



China Sourcing Update

July 7, 2016

Price index for US imports from China

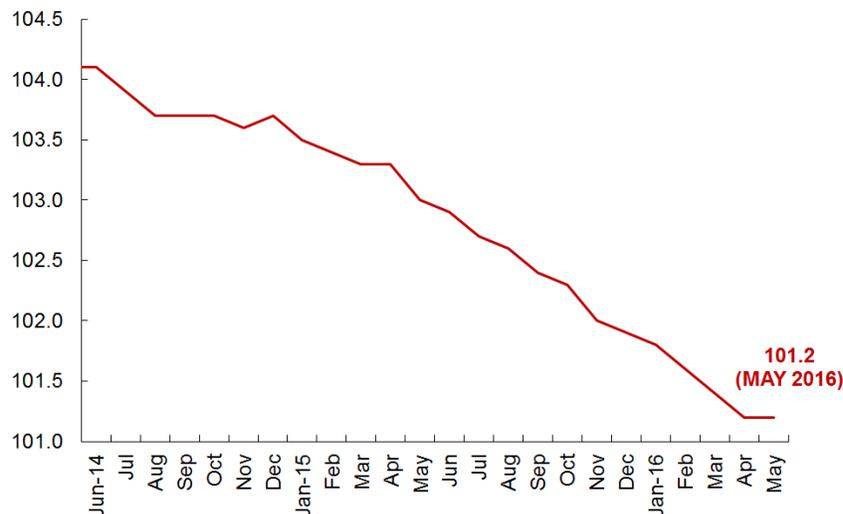
Price index for US imports from China stays stable

Compiled by the US Department of Labor, the price index for US imports from China stayed flat at 101.2 in May (see exhibit 1).

In our view, the flat reading is due to the bottoming out of ex-factory prices of Chinese products in renminbi terms; China's producer price index of industrial products (PPI) rose by 0.5% mom in May.

Going forward, the ex-factory prices of Chinese products are expected to continue its rebound in the near term. However, the fixing rate of the Chinese yuan depreciated against the US dollar by 0.8% during June, and may further depreciate amid the market turmoil created by 'Brexit'. Thus, we predict that the price index for US imports from China will stay low, and may even decline again, for the coming months.

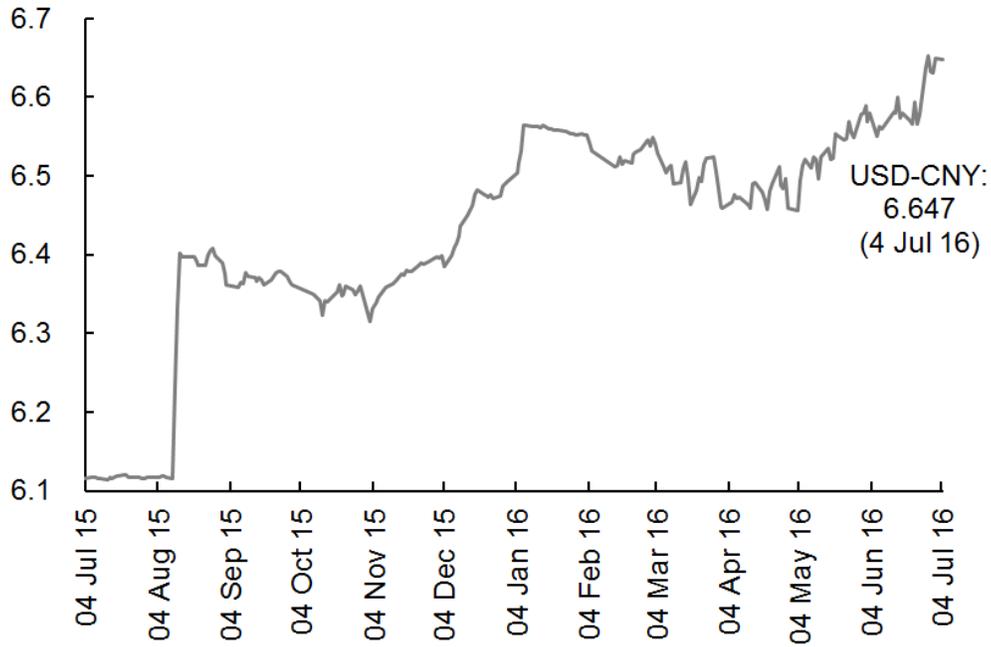
Exhibit 1: Price index for US imports from China, June 2014 to May 2016



Source: US Department of Labor

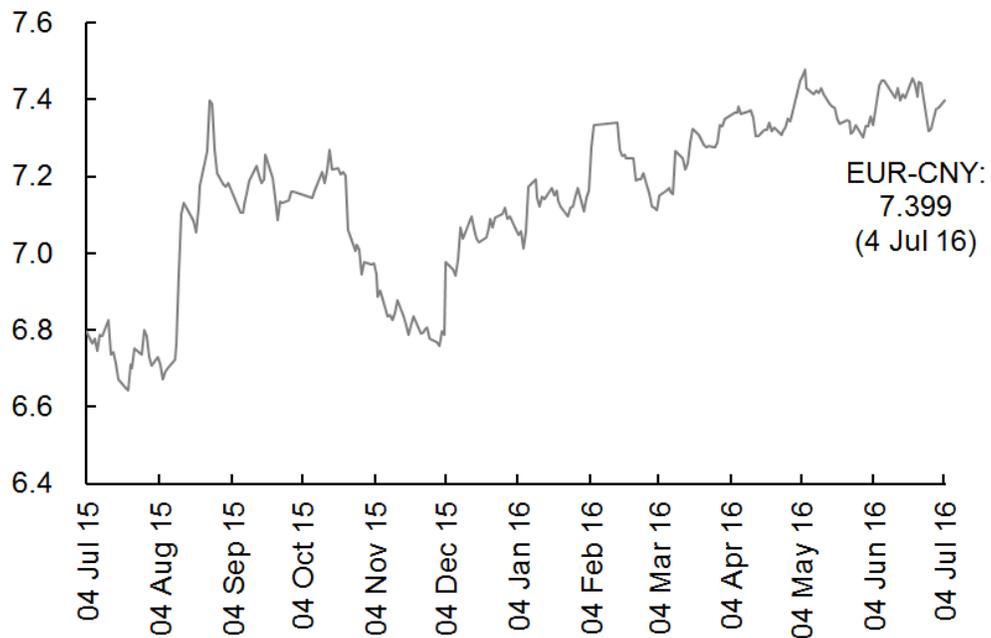
Exchange Rates

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



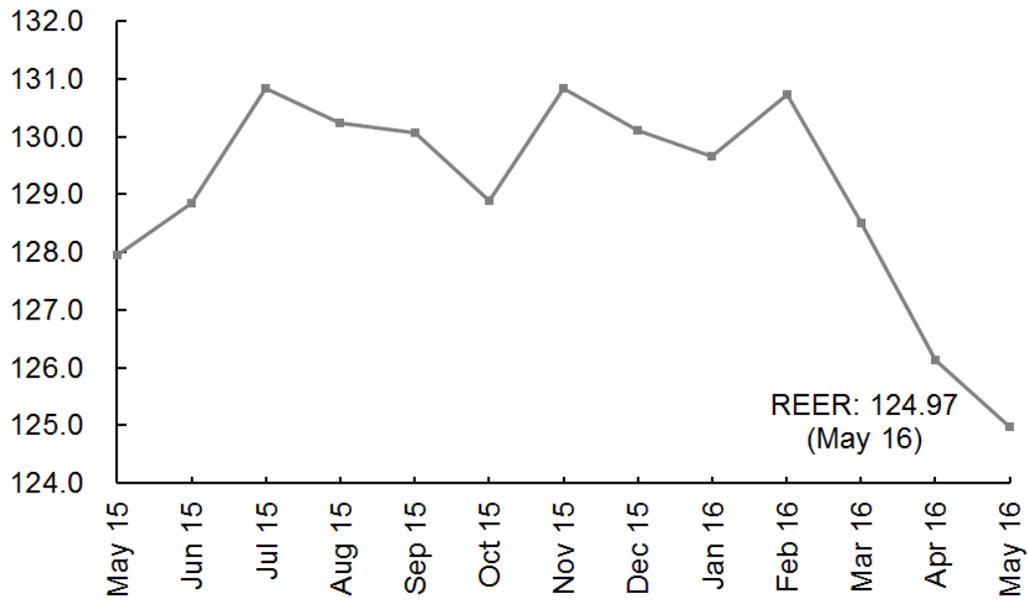
Source: State Administration of Foreign Exchange

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,
May 2015 to May 2016**



Source: Bank of International Settlements

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