



China Sourcing Update

January 27, 2017

Price index for US imports from China

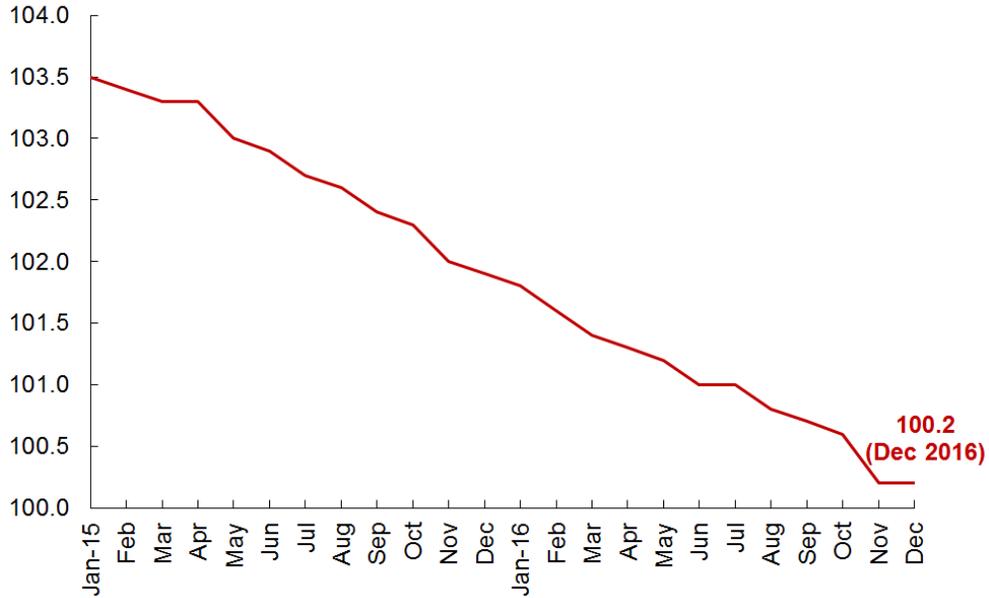
Price index for US imports from China stays stable

Compiled by the US Department of Labor, the price index for US imports from China stayed flat at a six-year low of 100.2 in December (*see exhibit 1*).

In our view, a possible reason for the flat reading in December was that the impact of the depreciation of the Chinese yuan against the US dollar was offset by the rise in ex-factory prices of Chinese products in Renminbi terms: China's producer price index of industrial products (PPI), a major indicator of ex-factory prices of industrial products, rose by 1.6% mom in the month.

Going forward, as material costs have continued to increase, the ex-factory prices of Chinese products are expected to rise further in the near future. All in all, we predict that the price index for US imports from China will start to stabilize in the coming months.

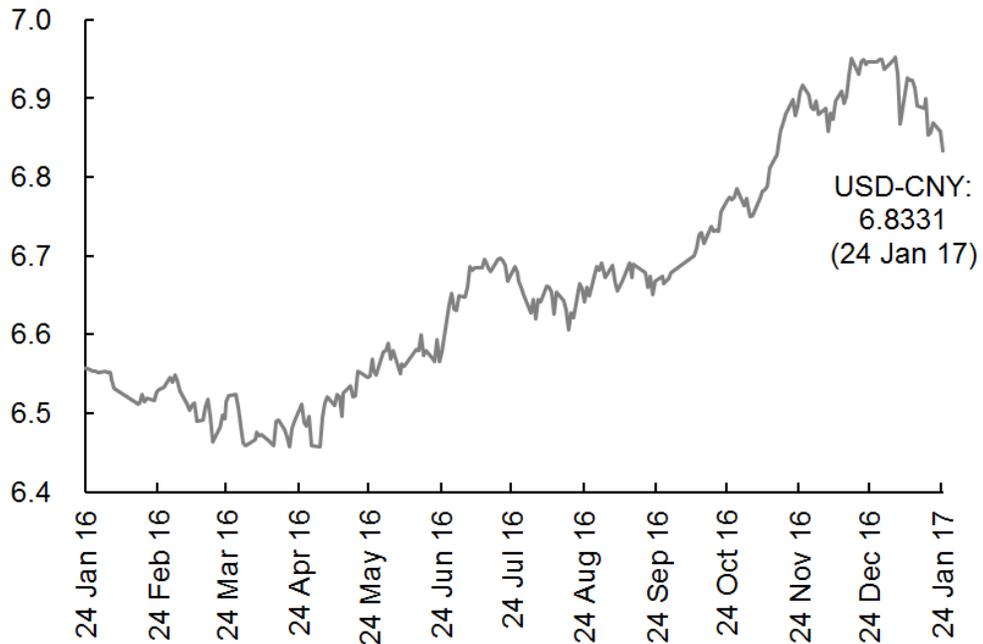
Exhibit 1: Price index for US imports from China, January 2015 to December 2016



Source: US Department of Labor

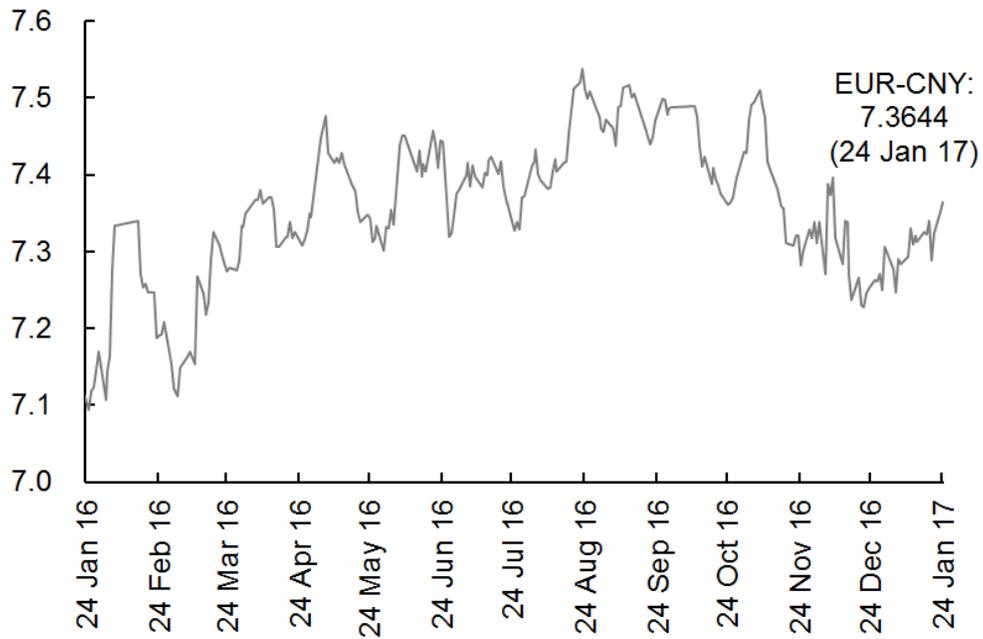
Exchange Rates

Exhibit 1: USD-CNY daily fixing rate, January 2016 to January 2017



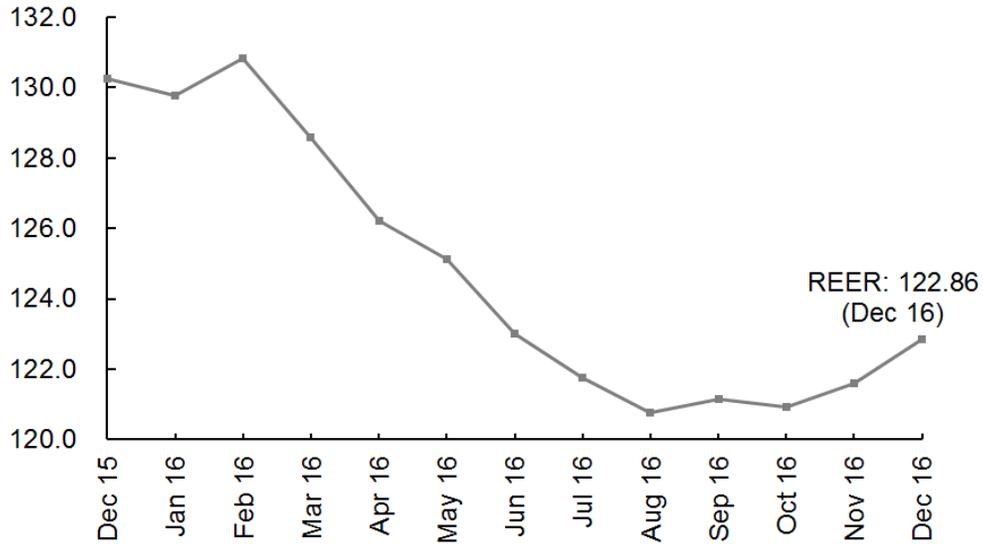
Source: State Administration of Foreign Exchange

Exhibit 2: EUR-CNY daily fixing rate, January 2016 to January 2017



Source: State Administration of Foreign Exchange

Exhibit 3: Real effective exchange rate of the Chinese yuan, December 2015 to December 2016



Source: Bank of International Settlements

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