



China Sourcing Update

September 9, 2016

Prices of Natural Textile Materials

1. Cotton price indices plunge in August

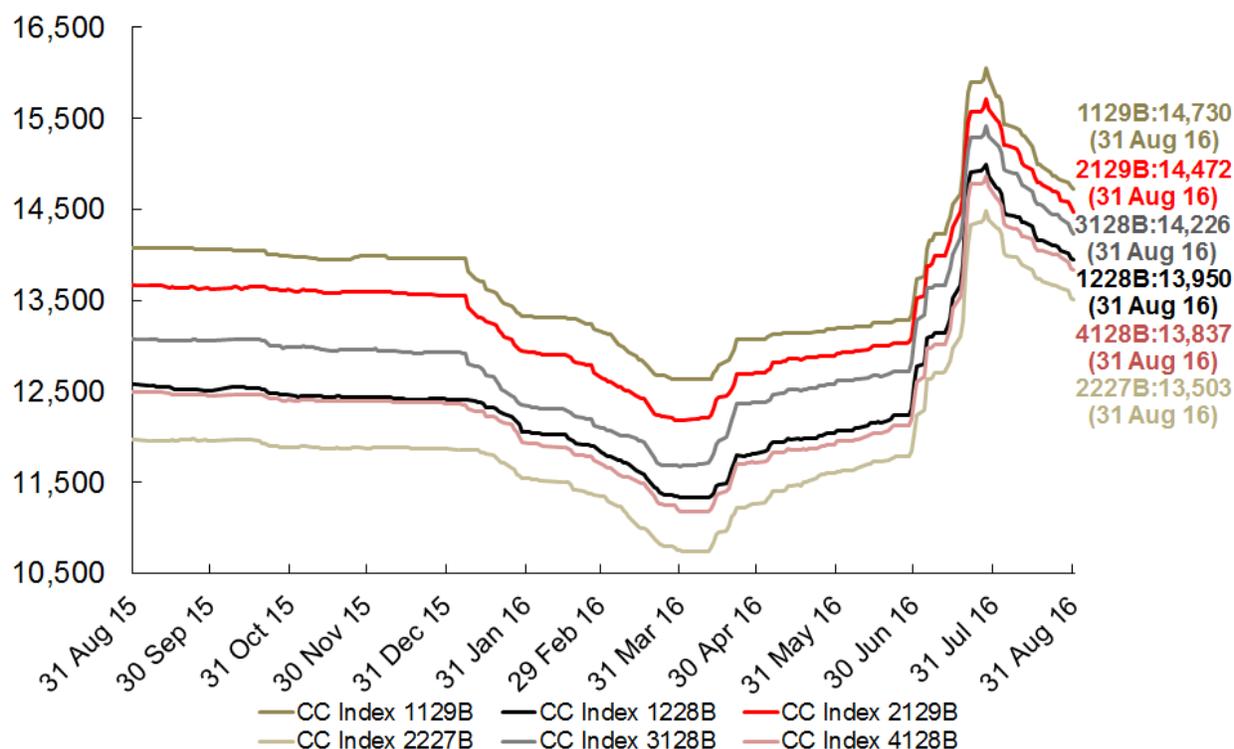
The price indices¹ of cotton have gone down sharply since late July. The CC Index 3128B, for example, fell from the recent high of 15,415 on 28 July to 14,226 on 31 August (see *exhibit 1*).

In our view, the drop in domestic cotton prices in August was mainly due to the government's decision to extend the selling period of cotton reserves by a month to 30 September, which could offload about 600,000 tonnes of cotton reserves more than initially announced. The plunge in international cotton prices also contributed to the decline in domestic cotton prices in the month.

Going forward, the downstream demand from textile manufacturers is expected to improve in the coming months as the current off season is about to end. Thus, we expect the cotton prices to bottom out soon.

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

Exhibit 1: China's cotton price indices, August 2015 to August 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 falls

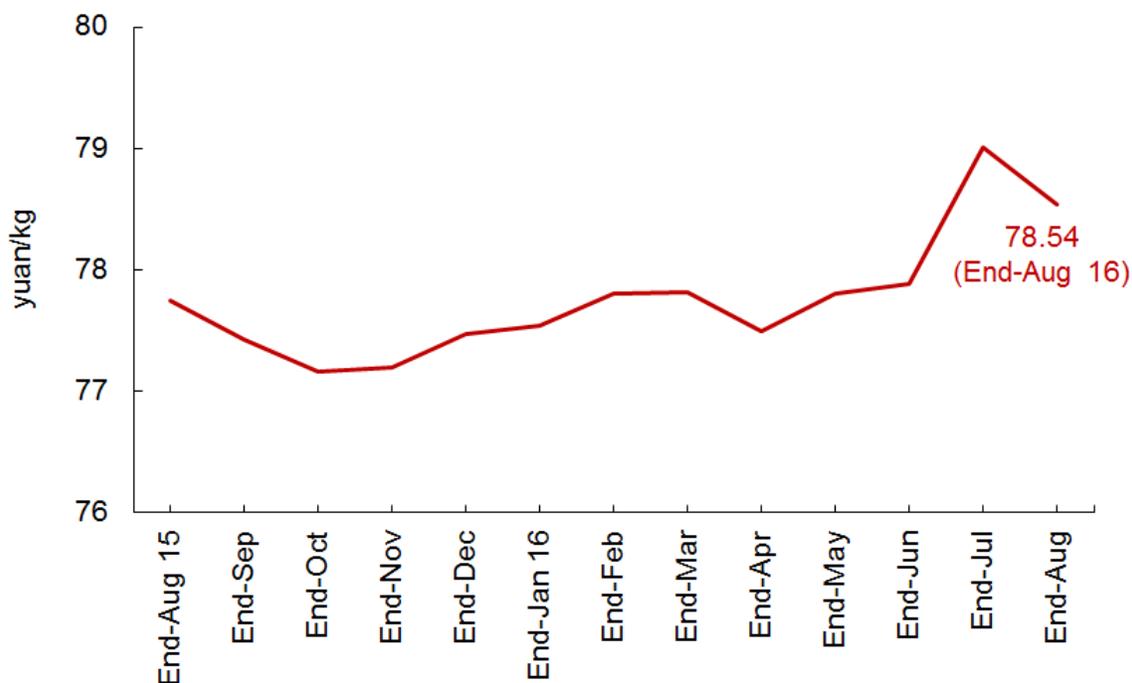
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went down from 79.01 yuan per kg at end-July to 78.54 yuan per kg at end-August (see exhibit 2).

In our view, the fall in the wool price index in the month was mainly due to the decline in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) dropped from 1,311 Australian cents per kilogram on 15 July (i.e. the last trading day of July) to 1,309 Australian cents per kilogram on 25 August. 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. Also, the Chinese yuan appreciated against the Australian dollar in August, driving down domestic wool prices denominated in the Chinese yuan.

² <http://www.woolmarket.com.cn/>

Looking ahead, the demand for double-faced wool fabrics is expected to remain strong, which will in turn support the downstream demand for wool. Meanwhile, the supply of wool in Australia is forecast to stay flat in 2016/17, according to the Australian Wool Production Forecasting Committee.³ 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, August 2015 to August 2016



Source: The Nanjing Wool Market

3. Price index of silk stays stable at high levels

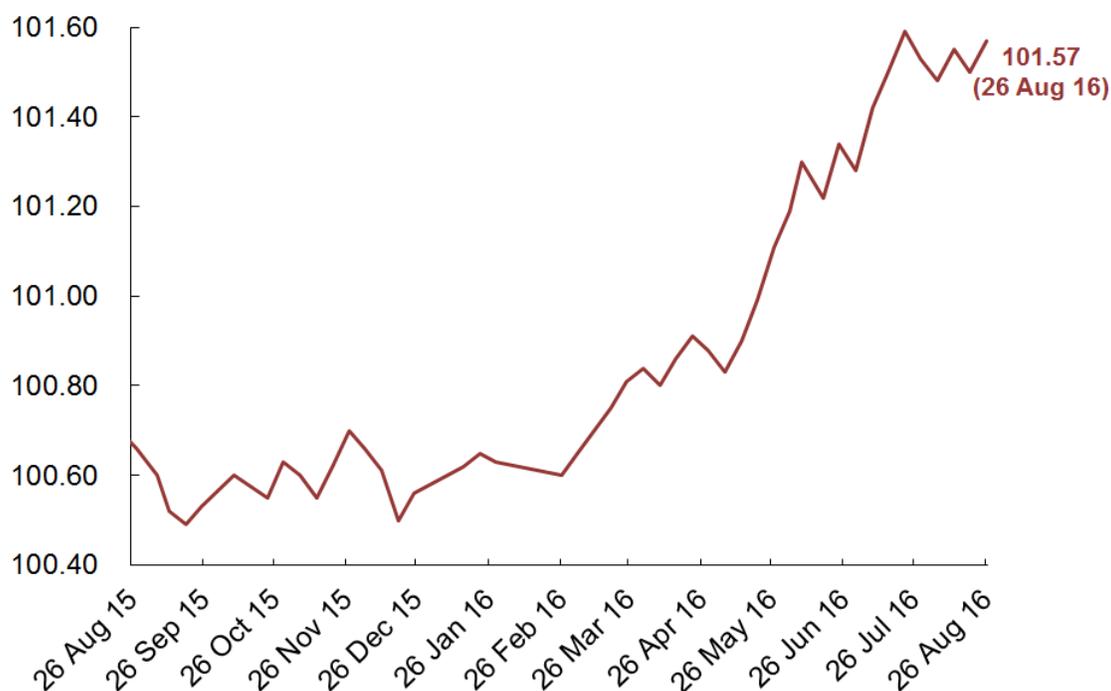
The price index of silk hovered around 101.5 from mid-July to late August, before closing at 101.57 on 26 August, slightly higher than the 101.53 it registered on 29 July (see exhibit 3).

According to the local media, the downstream demand stayed weak in the month; however, high upstream costs helped support the silk prices.

Looking ahead, the upstream prices of raw silk are likely to remain high. Thus, we expect the silk price index to stay around the current high levels.

³ <http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc-report-august-2016.pdf>

Exhibit 3: Price index of silk, August 2015 to August 2016



Source: Ministry of Commerce

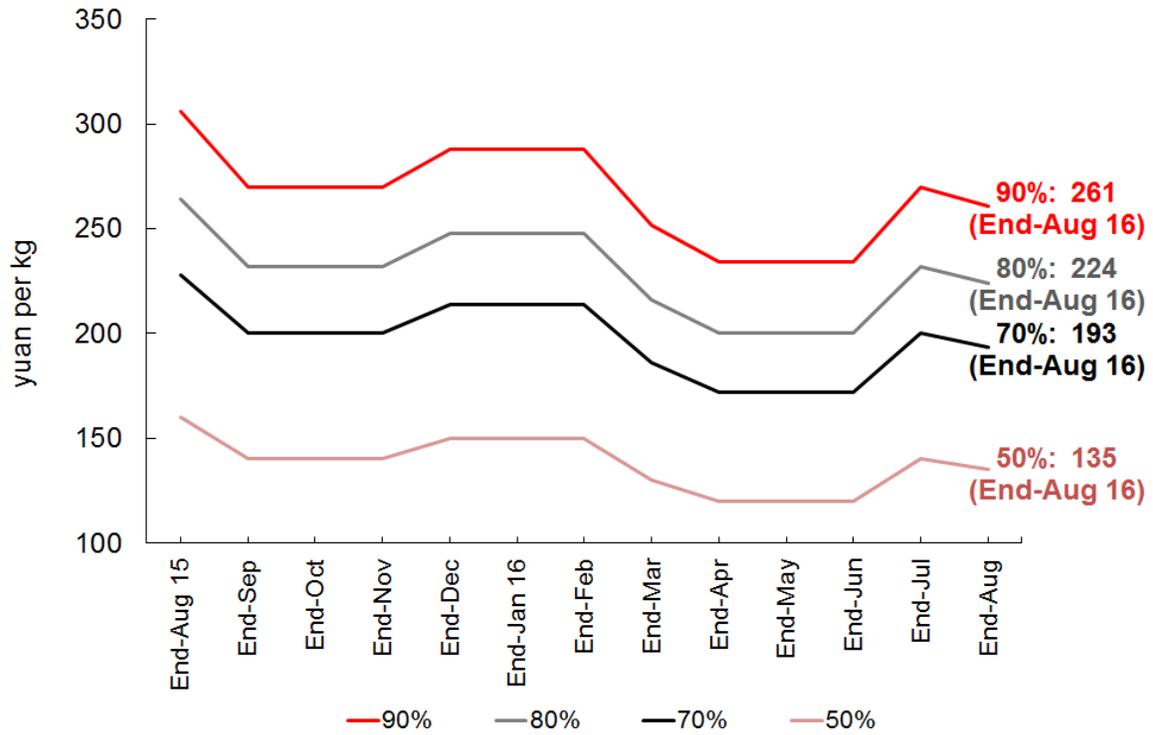
4. Prices of grey goose down decline

The prices of various types of grey goose down went down in August. For example, the price of 80% grey goose down dropped from 232 yuan per kg at end-July to 224 yuan per kg at end-August.

According to the local media, the main reason for the fall in the prices of grey goose down was a weak downstream demand during the current low season for down.

Looking ahead, as the weather remains warm in the near future, the demand for down will stay low. Therefore, we expect the prices of grey goose down to stay at low levels in the near term.

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



Source: cn-down.com

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