



## China Sourcing Update

June 30, 2016

### Raw Material Prices: Hard Goods

#### 1. Price index of ABS resin rises further in May

The price index of ABS resin<sup>1</sup> rose by 0.7% mom in May, posting month-on-month gain for four consecutive months (*see exhibit 1*). According to the local media, the uptrend of the price index of ABS resin in the past few months was due largely to the rise in upstream prices; meanwhile, the downstream demand for ABS resin remained weak during the same period.

Looking ahead, the supply of ABS resin is expected to be tight in the coming months, as several local governments in eastern China have ordered petrochemical plants to curb production from late August to early September, ahead of the upcoming G20 Leaders Summit in Hangzhou to be held on 4-5 September.<sup>2</sup> Moreover, the prices of major materials of ABS resin remained high in June, supported by the rebound in the global crude prices in the first half of 2016. (Acrylonitrile, butadiene and styrene, the major raw materials of ABS resin, are derived from petroleum.) However, it is widely believed that the 'Brexit' decision will dent global economic growth and suppress

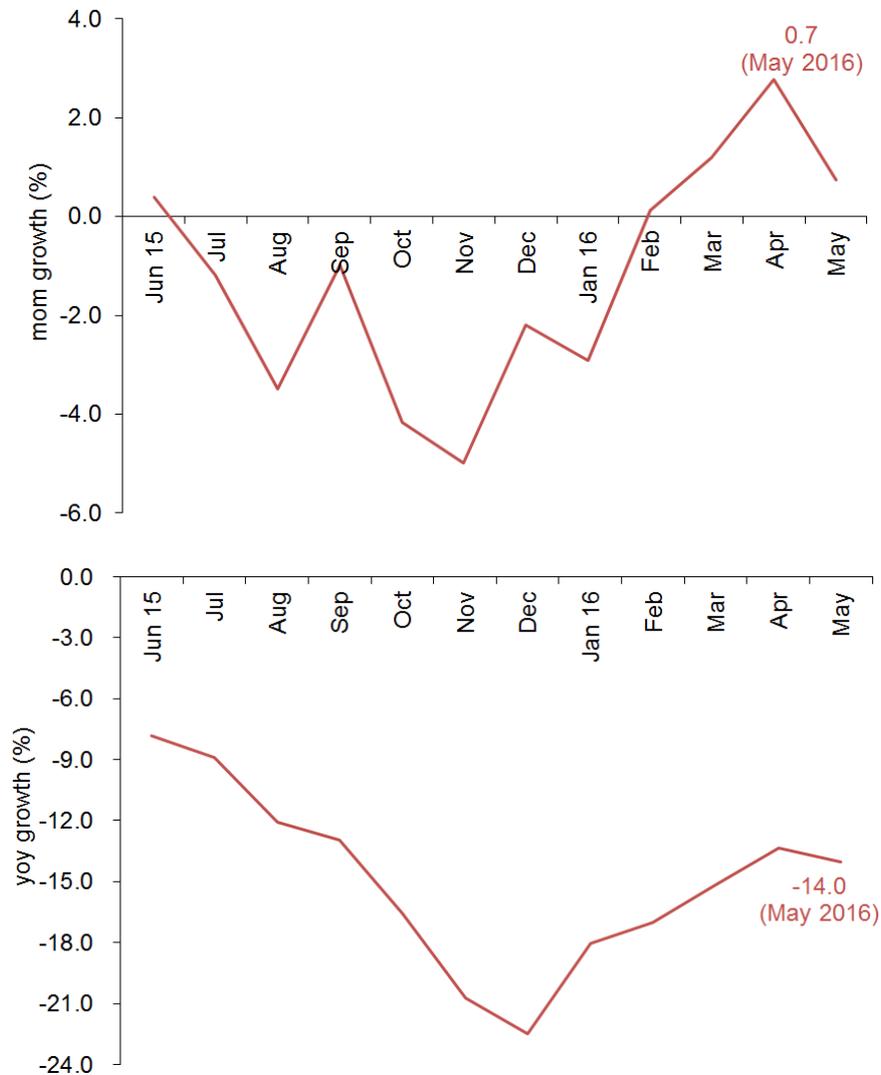
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<sup>1</sup> The index is compiled by the China Logistics Information Center (CLIC). The CLIC is a sub-division of the China Federation of Logistics & Purchasing (CFLP), which is the first logistics and purchasing industry association approved by the State Council. One of the CFLP's missions is to push forward the circulation of factors of production in China.

<sup>2</sup> See <http://www.sepb.gov.cn/fa/cms/upload/uploadFiles/2016-05-13/file2359.pdf>; also see [http://gongbao.nc.gov.cn/articleDetail.do?article\\_id=01f64dc6-25d6-4803-b2cc-77024582116c](http://gongbao.nc.gov.cn/articleDetail.do?article_id=01f64dc6-25d6-4803-b2cc-77024582116c).

crude prices, which will in turn put downward pressure on the upstream prices of ABS resin. Therefore, we expect the prices of ABS resin to peak soon.

**Exhibit 1: Price index of ABS resin, June 2015 to May 2016**



Source: China Logistics Information Center

## 2. Price index of PP falls

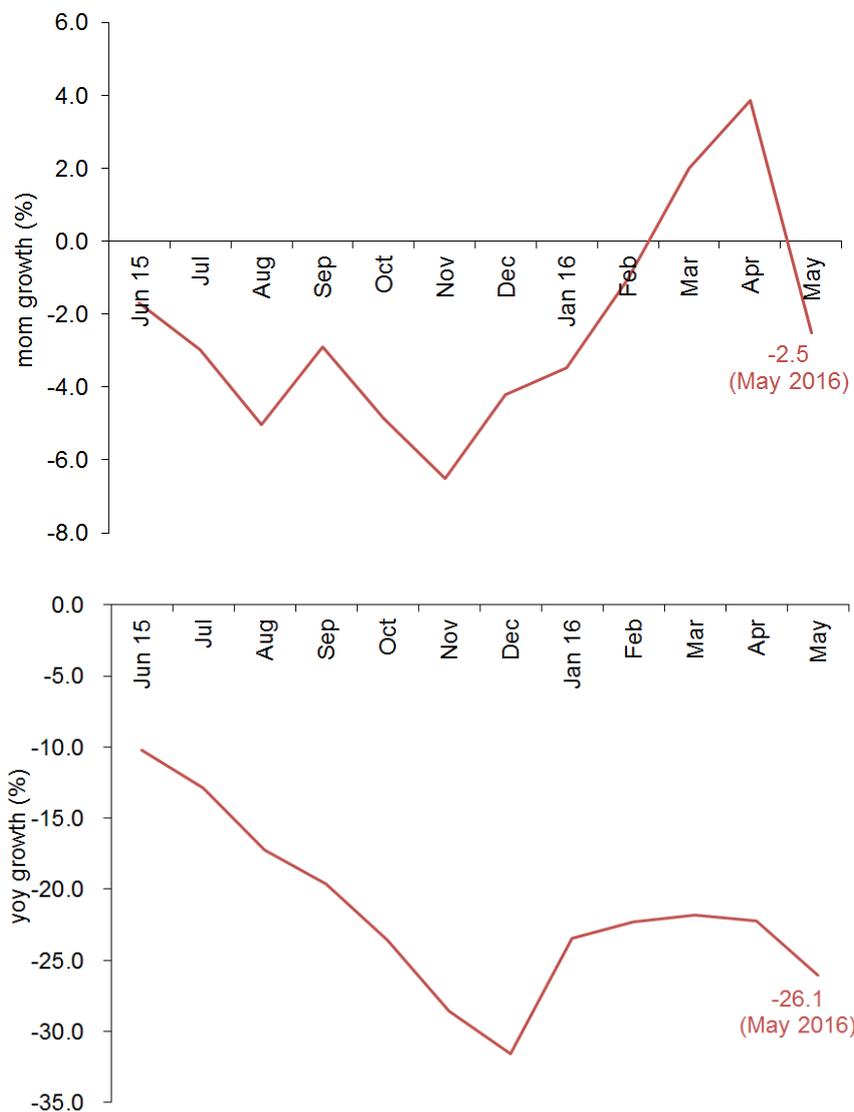
After having risen for two consecutive months, the price index of polypropylene (PP)<sup>3</sup> dropped by 2.5% mom in May (see exhibit 2).

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

According to the local media, the downstream demand for PP stayed weak in the month, and downstream manufacturers only made hand-to-mouth purchases.

Going forward, the supply of PP is expected to be tight in the near future, as PP producers have low stock levels and a number of these producers will suspend their production for maintenance, according to the local media. Therefore, we believe that the prices of PP will rebound in the near term.

**Exhibit 2: Price index of PP, June 2015 to May 2016**



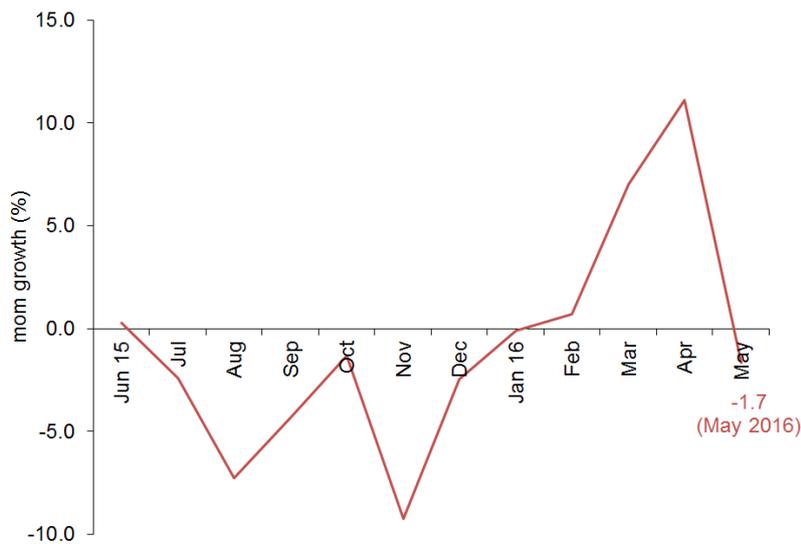
Source: China Logistics Information Center

### 3. Price index of natural rubber drops

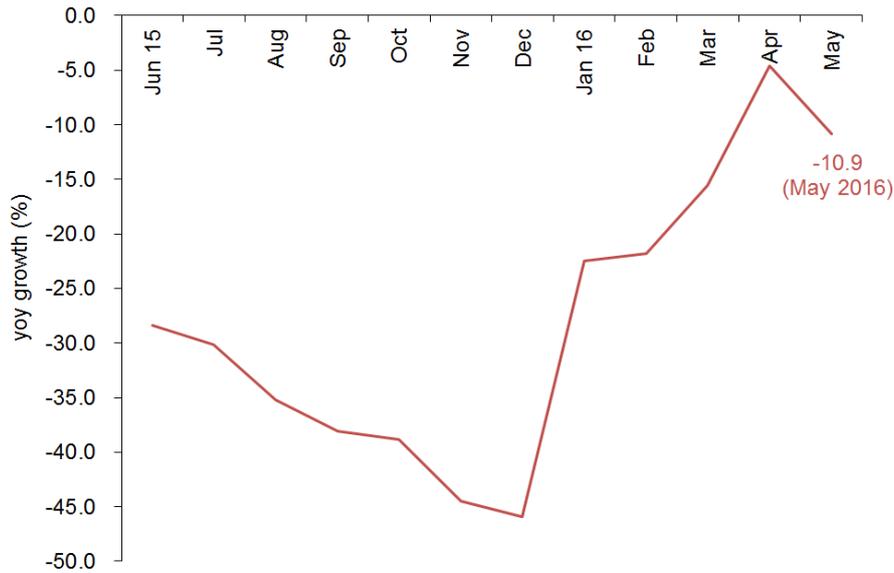
After having posted mom gain for three consecutive months, the price index of natural rubber<sup>4</sup> dropped by 1.7% mom in May (see exhibit 3). In our view, the fall in the spot prices of natural rubber was triggered by the decline in the prices of natural rubber futures in China, which was highly associated with market speculations; the abundant supply of domestic and imported natural rubber also put downward pressure on the domestic prices of natural rubber.

Going forward, the prices of natural rubber are likely to fall further in the near future, as the supply of natural rubber is expected to increase and the downstream demand shows no signs of recovery.

**Exhibit 3: Price index of natural rubber, June 2015 to May 2016**



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



Source: China Logistics Information Center

#### 4. Price indices of nonferrous metals edges down in May

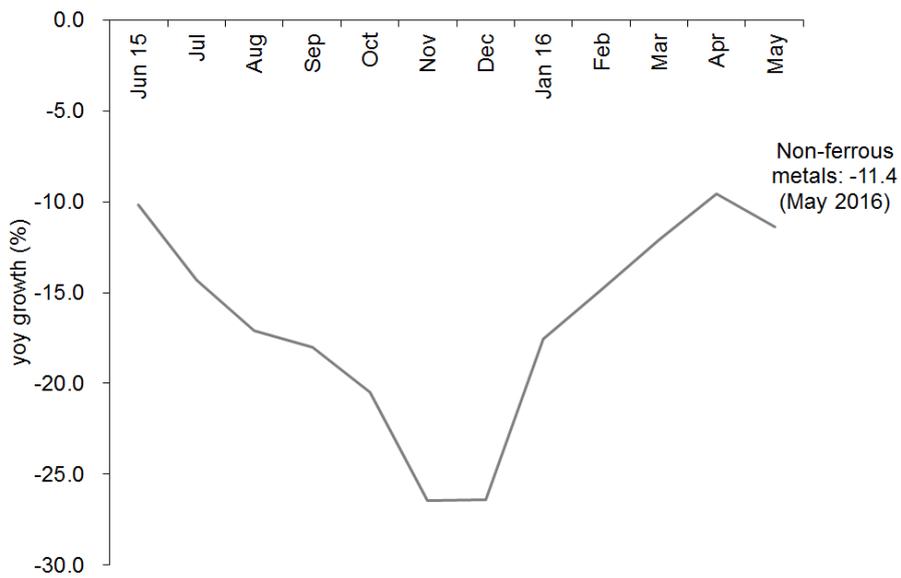
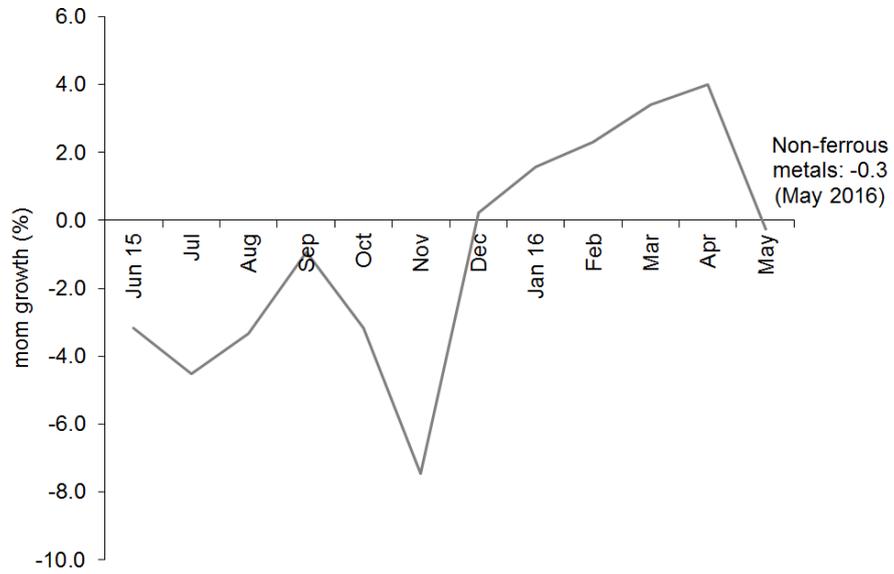
After having risen for five straight months, the price index of nonferrous metals dropped slightly by 0.3% mom in May (see exhibits 4 & 5).<sup>5</sup>

According to the local media, the main reason for the fall in the prices of various types of non-ferrous metal prices in the month was the reduced speculative demand, caused by the weak economic data released by China's National Bureau of Statistics and rising expectations of an interest rate hike by the US Federal Reserve in June or July. Meanwhile, the downstream demand also fell in May as the high season of metal consumption came to an end.

Looking ahead, we believe that the prices of non-ferrous metals will fluctuate around the current levels. The domestic stock levels of non-ferrous metals are still high yet falling; and the overcapacity problems among the manufacturers of non-ferrous metals are being addressed, which may quicken the destocking processes.

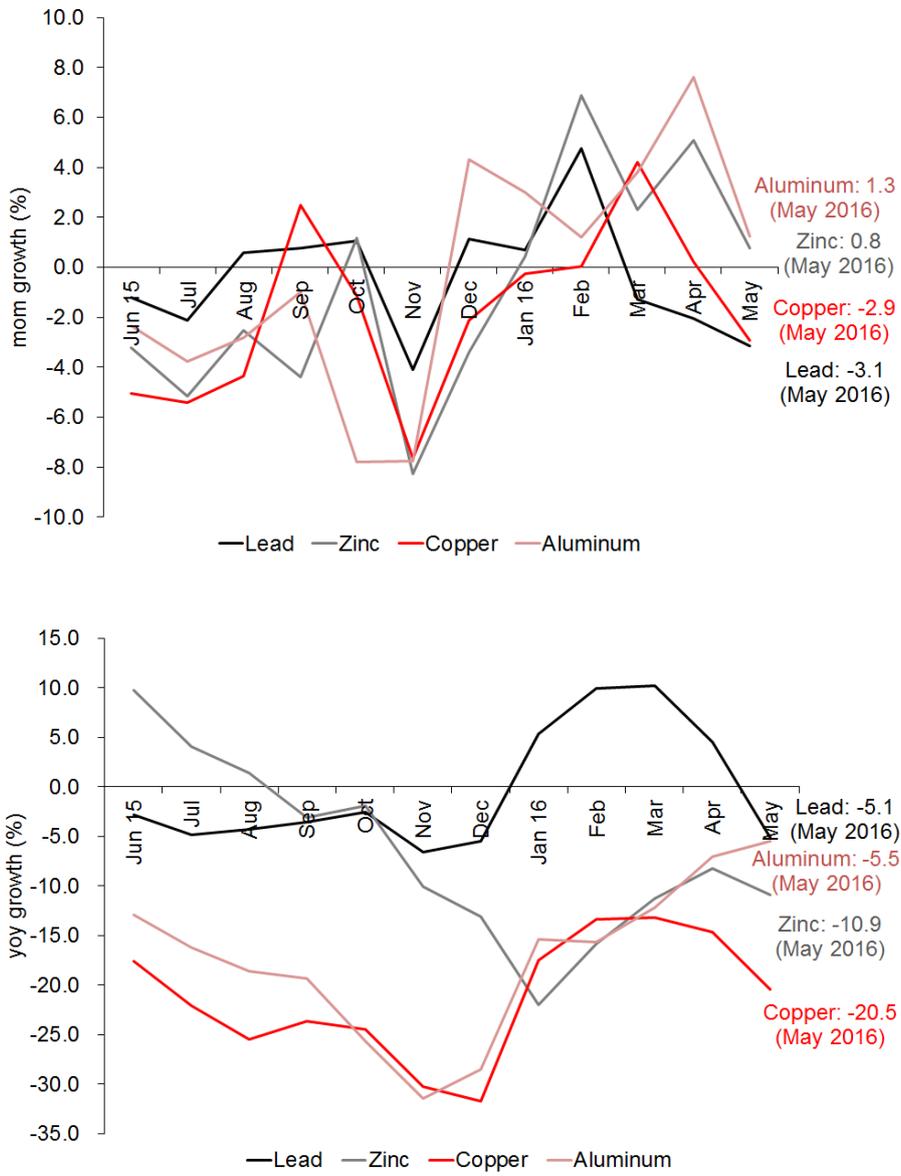
<sup>5</sup> The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,  
June 2015 to May 2016**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc, June 2015 to May 2016**



Source: China Logistics Information Center

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## CONTACT

Helen Chin  
Vice President  
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](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>



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