



## China Sourcing Update

August 10, 2016

### Raw Material Prices: Hard Goods

#### 1. Price index of ABS resin rebounds slightly in July

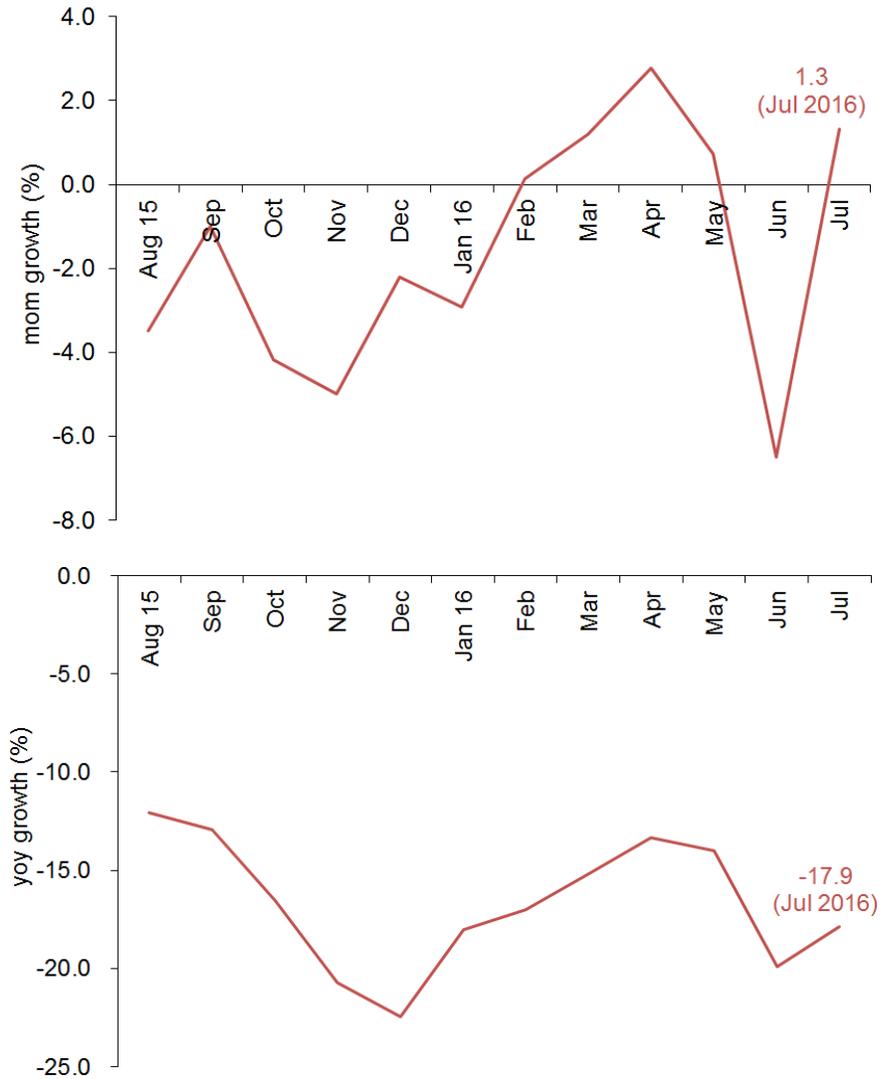
After dropping by 6.5% mom in June, the price index of ABS resin<sup>1</sup> gained 1.3% mom in July (see exhibit 1). According to the local media, some ABS resin producers raised the prices of their products in early July; however, the decline in upstream prices and a weak speculative demand led to a drop in the prices of ABS resin later in the month.

Looking ahead, the sharp fall in global crude prices after the 'Brexit' vote results is expected to further drag down the upstream prices of ABS resin. (Acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum.) Moreover, the downstream demand for ABS resin is likely to remain soft in the near term. Therefore, we believe that the prices of ABS resin will stay at low levels in the coming months.

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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, August 2015 to July 2016**



Source: China Logistics Information Center

## 2. Price index of PP surges

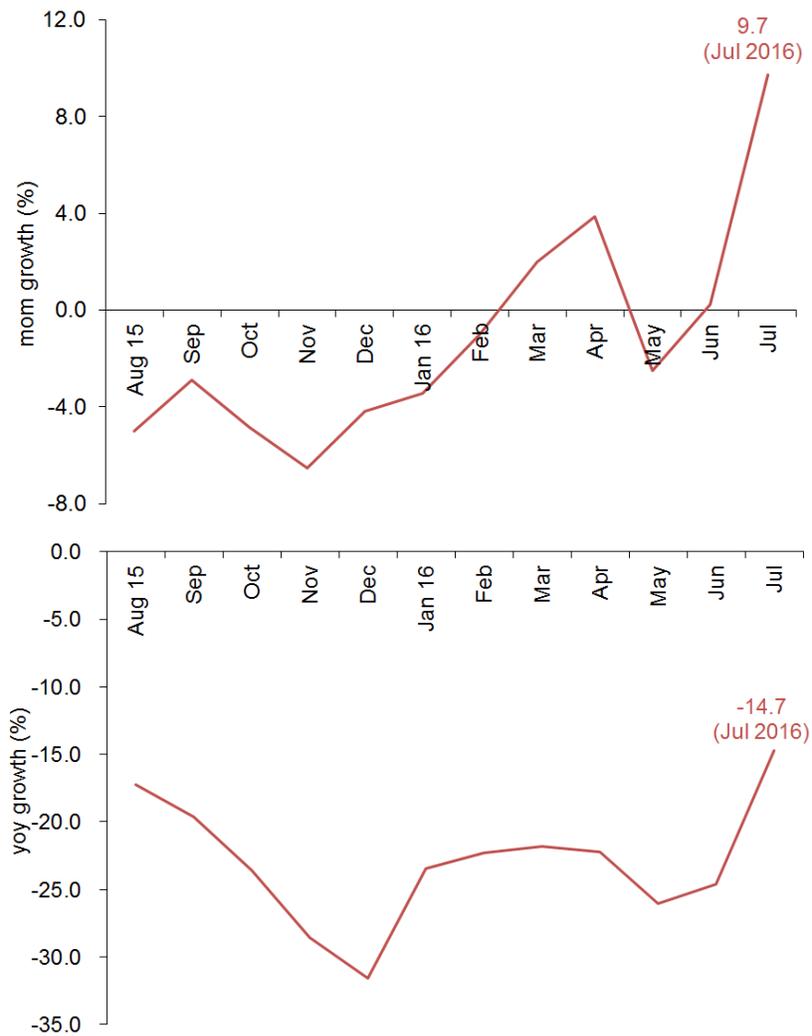
The price index of polypropylene (PP)<sup>2</sup> went up sharply by 9.7% mom in July, posting month-on-month gain for two consecutive months (see exhibit 2).

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

According to the local media, the rise in the spot prices of PP in July was mainly triggered by the rise in the prices of PP futures in China, which was highly associated with market speculations. Moreover, the increasing upstream prices also contributed to the rise in the spot prices of PP in the month.

Going forward, the supply of PP is expected to be tight in the near future, as a number of PP producers will suspend production due to maintenance or the upcoming G20 Leaders Summit in Hangzhou on 4-5 September. Meanwhile, the downstream demand for PP is expected to improve in the coming high season. Therefore, we believe that the prices of PP will rise further in the near term.

**Exhibit 2: Price index of PP, August 2015 to July 2016**



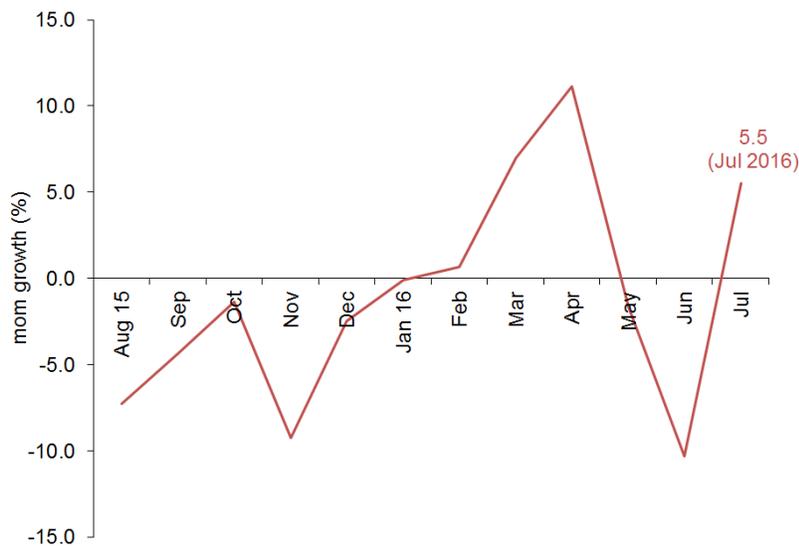
Source: China Logistics Information Center

### 3. Price index of natural rubber rebounds

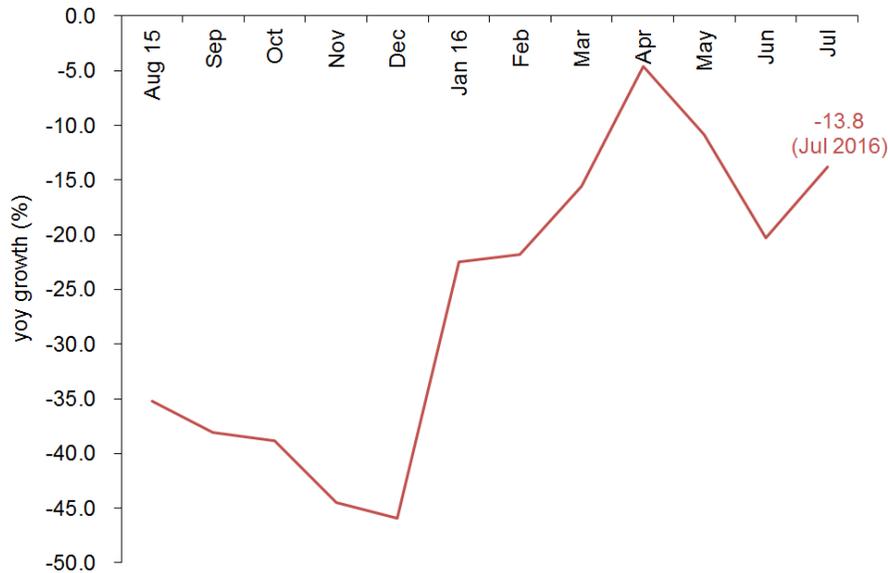
The price index of natural rubber<sup>3</sup> rose by 5.5% mom in July, after plunging by 10.3% mom in June (see exhibit 3). In our view, the pick-up in the spot prices of natural rubber in the month was caused by the surge in the prices of natural rubber futures in China, due to a strong speculative demand. The rise in the prices of natural rubber in rubber producing countries such as Thailand also drove up the prices of natural rubber in China. Meanwhile, the downstream demand for natural rubber remained stable.

As the rubber tapping season is underway in China and other major rubber producing countries, the supply of natural rubber is expected to increase in the coming months. Meanwhile, the downstream demand for natural rubber shows no signs of recovery. Therefore, we expect that the spot prices of natural rubber will fall again in the near future.

**Exhibit 3: Price index of natural rubber, August 2015 to July 2016**



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



Source: China Logistics Information Center

#### 4. Price indices of nonferrous metals rise further

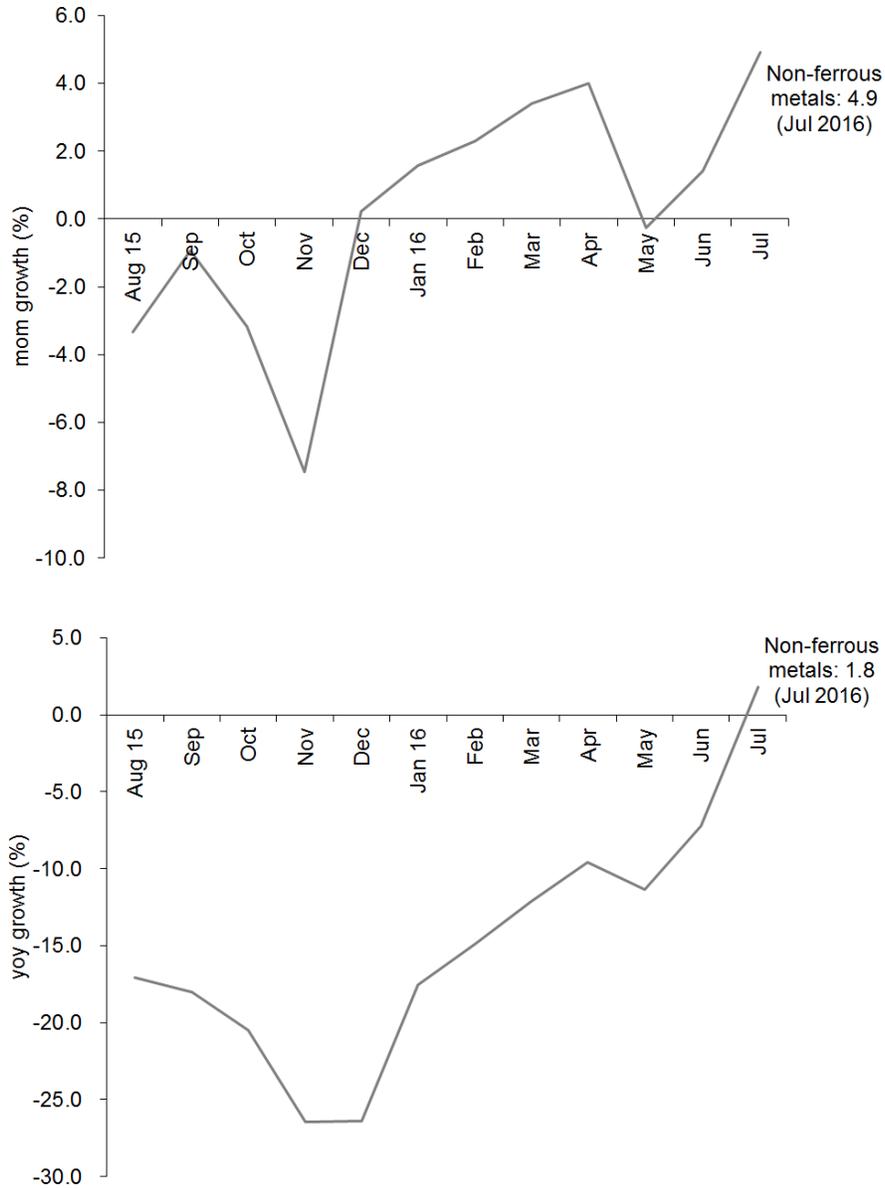
The price index of nonferrous metals went up by 4.9% mom in July, posting month-on-month gain for two consecutive months (see exhibits 4 & 5).<sup>4</sup>

According to the local media, the main reason for the rise in nonferrous metal prices in the month was a strong speculative demand, triggered by several factors such as the better-than-expected economic data released by China's National Bureau of Statistics and rising expectations of a delay in interest rate hikes by the US Federal Reserve.

Looking ahead, we expect the prices of nonferrous metals to fluctuate around the current levels. The domestic stock levels of nonferrous metals are still high yet falling; and the overcapacity problems among the manufacturers of nonferrous metals are being addressed, which may quicken the destocking processes.

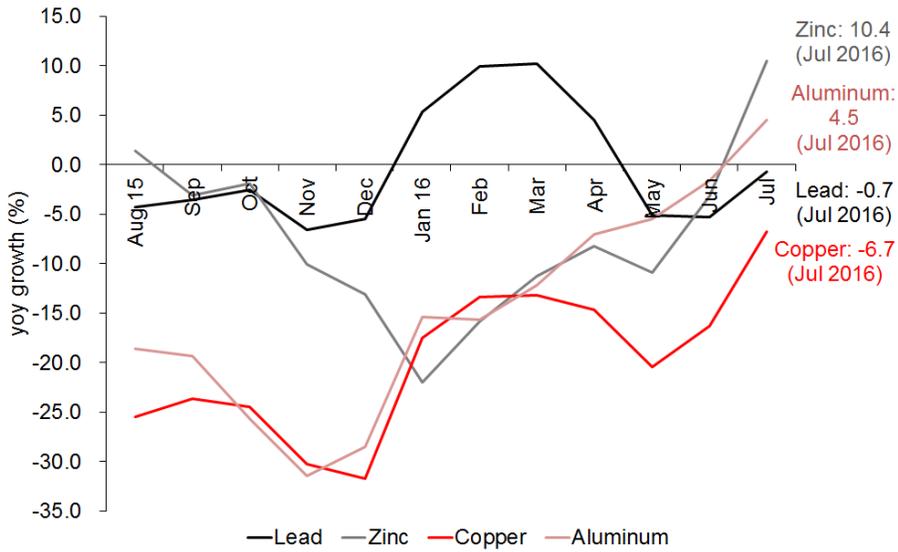
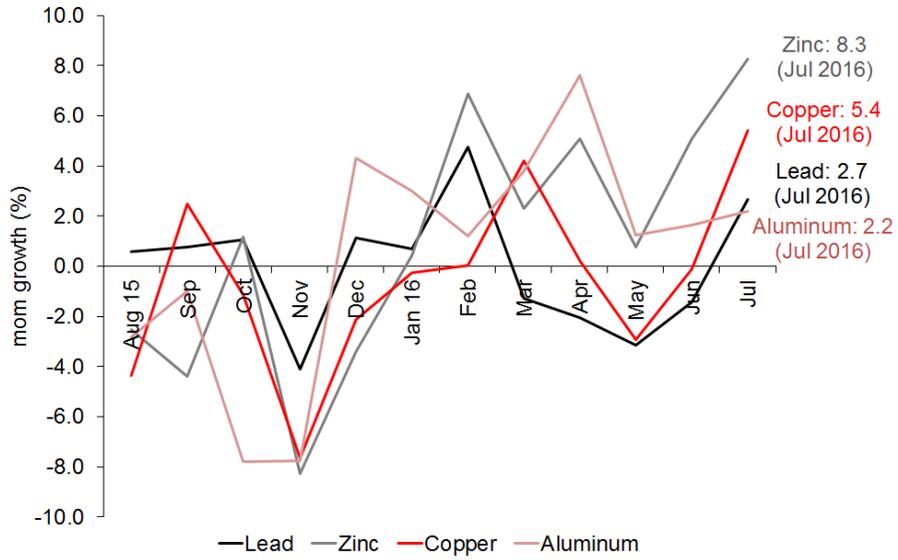
<sup>4</sup> The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of nonferrous metals,  
August 2015 to July 2016**



Source: China Logistics Information Center

### Exhibit 5: Price index of copper, aluminum, lead and zinc, August 2015 to July 2016



Source: China Logistics Information Center

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