



# China Sourcing Update

October 24, 2017

## Raw Material Prices: Hard Goods

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

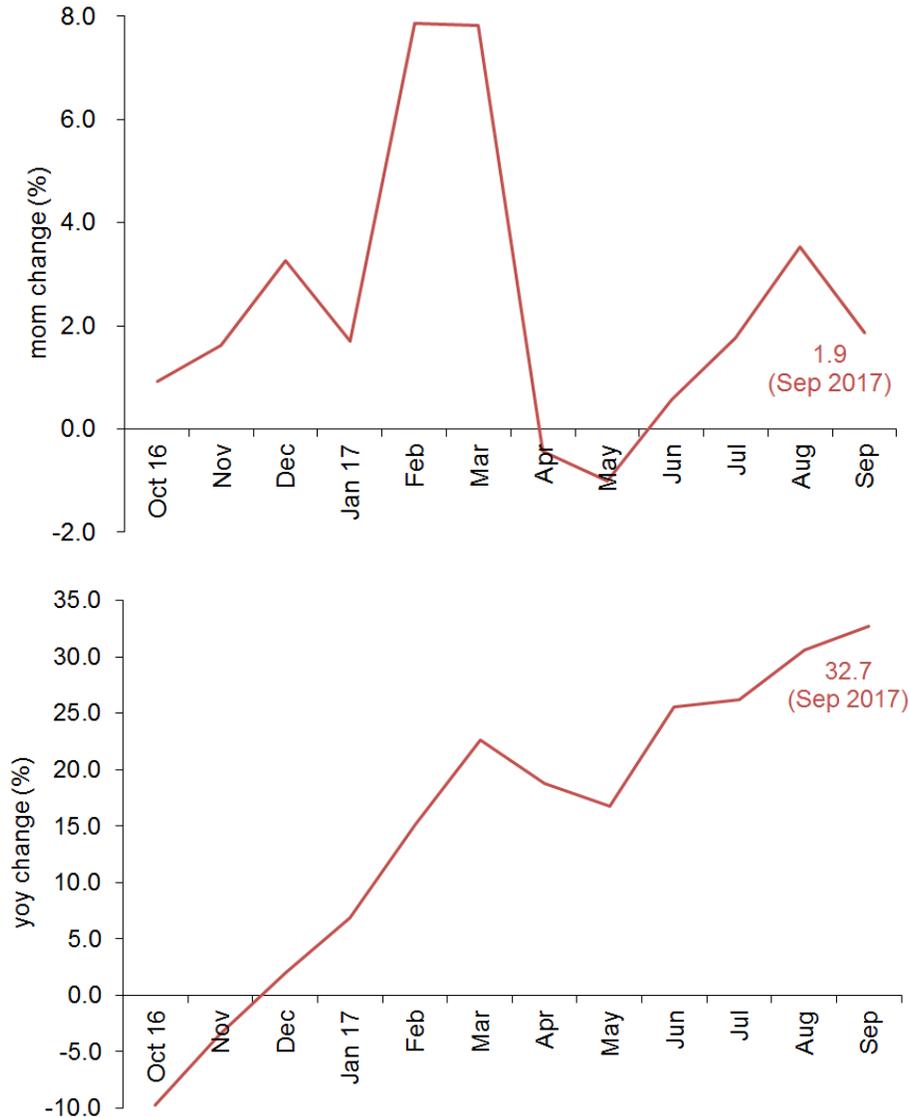
The price index of ABS resin<sup>1</sup> went up by 1.9% mom in September, recording month-on-month gain for four consecutive months (see *exhibit 1*).

The main reason for the increase in the prices of ABS resin in the month was a surge in the prices of acrylonitrile, a major raw material of ABS resin.

Looking ahead, we expect the prices of ABS resin to fall in October, as upstream costs dropped during late September to early October; and the restocking demand from manufacturers of home appliances, a major downstream sector of ABS resin, is likely to decline further in the month as the high season for air-conditioner sales has passed.

<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.

**Exhibit 1: Price index of ABS resin, October 2016 to September 2017**



Source: China Logistics Information Center

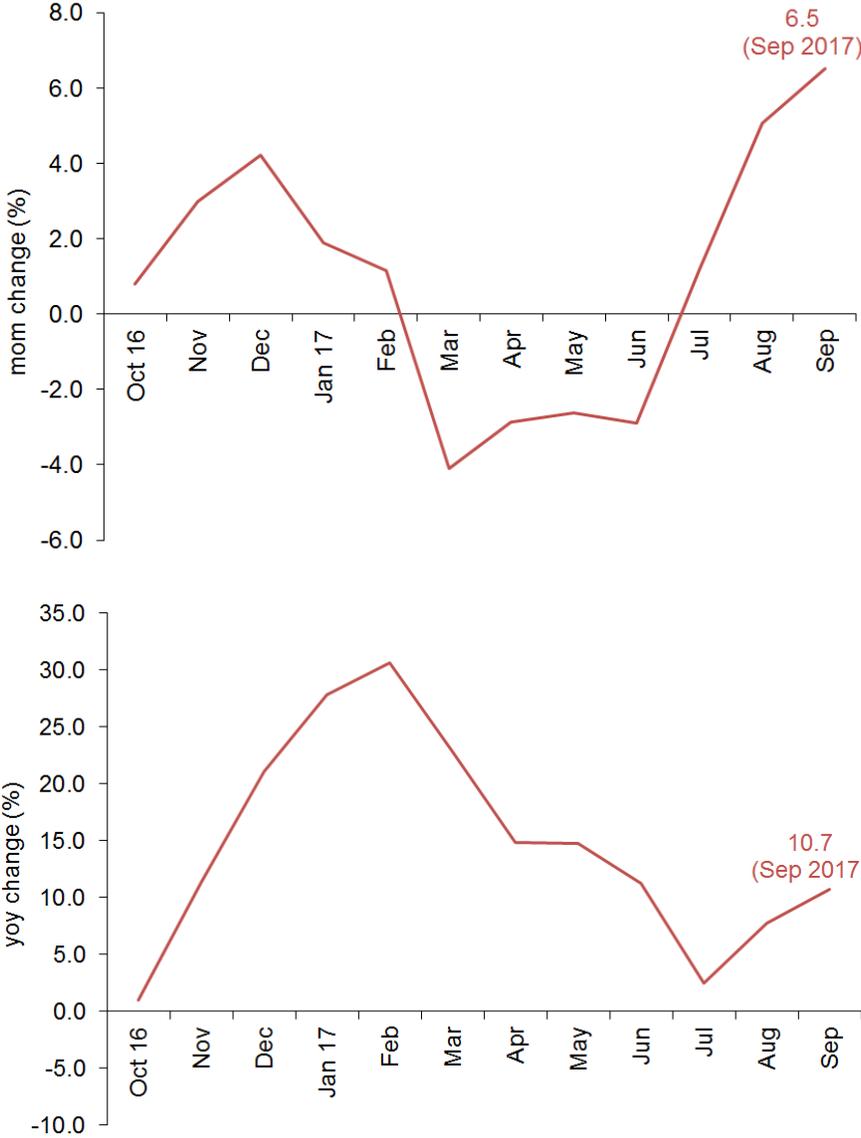
## 2. Price index of PP continues to go up in September

The price index of polypropylene (PP)<sup>2</sup> rose by 6.5% mom in September, recording month-on-month gain for three consecutive months (see exhibit 2). The increase in the prices of PP in the month was due mainly to an increase in upstream costs.

<sup>2</sup> The index is compiled by the China Logistics Information Center (CLIC).

Looking ahead, we expect PP prices to stay high in the near term as the downstream demand for PP is likely to be strong in the current high season.

**Exhibit 2: Price index of PP, October 2016 to September 2017**



Source: China Logistics Information Center

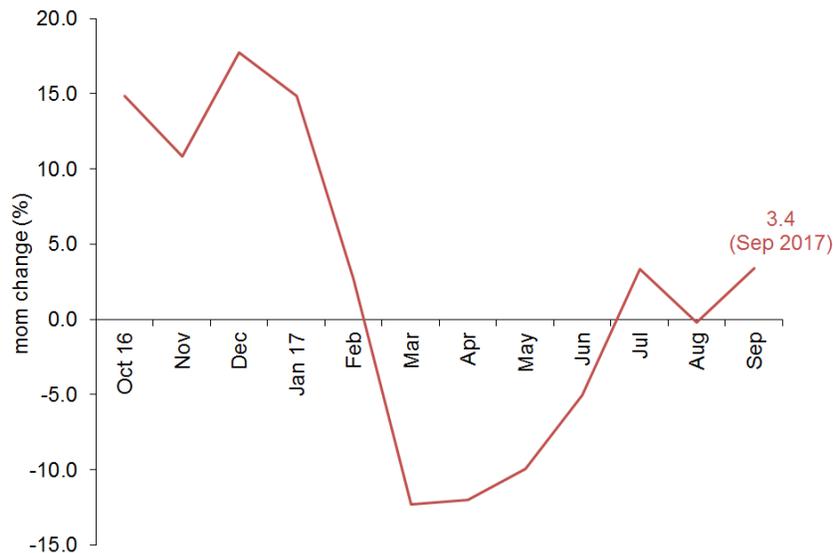
### 3. Price index of natural rubber rebounds in September

The price index of natural rubber<sup>3</sup> picked up by 3.4% mom in September, after falling by 0.2% mom in August (see *exhibit 3*).

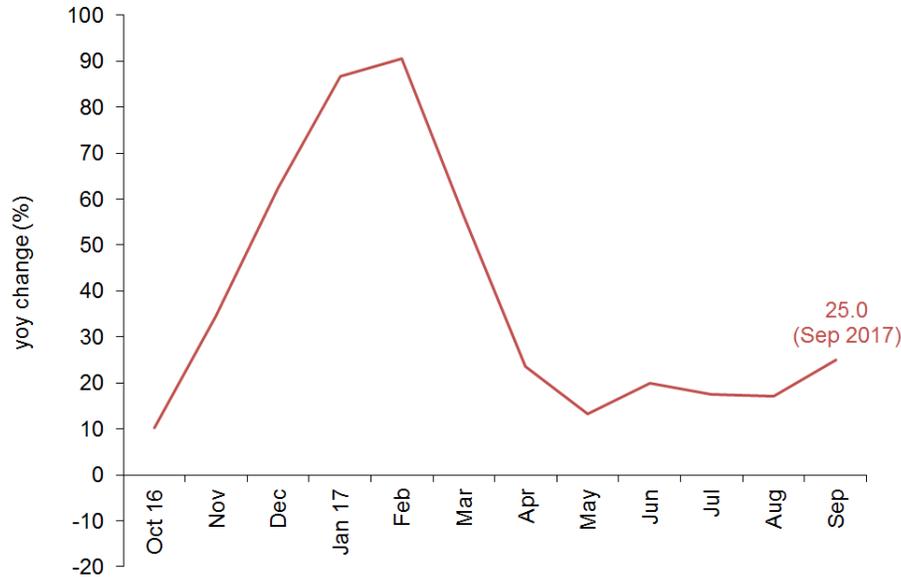
According to media reports, the prices of natural rubber rose in early September on market expectations of a potential production cut by leading rubber producing countries including Thailand, Malaysia and Indonesia. However, rubber prices plunged after these countries decided not to curb rubber output on 15 September. Meanwhile, the downstream demand for natural rubber from tyre manufacturers remained weak in the month.

As the rubber tapping season is underway in China and other major rubber producing countries, the supply of natural rubber is expected to be abundant in the coming couple of months. Meanwhile, the downstream demand for natural rubber shows no signs of recovery. Therefore, we expect that rubber prices will drop in the near future.

**Exhibit 3: Price index of natural rubber, October 2016 to September 2017**



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



Source: China Logistics Information Center

#### 4. Price indices of non-ferrous metals go up further in September

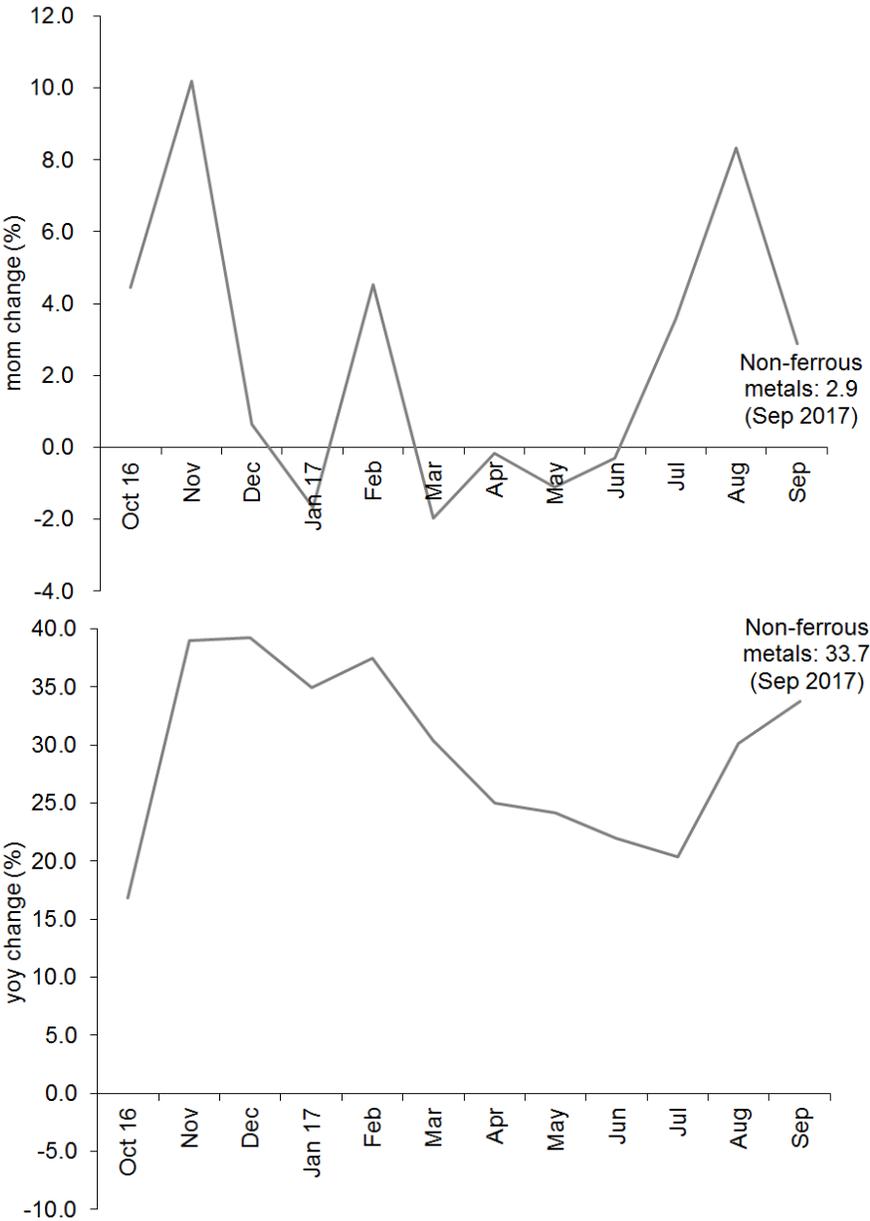
The price index of non-ferrous metals rose by 2.9% mom in September, after surging by 8.3% mom in August (see exhibits 4 & 5).<sup>4</sup>

In our view, the increase in non-ferrous metal prices in China in the month was mainly due to a surge in global oil prices, which helped improve investors' sentiments on non-ferrous metals; and a tightened domestic supply of non-ferrous metals, particularly aluminum and lead.

Going forward, the domestic supply of non-ferrous metals is expected to tighten further in the coming months, as the Chinese government has requested the non-ferrous metal industry in northern China to cut output over the November-March period in an attempt to combat air pollution in the region. Thus, we believe that non-ferrous metal prices will continue to rise in the near term.

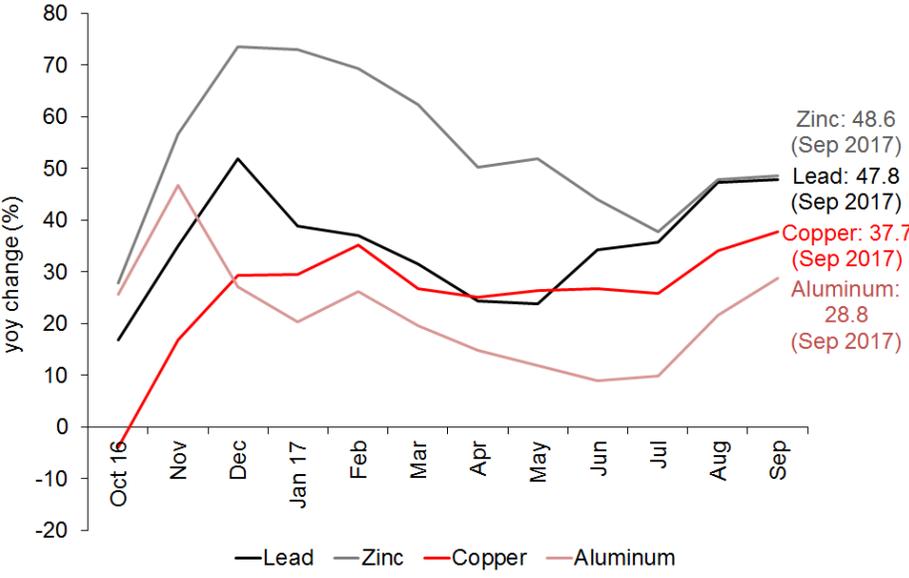
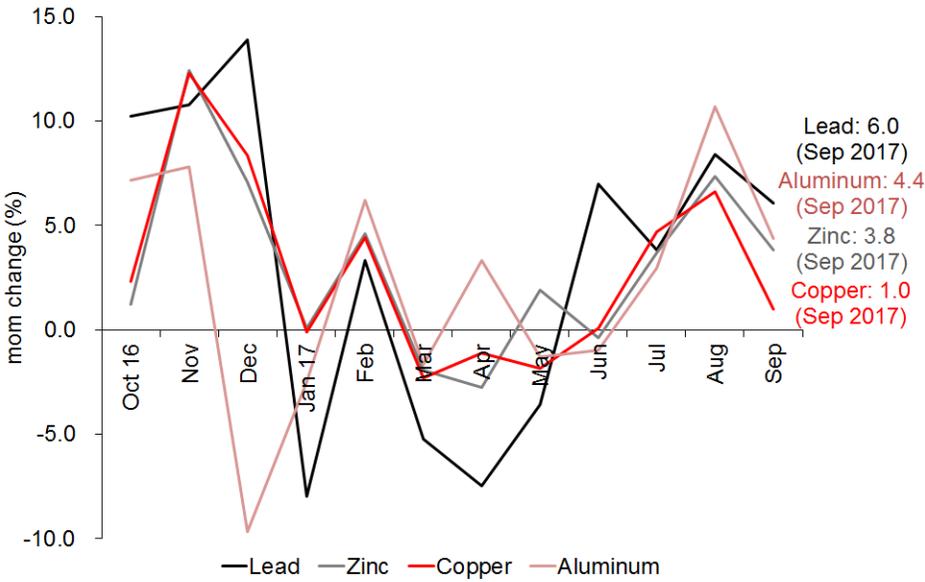
<sup>4</sup> The indices are compiled by the China Logistics Information Center (CLIC).

**Exhibit 4: Price index of non-ferrous metals,  
October 2016 to September 2017**



Source: China Logistics Information Center

**Exhibit 5: Price index of copper, aluminum, lead and zinc,  
October 2016 to September 2017**



Source: China Logistics Information Center

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