



China Sourcing Update

August 29, 2019

Price index for US imports from China

Price index for US imports from China drops further in June and July

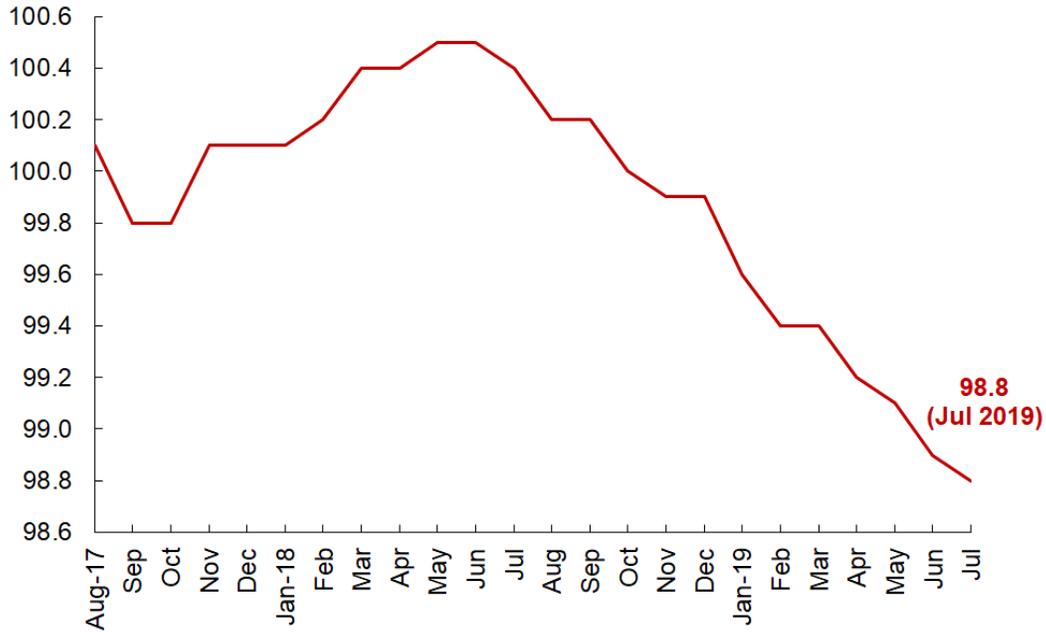
Compiled by the US Department of Labor, the price index for US imports from China fell from 99.1 in May to 98.9 in June and 98.8 in July, continuing the downward trend which started in July 2018. (see exhibit 1).¹

In our view, the decline in the price index in the two-month period was mainly due to the depreciation of the Chinese yuan against the US dollar. Another possible reason for the decline in the price index was that some Chinese suppliers lowered their export prices in order to remain competitive in the US market in view of the US additional tariffs on a total of US\$250 billion worth of Chinese imports effective from 10 May.

Going forward, we expect that the price index for US imports from China will continue to fall in the coming months, as Chinese exporters are likely to further reduce their product prices amid the hikes in US tariffs. US additional tariff rates on US\$250 billion of Chinese imports will increase from the existing 25% to 30% on 1 October, and the planned US tariffs on another US\$300 billion of Chinese imports are set to go into effect in two stages on 1 September and 15 December.

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

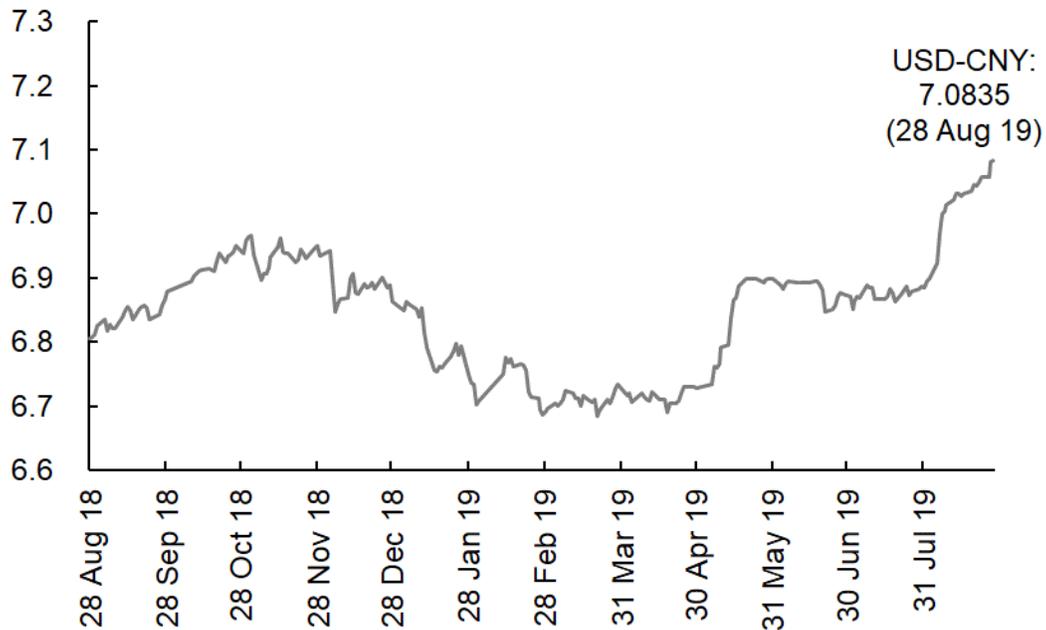
Exhibit 1: Price index for US imports from China, August 2017 to July 2019



Source: US Department of Labor

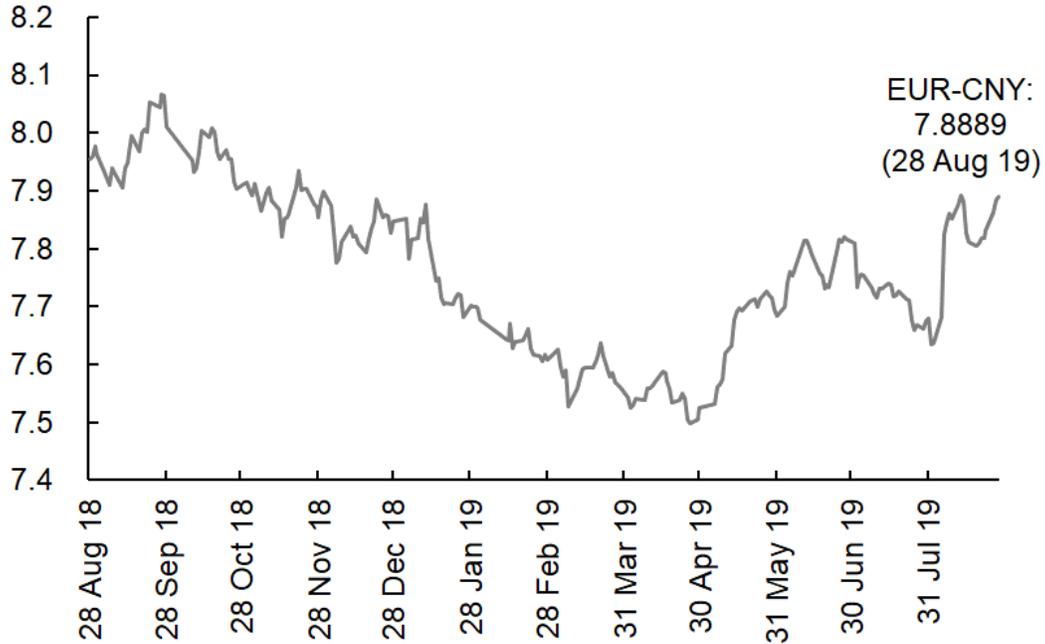
Exchange Rates

Exhibit 1: USD-CNY daily fixing rate, August 2018 to August 2019



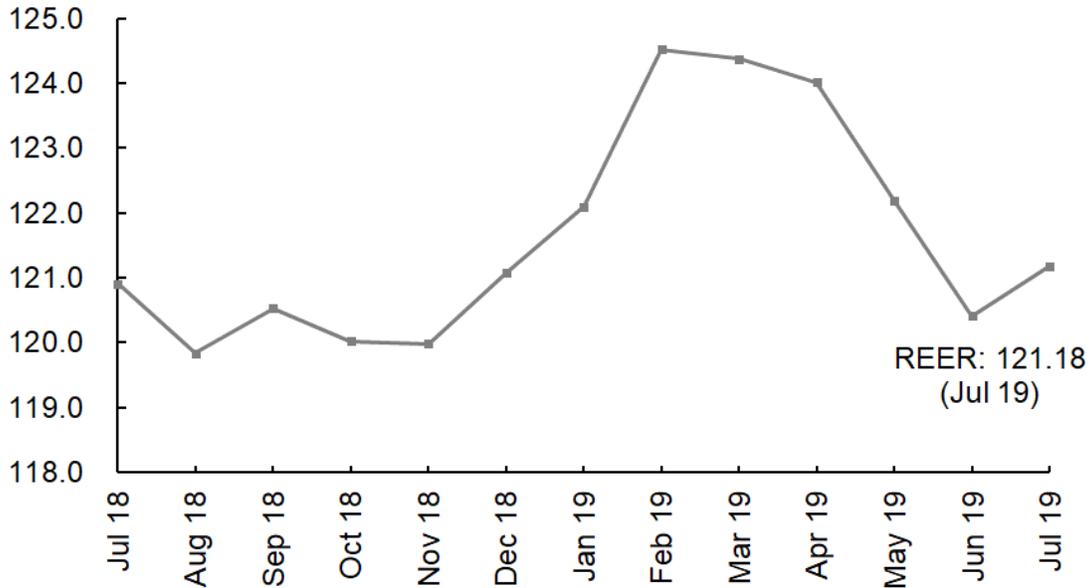
Source: State Administration of Foreign Exchange

Exhibit 2: EUR-CNY daily fixing rate, August 2018 to August 2019



Source: State Administration of Foreign Exchange

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



Source: Bank of International Settlements

FUNG BUSINESS INTELLIGENCE

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