



China Sourcing Update

March 3, 2016

Price index for US imports from China

Price index for US imports from China continues to fall

Compiled by the US Department of Labor, the price index for US imports from China fell to 101.8 in January, the lowest level since January 2011 (see exhibit 1).

One of the main reasons for the drop in the price index in the past few months was the fall in ex-factory prices of Chinese products in renminbi terms: China's producer price index of industrial products has continued its downward trend, falling by 0.5% mom in January 2016. Moreover, in our view, the recent depreciation of the Chinese yuan against the US dollar also contributed to the decline: the daily fixing rate of the Chinese yuan depreciated against the US dollar by 0.89% during January 2016.

Going forward, the ex-factory prices of Chinese products are expected to stay weak in the near term. Thus, we predict that the price index for US imports from China will stay low for the coming month.

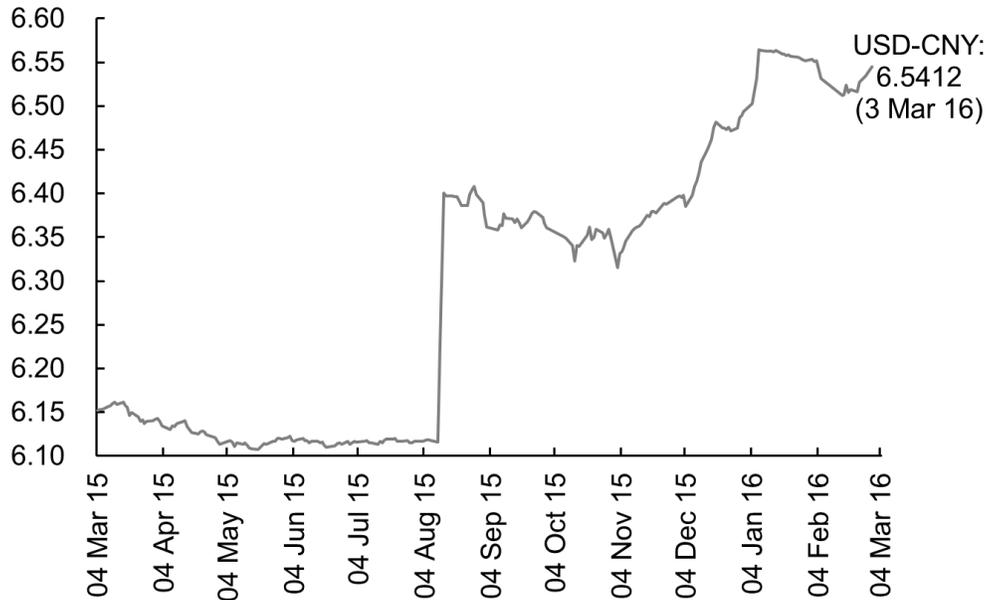
Exhibit 1: Price index for US imports from China, February 2014 to January 2016



Source: US Department of Labor

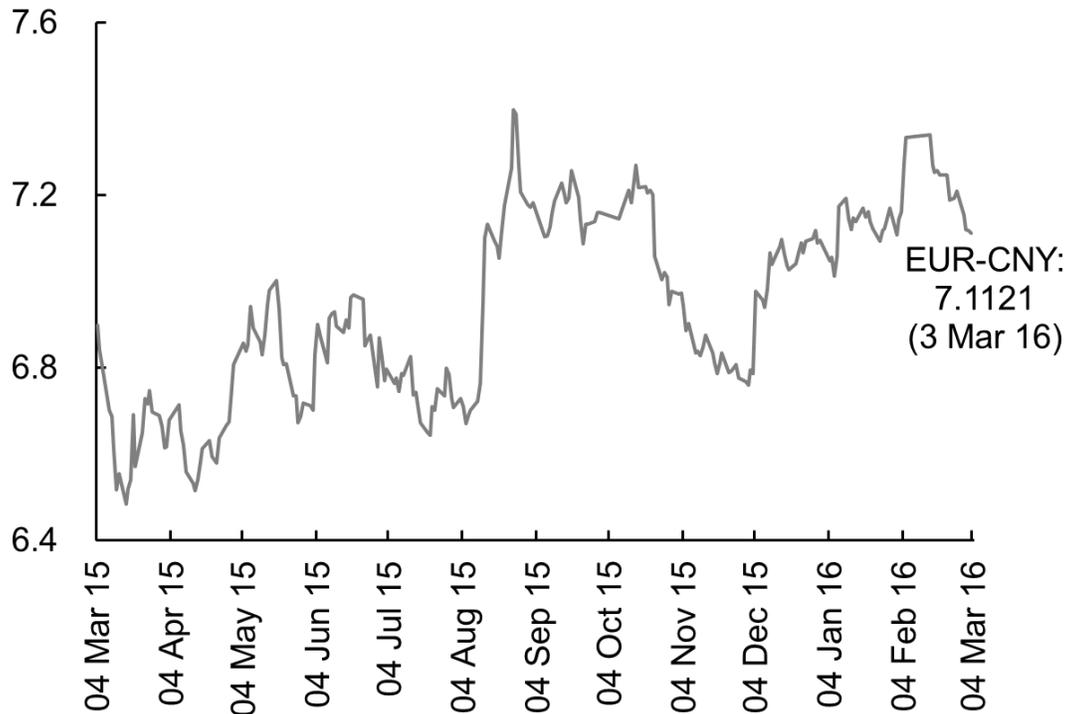
Exchange Rates

Exhibit 1: USD-CNY daily fixing rate, March 2015 to March 2016



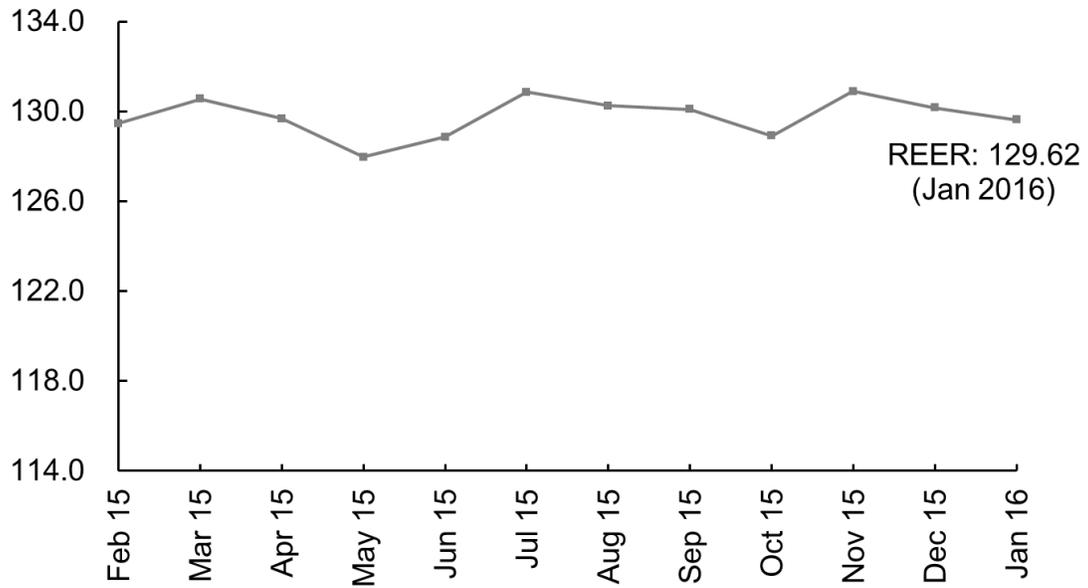
Source: State Administration of Foreign Exchange

Exhibit 2: EUR-CNY daily fixing rate, March 2015 to March 2016



Source: State Administration of Foreign Exchange

**Exhibit 3: Real effective exchange rate of the Chinese yuan,
February 2015 to January 2016**



Source: Bank of International Settlements

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