



China Sourcing Update

January 8, 2018

Prices of Natural Textile Materials

1. Cotton price indices go down in December

The price indices¹ of cotton dropped in December. The CC Index 3128B, for example, fell from 15,860 on 30 November to 15,699 on 29 December (see *exhibit 1*).

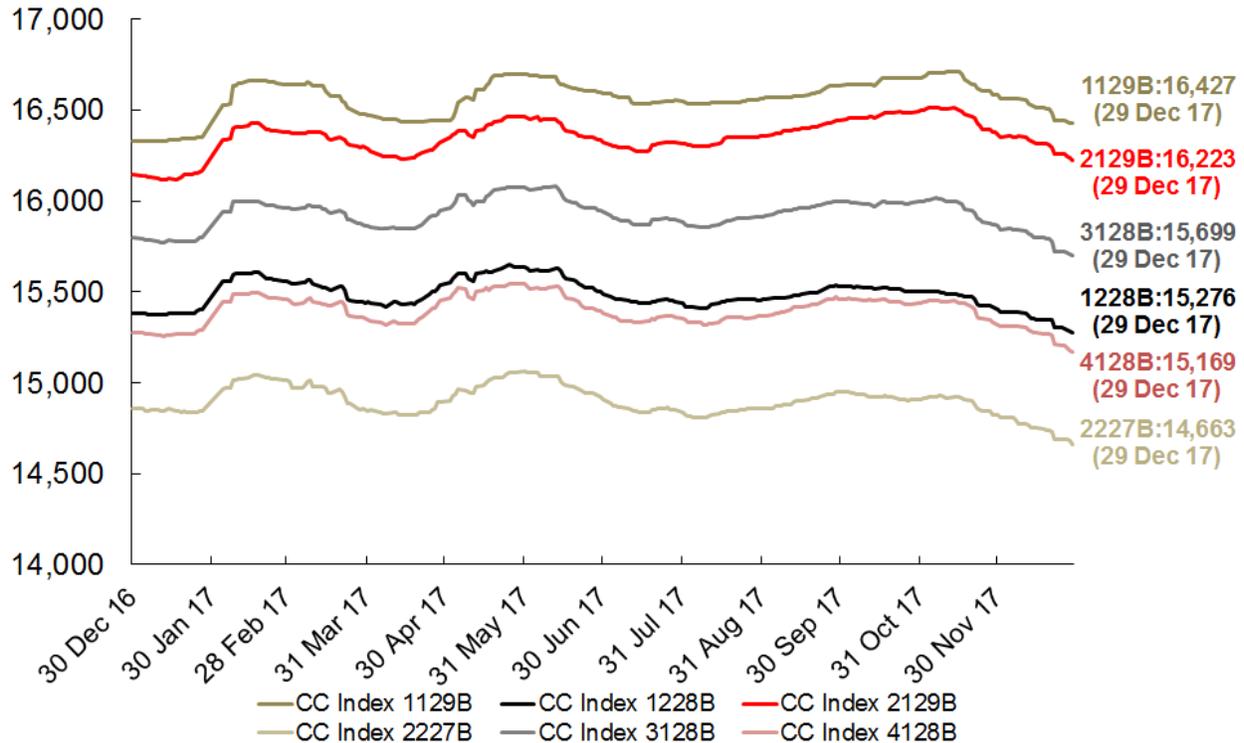
In our view, the decline in cotton prices in the month was caused mainly by an abundant domestic supply of cotton and a weak restocking demand from downstream textile manufacturers. Moreover, market expectations of an increase in the domestic supply of cotton in the coming months also put downward pressures on cotton prices, as the Chinese government plans to sell its cotton reserves again from 12 March to the end of August 2018.²

Looking ahead, we believe that cotton prices will decline further, as the domestic supply of cotton is expected to remain abundant and the downstream demand for cotton is likely to stay soft in the near future.

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

² http://www.ndrc.gov.cn/zcfb/zcfbgg/201711/t20171109_866647.html

Exhibit 1: China's cotton price indices, December 2016 to December 2017



* 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 in December

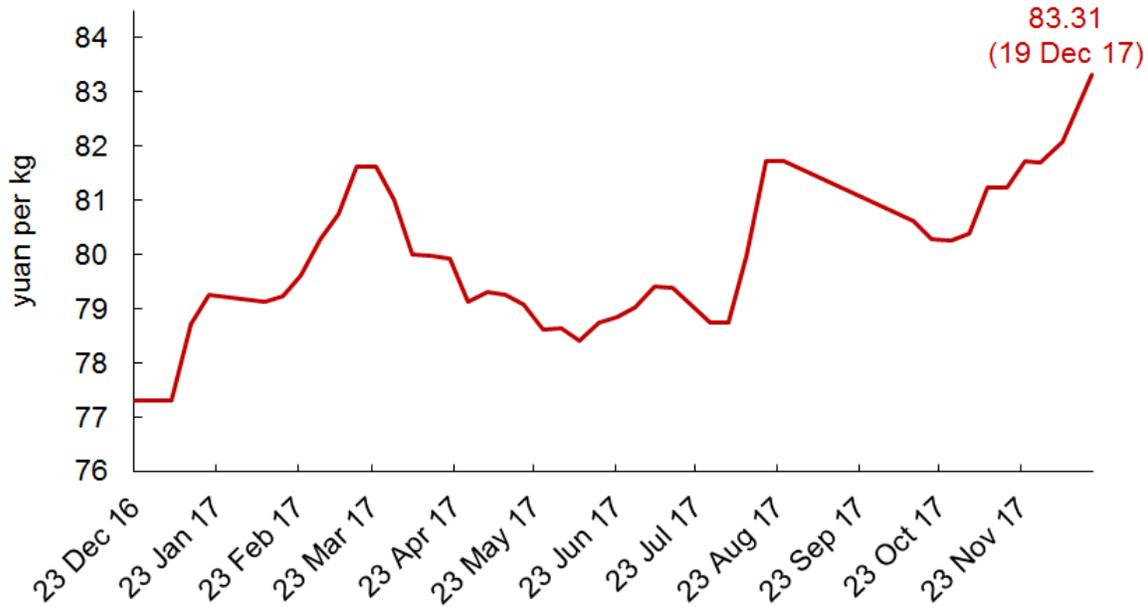
The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, went up from 81.71 yuan per kg on 30 November to 83.31 yuan per kg on 19 December (see exhibit 2).

The increase in wool prices in China in the month was due largely to a surge in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) jumped from 83.87 yuan per kg on 24 November to 89.17 yuan per kg on 15 December (i.e. the last trading day of December), boosted by a growing demand. 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.

³ <http://www.woolmarket.com.cn/>

Looking ahead, we expect the domestic wool prices to trend upward in the near future, in line with the wool price movement in the Australian market.

**Exhibit 2: Nanjing Wool Market Composite Index,
December 2016 to December 2017**



Source: The Nanjing Wool Market

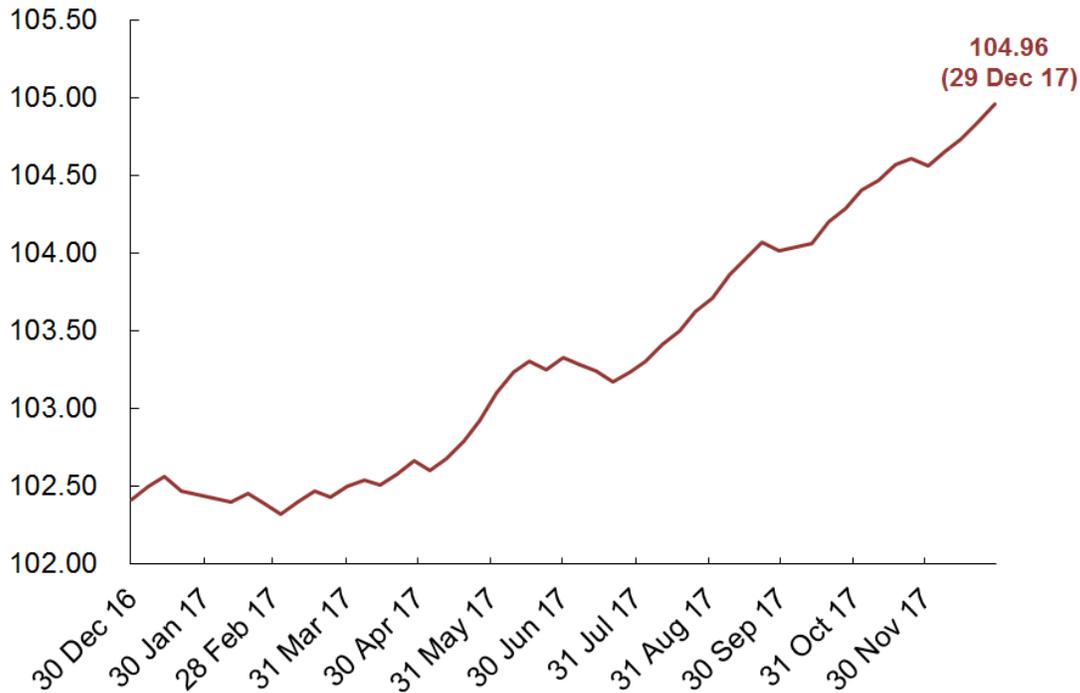
3. Price index of silk hits nine-year high in December

After dropping from 104.61 on 24 November to 104.56 on 1 December, the price index of silk climbed to another nine-year high of 104.96 on 29 December (see exhibit 3).

According to the local media, the filature silk reserves offered for auction by the Chinese government were sold at prices close to the spot-market levels, and thus the auction had no negative impacts on silk prices in the market. Meanwhile, a tight supply of silk and a strong downstream demand continued to drive up silk prices.

Looking ahead, we expect the silk prices to stay high, as the domestic supply of silk is likely to remain tight.

Exhibit 3: Price index of silk, December 2016 to December 2017



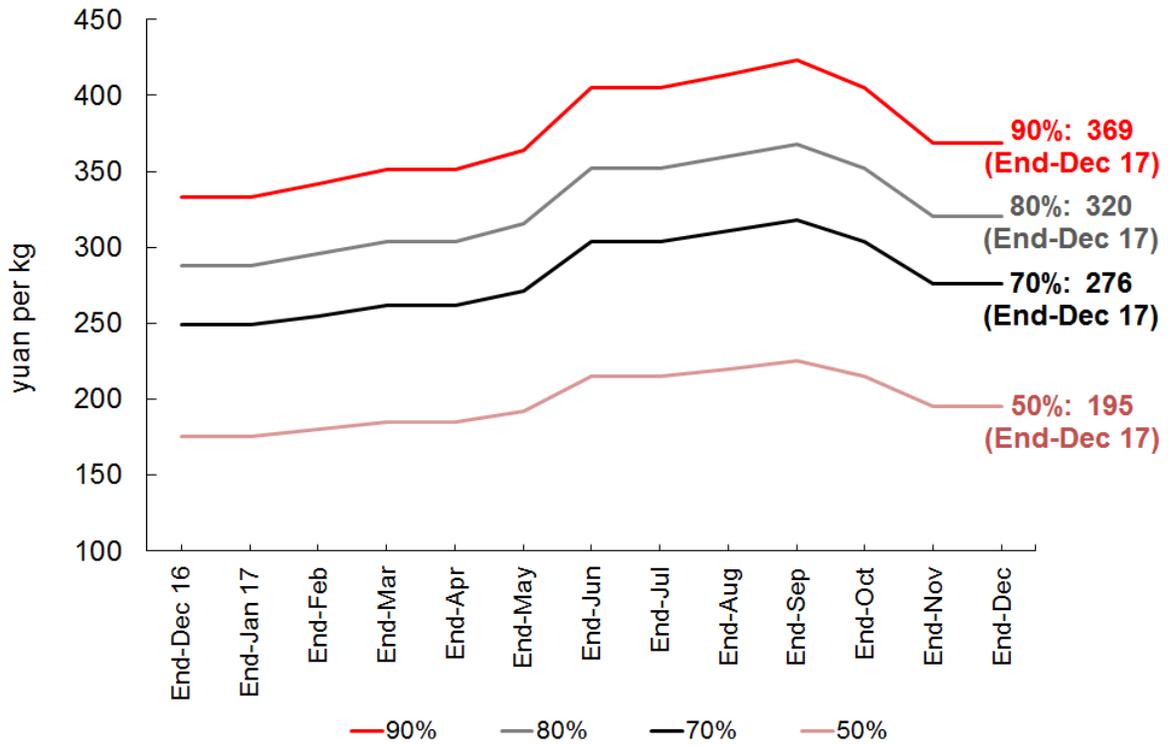
Source: Ministry of Commerce

4. Prices of grey goose down stay flat in December

The prices of various types of grey goose down stayed stable in December. For example, the price of 80% grey goose down came in at 320 yuan per kg at end-December, the same as at end-November (see exhibit 4).

Looking ahead, the demand for down is likely to remain stable during the current high season for down products. Thus, we expect that the prices of grey goose down will stay around the current levels in the near term.

Exhibit 4: Prices of grey goose down, December 2016 to December 2017



Source: cn-down.com

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