



China Sourcing Update

February 21, 2020

Editor's note: China is presently experiencing widespread economic disruption owing to the coronavirus disease 2019 (COVID-19) outbreak and stringent government measures to contain it. While comparisons are inevitable with the economic toll taken by another coronavirus, SARS (2002-03), the difference for China, now, is that its economic fundamentals are more robust, its technology more advanced, its services more diverse, and its consumers more resilient, as illustrated by its thriving e-commerce sector. For these and other reasons we believe the COVID-19 outbreak, while currently a jolt to China and the world, will not leave a long-term scar on the Chinese economy.

Price index for US imports from China

Price index for US imports from China declines in January

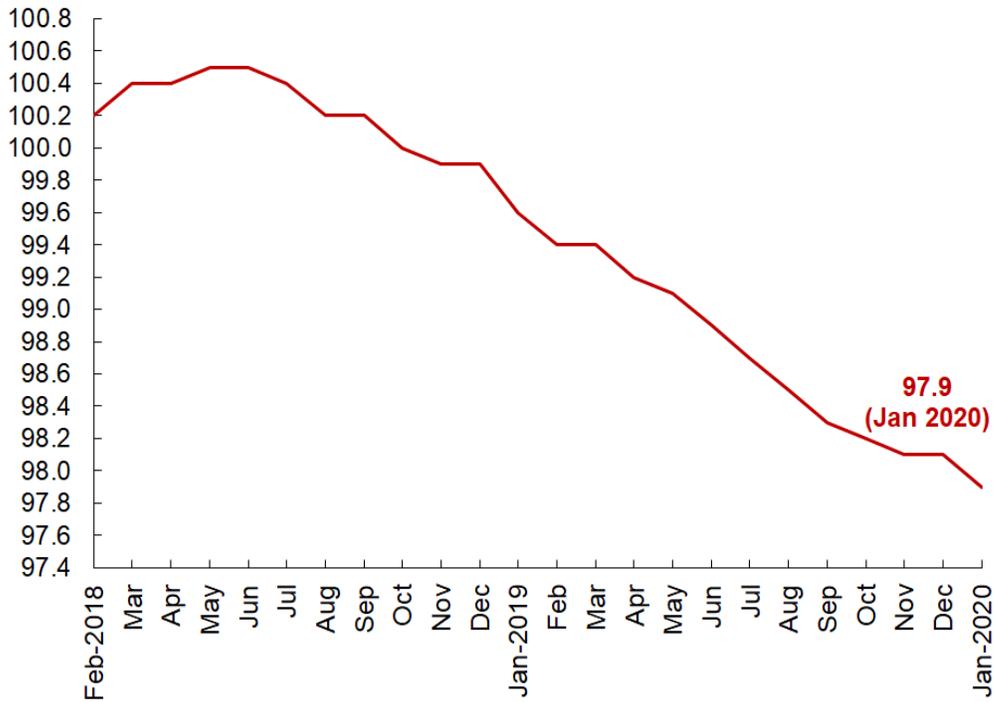
Compiled by the US Department of Labor, the price index for US imports from China declined from 98.1 in December to 97.9 in January (see exhibit 1)¹. The index has not risen on a month-on-month basis since May 2018.

The fall in the price index for US imports from China in January was mainly driven by the decline in prices of computer and electronic equipment, electrical appliances, and mineral products. These are in line with the overall movement of US import prices in these product categories from the world.

The coronavirus (COVID-19) outbreak has led to prolonged Chinese New Year factory closures and transport restrictions, causing serious disruptions to the country's production. As such, we expect that a temporary supply crunch may cause a spike in the prices of US imports from China in the near term.

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

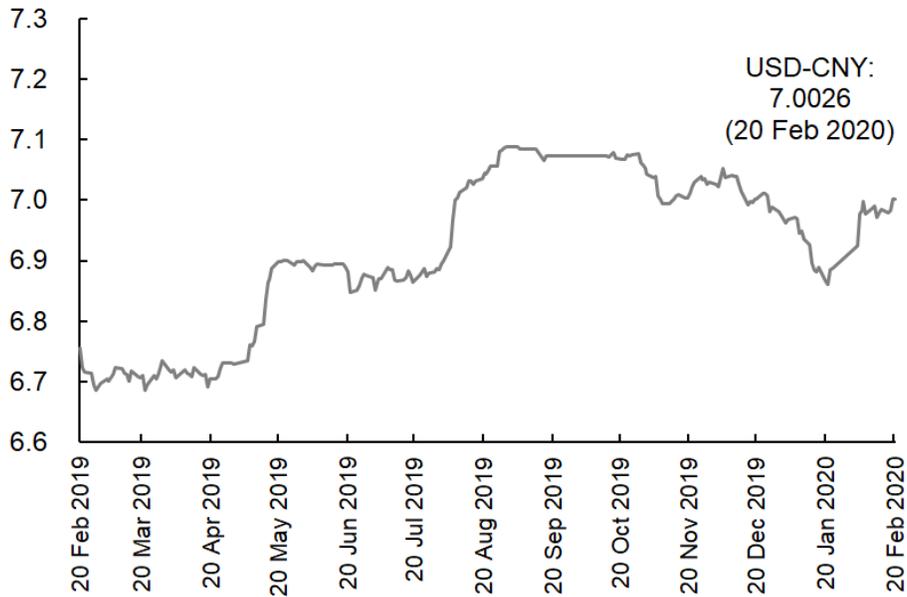
Exhibit 1: Price index for US imports from China, February 2018 to January 2020



Source: US Department of Labor

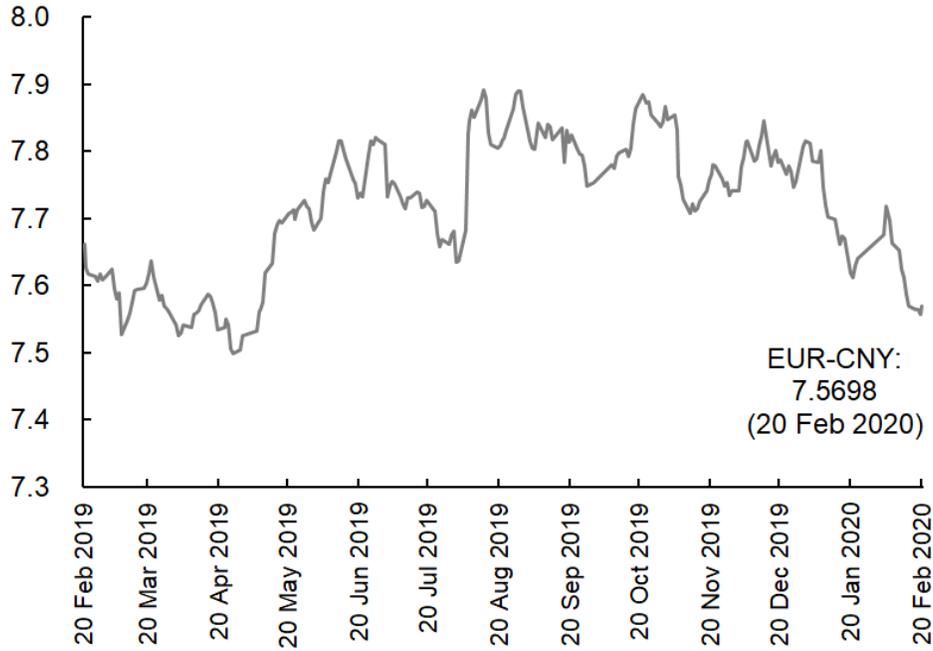
Exchange Rates

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



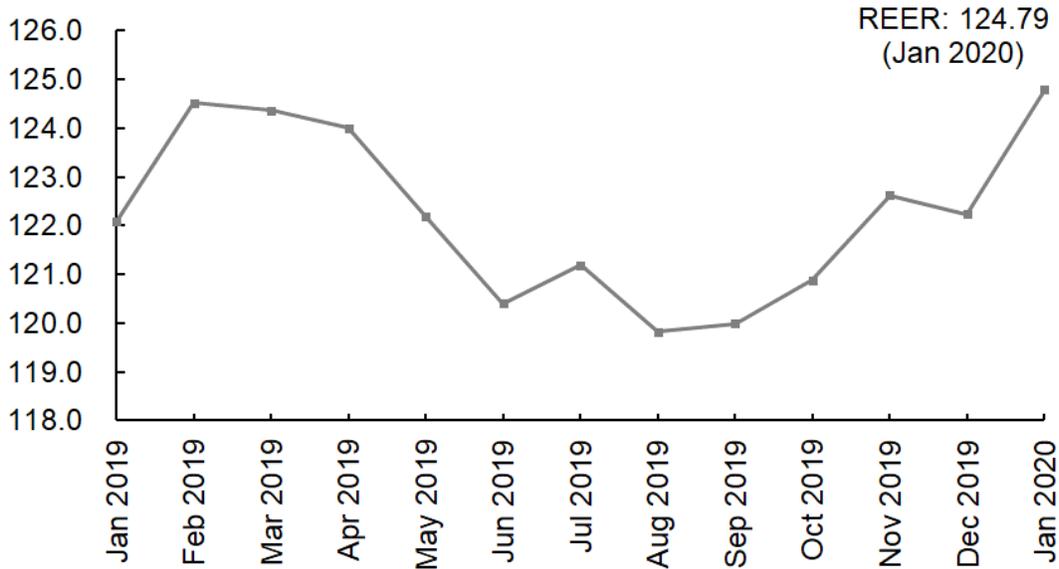
Source: State Administration of Foreign Exchange

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



Source: State Administration of Foreign Exchange

Exhibit 3: Real effective exchange rate of the Chinese yuan, January 2019 to January 2020



Source: Bank of International Settlements

FUNG BUSINESS INTELLIGENCE

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Fung Business Intelligence was established in the year 2000.

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