



China Sourcing Update

October 19, 2016

Raw Material Prices: Hard Goods

1. Price index of ABS resin falls slightly in September

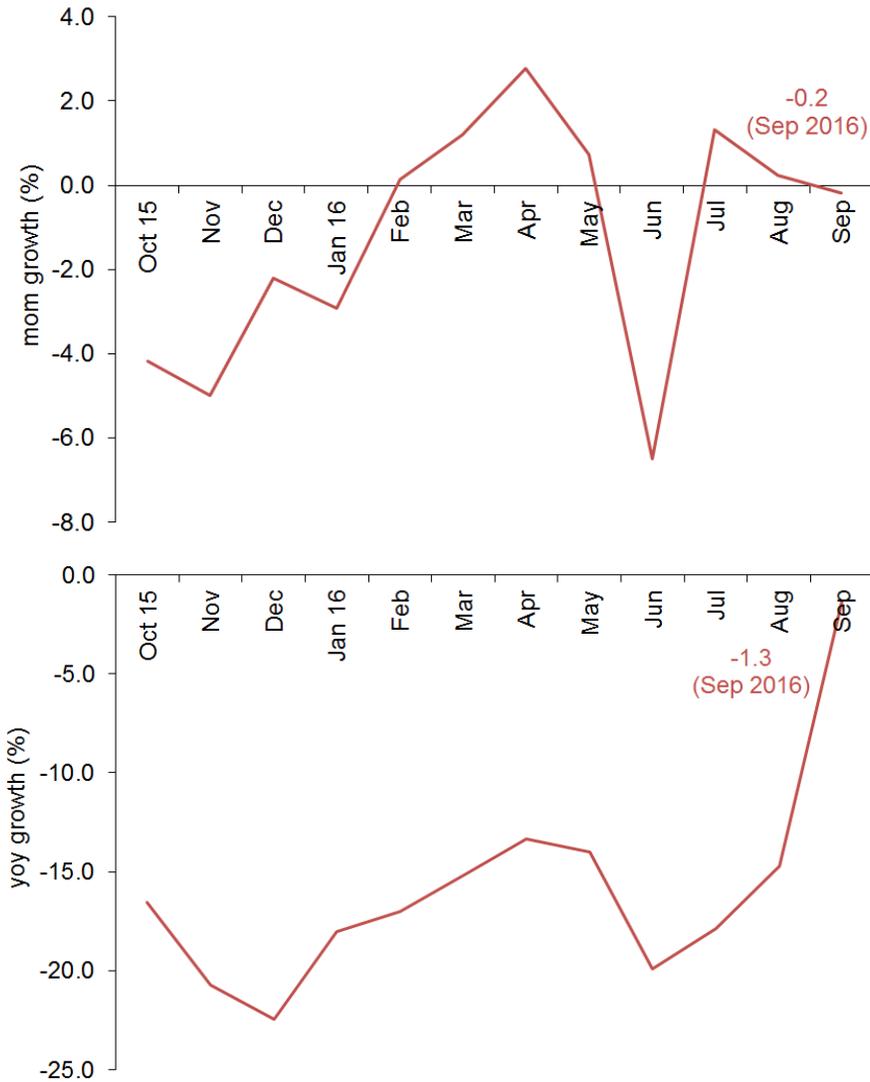
The price index of ABS resin¹ went down by 0.2% mom in September, after rising by 0.3% mom in August (see exhibit 1).

According to media reports, the main reason for the slight fall in the price index in September was the rising inventory levels of ABS resin producers. The downstream demand for ABS resin remained soft despite the fact that September was traditionally a high season for the consumption of ABS resin.

Looking ahead, the upstream prices for ABS resin are expected to increase, as global crude prices have risen sharply since late September (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, October 2015 to September 2016



Source: China Logistics Information Center

2. Price index of PP goes up further

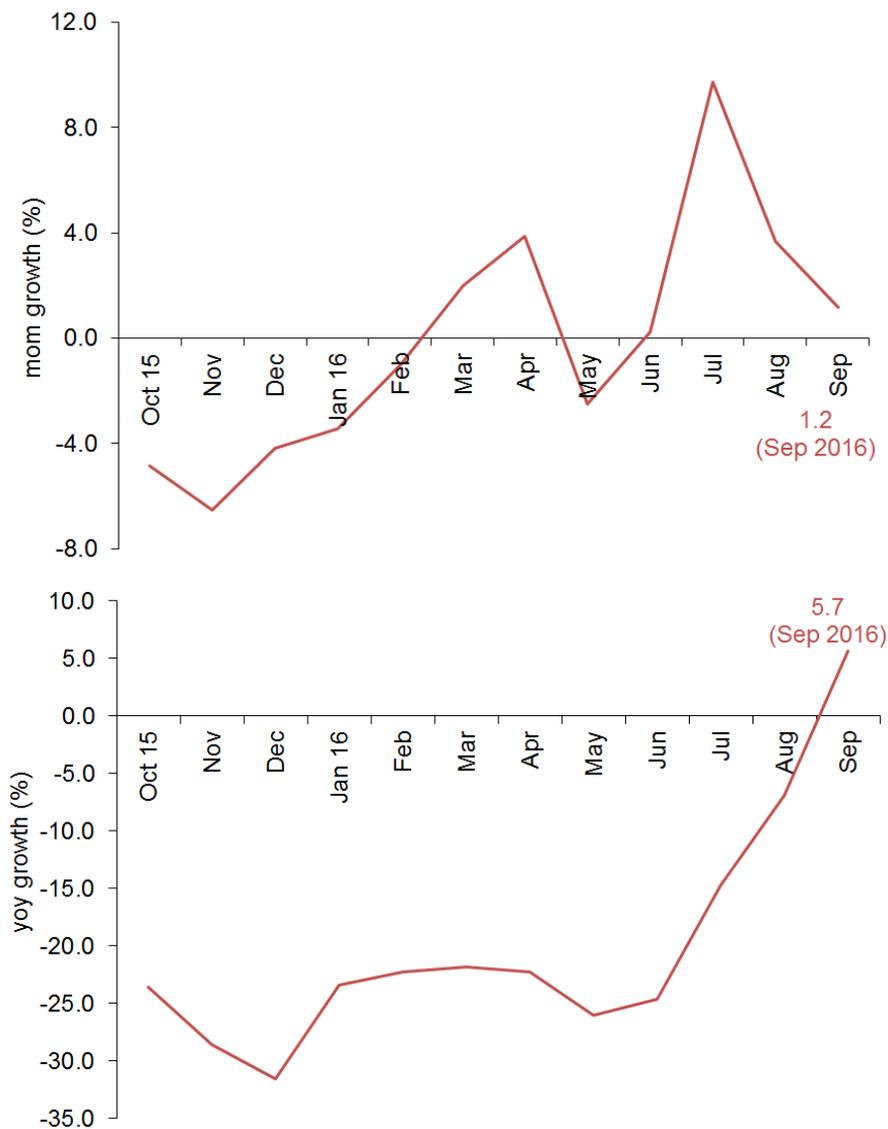
The price index of polypropylene (PP)² gained 1.2% mom in September, posting month-on-month gain for four consecutive months (see exhibit 2).

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

According to the local media, some PP producers raised the prices of their products in early September amid a tight supply of PP. Meanwhile, the downstream demand for PP showed no significant improvement in the month.

Going forward, the supply of PP is expected to remain tight, while the downstream demand is likely to stay soft. All in all, we believe that the prices of PP will fluctuate around the current level in the near term.

Exhibit 2: Price index of PP, October 2015 to September 2016



Source: China Logistics Information Center

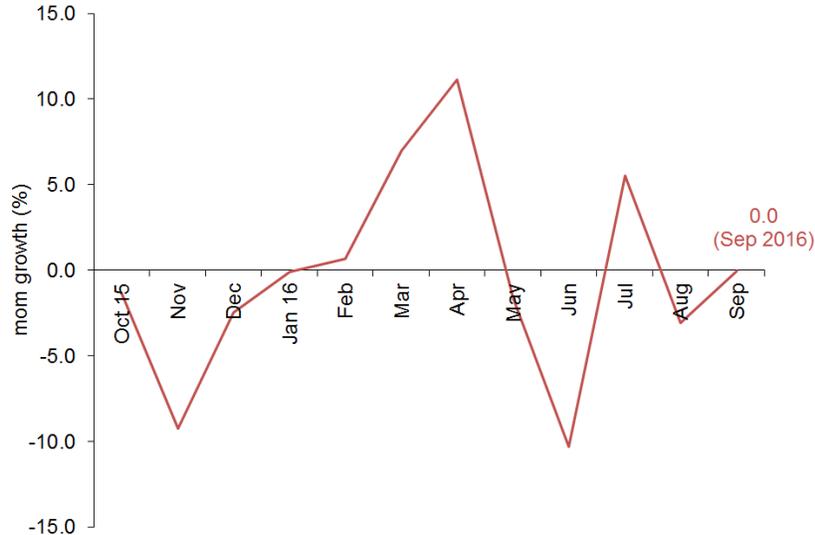
3. Price index of natural rubber stays flat

The price index of natural rubber³ remained stable in September, after dropping by 3.1% mom in August (see exhibit 3).

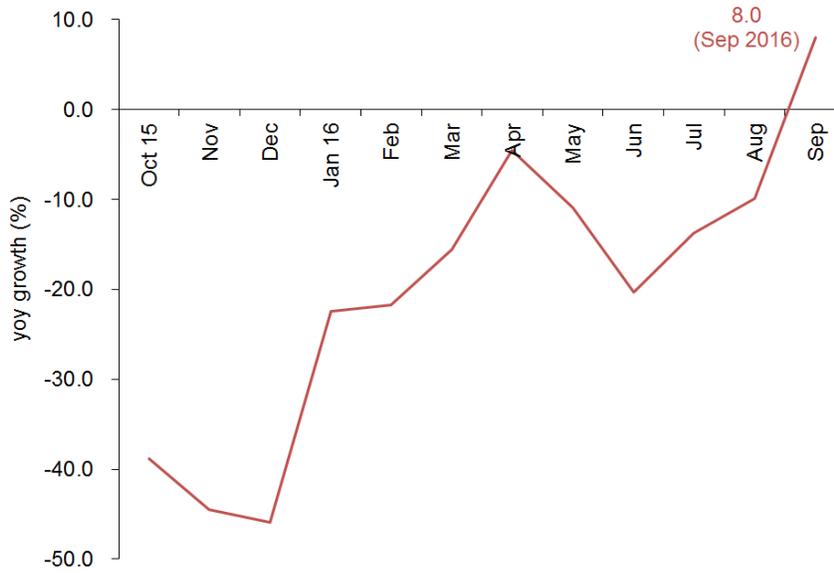
According to the local media, the supply of natural rubber tightened in the month, due largely to the bad weather in Hainan province and other rubber producing countries such as Thailand and Indonesia. Meanwhile, the downstream demand for natural rubber stayed weak.

Looking ahead, the restocking demand for natural rubber from downstream manufacturers is expected to improve after the National Day holiday. Moreover, the prices of natural rubber futures in China surged in early October, which pushed up the spot prices of natural rubber. Therefore, we expect the price index of natural rubber to rise in the near future.

Exhibit 3: Price index of natural rubber, October 2015 to September 2016



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



Source: China Logistics Information Center

4. Price indices of non-ferrous metals rise further

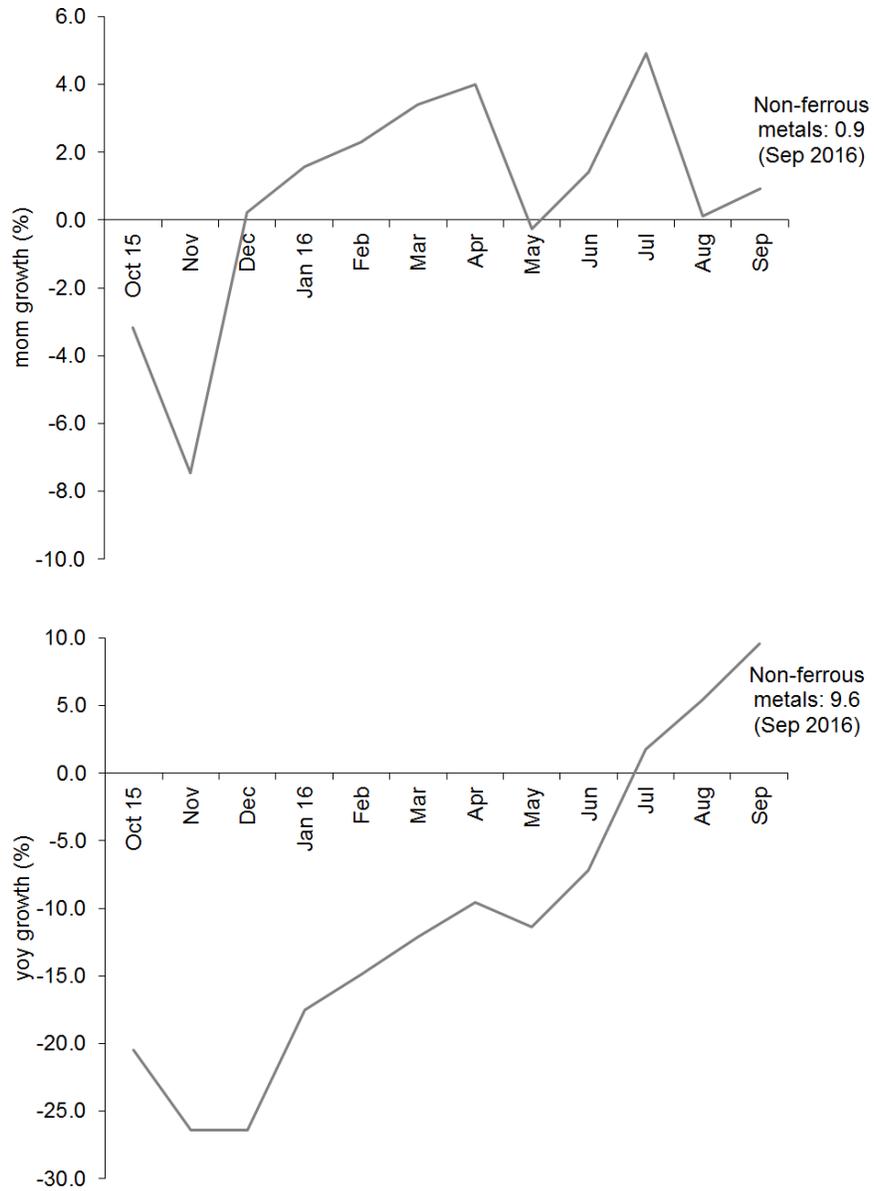
The price index of non-ferrous metals went up by 0.9% mom in September, posting month-on-month gain for four consecutive months (see exhibits 4 & 5).⁴

According to the local media, the rise in non-ferrous metal prices in the month was triggered by several factors including the delay in interest rate hike by the US Federal Reserve; the low levels of domestic stocks of non-ferrous metals; the implementation of a stricter rule on the loading weight of vehicles, which disrupted the transportation of non-ferrous metals; and the surge in global oil prices, which helped improve investors' sentiments on commodities.

Going forward, the restocking demand for non-ferrous metals is likely to improve after the National Day holiday. Moreover, the overcapacity problems among the manufacturers of non-ferrous metals are being addressed, which may quicken the destocking processes. Thus, we believe that the prices of non-ferrous metals will rise further in the near future.

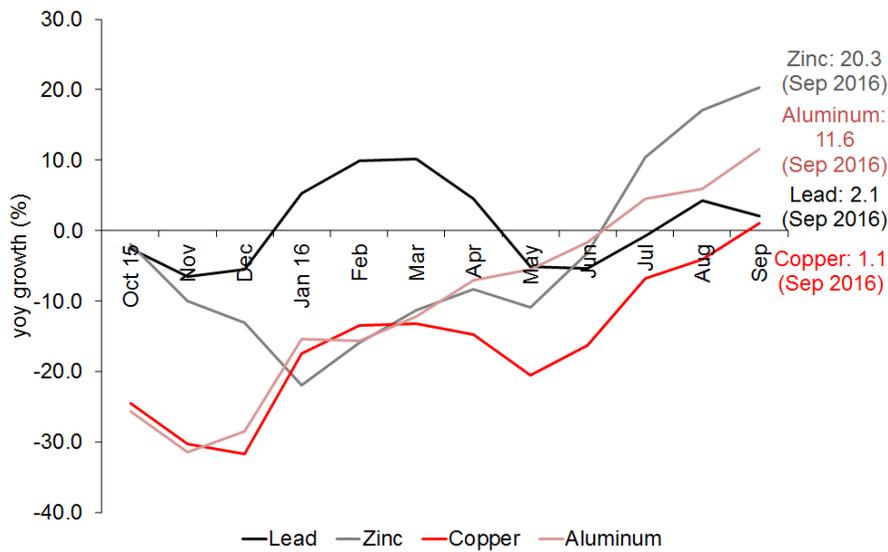
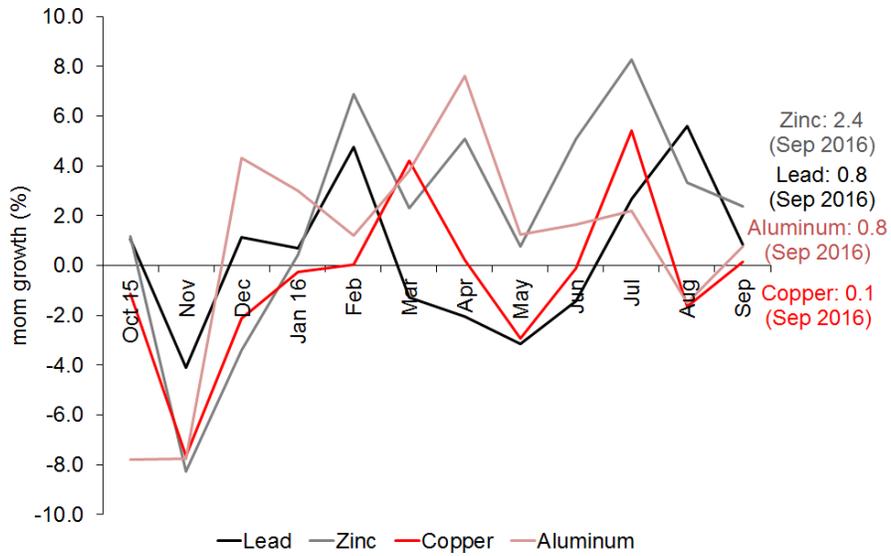
⁴ The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,
October 2015 to September 2016**



Source: China Logistics Information Center

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



Source: China Logistics Information Center

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