



China Sourcing Update

August 21, 2018

Price index for US imports from China

Price index for US imports from China falls in July

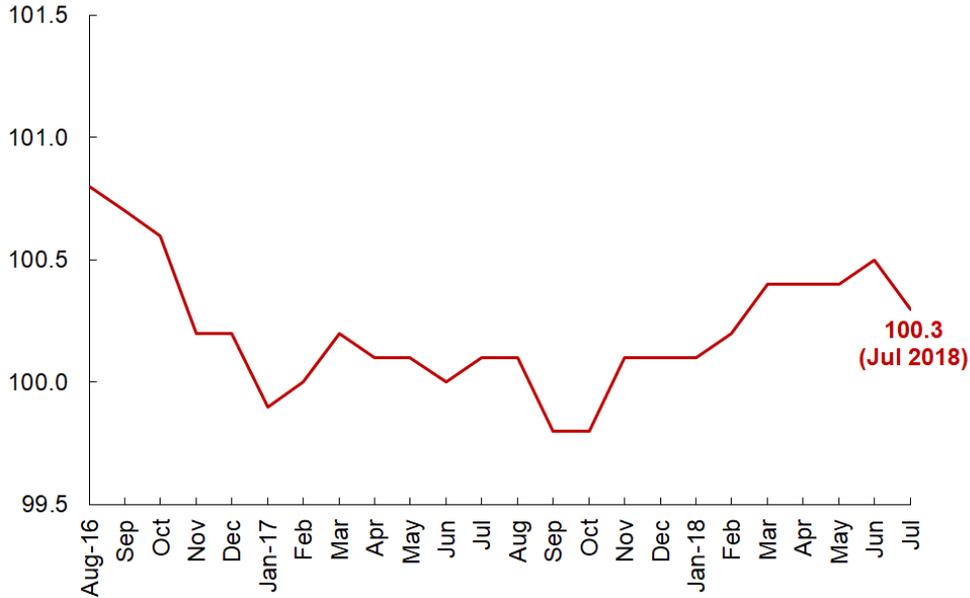
Compiled by the US Department of Labor, the price index for US imports from China fell from 100.5 in June to a five-month low of 100.3 in July (*see exhibit 1*).

A main reason for the drop in the price index in the month was the depreciation of the Chinese yuan against the US dollar in July. The daily fixing rate of the Chinese yuan against the US dollar depreciated markedly by 2.93% in July.

Going forward, the Chinese yuan is expected to stay weak against the US dollar in the near term, amid a strong US dollar and the China-US trade war. Besides, after the US tariffs on US\$34 billion worth of Chinese imports kicked in on 6 July, it is likely that Chinese suppliers would lower the prices of their exports to keep prices down and remain competitive in the US market. Thus, we expect that the price index for US imports from China will trend downward in the coming months.¹

¹ The price index would not reflect tariff-related prices increases since they are removed from the equation.

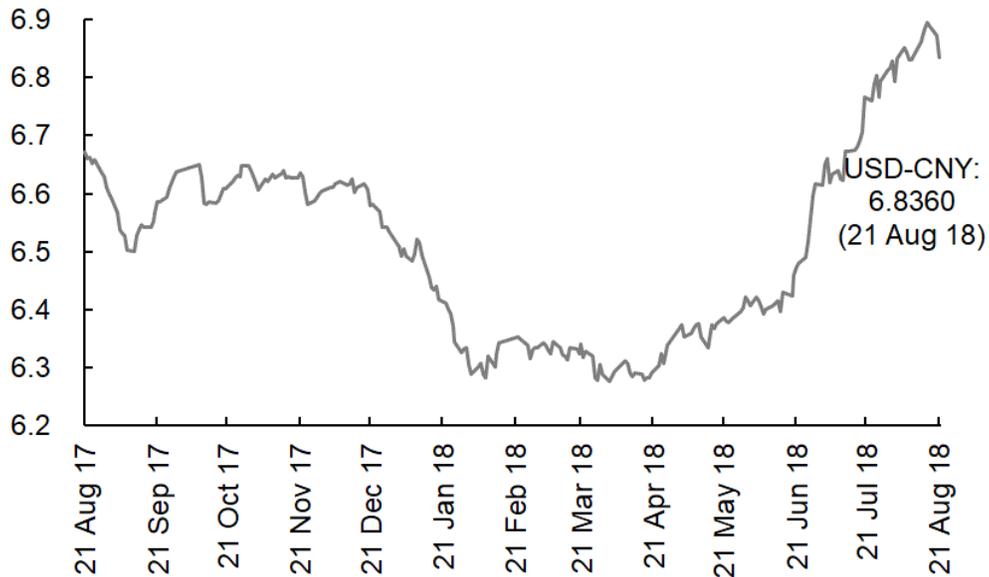
**Exhibit 1: Price index for US imports from China,
August 2016 to July 2018**



Source: US Department of Labor

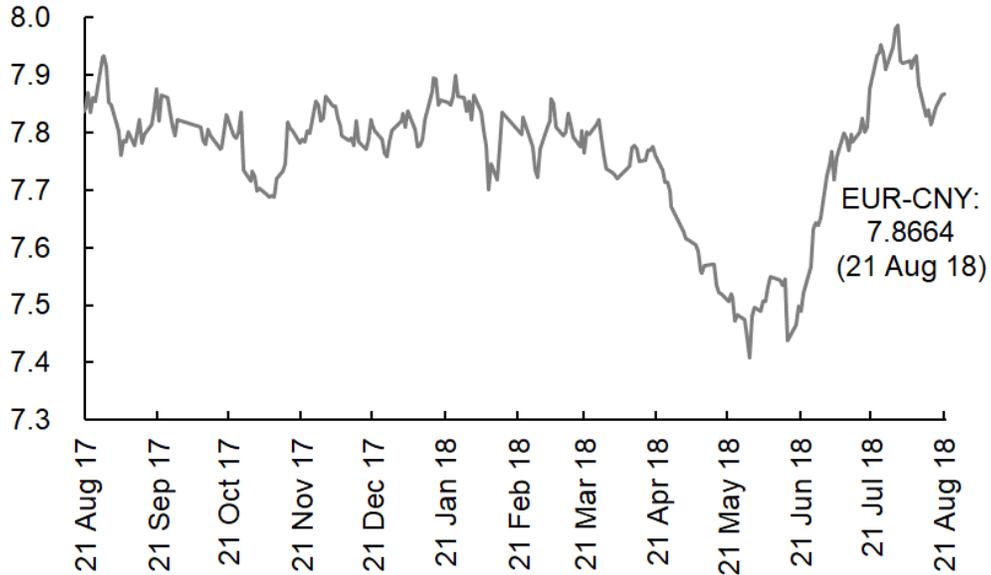
Exchange Rates

Exhibit 1: USD-CNY daily fixing rate, August 2017 to August 2018



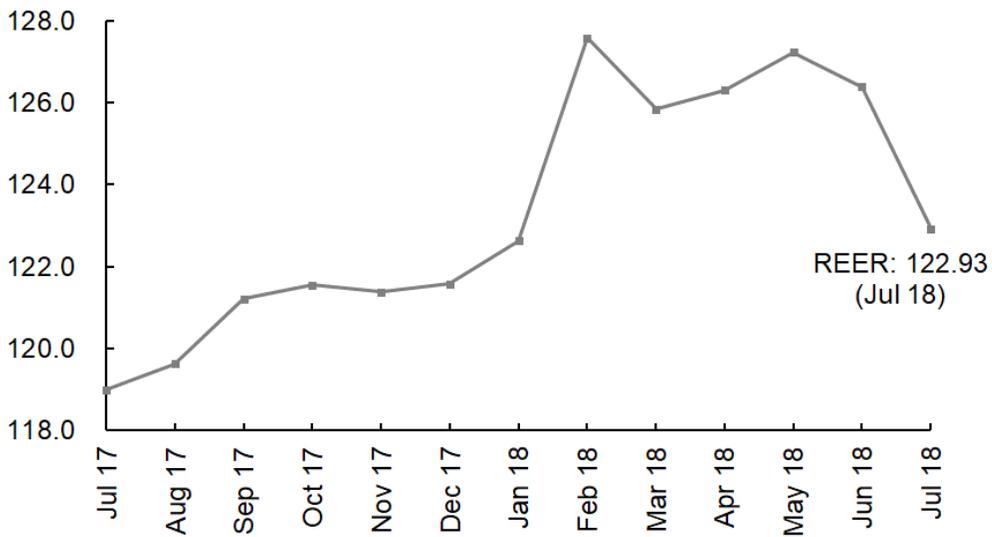
Source: State Administration of Foreign Exchange

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



Source: State Administration of Foreign Exchange

Exhibit 3: Real effective exchange rate of the Chinese yuan, July 2017 to July 2018



Source: Bank of International Settlements

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Timothy Cheung
Senior Research Manager
timothycheung@fung1937.com
(852) 2300 2477

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>



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