



China Sourcing Update

June 26, 2019

Raw Material Prices: Hard Goods

1. Price index of ABS resin edges up in May

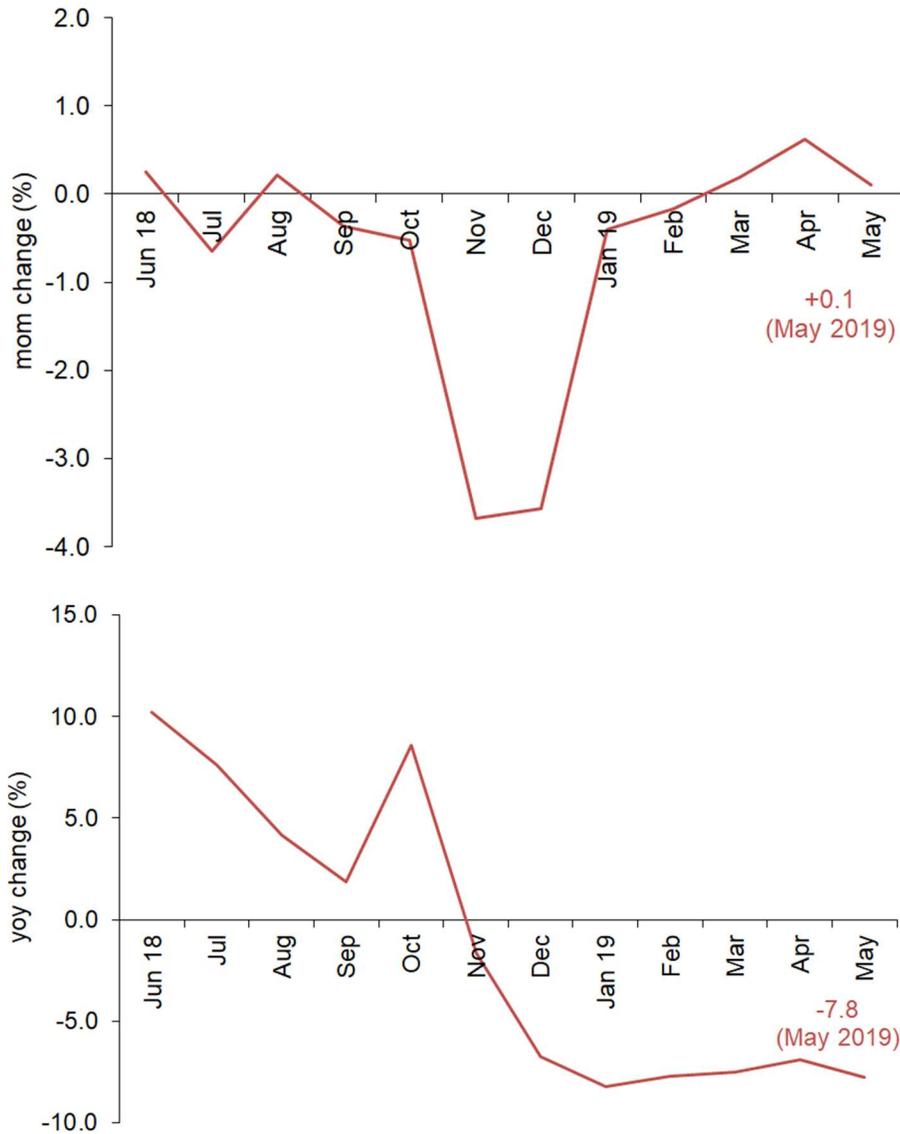
The price index of ABS resin¹ edged up by 0.1% mom in May, a deceleration from the 0.6% mom growth in April. On a year-on-year basis, however, the price index registered a decline of 7.8% in May. (See exhibit 1)

The increase in the prices of ABS resin in the month was mainly due to the strong rise in the price of styrene, a major raw material for ABS resin. However, due to weak downstream demand, the rise in prices of ABS resin during the month was mild.

Looking ahead, we expect the prices of ABS resin to retreat in the coming months as downstream demand remains weak amidst worries over the impact of China-US trade tensions. Certain major home appliance categories imported from China were included in the US' list of additional tariffs effective 10 May. The list of an additional US\$300 billion worth of Chinese imports, on which the US proposed on 13 May to levy additional tariffs on, included yet more home appliance categories. The additional tariffs are likely to reduce the downstream demand for ABS resin.

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, June 2018 to May 2019



Source: China Logistics Information Center

2. Price index of PP falls in May

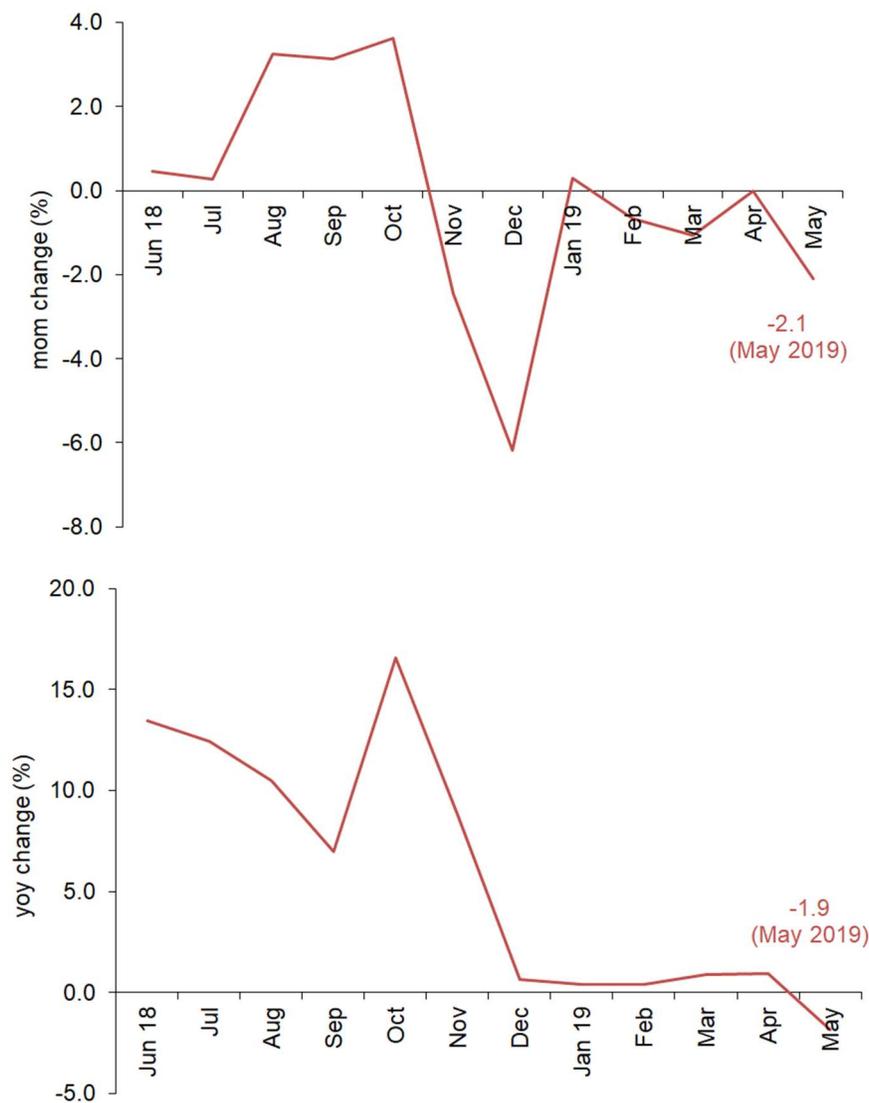
The price index of polypropylene (PP)² fell by 2.1% in May (see exhibit 2). According to the local media, PP prices dropped in the first half of May due to soft downstream

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

demand, but regained some of the lost ground in the second half of the month due to the strong rise in prices of the upstream input, propylene.

Going forward, we expect the prices of PP to remain soft as downstream demand continues to be weak. On the other hand, China's additional tariffs on liquefied propane (which is the major raw material for PP) imported from the US, effective from 1 June, will likely raise the production cost, thus provide support for the prices of PP.

Exhibit 2: Price index of PP, June 2018 to May 2019



Source: China Logistics Information Center

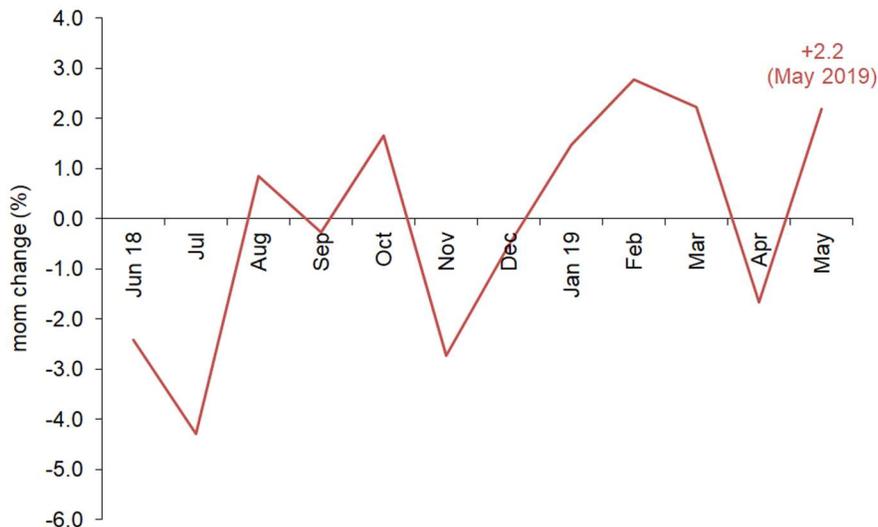
3. Price index of natural rubber rises in May

The price index of natural rubber³ rises by 2.2% mom in May, after falling by 1.7% mom in April (see exhibit 3).

The rise in prices of natural rubber in the first half of May was mainly triggered by the change in China’s customs classification of rubber imports effective from late April, which led to higher tariffs being levied on certain types of natural rubber. The effect of the change in customs classification subsided by late May, as the market realised the impact of the change was minor. In the second half of May, the rise in prices of natural rubber was mainly attributable to a reduction in supply due to unfavourable weather conditions in China and major supplier countries.

Looking ahead, we predict that the prices of natural rubber will continue to increase in the near future as several supplier countries in Southeast Asia, including Thailand and Malaysia, have announced policies to reduce natural rubber export in the coming months with a view to boosting prices.

Exhibit 3: Price index of natural rubber, June 2018 to May 2019



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



Source: China Logistics Information Center

4. Price indices of non-ferrous metals fall in May

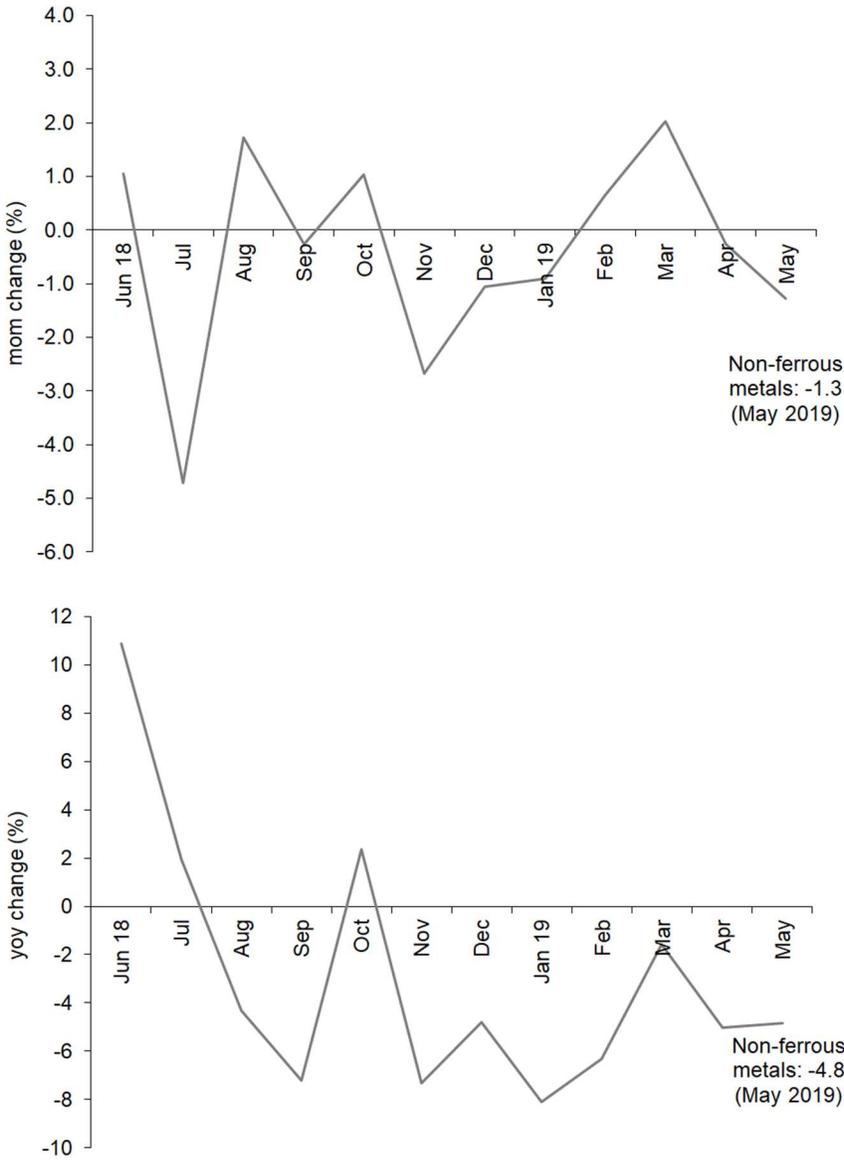
The price index of non-ferrous metals fell by 1.3% mom in May, after declining by 0.3% mom in April (see exhibits 4 & 5).⁴ Price indices of lead, copper and zinc all recorded month-on-month declines while the price index of aluminum saw an increase of 1.8% mom.

The major reasons for the decline in the prices of non-ferrous metals in May were an appreciation of the US dollar, which put downward pressure on the prices of commodities including non-ferrous metals in US dollar terms; and market concerns over the slowdown in the Chinese and the global economy amid the worsening China-US trade relations.

Looking ahead, we expect that the prices of non-ferrous metals will stay low in the near future, as market sentiments are likely to remain weak.

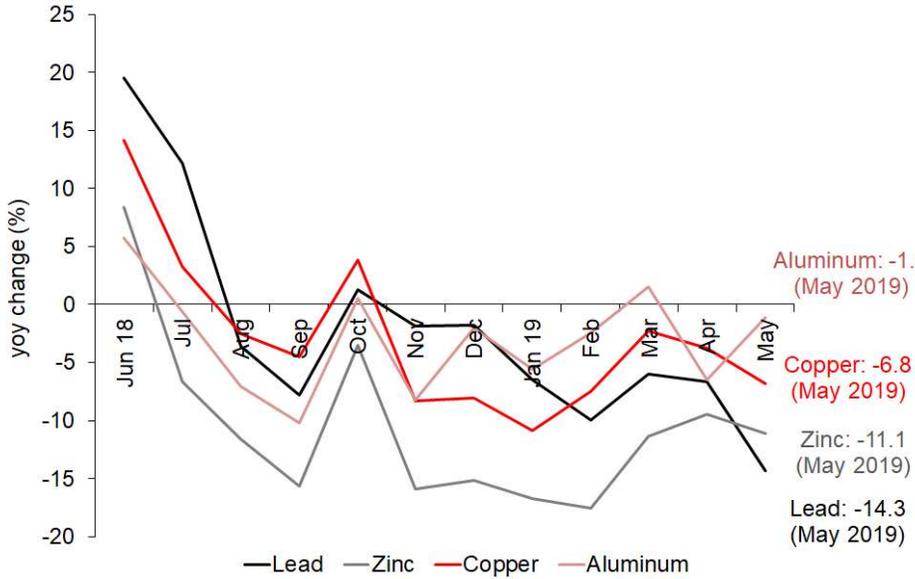
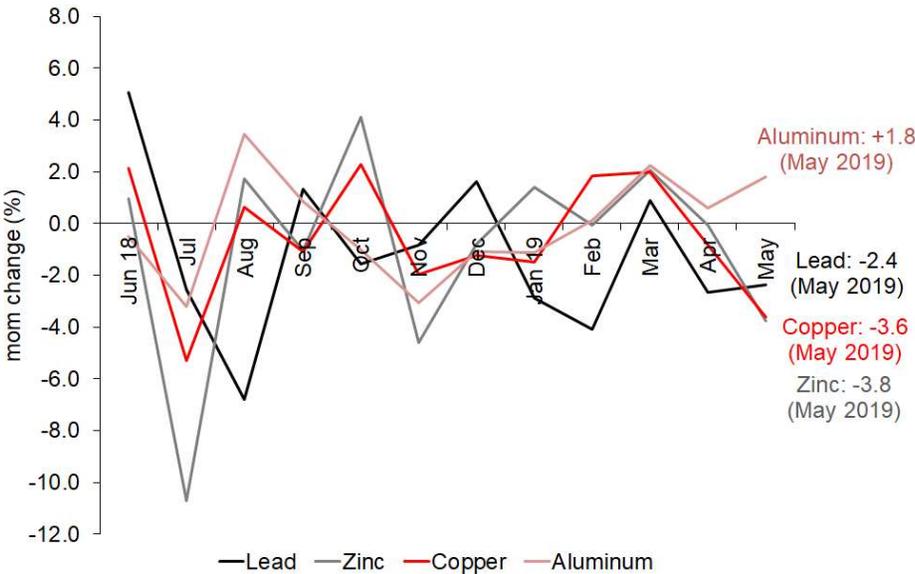
⁴ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
June 2018 to May 2019**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,
June 2018 to May 2019**



Source: China Logistics Information Center

FUNG BUSINESS INTELLIGENCE

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