



China Sourcing Update

September 6, 2018

Transportation Cost

China Containerized Freight Index goes up in August

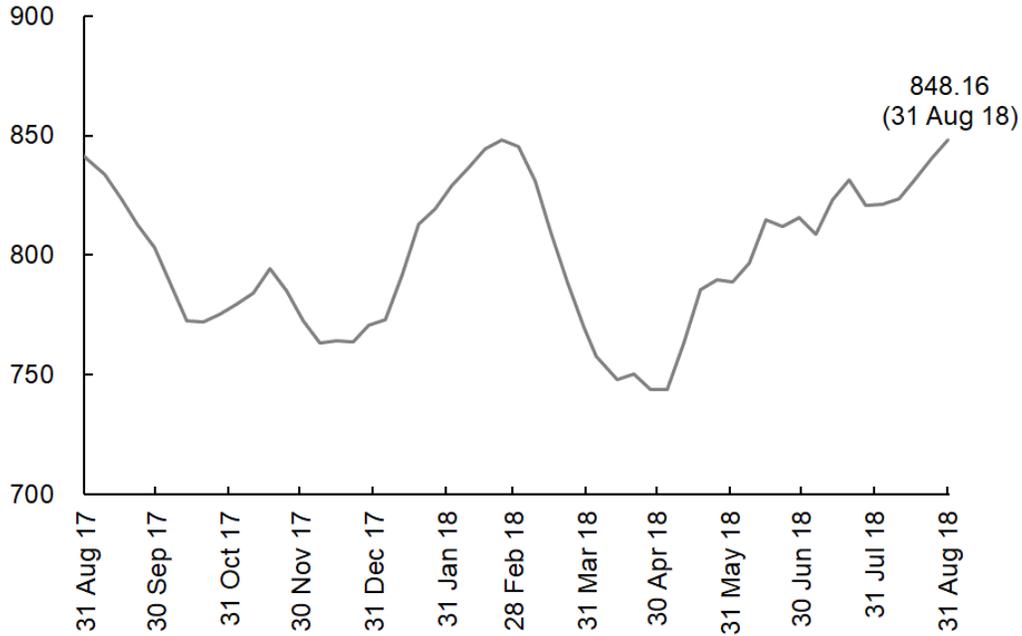
The China Containerized Freight Index (CCFI) rose from 820.79 on 27 July to a six-month high of 848.16 on 31 August (*see exhibit 1*).

The jump in freight rates in the month was mainly attributable to a strong market demand for containerized freight services in the current high season, in particular for North American routes.

The second tranche of US additional tariffs on US\$16 billion of Chinese imports took effect on 23 August, bringing the total amount of Chinese goods that face 25% additional tariffs up to about US\$50 billion. The imposition of the tariffs has had no negative impacts on the market demand for North American routes thus far. On the contrary, US importers have pushed forward shipments from China that would normally arrive later in the year to avoid the looming tariffs on Chinese import, thus driving up freight rates. That being said, the market demand for North American routes is likely to decline markedly if the China-US trade war escalates further, especially if the US goes ahead with its plan to impose extra tariffs on Chinese imports worth US\$200 billion.

All in all, we expect that the China Containerized Freight Index will stay high in the foreseeable future as the overall market demand for containerized freight services is likely to remain strong.

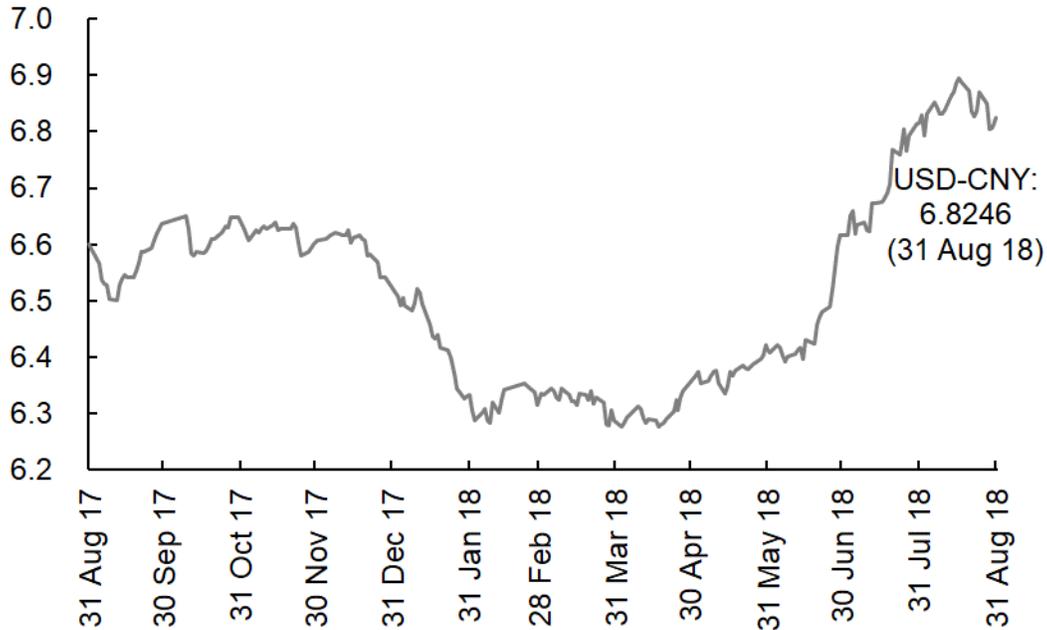
Exhibit 1: China Containerized Freight Index, August 2017 to August 2018



Source: Shanghai Shipping Exchange

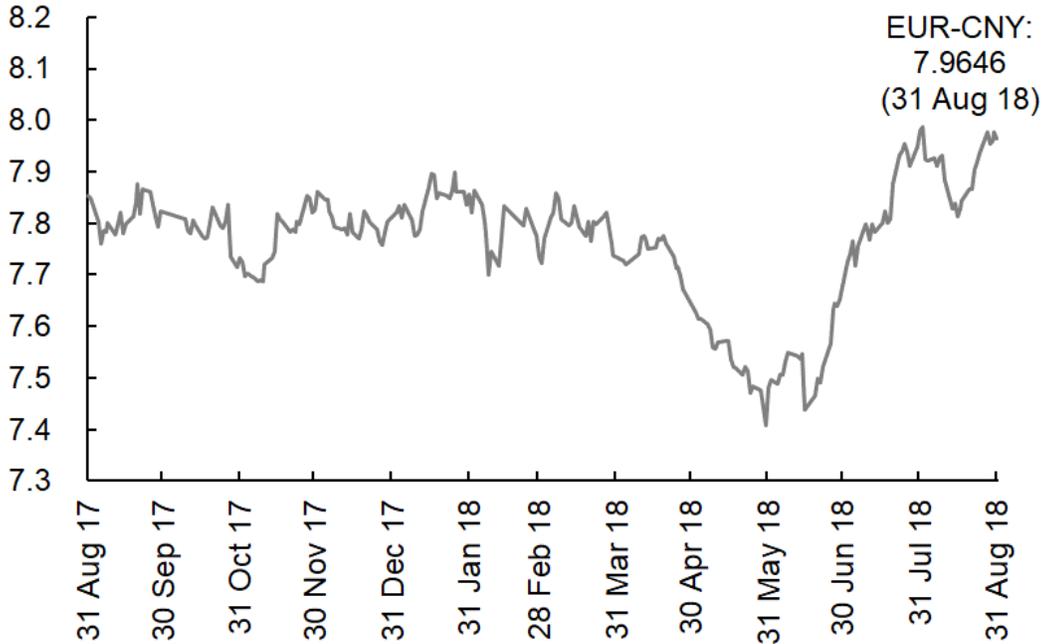
Exchange Rates

Exhibit 2: USD-CNY daily fixing rate, August 2017 to August 2018



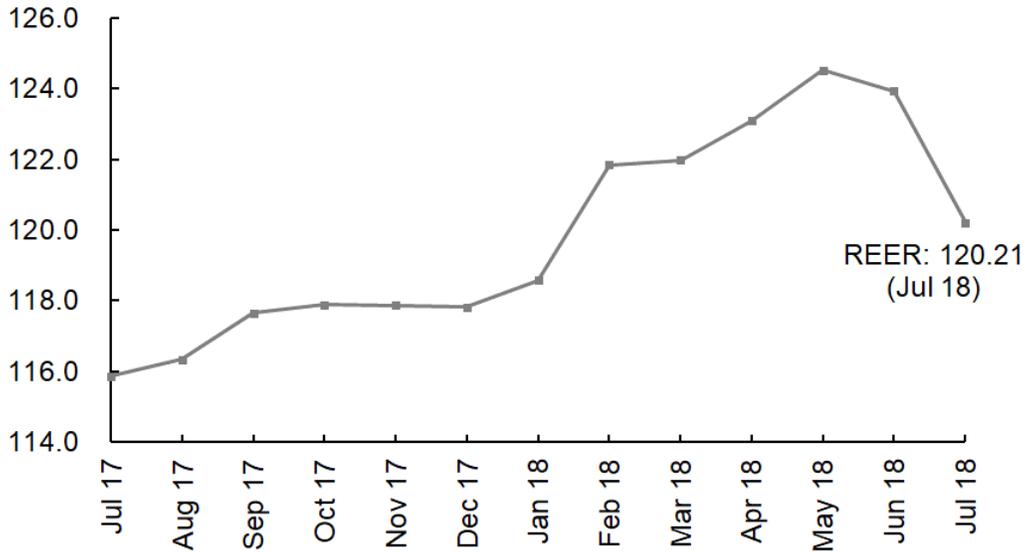
Source: State Administration of Foreign Exchange

Exhibit 3: EUR-CNY daily fixing rate, August 2017 to August 2018



Source: State Administration of Foreign Exchange

Exhibit 4: Real effective exchange rate of the Chinese yuan, July 2017 to July 2018



Source: Bank of International Settlements

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