



China Sourcing Update

August 17, 2018

Raw Material Prices: Hard Goods

1. Price index of ABS resin drops in July

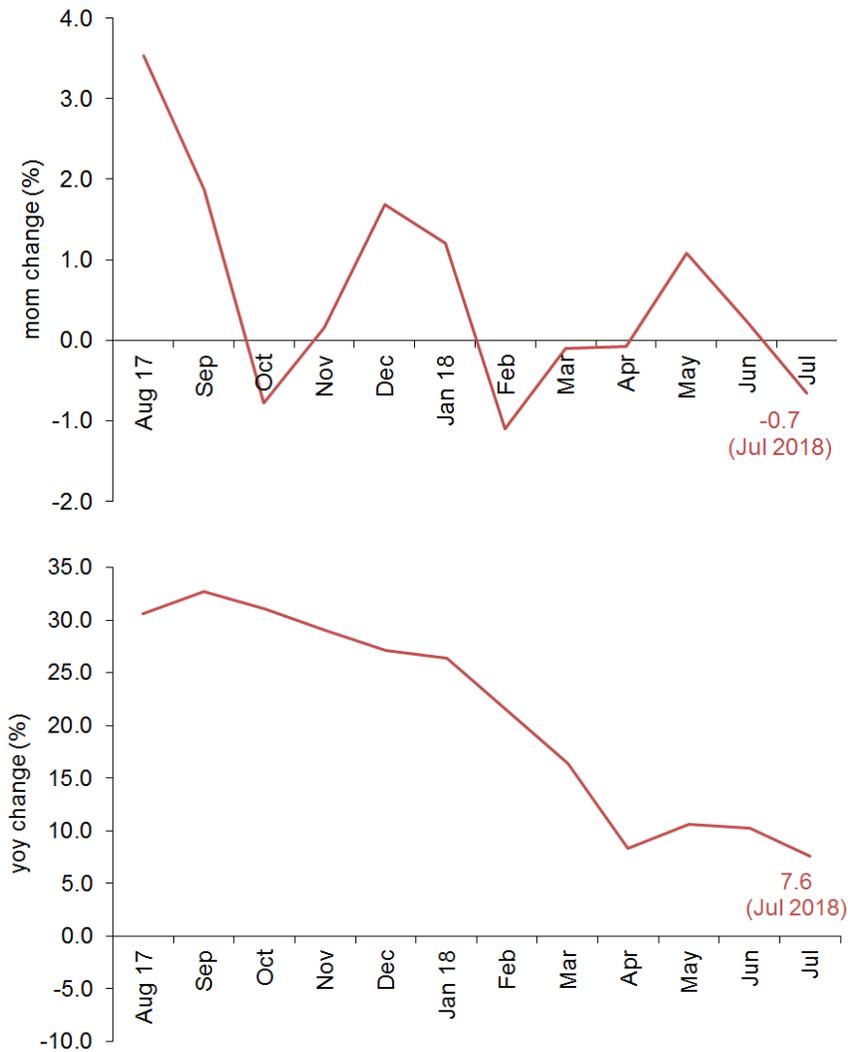
The price index of ABS resin¹ went down by 0.7% mom in July, after rising by 0.3% mom in June (see *exhibit 1*). The prices of ABS resin fell in the first half of the month amid a decline in upstream costs throughout June to early July.

During early July to early August, the prices of acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, all soared by more than 10%. Moreover, China has announced that the 25% additional tariffs on acrylonitrile imported from the US will come into effect on 23 August.² As the US accounts for more than 20% of China's imports of acrylonitrile, the tariffs will lead to higher prices of imported acrylonitrile, which are likely to further push up the production costs of ABS resin. All in all, we expect that the prices of ABS resin will rise 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.mofcom.gov.cn/article/ae/ai/201808/20180802773926.shtml>

Exhibit 1: Price index of ABS resin, August 2017 to July 2018



Source: China Logistics Information Center

2. Price index of PP goes up in July

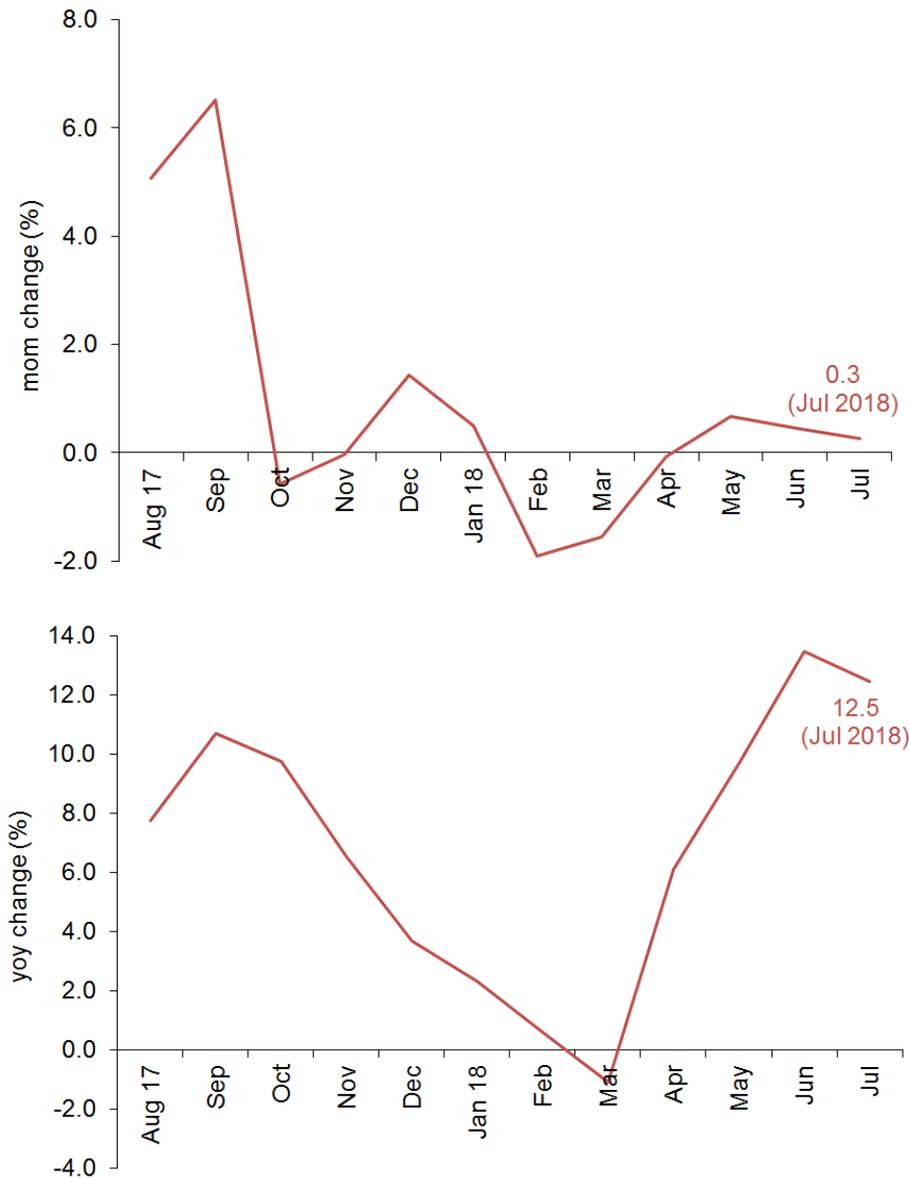
The price index of polypropylene (PP)³ advanced by 0.3% mom in July, posting month-on-month rise for three consecutive months (see exhibit 2).

The main reasons for the increase in the spot prices of PP in the month were upward adjustments in product prices made by a number of PP producers amid high upstream costs, and a rise in the prices of PP futures in China.

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

China has announced that the 25% additional tariffs on liquefied propane (which is the major raw material for PP) imported from the US will take effect on 23 August.⁴ As the US accounts for more than 25% of China's imports of liquefied propane, the tariffs will likely push up the production costs of PP. Therefore, we expect that the prices of PP will rise further in the foreseeable future.

Exhibit 2: Price index of PP, August 2017 to July 2018



Source: China Logistics Information Center

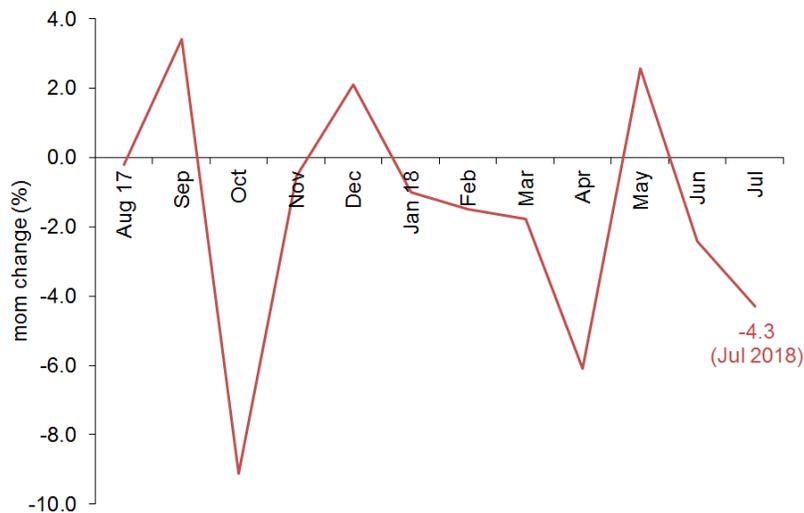
⁴ <http://www.mofcom.gov.cn/article/ae/ai/201808/20180802773926.shtml>

3. Price index of natural rubber declines further in July

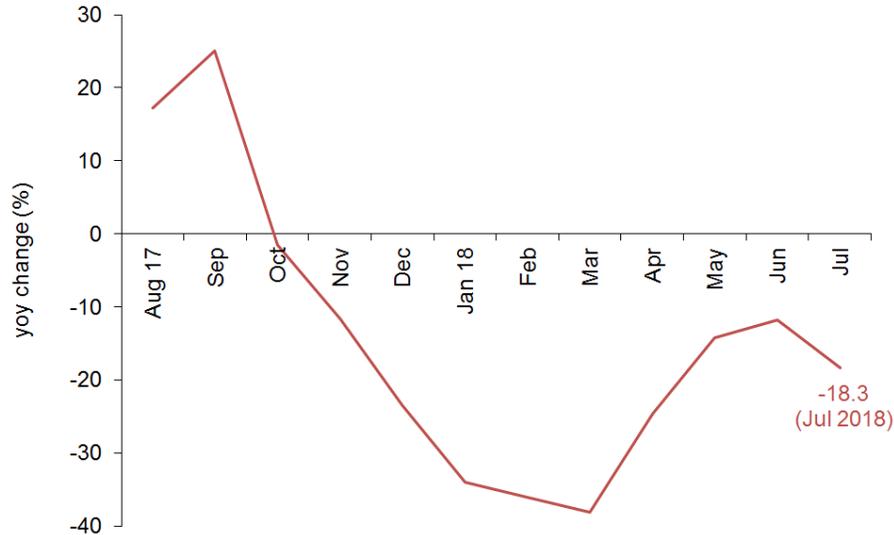
The price index of natural rubber⁵ dropped by 4.3% mom in July, after falling by 2.4% mom in June (see exhibit 3).

Rubber prices stayed low in early June as market concerns about the China-US trade war persisted. Rubber prices fell further after the US released on 10 July a list of Chinese goods worth US\$200 billion subject to 10% additional tariffs, which covers most rubber products from China. On 1 August, the US administration announced that it was considering increasing the additional tariff rate to 25%. In our view, if the tariffs do come into effect, the downstream demand for natural rubber is likely to fall sharply, as most of China's rubber exports to the US will face extra tariffs. Therefore, we expect rubber prices to stay low in the near term.

Exhibit 3: Price index of natural rubber, August 2017 to July 2018



⁵ The index is compiled by the China Logistics Information Center (CLIC).



Source: China Logistics Information Center

4. Price indices of non-ferrous metals slump in July

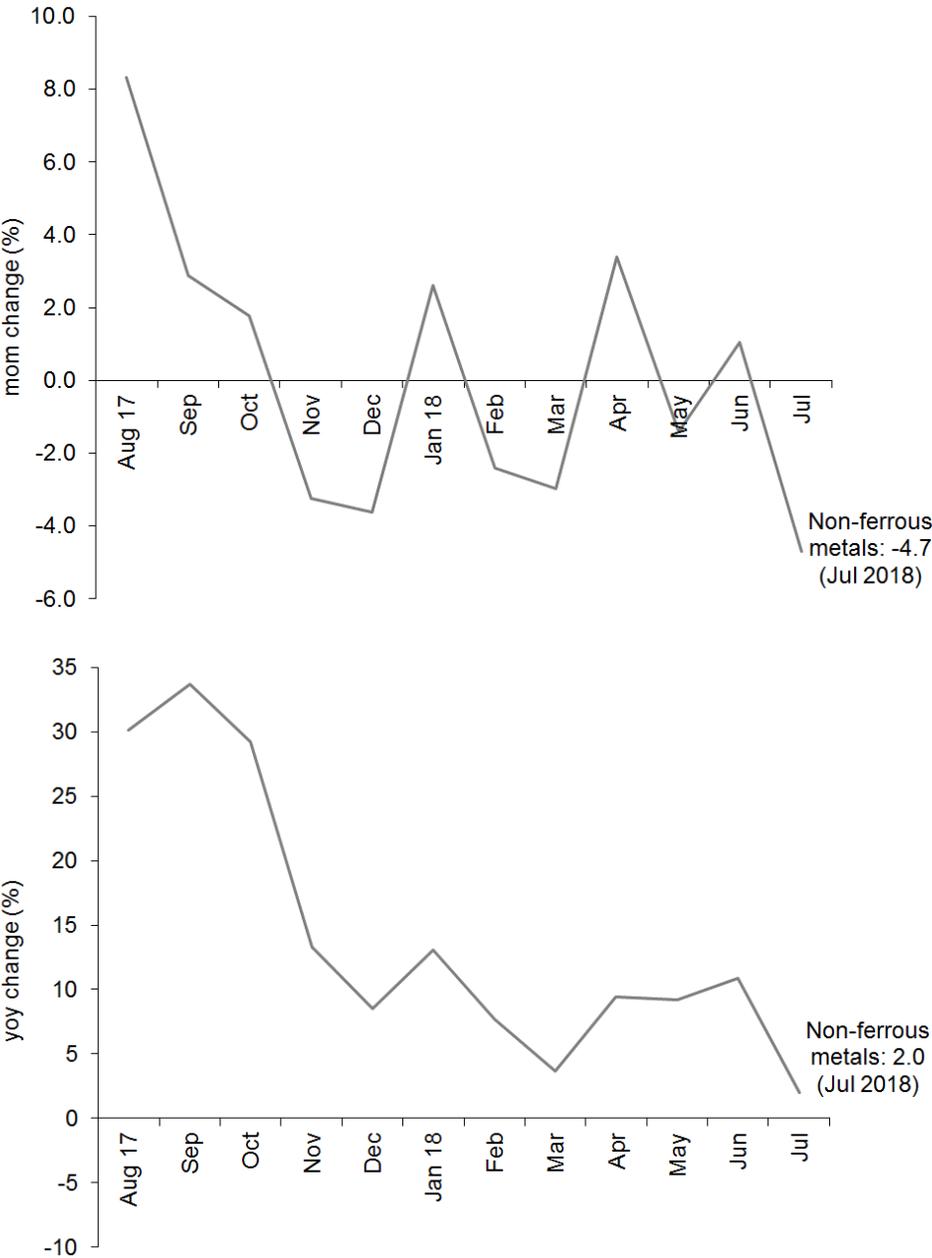
The price index of non-ferrous metals plunged by 4.7% mom in July, after rising by 1.1% mom in June (see exhibits 4 & 5).⁶

The sharp fall in non-ferrous metal prices in China in July was mainly triggered by the escalating China-US trade tensions, as investors were concerned that the China-US trade war could lead to a slower economic growth and thus a lower demand for non-ferrous metals. Moreover, the strengthening of the US dollar also put downward pressures on non-ferrous metal prices. The fall in zinc prices in China was particularly steep as an abundant domestic supply led to speculative selling in the domestic market.

Looking ahead, we expect the prices of non-ferrous metals to stay low in the coming couple of months, given the uncertainty surrounding the China-US trade war.

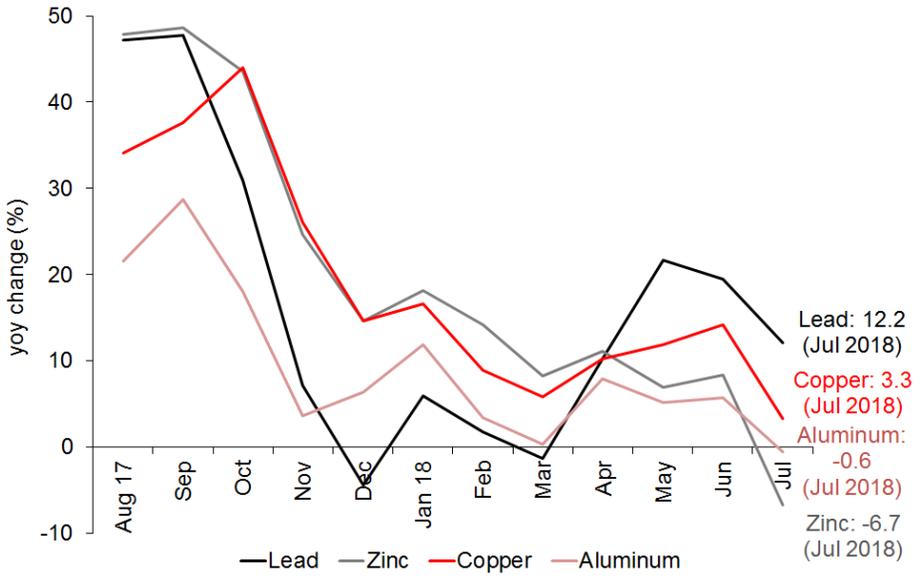
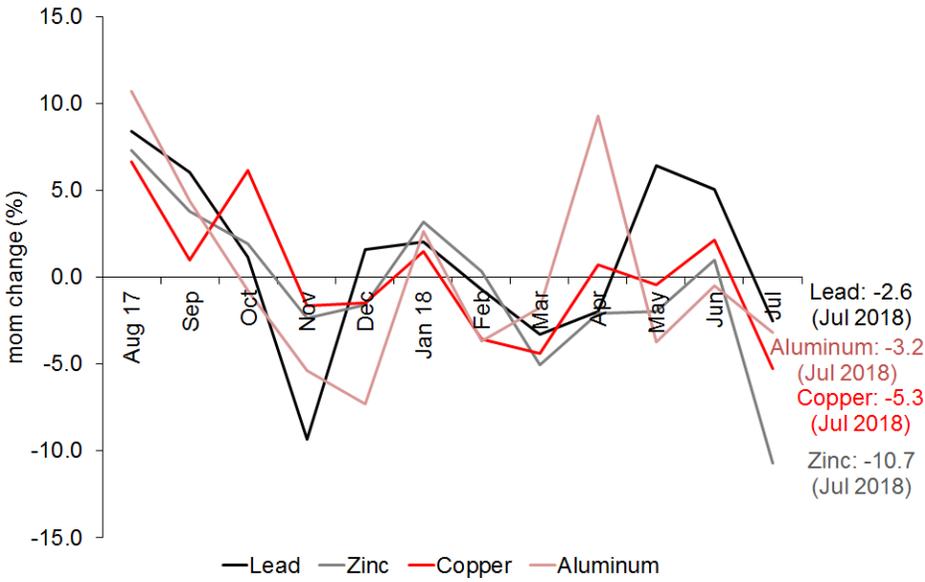
⁶ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
August 2017 to July 2018**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,
August 2017 to July 2018**



Source: China Logistics Information Center

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CONTACT

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

William Kong
Research Manager
williamkong@fung1937.com
(852) 2300 2404

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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