



China Sourcing Update

July 28, 2016

Price index for US imports from China

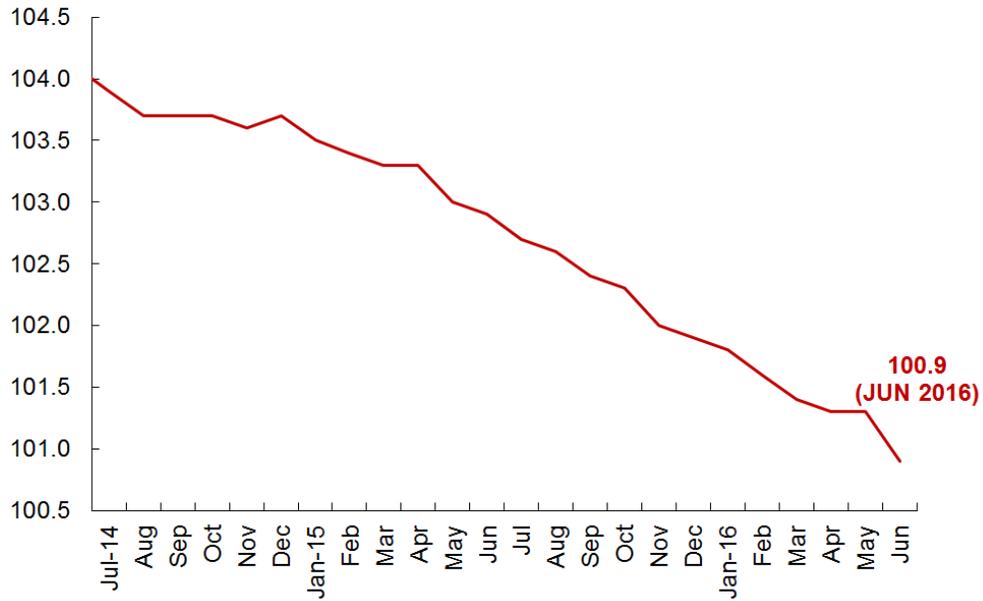
Price index for US imports from China drops again

Compiled by the US Department of Labor, the price index for US imports from China fell to 100.9 in June, the lowest level since October 2010 (*see exhibit 1*).

In our view, the drop in the price index in June was mainly due to the depreciation of the Chinese yuan against the US dollar during the month; the daily fixing rate of the Chinese yuan depreciated against the US dollar by 0.79% in June. Another reason is the fall in the ex-factory prices of Chinese products; the producer price index of industrial products (PPI) fell by 0.2% mom in the month.

Going forward, the ex-factory prices of Chinese products are expected to stabilize in the near term. However, the daily fixing rate of the Chinese yuan depreciated against the US dollar by 0.95% from end-June to 25 July. All in all, we predict that the price index for US imports from China will stay low in July and for the coming months.

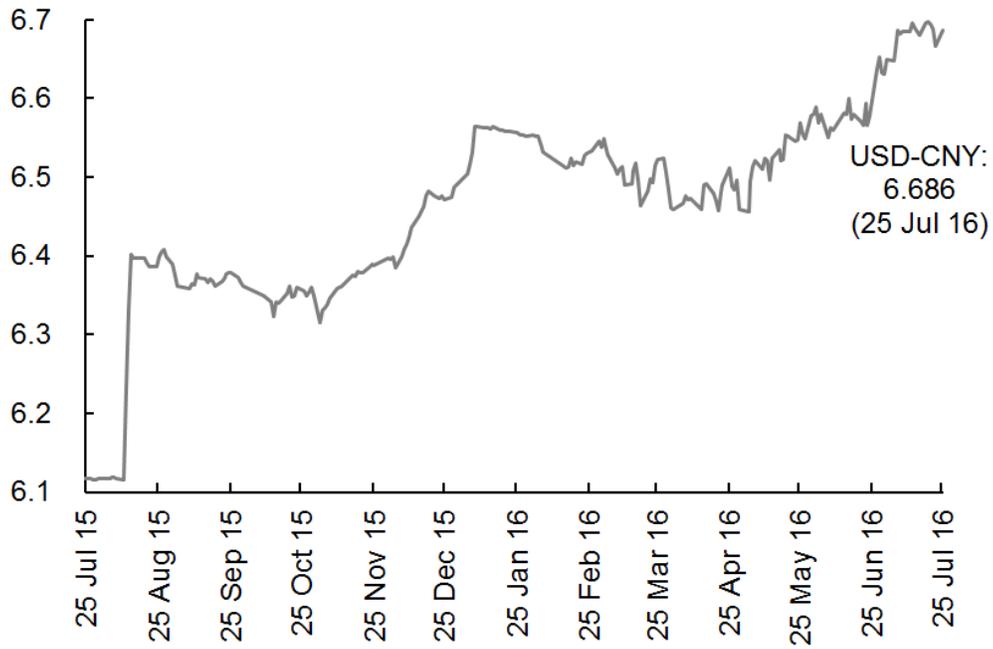
Exhibit 1: Price index for US imports from China, July 2014 to June 2016



Source: US Department of Labor

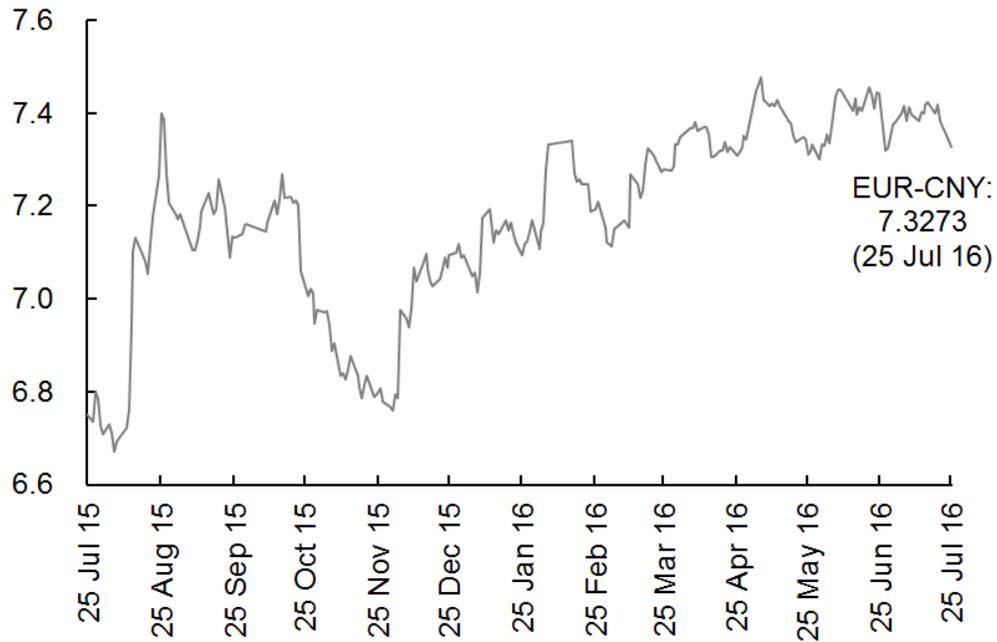
Exchange Rates

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



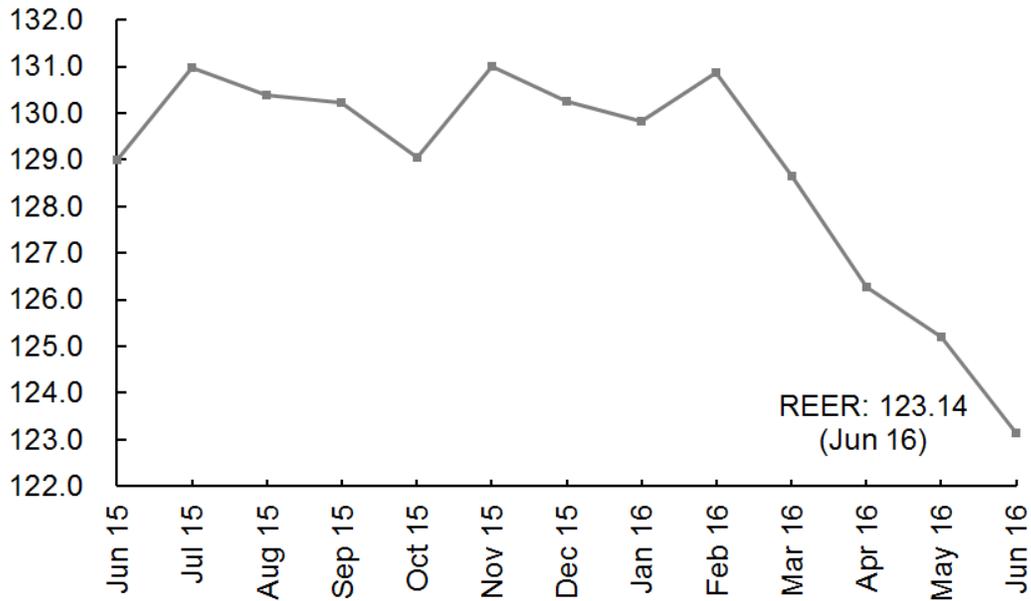
Source: State Administration of Foreign Exchange

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



Source: State Administration of Foreign Exchange

Exhibit 3: Real effective exchange rate of the Chinese yuan, June 2015 to June 2016



Source: Bank of International Settlements

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