



China Sourcing Update

April 27, 2018

Raw Material Prices: Hard Goods

1. Price index of ABS resin goes down in February and March

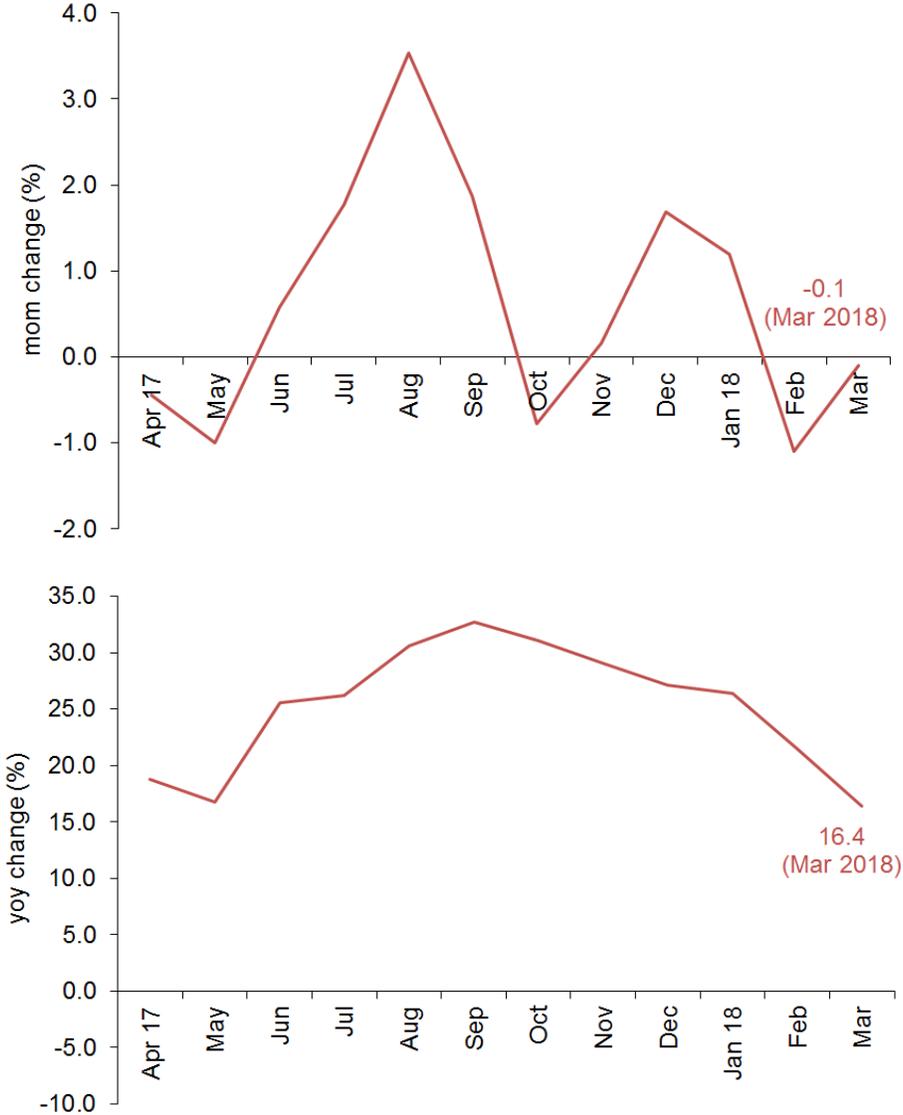
The price index of ABS resin¹ edged down by 0.1% mom in March, after falling by 1.1% mom in February (see exhibit 1).

The decline in the prices of ABS resin in the two-month period was mainly caused by a drop in upstream costs and a weak downstream demand for the resin.

Going forward, the upstream costs for ABS resin are likely to increase, as global crude prices have risen sharply since early March (acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum). Therefore, we expect the prices of ABS resin to rise 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, April 2017 to March 2018



Source: China Logistics Information Center

2. Price index of PP falls in February and March

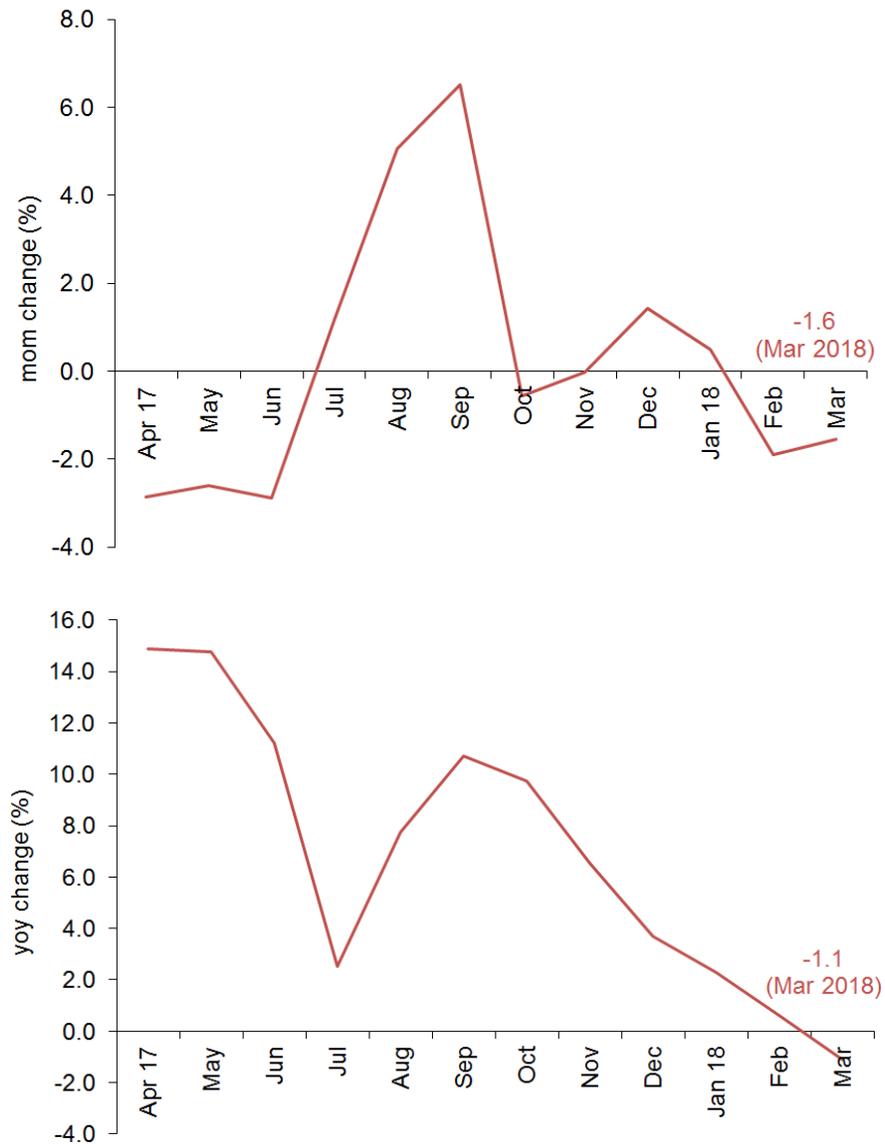
The price index of polypropylene (PP)² went down by 1.6% mom in March, after dropping by 1.9% mom in February (see exhibit 2).

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

The main reason for the decline in the price index of PP was that some PP producers lowered the prices of their products, amid a rise in their stock levels during and shortly after the Chinese New Year Holidays and a fall in the prices of PP futures in China in the two-month period.

Looking ahead, we expect the price index of PP to stabilize in the near future, as the levels of stock held by PP producers started to fall in late March.

Exhibit 2: Price index of PP, April 2017 to March 2018



Source: China Logistics Information Center

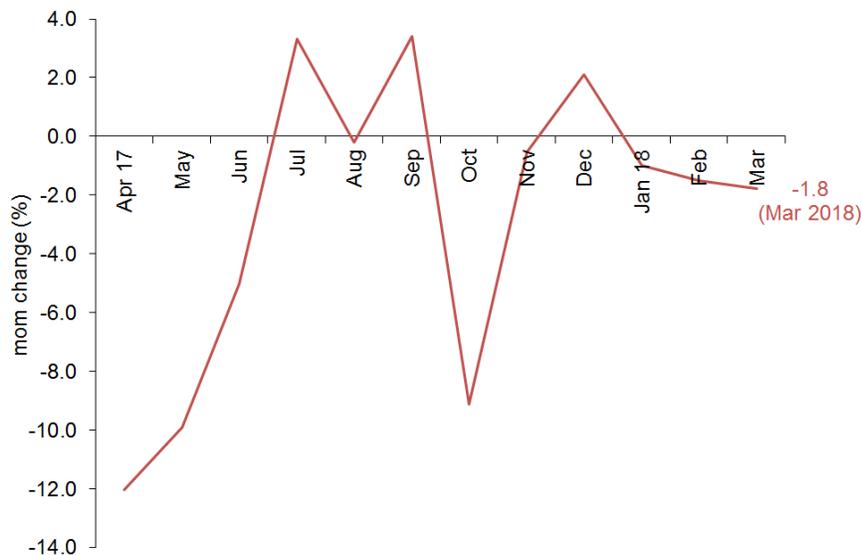
3. Price index of natural rubber falls in March

After falling by 1.5% mom in February, the price index of natural rubber³ dropped further by 1.8% mom in March (see exhibit 3).

The main reasons for the decline in rubber prices were a sluggish downstream demand from tyre manufacturers and an abundant supply of natural rubber in the domestic market, as indicated by high levels of rubber inventories. Moreover, escalating trade tensions between China and the US triggered to a further drop in rubber prices in late March, as investors were concerned that tyres, one of the major downstream products of natural rubber and the focus of an anti-dumping investigation by the US last year, will be hit with tariffs by the US.

According to the media reports, the downstream demand has shown no sign of recovery. Besides, the domestic supply of rubber is likely to remain abundant in the near future, especially as Chinese imports of natural rubber and synthetic rubber recorded strong month-on-month growth of 52.9% in March, according to media reports. All in all, we expect the natural rubber prices to drop further in near term.

Exhibit 3: Price index of natural rubber, April 2017 to March 2018



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



Source: China Logistics Information Center

4. Price indices of non-ferrous metals drop in March

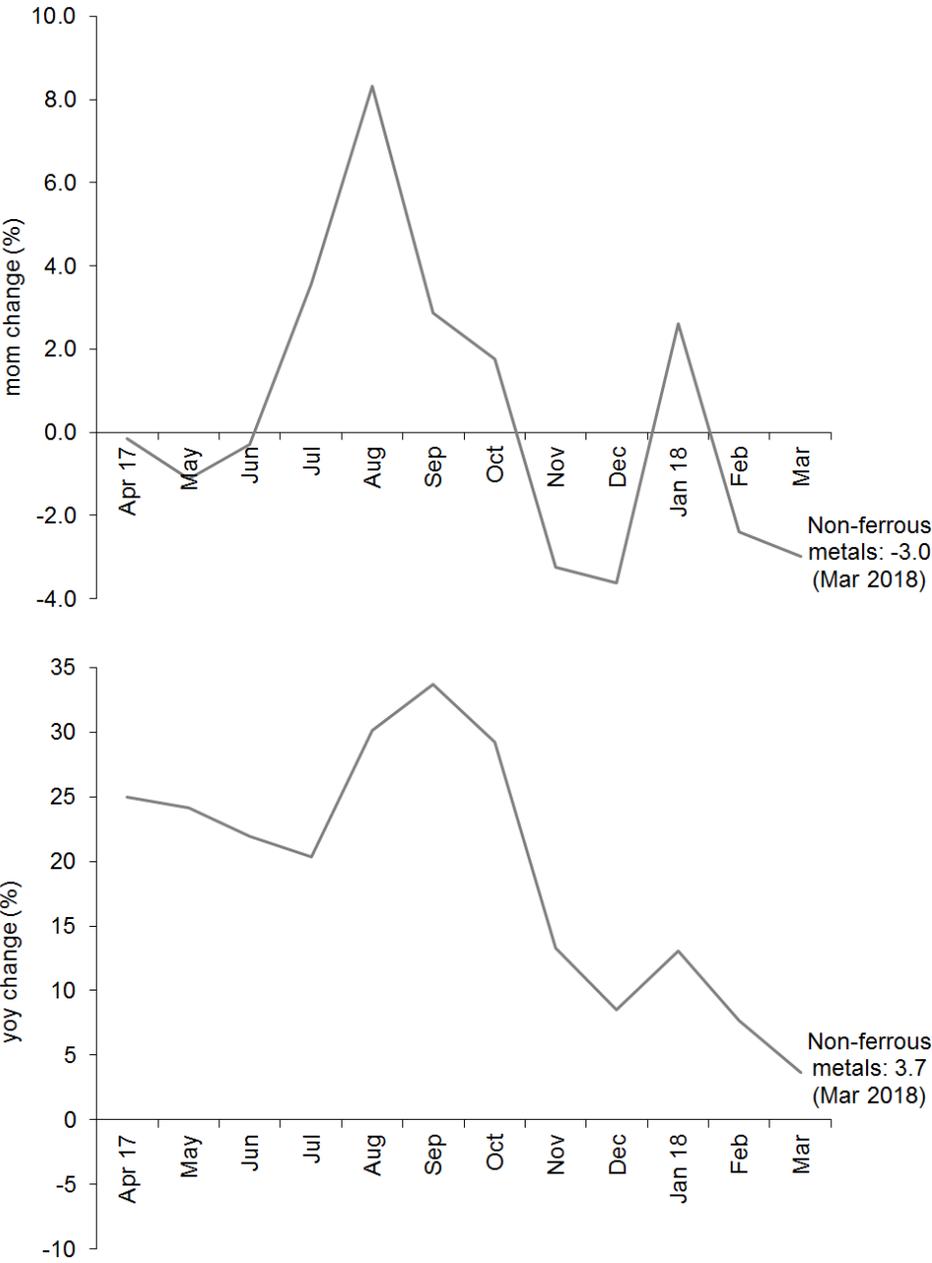
The price index of non-ferrous metals fell by 3.0% mom in March, after dropping by 2.4% mom in February (see exhibits 4 & 5).⁴

In our view, the drop in non-ferrous metal prices in China in March was triggered mainly by the US government's announcements of proposed increase in import tariff rates on a number of Chinese products, which weakened investors' sentiments on commodities including non-ferrous metals.

Going forward, the China-US trade tensions are unlikely to ease in the near future. Therefore, we believe that the prices of various types of non-ferrous metals will stay weak in the coming months. Nevertheless, aluminum may be an exception. On 6 April, the US government announced to add Rusal, one of the leading aluminum producing companies in the world, to its sanction list, triggering a sharp rise in global prices of aluminum. The surge in global aluminum prices is likely to put upward pressure on domestic prices of aluminum.

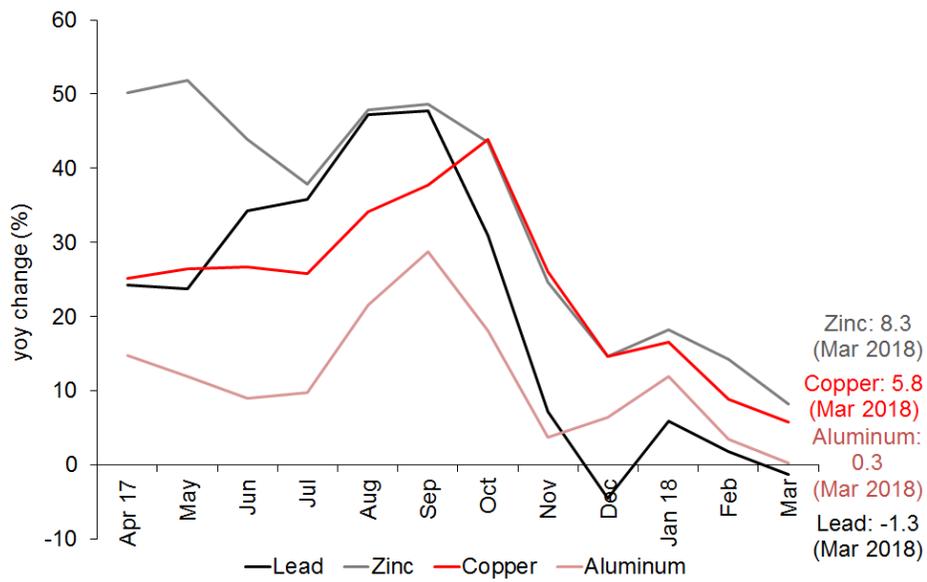
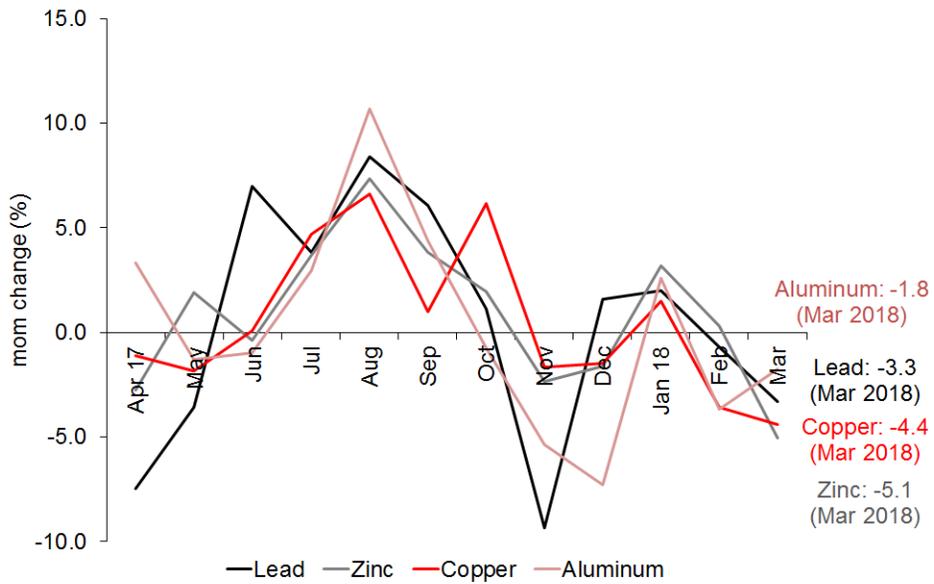
⁴ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
April 2017 to March 2018**



Source: China Logistics Information Center

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



Source: China Logistics Information Center

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