



# China Sourcing Update

July 31, 2018

## Raw Material Prices: Hard Goods

### 1. Price index of ABS resin goes up in June

The price index of ABS resin<sup>1</sup> rose by 0.3% mom in June, posting month-on-month increase for two consecutive months (see *exhibit 1*). The prices of ABS resin climbed in the month despite a fall in upstream costs.

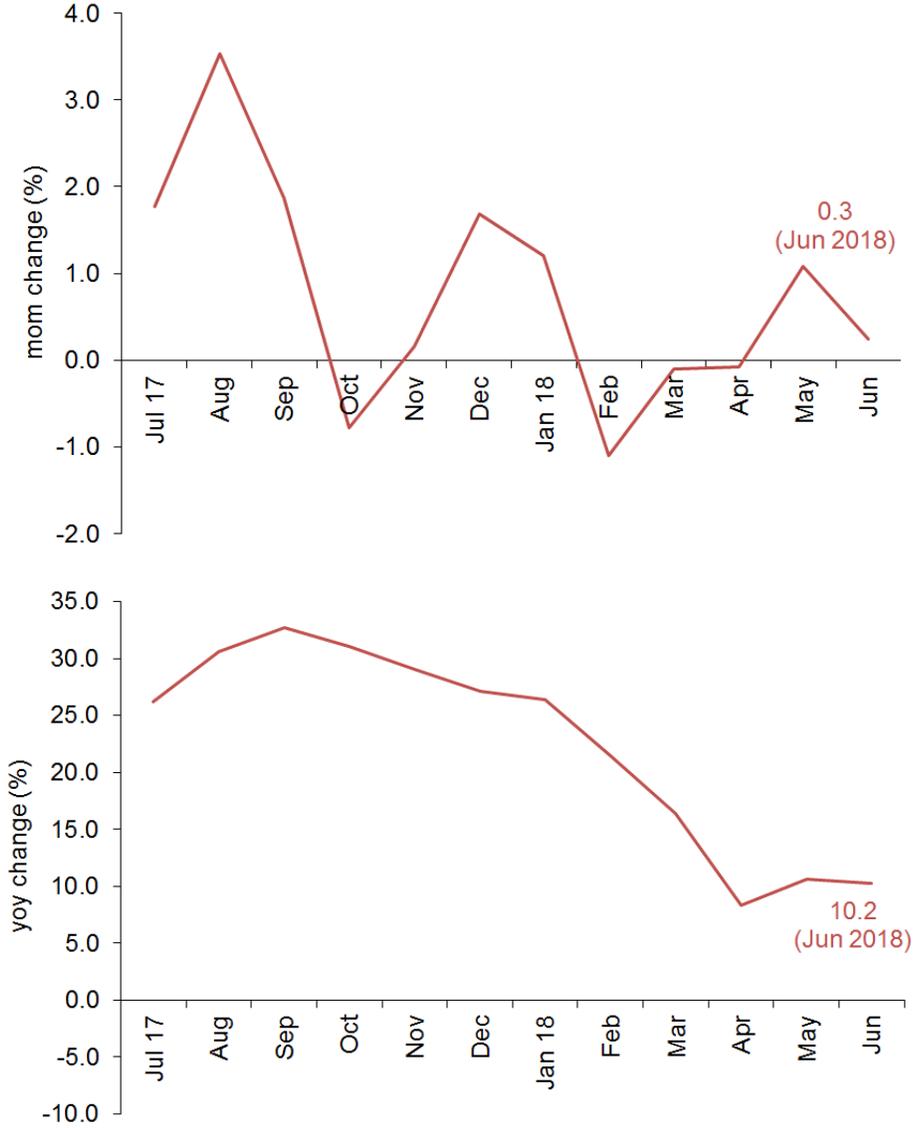
Looking ahead, we expect the prices of ABS resin to retreat in the near term, given a further decline in upstream costs in early July and the uncertainty about a full-fledged China-US trade war.

It is noteworthy that acrylonitrile (a raw material of ABS resin) imported from the US is included in the second part of a product list for 25% additional tariffs published by the Chinese government on 16 June, of which the tariff effective date will be announced later.<sup>2</sup> In our view, if the tariffs do take effect, higher prices of imported materials will push up the production costs of ABS resin, while the rising prospect of an all-out China-US trade war is likely to lead to a drop in the downstream demand for the resin.

<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> <http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201806/P020180616034362364988.pdf>

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



Source: China Logistics Information Center

## 2. Price index of PP advances in June

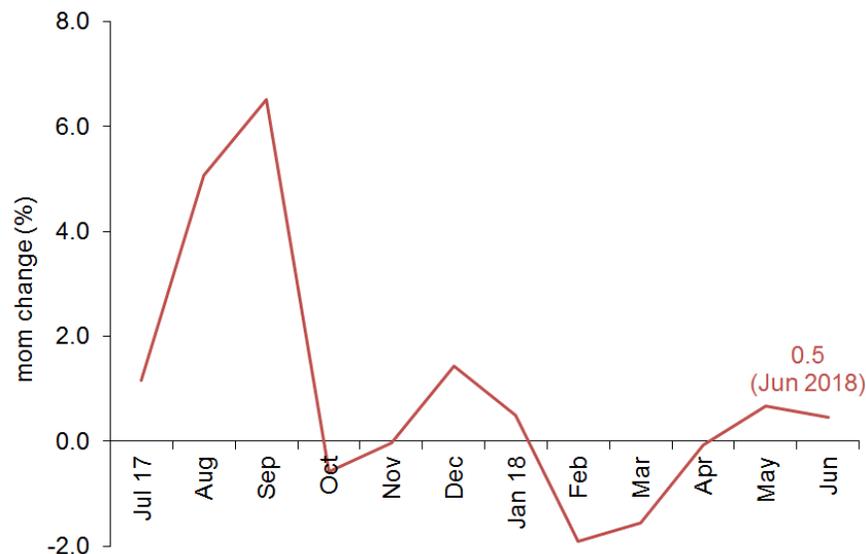
The price index of polypropylene (PP)<sup>3</sup> went up by 0.5% mom in June, posting month-on-month rise for two consecutive months (see exhibit 2).

The spot prices of PP increased in the first half of June due mainly to high upstream costs, low levels of inventory among PP producers, and an increase in the prices of PP futures in China.

In the near term, we expect that the upstream costs of PP will remain high, and the stock levels held by PP producers are likely to stay low. Thus, we believe that the prices of PP will rise further in the coming months.

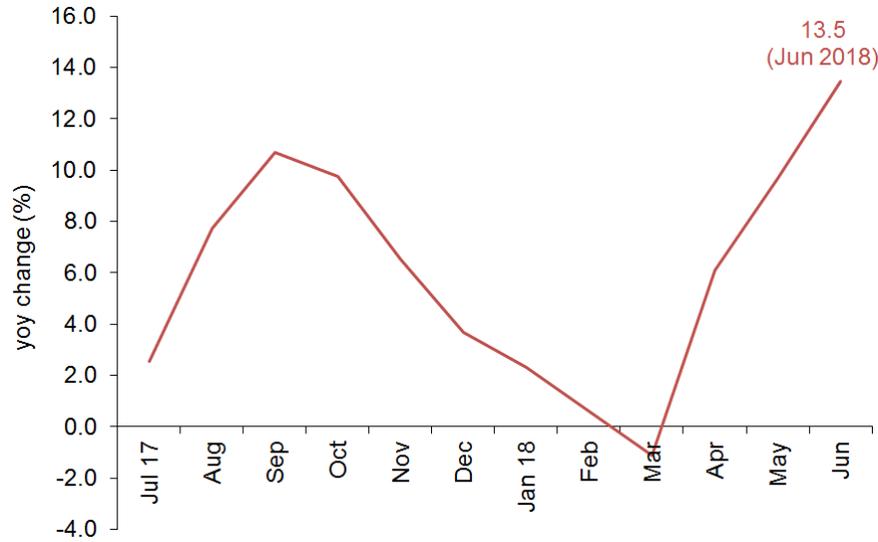
It is noteworthy that both liquefied propane and liquefied propylene (which are raw materials for PP) imported from the US are on the second part of a product list for 25% additional tariffs published by the Chinese government on 16 June, of which the tariff effective date is not announced yet.<sup>4</sup> In our view, if the tariffs do come into effect, the domestic PP market will be disrupted: higher prices of imported materials will lead to higher production costs of PP, while the prospect of a full-scale trade war is likely to cause a fall in the downstream demand for PP.

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



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

<sup>4</sup> <http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201806/P020180616034362364988.pdf>



Source: China Logistics Information Center

### 3. Price index of natural rubber drops in June

The price index of natural rubber<sup>5</sup> went down by 2.4% mom in June, after rising by 2.6% mom in May (see exhibit 3).

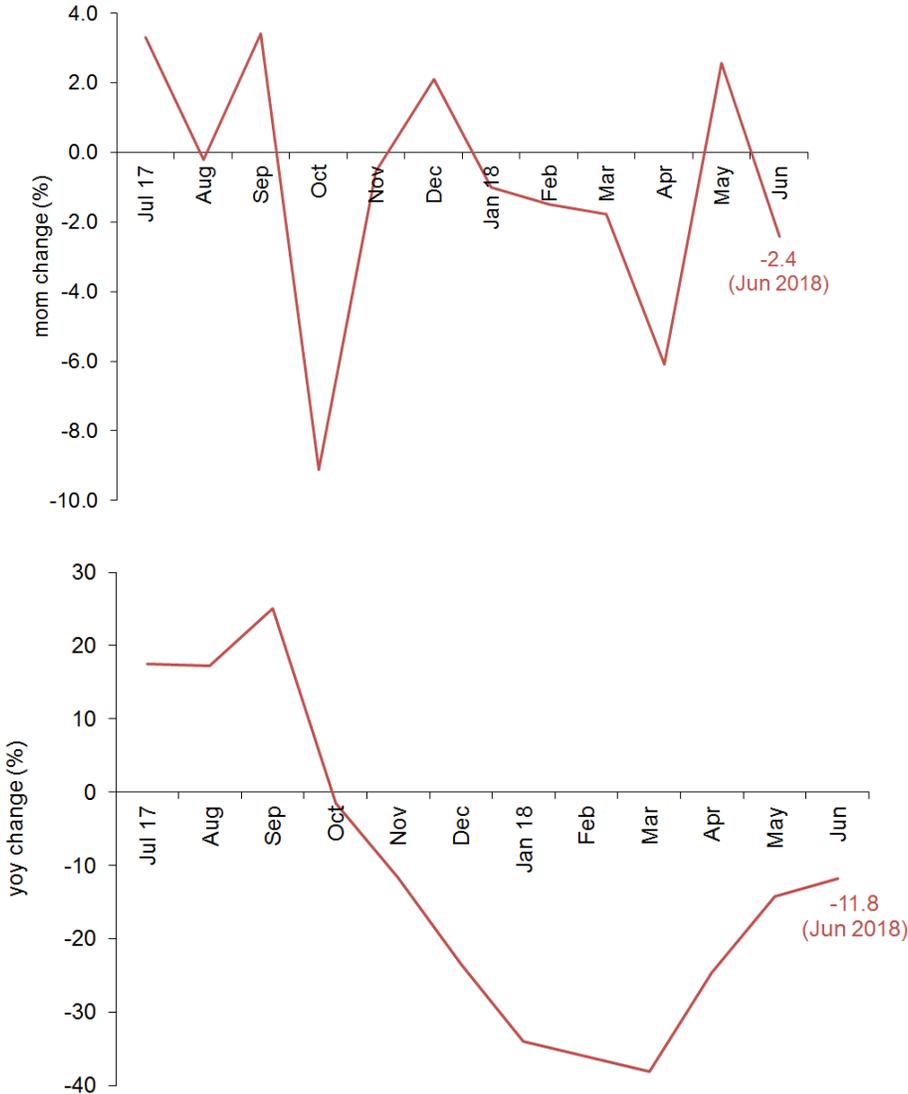
Rubber prices fell during early to mid-June as renewed worries about the trade disputes between China and the US dragged down global commodity markets, particularly after the two countries traded import duties and tariff threats in mid-June. Then, rubber prices stayed low in the rest of the month.

Starting from 6 July, two categories of tyres from China have been subject to additional tariffs of 25% levied by the US. However, as China's major tyre exports such as tyres for vehicles and bicycles are not affected, the tariffs are not likely to greatly reduce China's export of tyres, the major downstream product of natural rubber.

That being said, we expect rubber prices to stay low amid market concerns over a potential full-fledged China-US trade war and an increase in the supply of natural rubber during the current rubber tapping season.

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

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



Source: China Logistics Information Center

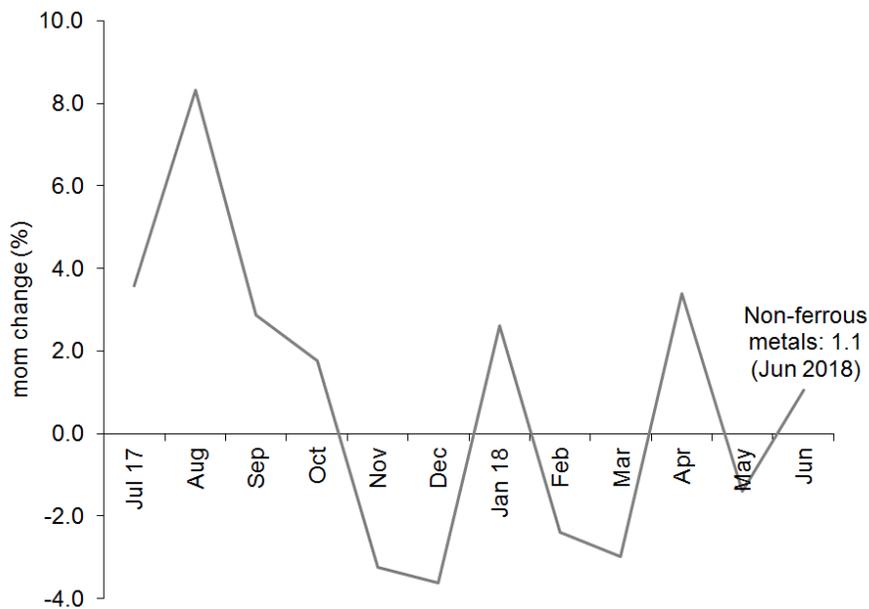
#### 4. Price indices of non-ferrous metals climb in June

The price index of non-ferrous metals rose by 1.1% mom in June, after falling by 1.4% mom in May (see exhibits 4 & 5).<sup>6</sup>

The rise in non-ferrous metal prices in China in June was led by a jump in copper prices in the first half of the month, amid market concerns over a tightened supply of copper in both the domestic market and international market. Afterwards, non-ferrous metal prices went down as escalating China-US trade tensions put downward pressures on commodity prices.

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

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

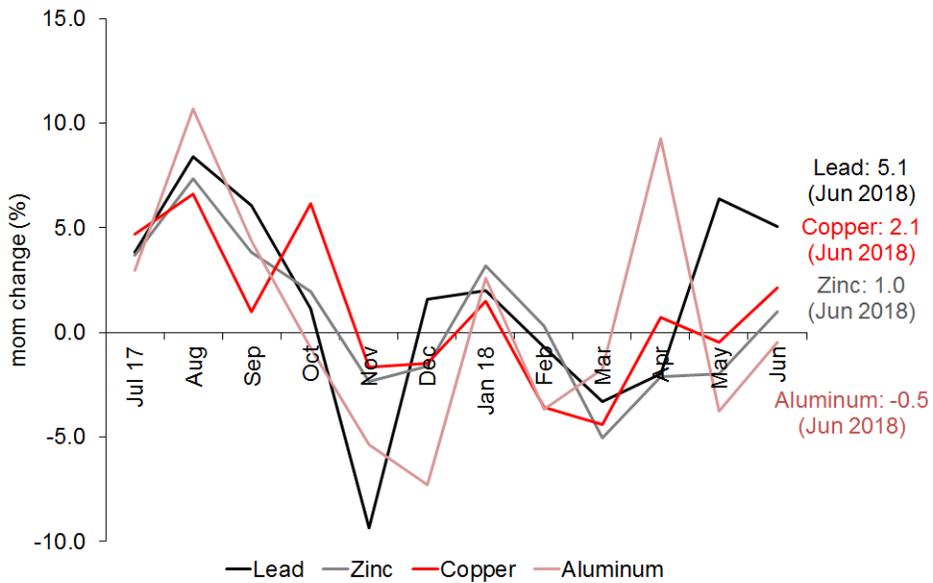


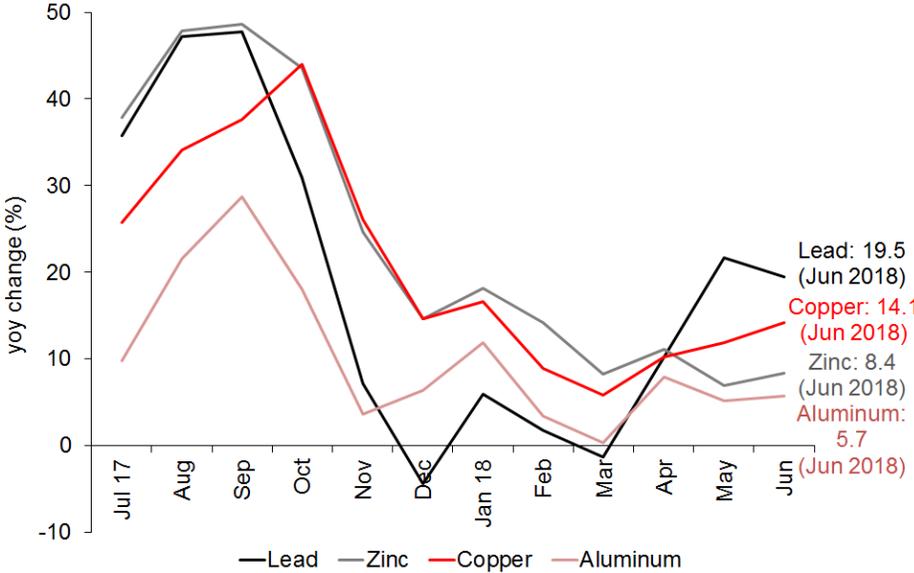
<sup>6</sup> The indices are compiled by the China Logistics Information Center (CLIC).



Source: China Logistics Information Center

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





Source: China Logistics Information Center

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