



# China Sourcing Update

February 5, 2020

## Price index for US imports from China

### Price index for US imports from China stays flat in December

Compiled by the US Department of Labor, the price index for US imports from China came in at 98.1 in December, same as November's revised reading, putting the downward trend which started in July 2018 on halt. (see exhibit 1).<sup>1</sup> The index went down by 1.8% compared to a year ago.

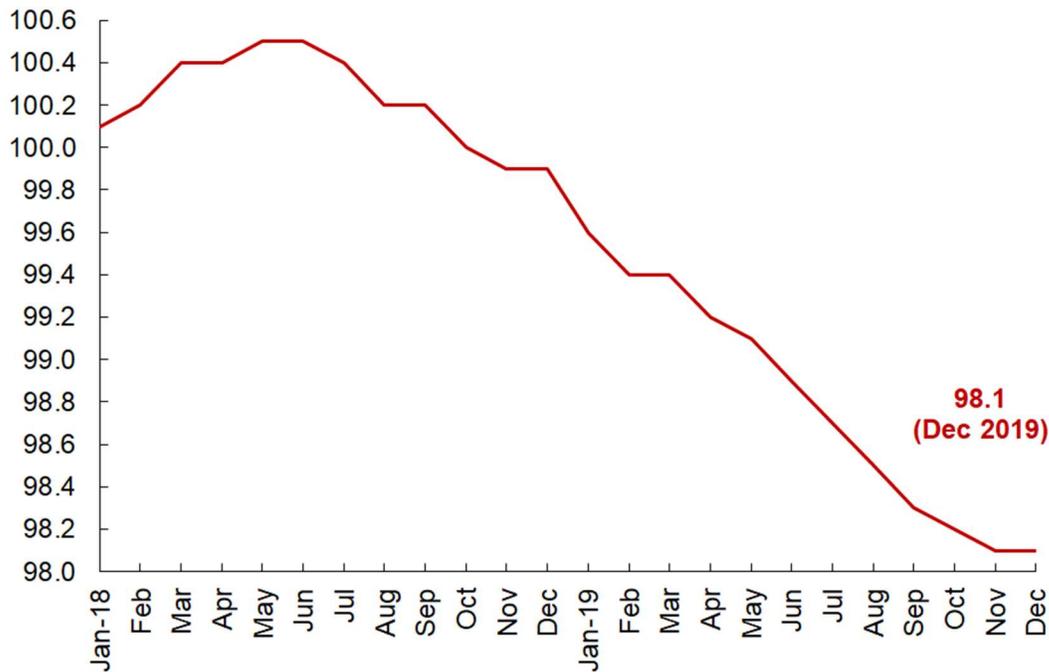
Following the movement of China's producer price index of industrial products (PPI), which stayed flat in December over the previous month, the prices of US imports from China stabilized during the month. Continued strengthening of the yuan against the USD also provided support to the prices for US imports from China.

Going forward, we expect that the price index for US imports from China will remain low in the near term as the January reading of the ex-factory prices sub-index of China's manufacturing PMI came in at 49.0, indicating deflationary pressures on ex-factory prices. Moreover, we expect that the outcome of trade negotiations between China and the US will continue to be a major factor affecting the movement of the price index.<sup>2</sup>

<sup>1</sup> The price index does not reflect tariff-related price increases since they are not included in the calculation of import prices.

<sup>2</sup> China and the US signed the 'phase one' trade deal on 15 January 2020. The deal makes no mention of further removal of US tariffs on Chinese goods. However, Trump said that the remaining tariffs on Chinese imports 'will all come off' if the subsequent phases of trade negotiations produce a second agreement. Those talks are expected to begin soon but might not conclude until after the US presidential election in November.

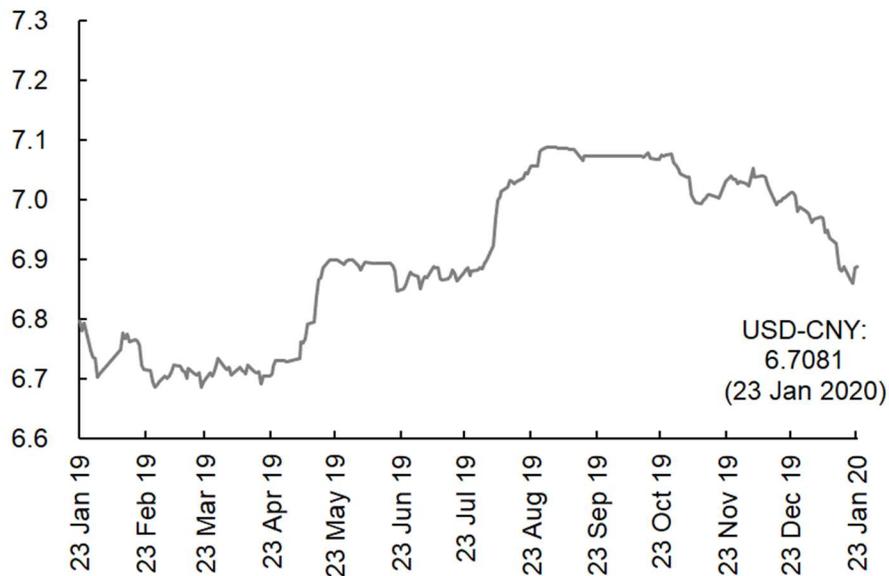
**Exhibit 1: Price index for US imports from China,  
January 2018 to December 2019**



Source: US Department of Labor

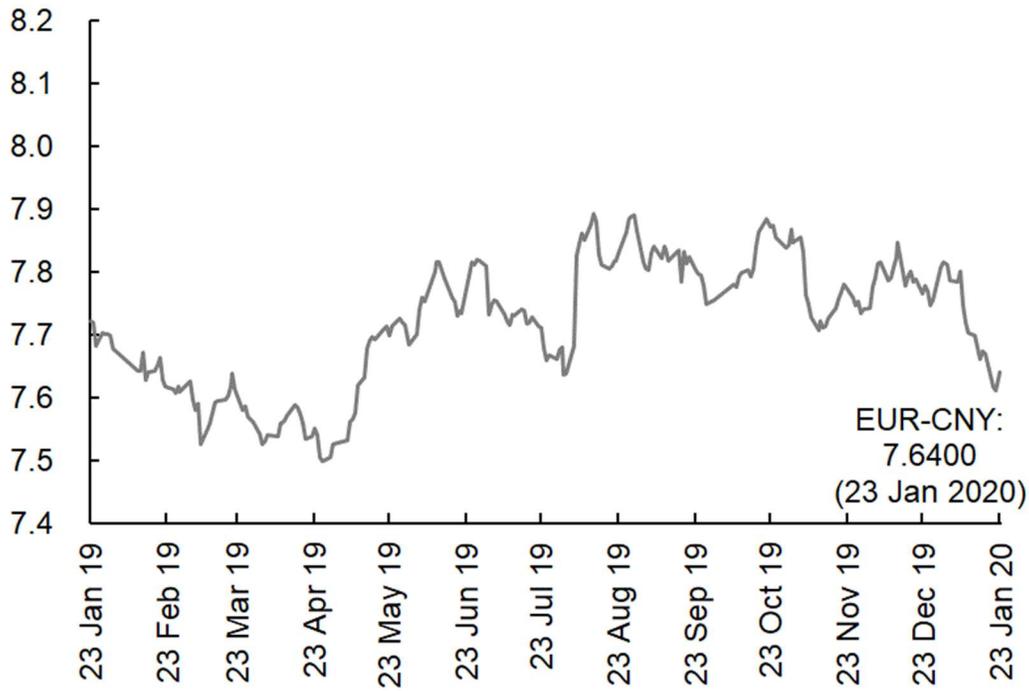
## Exchange Rates

**Exhibit 1: USD-CNY daily fixing rate, January 2019 to January 2020**



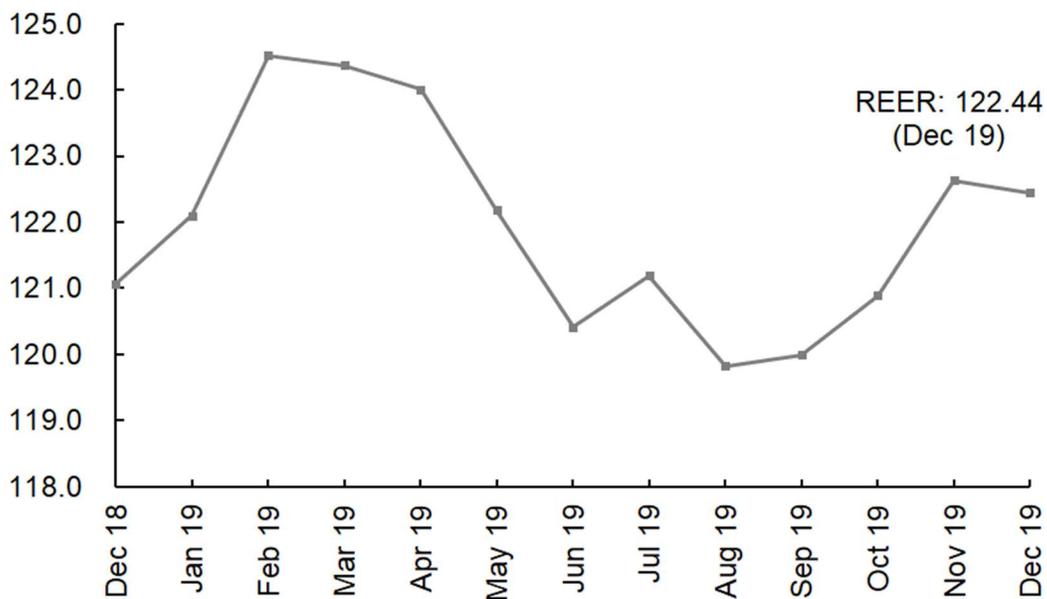
Source: State Administration of Foreign Exchange

**Exhibit 2: EUR-CNY daily fixing rate, January 2019 to January 2020**



Source: State Administration of Foreign Exchange

**Exhibit 3: Real effective exchange rate of the Chinese yuan, December 2018 to December 2019**



Source: Bank of International Settlements

## FUNG BUSINESS INTELLIGENCE

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