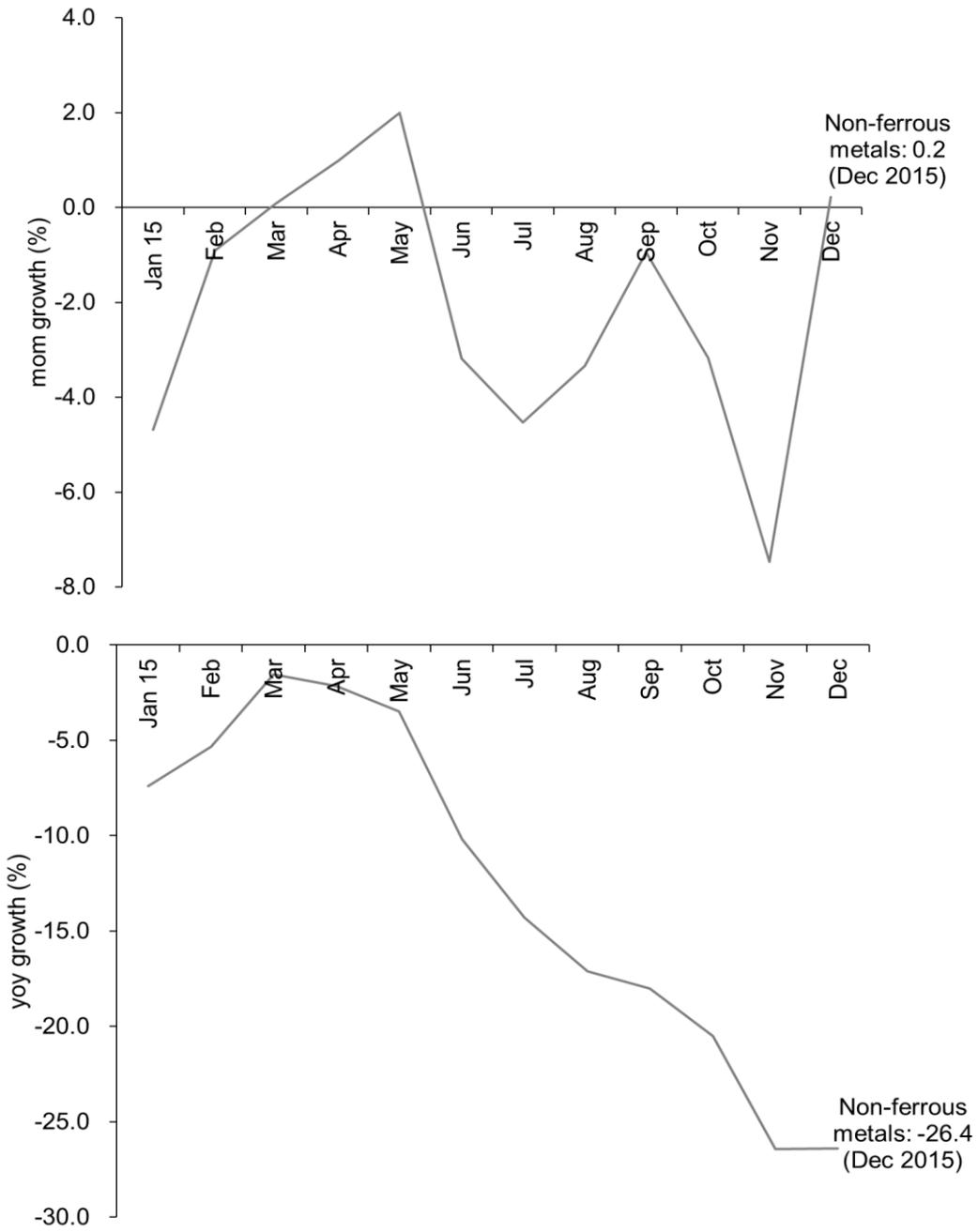
⁵ The indices are compiled by the China Logistics Information Center (CLIC).

⁶ <http://www.100ppi.com/forecast/detail-2016-01-13-91699.html>

⁷ <http://www.chinania.org.cn/html/xiehuidongtai/xiehuidongtai/2015/1211/22687.html>

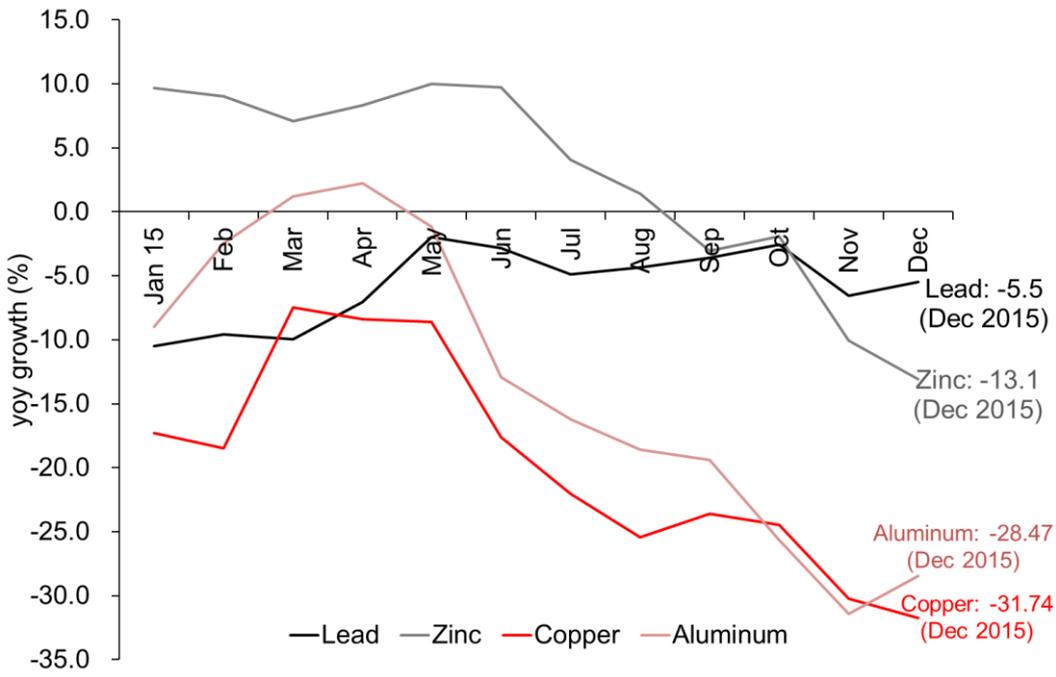
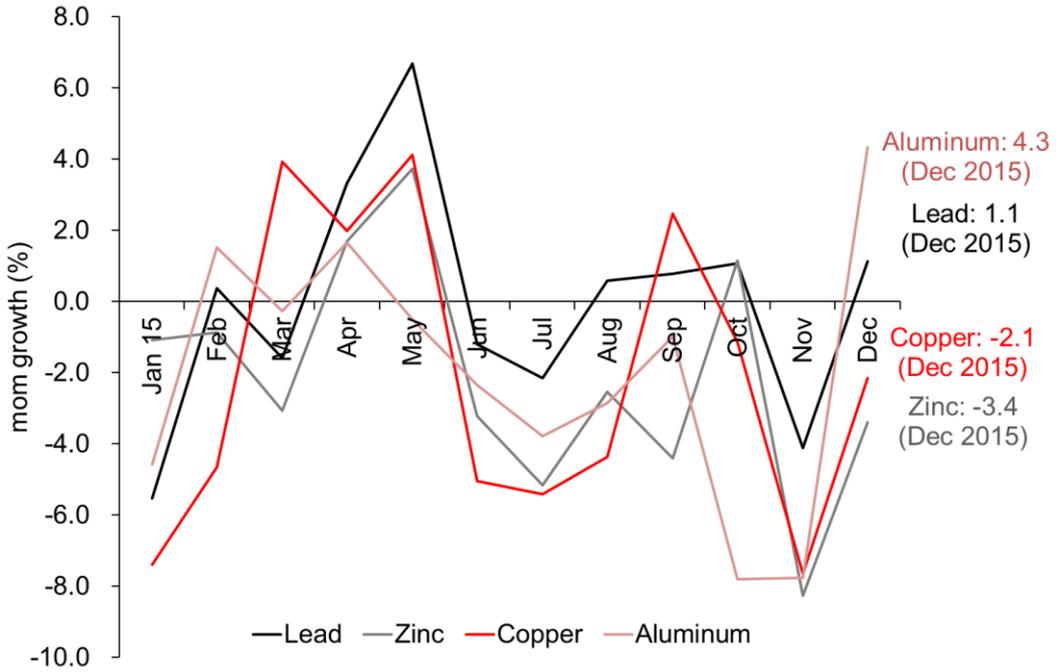
⁸ <http://www.100ppi.com/forecast/detail-20160113-91699.html>

**Exhibit 4: Price index of non-ferrous metals,
January to December 2015**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,
January to December 2015**



Source: China Logistics Information Center

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