



# China Sourcing Update

January 21, 2016

## Prices of Natural Textile Materials

### 1. Cotton price indices trend slightly downward

The price indices<sup>1</sup> of cotton trended slightly downward in December. The CC Index 3128B, for example, fell to 12,922 on 31 December, compared to 12,959 on 30 November (see *exhibit 1*).

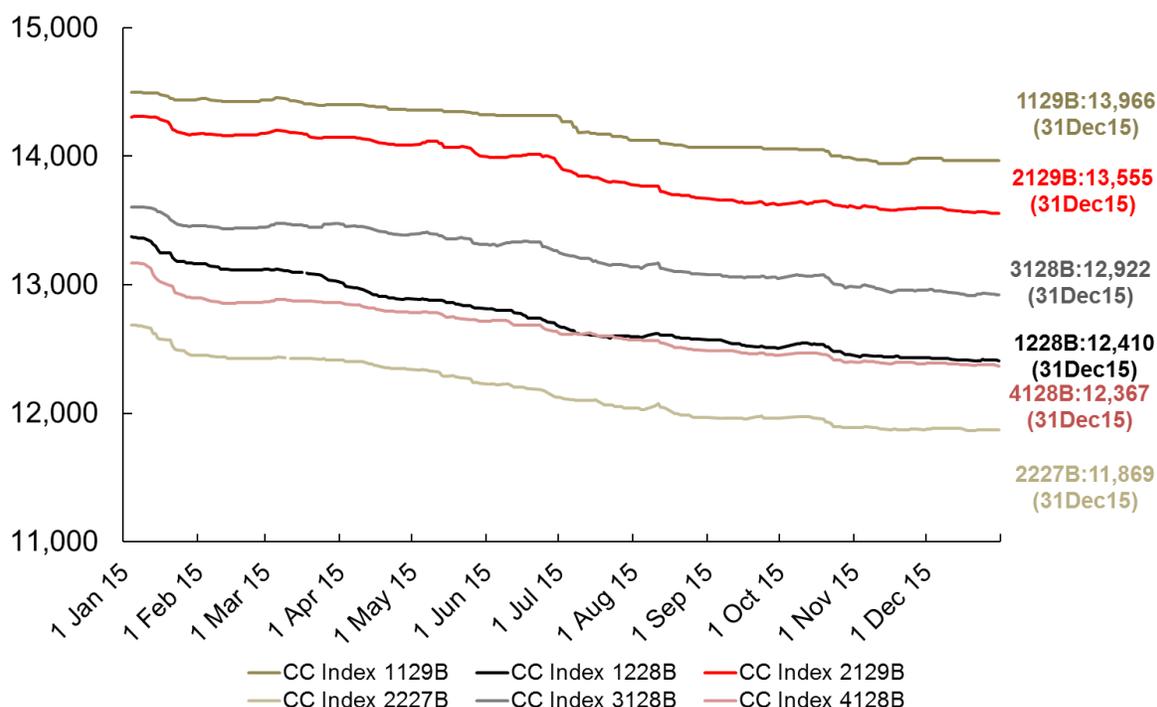
According to local media, cotton harvest was completed in December, and the market supply of cotton stayed abundant during December. Meanwhile, the downstream demand for cotton from textile manufacturers remained weak during the period. One of the main reasons was the poor exports of clothing, which fell by 7.1% mom (or 9.7% yoy) in November. Most downstream manufacturers only made hand-to-mouth purchases to avoid piling up their stocks in December.

In our view, cotton prices are likely to stay weak in the near term, amid the sluggish domestic demand for cotton. That being said, we do not expect cotton prices to plunge in the near future. According to China Cotton Association, the total cotton output in the year 2015/16 is expected to be 5.15 million tonnes, down by 20.8% yoy.<sup>2</sup> Also, the prices of imported cotton have generally been on an increasing trend, which may reduce the downward pressure on domestic cotton prices going forward.

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

<sup>2</sup> <http://www.china-cotton.org/app/html/2015/12/21/75620.html>

## Exhibit 1: China's cotton price indices, January to December 2015



\* 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 stays stable

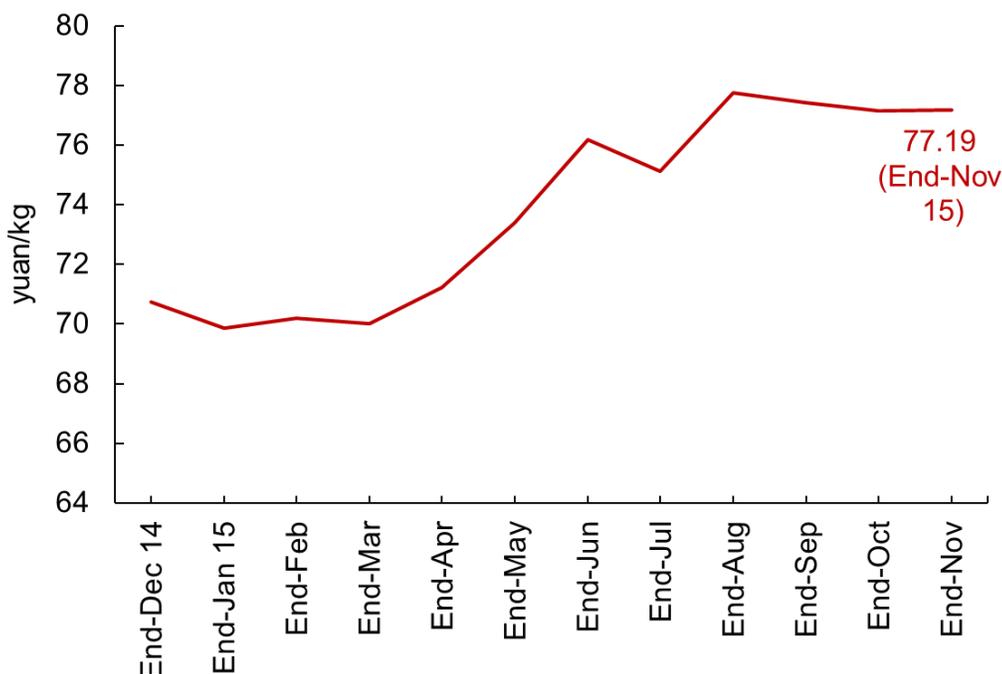
The Nanjing Wool Market Composite Index<sup>3</sup>, one of the major wool price indices in China, dropped from 77.42 yuan per kg at end-September to 77.16 yuan per kg at end-October; it then stayed stable during November, closing at 77.19 yuan per kg at end-November (see exhibit 2).

In our view, the fall in the wool price index in October was attributable to the weak domestic demand for wool. According to local media, the downstream demand for woollen fabrics stayed weak during October and November. The popularity of double-faced woollen fabrics once boosted the domestic demand for wool. However, only quality double-faced woollen fabrics are in good sales nowadays; and downstream manufacturers' stock levels of woollen yarns have gone up. Thus, downstream manufacturers have been cautious in placing orders for wool.

<sup>3</sup> <http://www.woolmarket.com.cn/>

Looking ahead, in the near term, we expect the wool prices in China to fluctuate around the current levels, amid the sluggish wool purchases in the domestic market. The supply of wool in Australia is forecast to drop in 2015/16, according to the Australian Wool Production Forecasting Committee.<sup>4</sup> In view of this, we believe that the wool prices in the domestic market are unlikely to drop significantly in the coming months.

**Exhibit 2: Nanjing Wool Market Composite Index, January to December 2015**



Source: The Nanjing Wool Market

### 3. Price index of silk falls

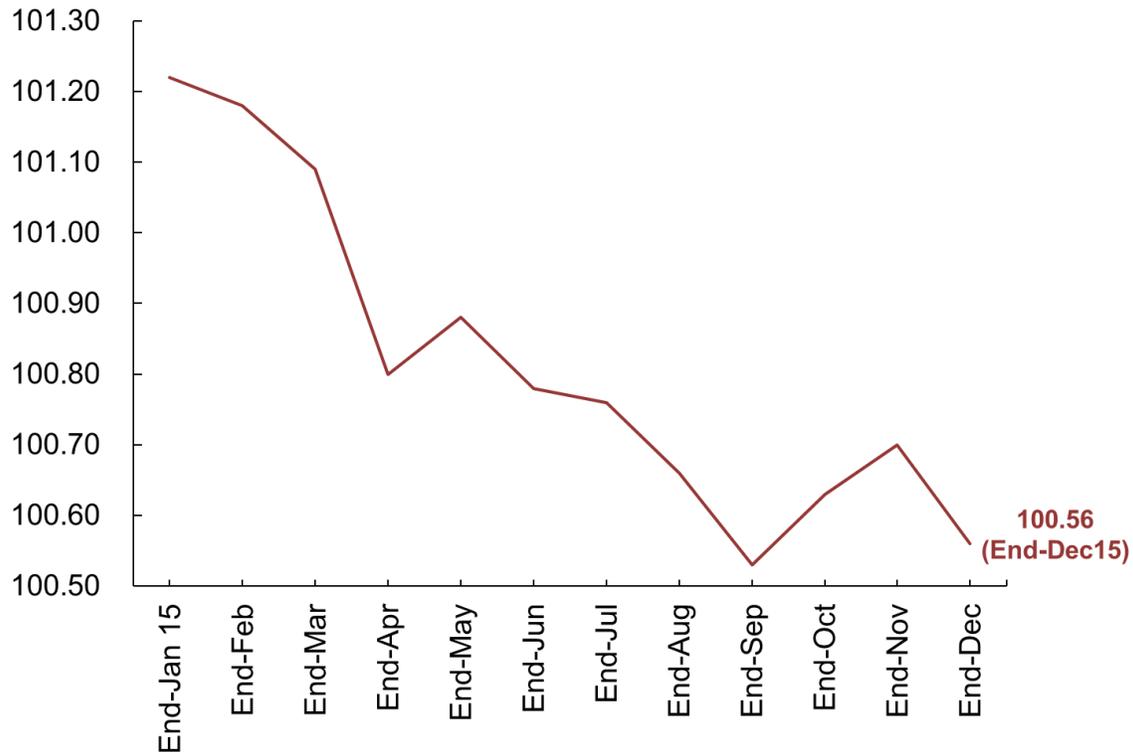
After rising in October and November, the price index of silk dropped in December. The price index went down from 100.70 at end-November to 100.56 at end-December (see exhibit 3).

According to local media, the main reason for the drop in the silk price index was the weak downstream demand during the low season. Besides, downstream manufacturers' stock levels of silk were high, and thus most manufacturers only made small volumes of purchases of silk.

Looking ahead, the downstream demand for silk products is expected to remain weak. Therefore, we think it is likely that the silk price index will fluctuate around low levels in the coming months.

<sup>4</sup> <http://www.wool.com/market-intelligence/wool-production-forecasts/australian-wool-production-forecast-report-december-2015/?year=2015&month=0&page=1>

**Exhibit 3: Price index of silk, January to December 2015**



Source: Ministry of Commerce

#### **4. Prices of grey goose down go up**

The prices of various types of grey goose down went up in December. For example, the price of 70% grey goose rose from 200.2 yuan per kg at end-November to 214.0 yuan per kg at end-December.

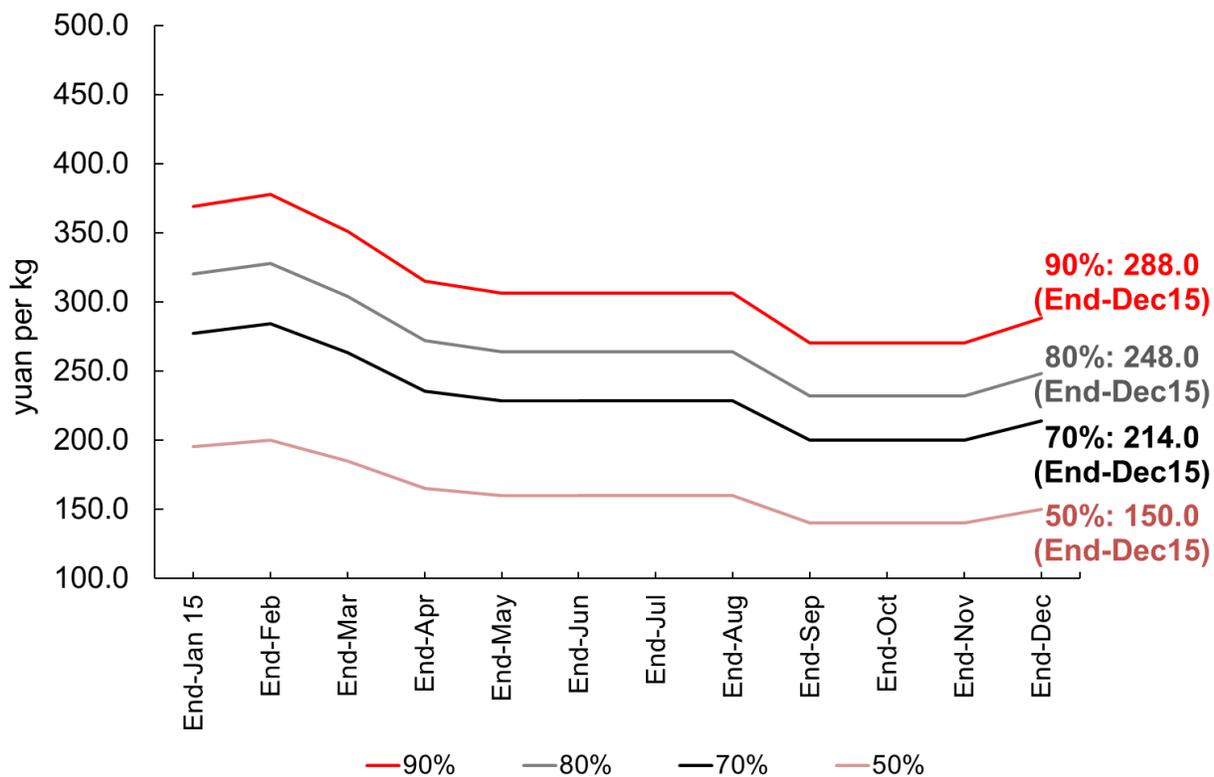
In our view, the rise in the grey goose down price index in December was mainly due to the seasonal increase in demand, as the weather turned colder in the month.<sup>5</sup>

However, according to media reports, the export orders for down have been decreasing,<sup>6</sup> and more and more consumers prefer woolen coats to down jackets. Thus, looking forward, we do not expect the prices of grey goose down to start an upward trend in the foreseeable future.

<sup>5</sup> [http://www.cma.gov.cn/2011xwzx/2011xqxxw/2011xzytq/201512/t20151212\\_299678.html](http://www.cma.gov.cn/2011xwzx/2011xqxxw/2011xzytq/201512/t20151212_299678.html)

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

**Exhibit 4: Prices of grey goose down, January to December 2015**



Source: *cn-down.com*

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