



China Sourcing Update

December 20, 2019

Price index for US imports from China

Price index for US imports from China continues to fall in November

Compiled by the US Department of Labor, the price index for US imports from China edged down from 98.3 (revised) in October to 98.2 in November, continuing the downward trend which started in July 2018. (see *exhibit 1*).¹

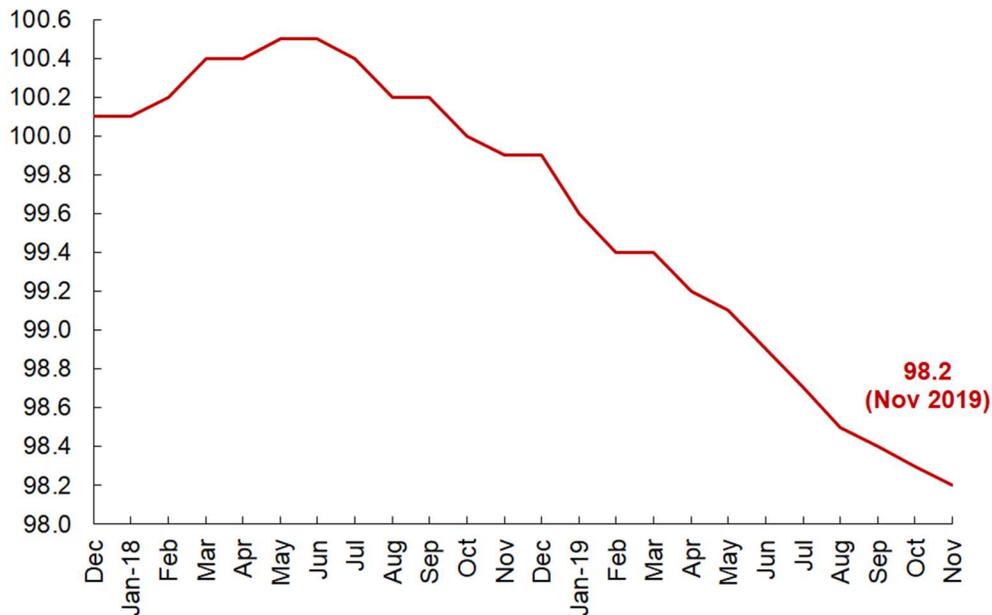
The slight decline in the price index for US imports from China was partly due to the lower ex-factory prices of Chinese industrial products, as indicated by the month-on-month decline in China's producer price index of industrial products (PPI) in November, indicating deflation in ex-factory prices of Chinese industrial products.

Going forward, we expect that the price index for US imports from China will remain low in the near term as the November reading of the ex-factory prices sub-index of China's manufacturing PMI came in at 47.3, indicating deflationary pressures on ex-factory prices. Moreover, we expect that the outcome of the trade negotiations between China and the US will continue to be a major factor affecting the movement of the price index.²

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

² On 13 December, China and the US agreed to an initial trade deal, easing a yearlong trade war between the two countries. Both countries termed it a 'phase one' deal and said trade negotiations will continue on remaining issues.

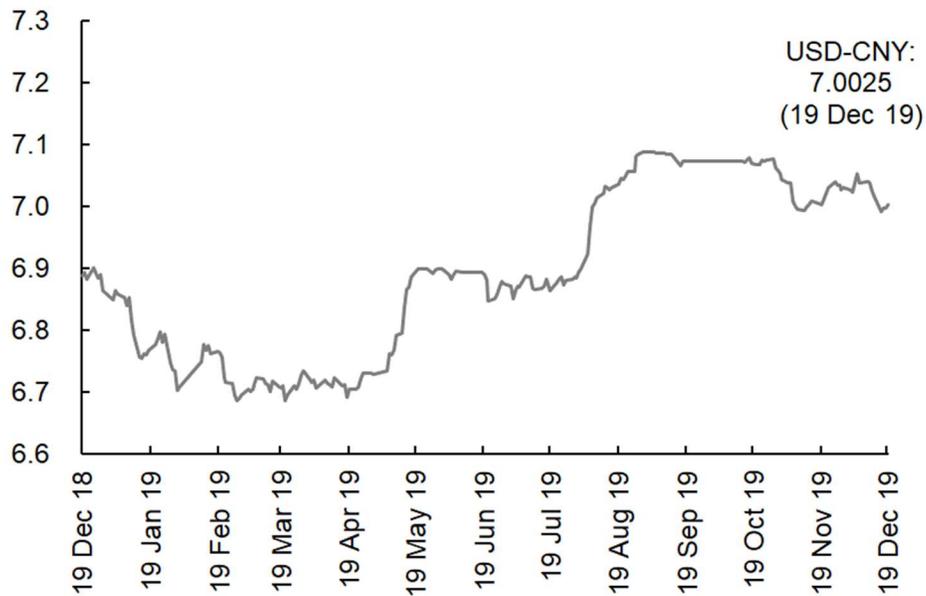
**Exhibit 1: Price index for US imports from China,
December 2017 to November 2019**



Source: US Department of Labor

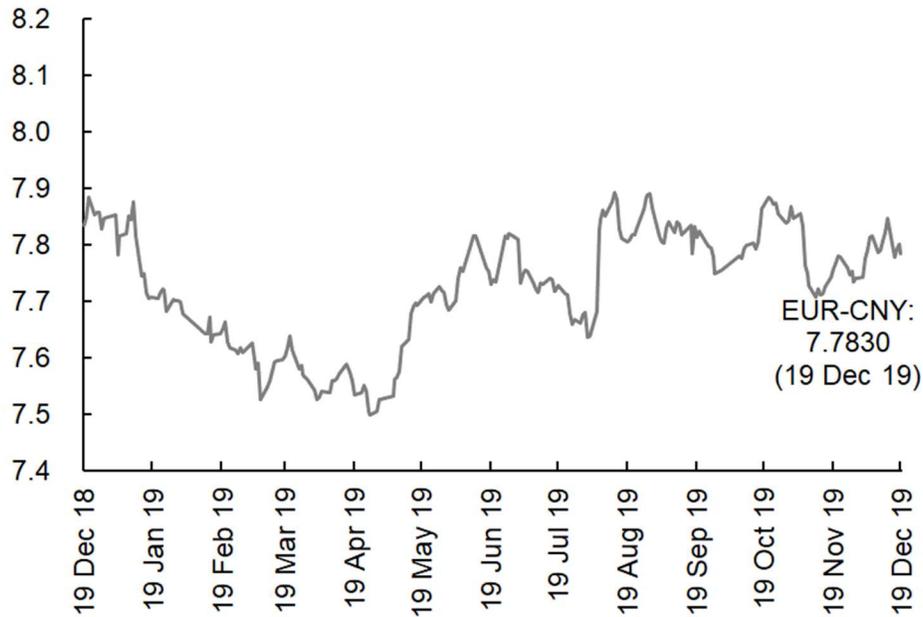
Exchange Rates

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



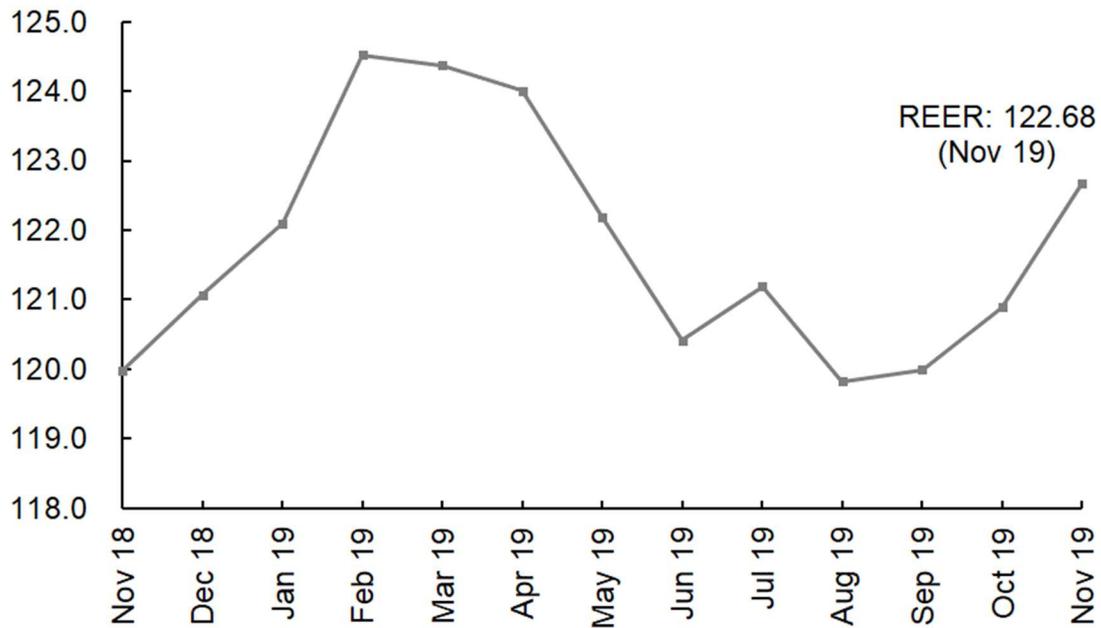
Source: State Administration of Foreign Exchange

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



Source: State Administration of Foreign Exchange

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



Source: Bank of International Settlements

FUNG BUSINESS INTELLIGENCE

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