



China Sourcing Update

May 9, 2016

Prices of Natural Textile Materials

1. Cotton price indices show a strong rebound

The price indices¹ of cotton dropped further in March, and then stayed stable in early April. However, since mid-April, the price indices have shown a strong rebound. The CC Index 3128B, for example, picked up from 11,707 on 11 April to 12,369 on 22 April, the highest level since late January this year (*see exhibit 1*).

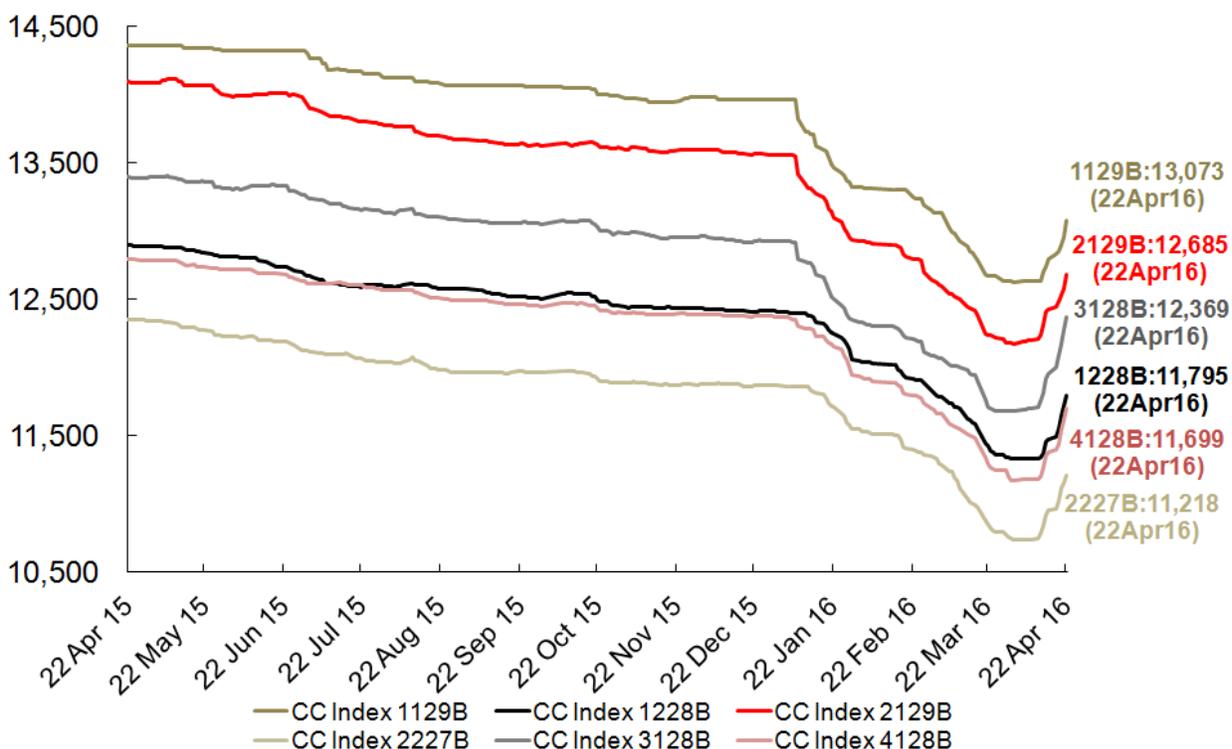
According to the local media, the latest rise in domestic cotton prices was mainly due to the restocking demand. Recently, textile enterprises have been under pressure to increase their purchases of cotton, due to low inventory levels of cotton and seasonal rise in downstream demand.

In our view, the uptrend of cotton prices is unlikely to continue, as the supply of cotton is expected to increase in coming months due to the sale of cotton reserves by the Chinese government from early May. According to the government announcement released on 15 April, the government plans to sell up to 2 million tonnes of cotton by public auction from 3 May to 31 August this year.² The auction price of cotton will be determined by both the spot domestic and the spot imported cotton prices, and will be adjusted every week.

¹ The indices, compiled by the China Cotton Association, track cotton prices quoted from two hundred textile enterprises. <http://www.china-cotton.org/>

² http://www.sdpc.gov.cn/zcfb/zcfbgg/201604/t20160415_798290.html

Exhibit 1: China's cotton price indices, April 2015 to April 2016



* Since 8 October 2013, the China Cotton Association has officially published the price indices of cotton based on a new classification for cotton. The price indices based on the previous classifications for cotton (i.e. CC Index 229, CC Index 328 and CC Index 527) were discontinued on 8 October 2013.

Source: China Cotton Association

2. Nanjing Wool Market Composite Index rises

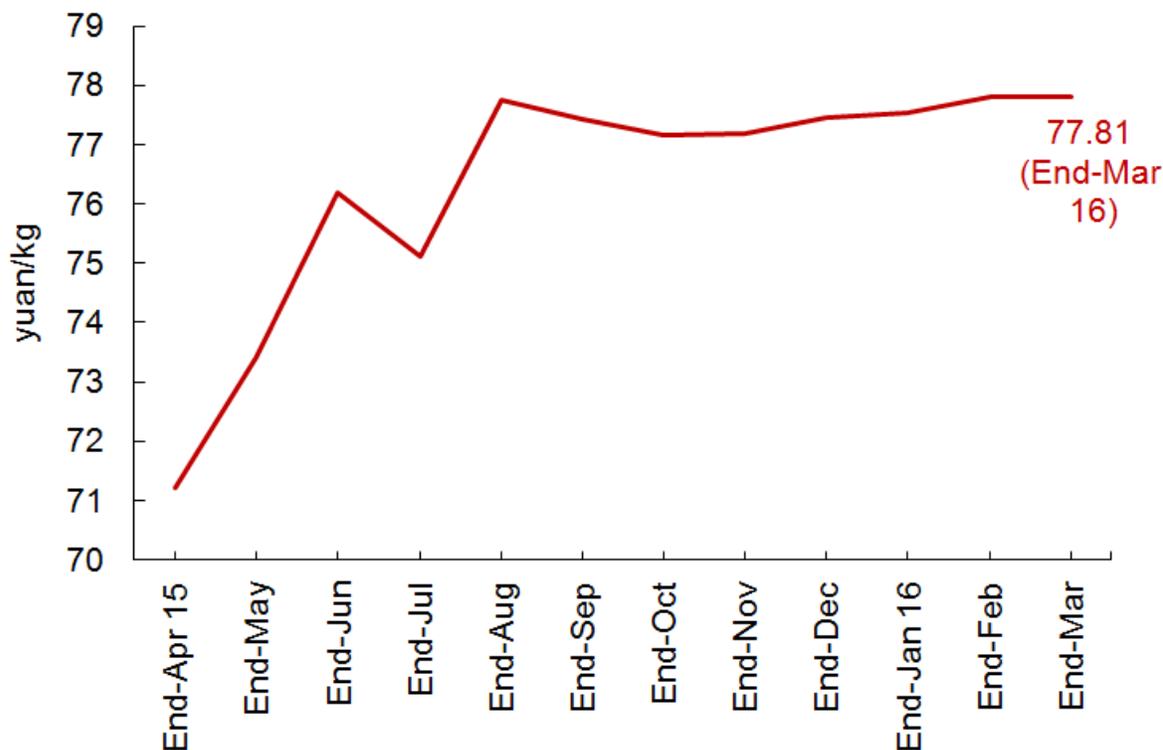
The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, rose from 77.54 yuan per kg at end-January to 77.80 yuan per kg at end-February and 77.81 yuan per kg at end-March (see exhibit 2).

We believe that the rise in the wool price index in February and March was largely attributable to the depreciation of the Chinese yuan against the Australian dollar. The spot exchange rate of the Chinese yuan against the Australian dollar depreciated from 4.6565 on 29 January to 4.9599 on 31 March, according to Bloomberg. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by the movement of the exchange rate of the Chinese yuan against the Australian dollar.

³ <http://www.woolmarket.com.cn/>

Looking ahead, the demand for double-faced woolen fabrics is expected to stay strong, which will in turn support the downstream demand for wool in the near term.⁴ Also, the supply of wool in Australia is forecast to drop further in 2016/17, according to the Australian Wool Production Forecasting Committee.⁵ In view of these factors, we expect the wool prices in China to remain high in the foreseeable future.

Exhibit 2: Nanjing Wool Market Composite Index, April 2015 to March 2016



Source: The Nanjing Wool Market

3. Price index of silk trends upward

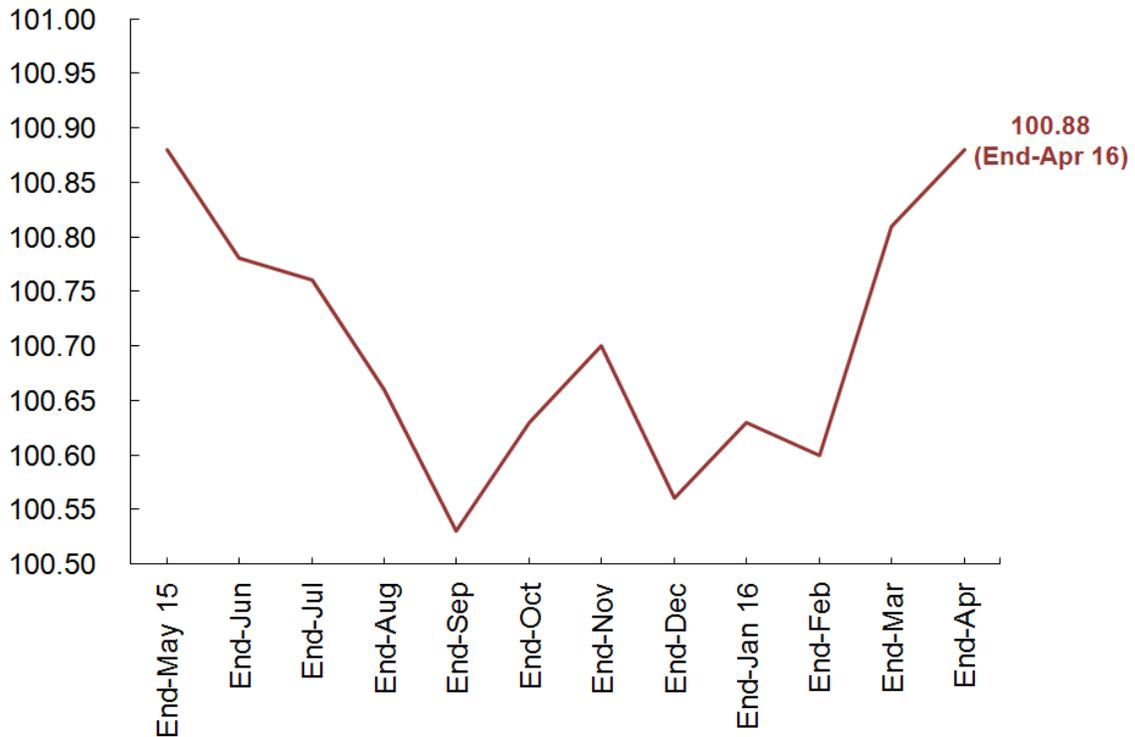
The price index of silk trended upward in March and April. The price index went up from 100.60 at end-February to 100.81 at end-March, and further to 100.88 at end-April (see exhibit 3). Despite the rise in the silk prices, the downstream demand has remained weak in recent months, according to the local media.

Looking ahead, it is expected that orders from downstream manufacturers will remain limited. Therefore, we expect the silk price index to peak soon.

⁴ <http://www.woolmarket.com.cn/NewsDetail.aspx?id=42384>

⁵ http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc_wool_forecast_report_april_2016_corr.pdf

Exhibit 3: Price index of silk, May 2015 to April 2016



Source: Ministry of Commerce

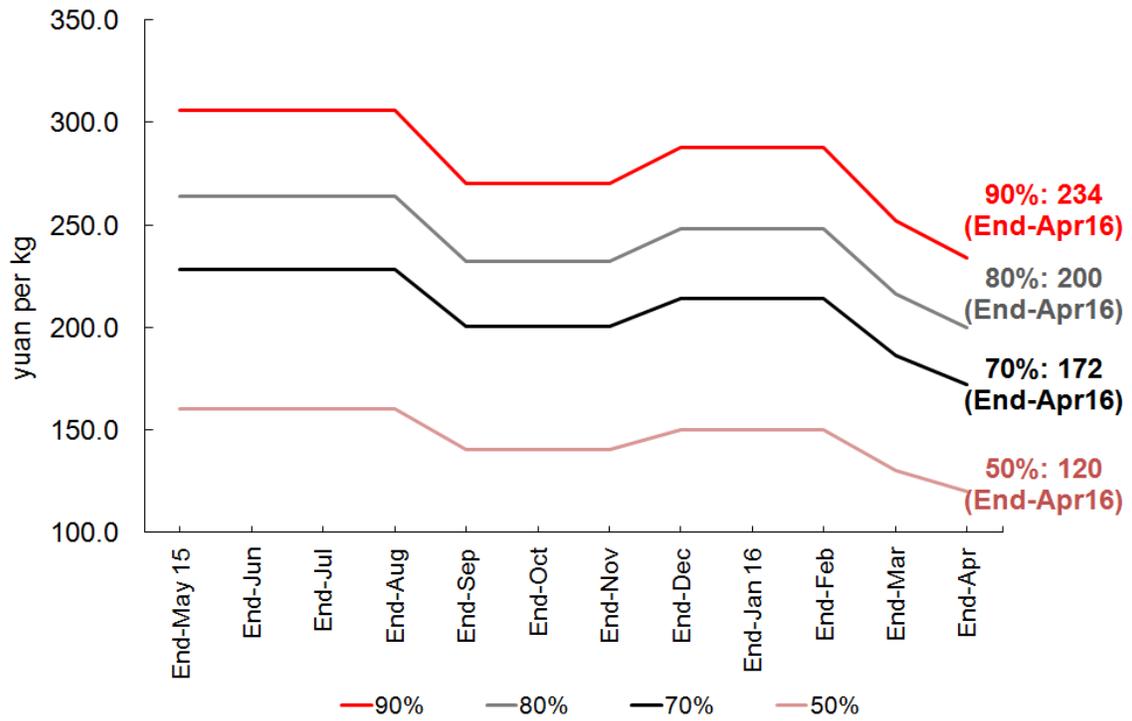
4. Prices of grey goose down drop in March and April

The prices of various types of grey goose down dropped in March and April. For example, the price of 70% grey goose down fell from 214.0 yuan per kg at end-February to 186.2 yuan per kg at end-March and 172.0 yuan per kg at end-April.

According to media reports, more and more consumers now prefer woolen coats to down jackets.⁶ Besides, as the weather turns warmer in coming months, the demand for down will further decrease. Thus, we expect the prices of grey goose down to stay at low levels in the coming low season for down.

⁶ <http://myyj.168tex.com/2015-12-11/579593.html>

Exhibit 4: Prices of grey goose down, May 2015 to April 2016



Source: *cn-down.com*

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