



China Sourcing Update

March 12, 2019

Prices of Natural Textile Materials

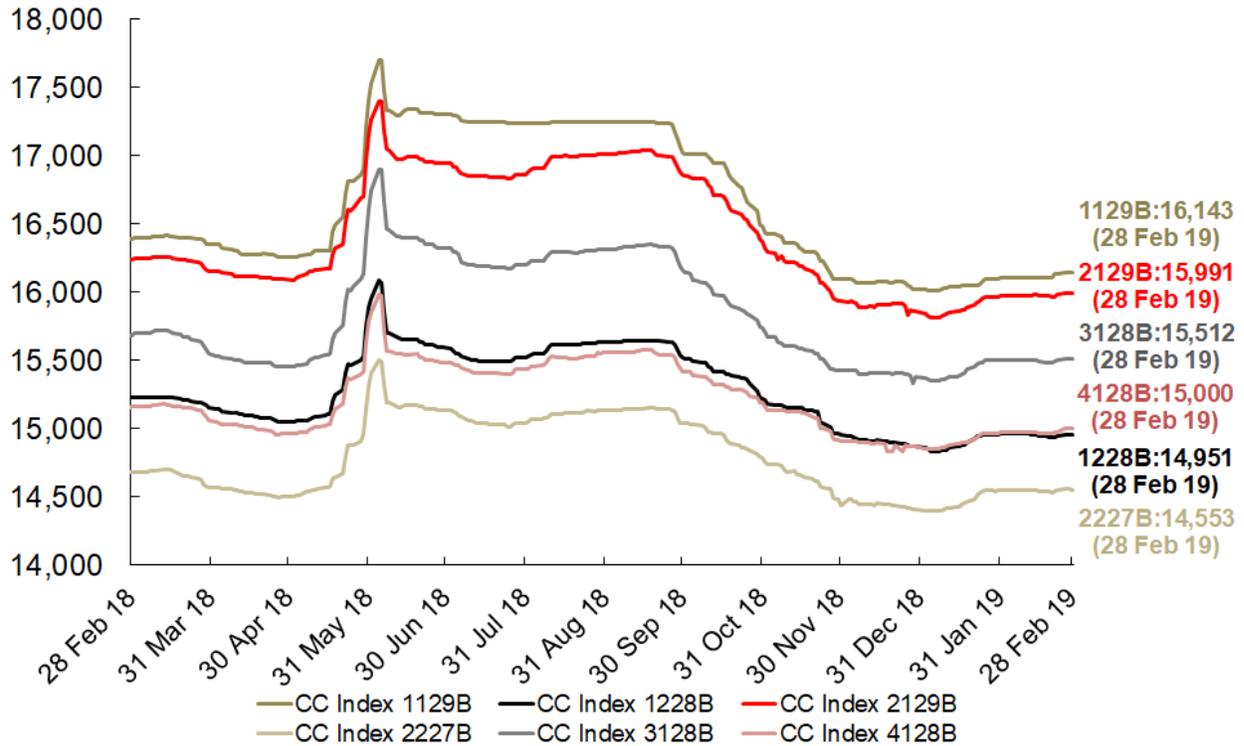
1. Cotton price indices stay relatively stable in February

The price indices¹ of cotton stayed relatively stable in February. The CC Index 3128B, for example, came in at 15,512 on 28 February, close to 15,501 on 31 January (see *exhibit 1*). According to media reports, the downstream demand for cotton was weak during the period.

Looking ahead, we expect that the movement of China's cotton prices will depend mainly on the progress of the trade negotiations between China and the US, which would affect the sentiments of downstream manufacturers. After four days of high-level trade negotiations between China and the US concluded on 24 February, US President Donald Trump, citing 'substantial progress' in 'productive' trade talks, announced that he would extend the 1 March deadline for trade negotiations and delay the scheduled tariff increase on US\$200 billion of Chinese imports. The announcement of the delay in the tariff hike signals that the two countries are moving closer to a comprehensive trade deal to end a months-long trade war.

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, February 2018 to February 2019



Source: China Cotton Association

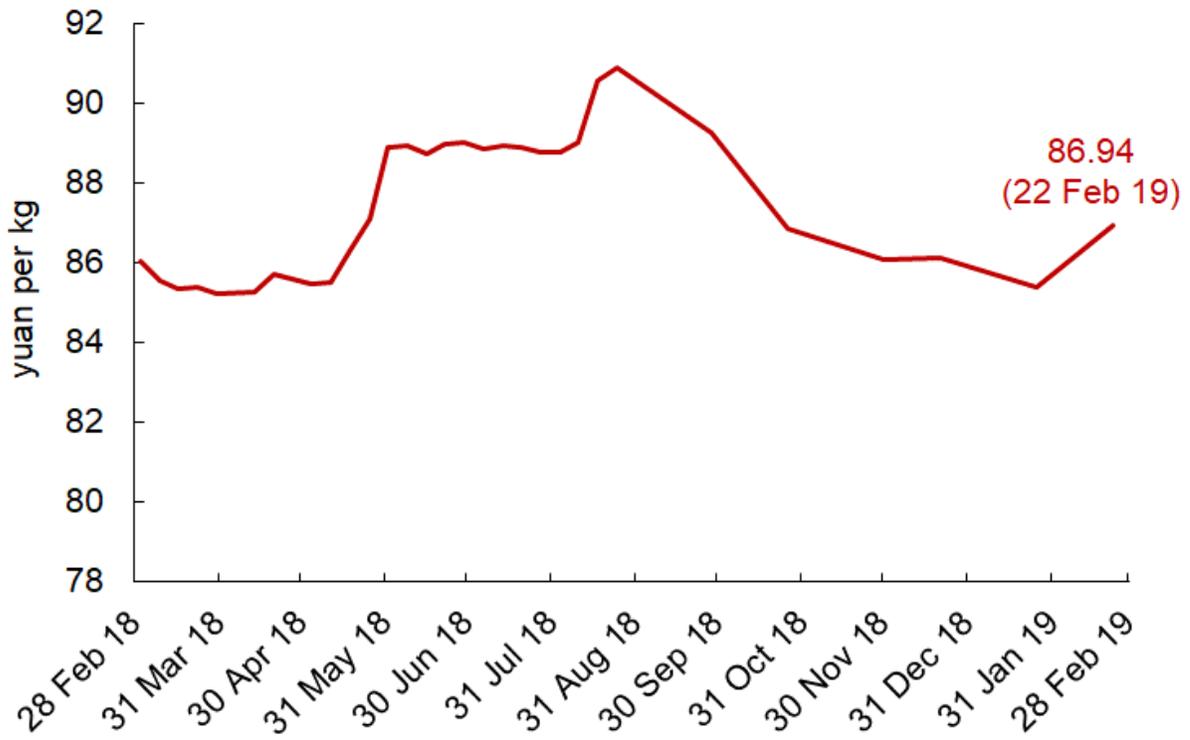
2. Nanjing Wool Market Composite Index rises in February

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went up from 85.36 yuan per kg on 25 January to 86.94 yuan per kg on 22 February (see exhibit 2). The rise in the wool prices was due mainly to an increase in wool prices in Australia. The demand for Australian wool increased as the wool auctions in South Africa on 20 February was cancelled due to an import ban on South African wool imposed by China. 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 forward, we expect that domestic wool prices will fall in the near future, driven by the latest decrease in wool prices in Australia. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went down from 97.20 yuan per kg on 22 February to 94.98 yuan per kg on 8 March.

² <http://www.woolmarket.com.cn/>

**Exhibit 2: Nanjing Wool Market Composite Index,
February 2018 to February 2019**



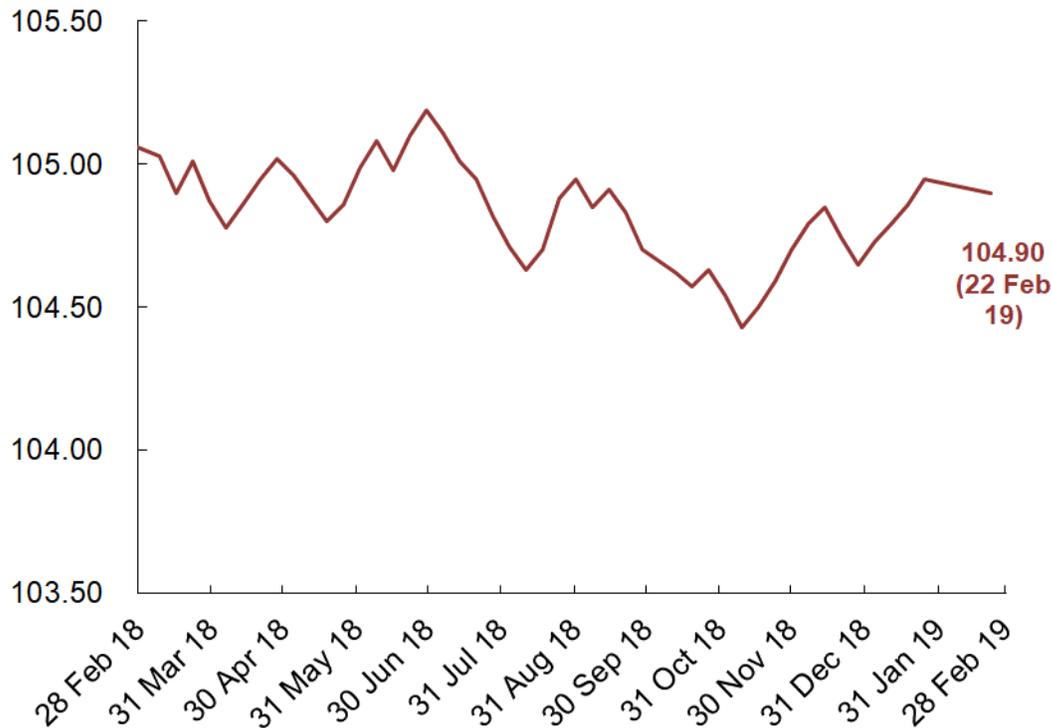
Source: The Nanjing Wool Market

3. Price index of silk falls in February

The price index of silk fell in February, going down from 104.95 on 25 January to 104.90 on 22 February (see exhibit 3).

According to media reports, inventory pressure on silk manufacturers has eased after the Chinese New Year holidays due to a rebound in sales of silk. Therefore, we expect the silk prices to stay relatively stable in the near term.

Exhibit 3: Price index of silk, February 2018 to February 2019



Source: Ministry of Commerce

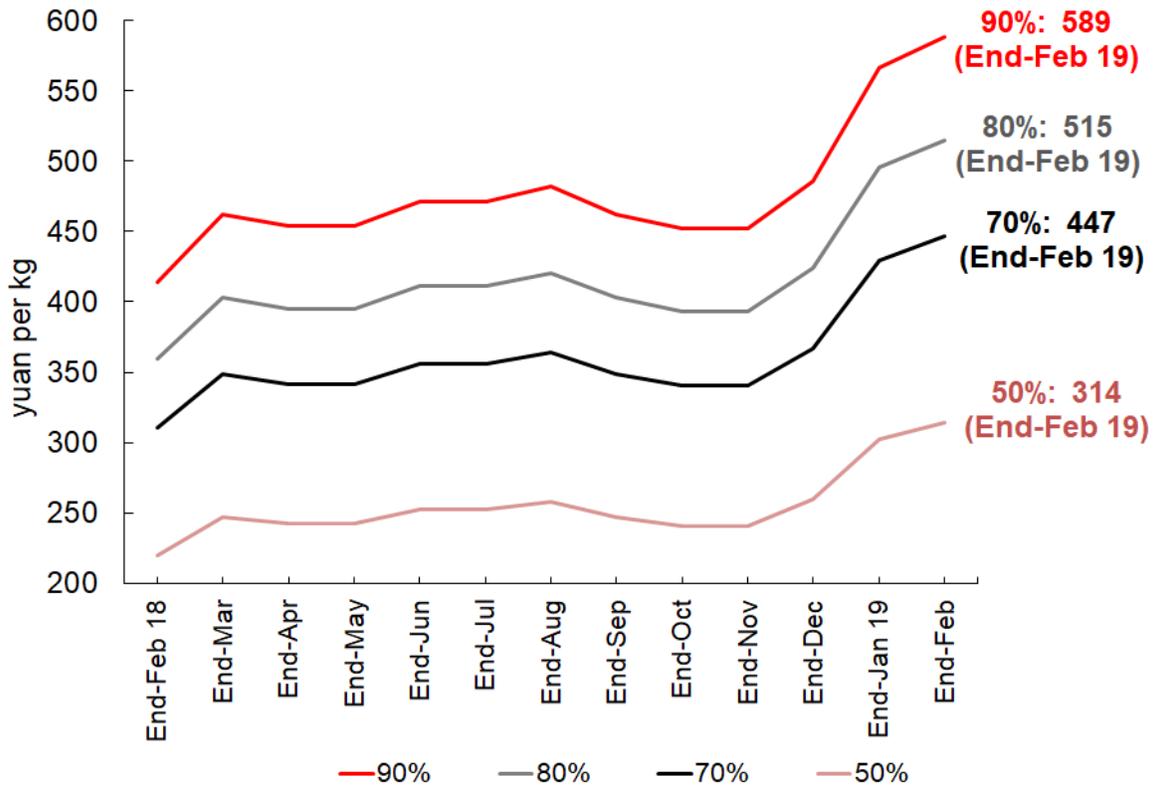
4. Prices of grey goose down go up in February

The prices of various types of grey goose down rose in February. For example, the price of 80% grey goose down jumped to a five-year high of 515 yuan per kg at end-February from 496 yuan per kg at end-January (see exhibit 4).

According to media reports, down jackets of a Chinese brand have been very popular in the US.³ A down jacket of this brand once became the best-seller in the category of women's down jackets and parkas on Amazon, the largest e-commerce marketplace in the US. We believe the recent strong sales of down jackets of this Chinese brand are likely to improve the market sentiments on down, thereby supporting the down prices in China.

³ <https://www.cnbc.com/2019/02/21/why-the-amazon-coat-from-orolay-is-a-must-have-for-us-consumers.html>

Exhibit 4: Prices of grey goose down, February 2018 to February 2019



Source: cn-down.com

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