



China Sourcing Update

February 27, 2019

Raw Material Prices: Hard Goods

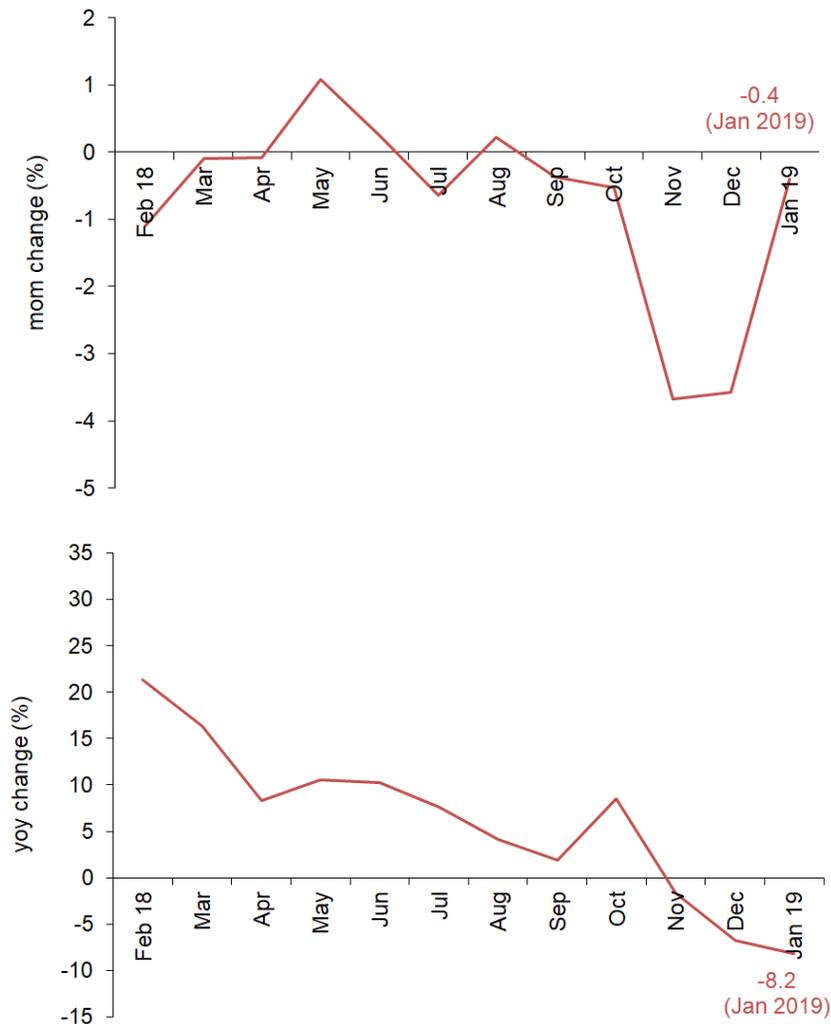
1. Price index of ABS resin falls in January

The price index of ABS resin¹ fell by 0.4% mom in January, after dropping by 3.6% mom in December (see *exhibit 1*). According to media reports, more and more downstream manufacturers suspended their operations ahead of the Chinese New Year holidays and thus the downstream demand for ABS resin continued to weaken in the month.

Latest media reports indicate that the downstream demand has remained weak after the Chinese New Year holidays. Therefore, we expect that the prices of ABS resin will fall further in the near term.

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, February 2018 to January 2019



Source: China Logistics Information Center

2. Price index of PP stabilises in January

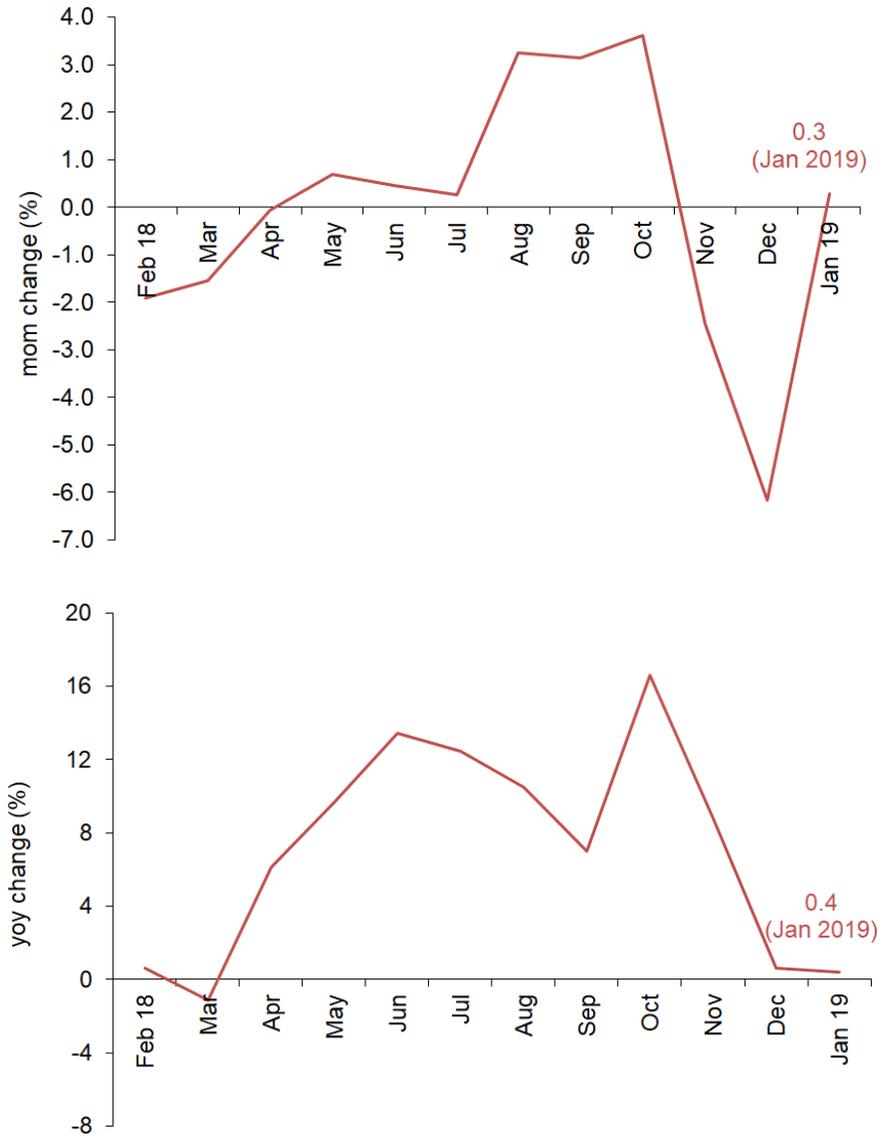
The price index of polypropylene (PP)² stabilised in January. After plunging by 6.2% mom in December, the price index of PP gained 0.3% mom in January. (see exhibit 2).

In our view, the stabilisation in the PP prices in January is mainly attributed to a strong rebound in the prices of crude (propylene, the major raw material of PP, is derived from petroleum) in the month. Manufacturers of PP, thus, did not have room to further reduce the prices of their products in January.

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

Going forward, we do not expect that the prices of PP will rise much in the coming future as the downstream demand has remained sluggish recently. Besides, the upside to the global crude prices is limited as the global demand for the crude is likely to moderate amid weaker growth of the global economy this year, in our view.

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



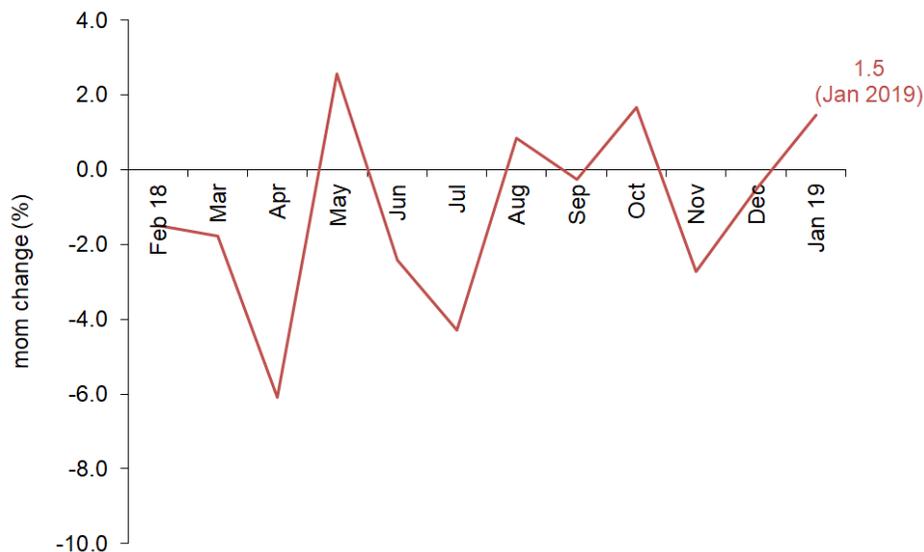
Source: China Logistics Information Center

3. Price index of natural rubber rises in January

The price index of natural rubber³ rose by 1.5% mom in January, after dropping slightly by 0.5% mom in December (see exhibit 3). In our view, the rebound in the prices of natural rubber in January was highly associated with the rise in the prices of natural rubber futures due mainly to a strong rebound in the global oil prices and the Chinese central bank's action to ease its monetary policy.

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. According to the announcement, the export cut is aimed to address the issue of the low price levels of natural rubber. As these countries are the major natural rubber producing countries in the world, their moves are likely to boost the prices of natural rubber.

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



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



Source: China Logistics Information Center

4. Price indices of non-ferrous metals go down in January

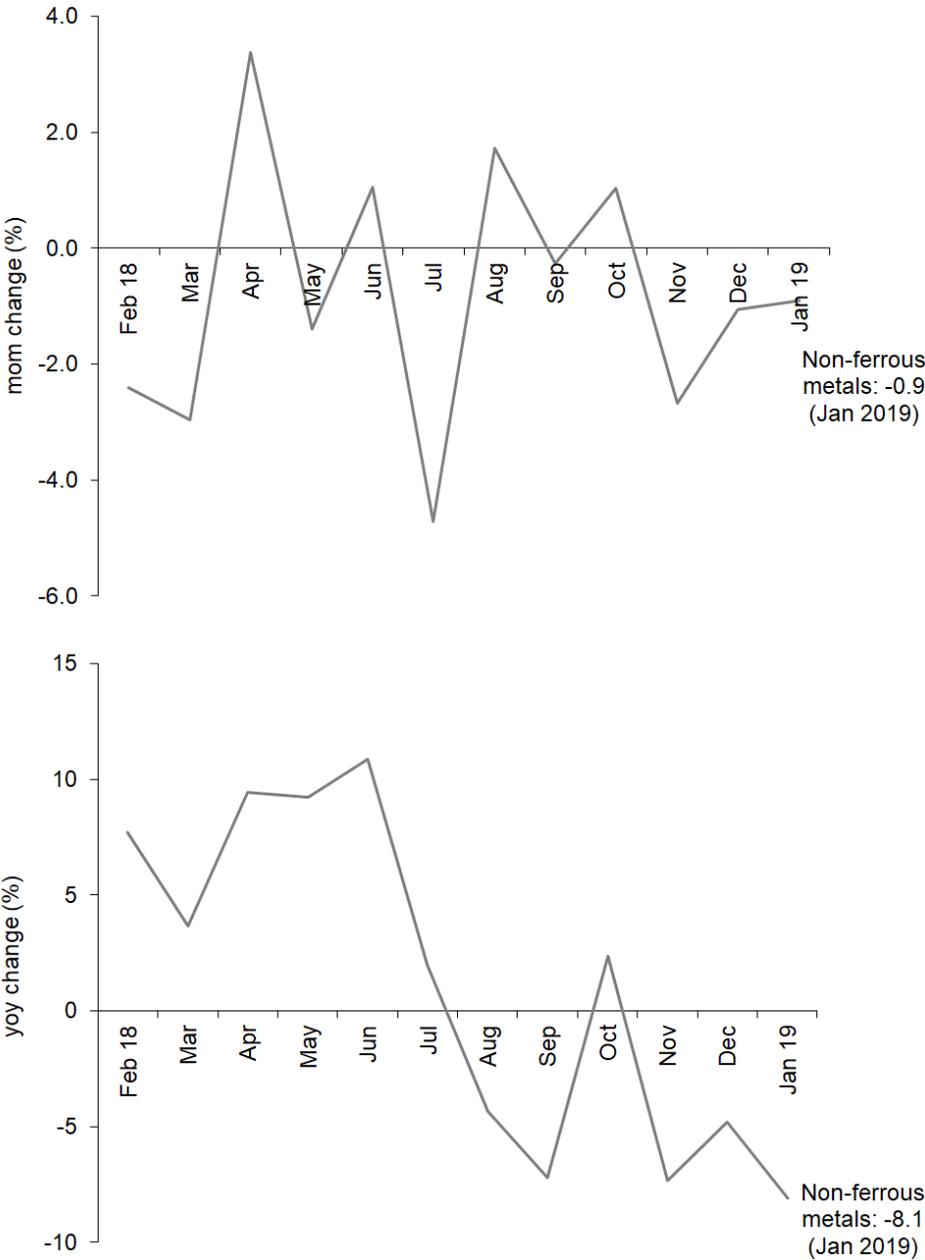
The price index of non-ferrous metals fell by 0.9% mom in January, after dropping by 1.1% mom in December (see exhibits 4 & 5).⁴

The main reason for the fall in the prices of non-ferrous metals in the month was the growing market concerns about the growth deceleration of the global economy as this would weaken the demand for non-ferrous metals.

Looking ahead, we expect that the prices of non-ferrous metals will drop further in the near term as high-frequency economic indicators suggest a weakening growth of the major economies. For example, the Eurozone manufacturing PMI fell from 51.4 in December to 50.5 in January, the lowest level since November 2014; the US manufacturing PMI dropped markedly from 59.3 in November to 54.1 in December, and then remained low at 56.6 in January; China's manufacturing PMI came in at 49.5 in January, staying below the critical 50-mark for two consecutive months.

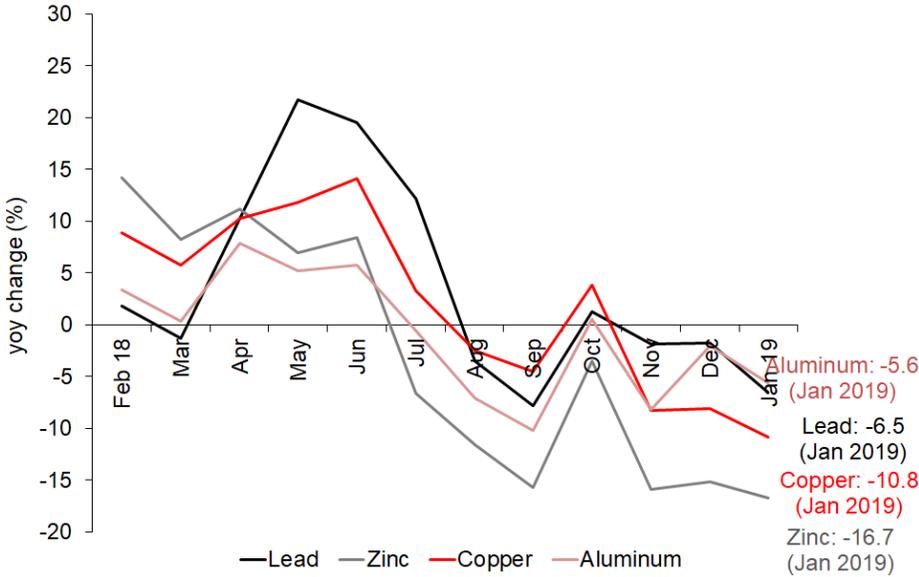
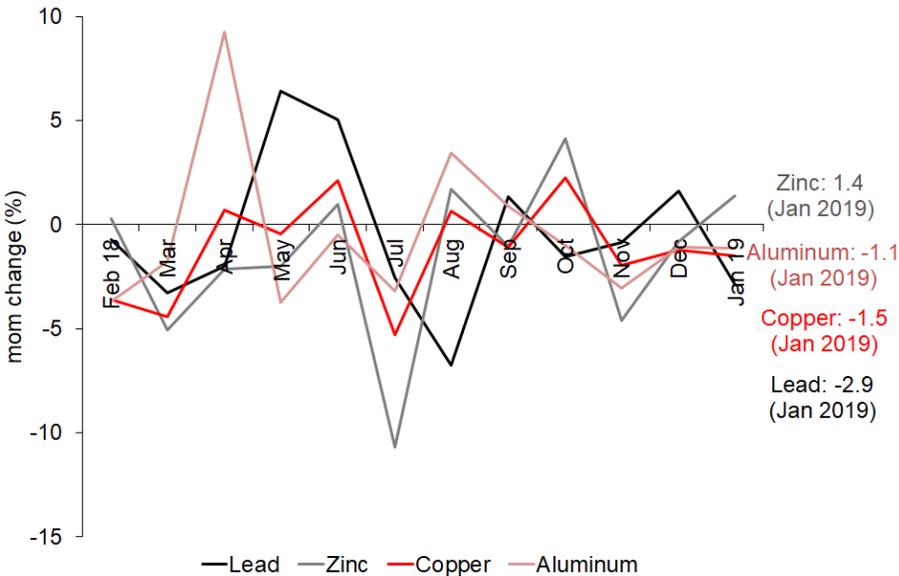
⁴ The indices are compiled by the China Logistics Information Center (CLIC).

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



Source: China Logistics Information Center

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



Source: China Logistics Information Center

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Timothy Cheung
Senior Research Manager
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
W: <http://www.fbicgroup.com>



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