



China Sourcing Update

February 22, 2016

Prices of Natural Textile Materials

1. Cotton price indices trend downward

The price indices¹ of cotton trended downward in January. The CC Index 3128B, for example, fell to 12,348 on 29 January, compared to 12,923 on 4 January (*see exhibit 1*).

According to local media, the downstream demand for cotton from textile manufacturers weakened during January, and a major reason was that most textile manufacturers suspended their production from late January, ahead of the Chinese New Year holidays. The downstream purchases of cotton were thus very limited during the month.² Also, there has been a rumour that the Chinese government will sell its cotton reserves again in March, which has exaggerated the downward pressures on cotton prices.³

In our view, cotton prices are likely to stay weak in the near term, as most of the downstream textile manufacturers will not resume productions until late February. 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.⁴ Also, the exports of clothing have shown signs of recovery lately, attributable to the depreciation of the Chinese yuan against the US dollar and the seasonal factors. The exports of clothing increased by 28.9% mom (or 11.5% yoy) in December. This may help support the cotton prices in the near future.

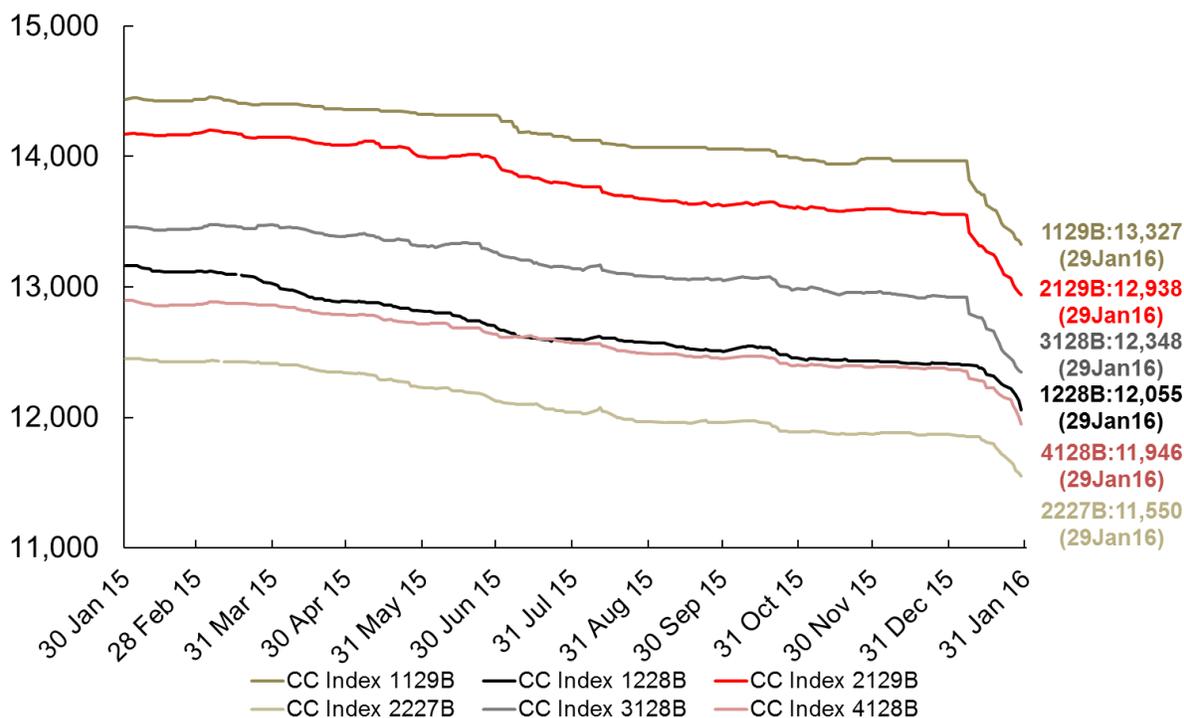
¹ The indices, compiled by the China Cotton Association, track cotton prices quoted from two hundred textile enterprises. <http://www.china-cotton.org/>

² <http://www.cottonchina.org/news/pubzmb.php?articleid=192972&newstime=2016-01-25>

³ <http://www.cottonchina.org/news/pubzmb.php?articleid=192667&newstime=2016-01-18>

⁴ <http://www.china-cotton.org/app/html/2016/01/22/75802.html>

Exhibit 1: China's cotton price indices, January 2015 to January 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 rises slightly

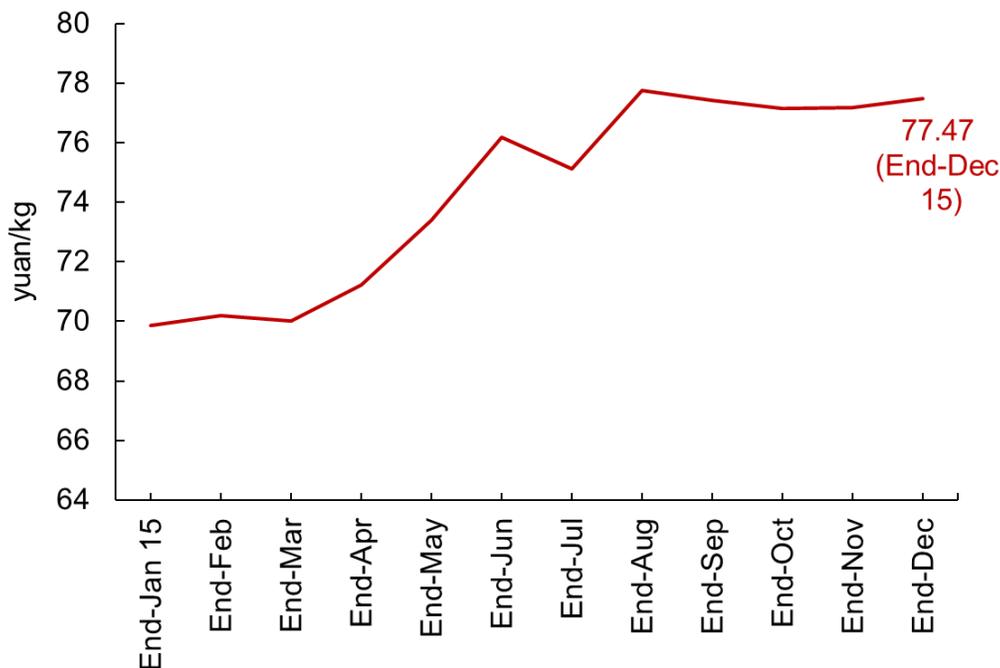
The Nanjing Wool Market Composite Index⁵, one of the major wool price indices in China, rose slightly from 77.19 yuan per kg at end-November to 77.47 yuan per kg at end-December (see exhibit 2).

In our view, the rise in the wool price index in December was attributable to the wool price movements in the Australian market, as China imports a large amount of wool from Australia. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from 1,247 cents per kilogram on 4 December to 1,265 cents per kilogram on 18 December (i.e. the last trading day of the year). Also, the Australian dollar appreciated against the Chinese yuan in December.

⁵ <http://www.woolmarket.com.cn/>

Looking ahead, in the near term, the downstream purchases of wool are likely to stay weak, as most manufacturers in China suspended operations during the Chinese New Year holidays. Nevertheless, the supply of wool in Australia is forecast to drop in 2015/16, according to the Australian Wool Production Forecasting Committee.⁶ In view of these factors, we expect the wool prices in China to fluctuate around the current levels.

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



Source: The Nanjing Wool Market

3. Price index of silk goes up slightly

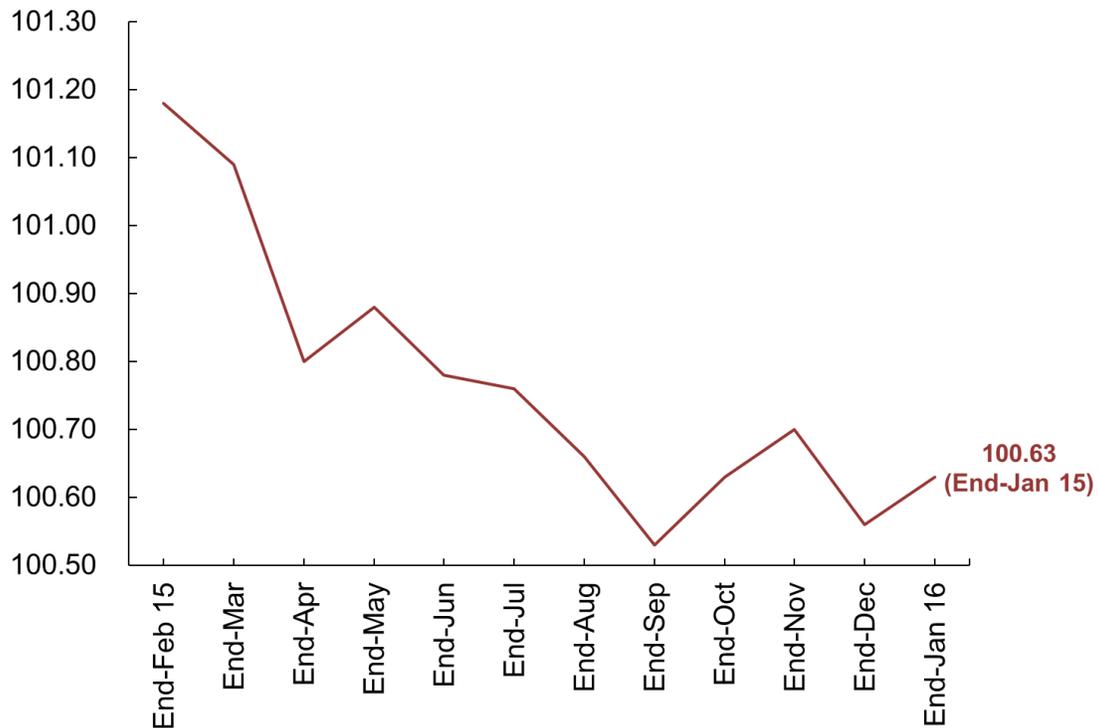
The price index of silk rebounded slightly in January. The price index went up from 100.56 at end-December 2015 to 100.63 at end-January 2016 (see exhibit 3).

According to local media, although the downstream demand remained weak during January, the upstream prices of raw silk were on the rise, which pushed up the prices of silk.

Looking ahead, the downstream demand for silk products is expected to remain weak; and orders from downstream manufacturers are expected to be limited. Therefore, it is likely that the silk price index will stay at low level in the coming months.

⁶ <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, February 2015 to January 2016



Source: Ministry of Commerce

4. Prices of grey goose down stay relatively stable

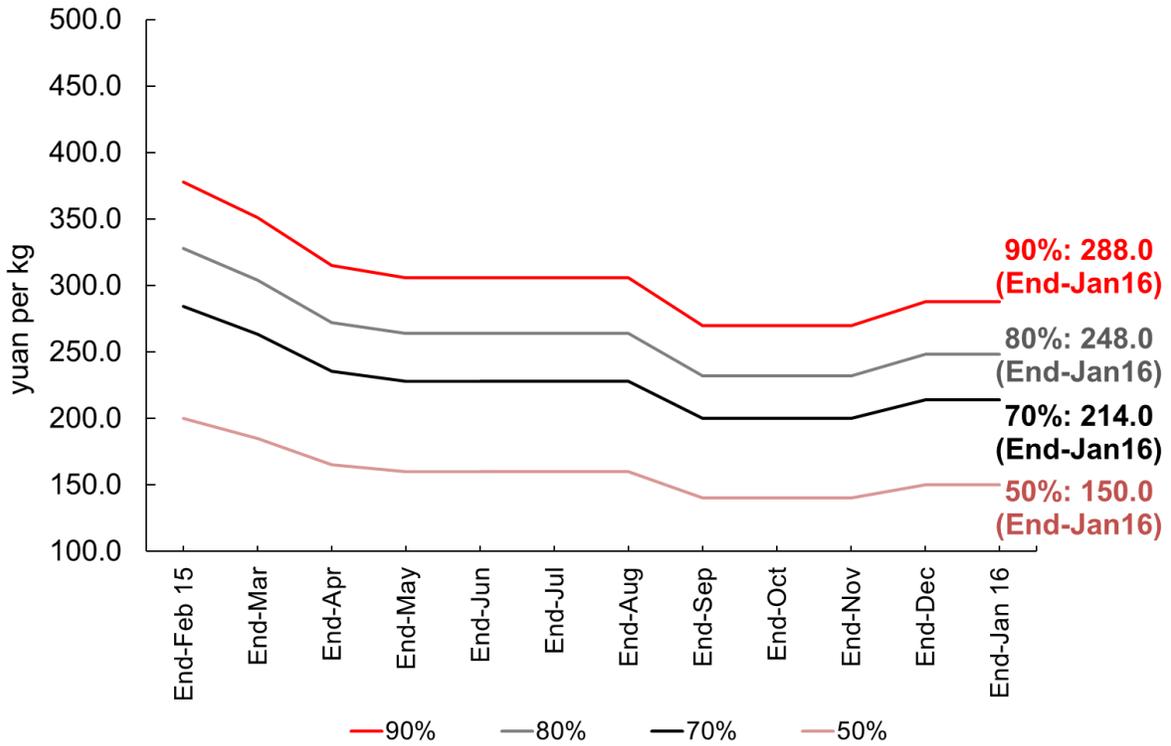
The prices of various types of grey goose down stayed stable in January. For example, the price of 70% grey goose down closed at 214.0 yuan per kg at end-January 2016, the same as at end-December 2015.

In our view, as the weather turned colder in January, the demand for down stayed stable.⁷ However, according to media reports, the export orders for down jackets have been decreasing, and more and more consumers prefer woolen coats to down jackets.⁸ Thus, looking forward, we do not expect the prices of grey goose down to start an upward trend in the foreseeable future.

⁷ http://www.cma.gov.cn/2011xwzx/2011xqxxw/2011xzytq/201601/t20160106_301340.html;
http://www.cma.gov.cn/2011xwzx/2011xqxxw/2011xzytq/201601/t20160123_302724.html

⁸ <http://myyj.168tex.com/2015-12-11/579593.html>

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



Source: *cn-down.com*

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