



China Sourcing Update

May 10, 2018

Prices of Natural Textile Materials

1. Cotton price indices drop further in April

The price indices¹ of cotton fell slightly in April. The CC Index 3128B, for example, edged down from 15,546 on 30 March to 15,451 on 26 April, the lowest level since November 2016, before rebounding a bit to 15,453 on 28 April (see *exhibit 1*).

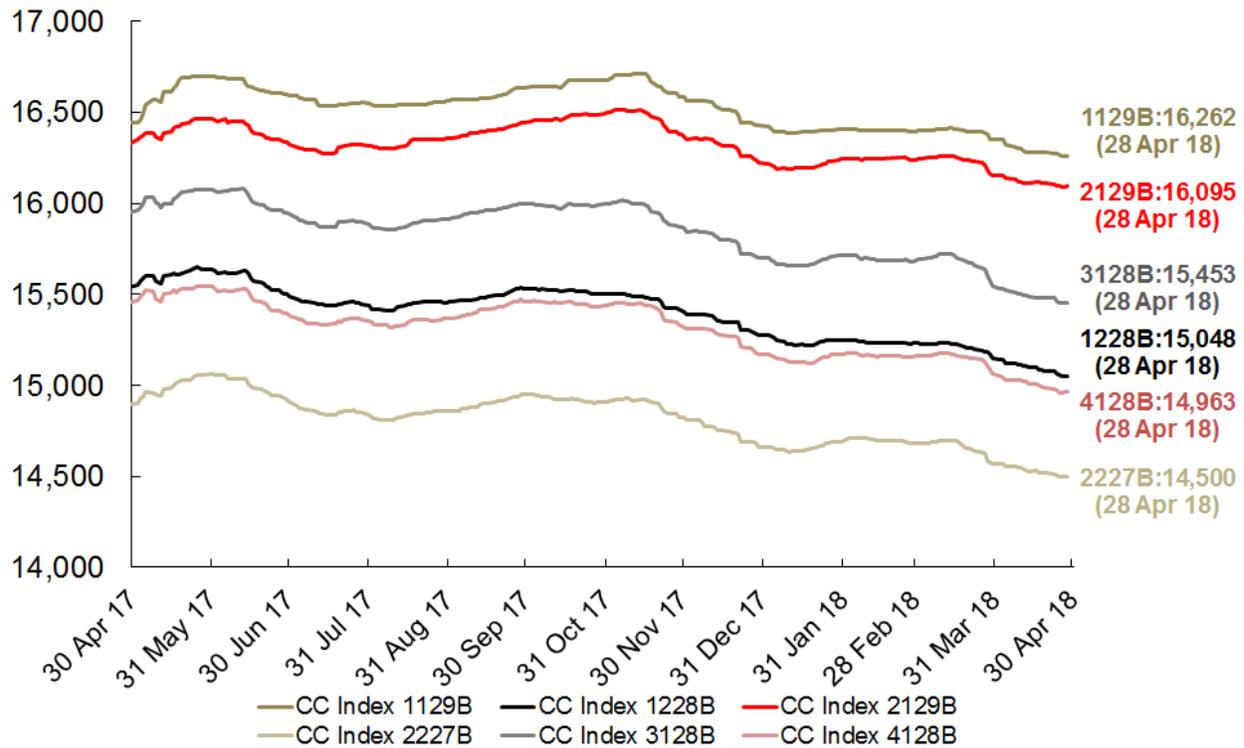
The main reasons for the decline in domestic cotton prices in the month were an abundant supply of cotton and a sluggish demand for cotton from downstream manufacturers.

In the month, the tit-for-tat tariff threats between the US and China have created great uncertainty in China's cotton market. On 4 April, China included cotton on the list of US goods that could be subject to additional tariffs of 25%. The next day, the US threatened to retaliate with extra tariffs on US\$100 billion of Chinese goods, and it is widely believed that Chinese apparel will be hit with additional tariffs. As trade talks between the two countries continue, it is uncertain whether any of the proposed tariff hikes will actually be enforced. If these tariff threats do become a reality, however, the cotton market of China will be greatly affected: an increase in the tariff rate on US cotton will lead to a tightened supply of high-grade supplies, while a tariff hike on Chinese apparel will cause a fall in the demand for cotton.

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

Looking ahead, we believe that domestic cotton prices will stay low in the near future, given that the China-US trade tensions do not escalate and create disruptions to China's cotton market.

Exhibit 1: China's cotton price indices, April 2017 to April 2018



Source: China Cotton Association

2. Nanjing Wool Market Composite Index goes up in April

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, increased from 85.21 yuan per kg on 30 March to 85.70 yuan per kg on 20 April (see exhibit 2).

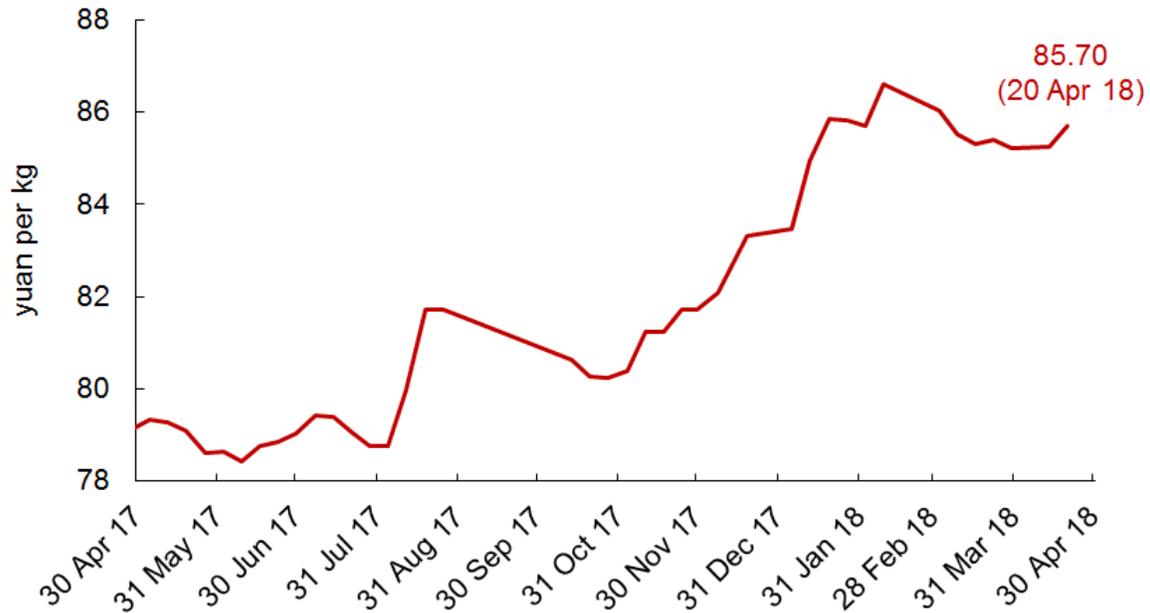
The slight rise in wool prices in China in the month was caused by a jump in wool prices in Australia. Triggered by a stronger demand from Chinese and Indian mills as well as rising concerns about a possible shortage of wool due to widespread drought in wool growing areas in the country, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) climbed from 85.62 yuan per kg on 29 March to 89.27 yuan per kg on 20

² <http://www.woolmarket.com.cn/>

April. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by the wool price movements in the Australian market.

Looking ahead, we believe that domestic wool prices will stay around the current high levels in the near term, in line with the wool price movements in Australia.

**Exhibit 2: Nanjing Wool Market Composite Index,
April 2017 to April 2018**



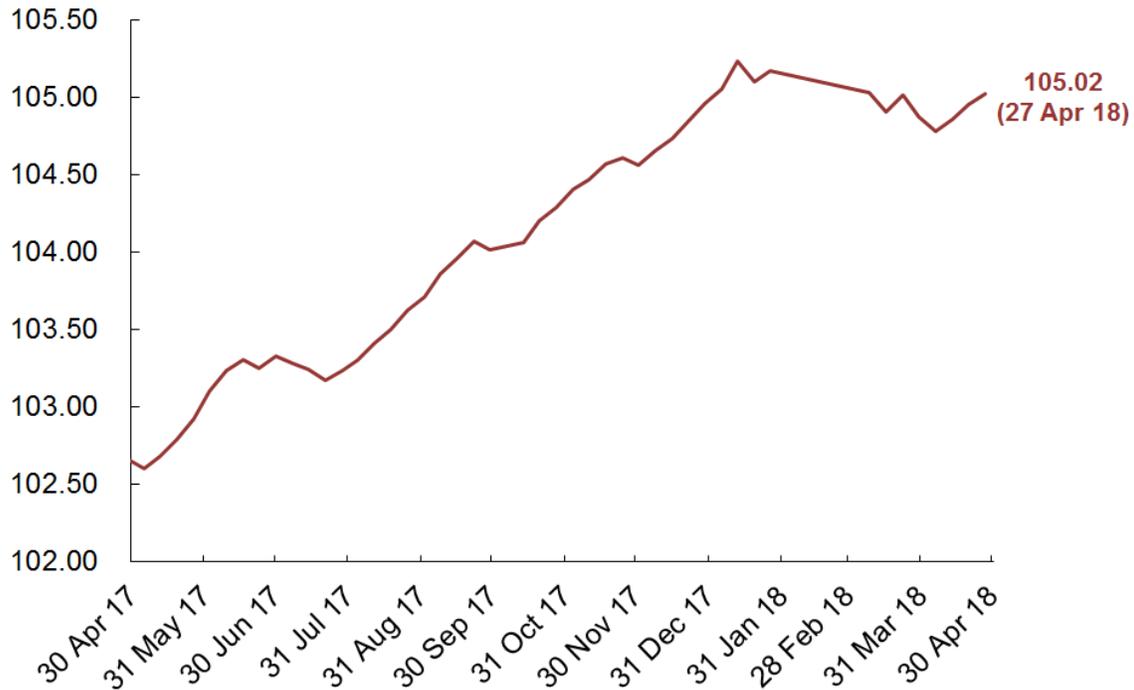
Source: The Nanjing Wool Market

3. Price index of silk edges up in April

The price index of silk inched up in April, rising from 104.87 on 30 March to 105.02 on 27 April (see exhibit 3). The high prices of spring cocoon pushed up the price index in the month, in our view.

Looking ahead, we expect the price index of silk to stay high as the prices of spring cocoon are likely to remain high in the near future.

Exhibit 3: Price index of silk, April 2017 to April 2018



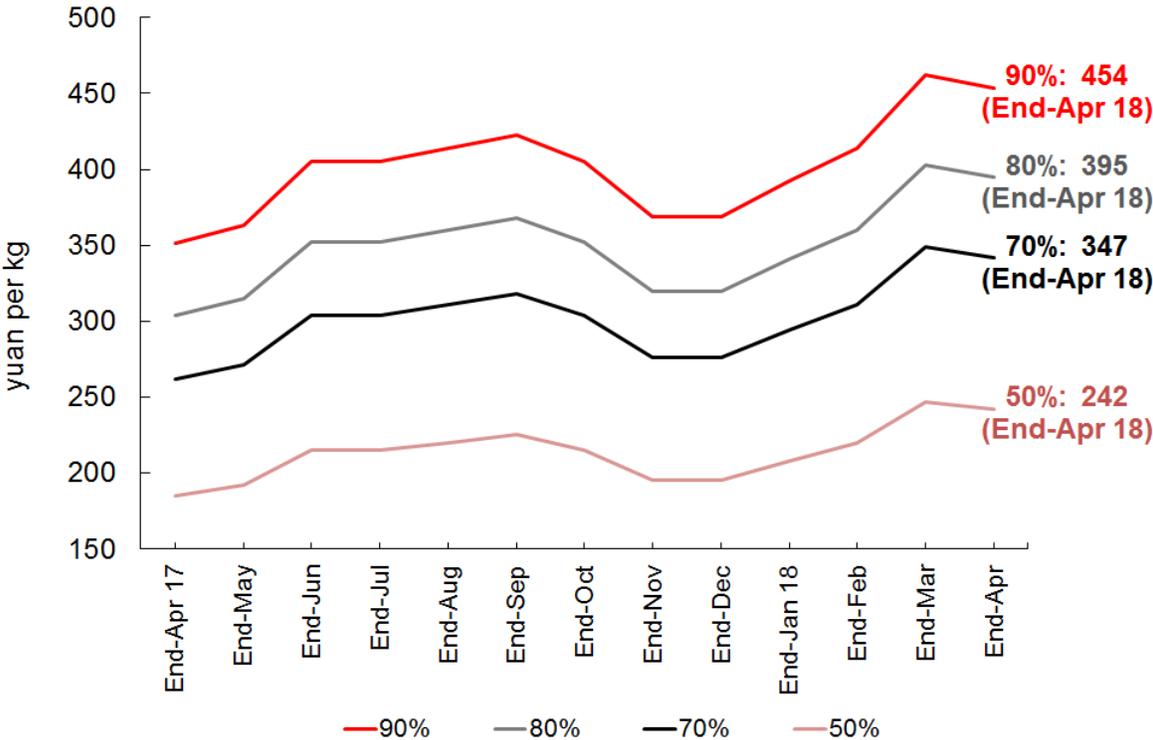
Source: Ministry of Commerce

4. Prices of grey goose down retreat in April

The prices of various types of grey goose down fell in April. For example, the price of 80% grey goose down dropped from 403 yuan per kg at end-March to 395 yuan per kg at end-April (see exhibit 4). In our view, the decline in the prices of grey goose down was due mainly to a weak downstream demand.

Going forward, the demand for grey goose down is likely to decline further during the current low season for down products. Thus, we expect that the prices of grey goose down will continue to go down in the coming months.

Exhibit 4: Prices of grey goose down, April 2017 to April 2018



Source: cn-down.com

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