



## China Sourcing Update

August 8, 2016

### Prices of Natural Textile Materials

#### 1. Cotton price indices surge in July

The price indices<sup>1</sup> of cotton went up sharply in July, before moderating a bit in early August. The CC Index 3128B, for example, rose from 13,075 on 30 June to 15,415 on 28 July, the highest level since September 2014, before falling to 14,930 on 4 August (see exhibit 1).

In our view, the hike in domestic cotton prices in July was mainly due to the tight supply of cotton in the domestic market. The surge in the prices of cotton futures in China, which was highly associated with market speculations, also contributed to the rise in domestic cotton prices in the month.

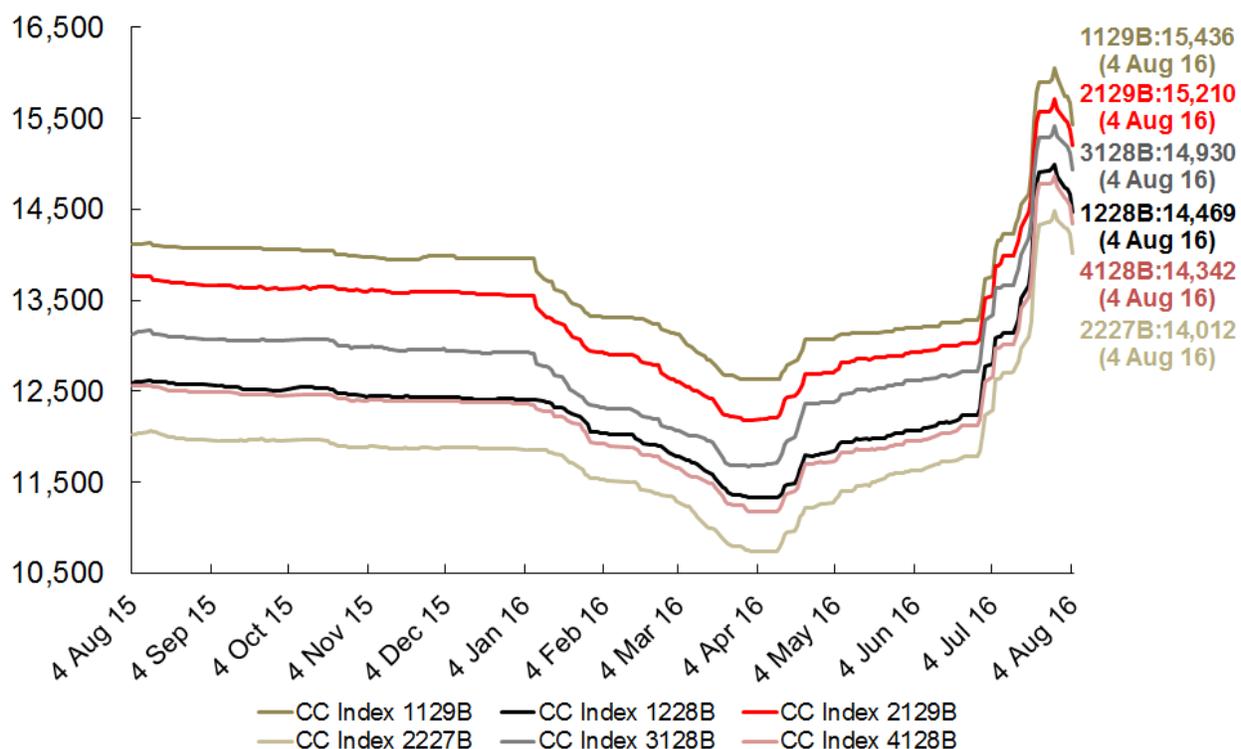
However, in late July, it was reported that the Chinese government will extend the selling period of cotton reserves by a month to 30 September, offloading more than an initially expected 2 million tonnes of cotton reserves. Cotton prices declined subsequently.<sup>2</sup>

That being said, we do not expect the cotton prices to drop much in the near future, as the supply of cotton remains tight and the downstream demand from textile manufacturers stays stable.

<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.ctn1986.com/index.php?c=content&a=show&id=60746>

**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 rises

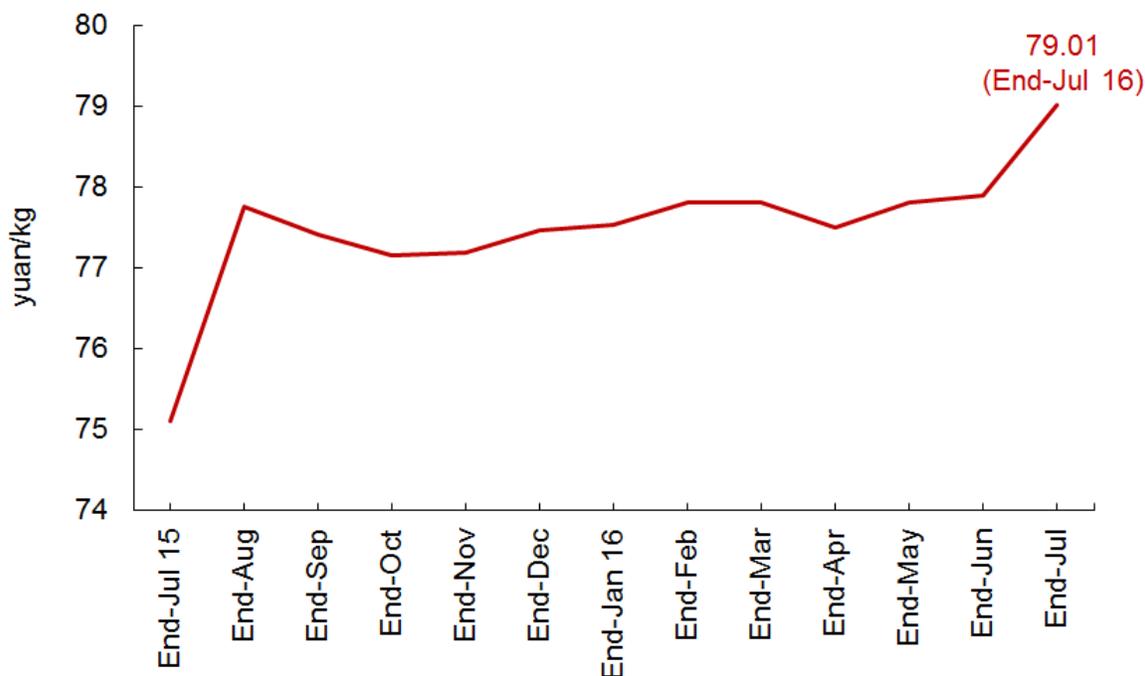
The Nanjing Wool Market Composite Index<sup>3</sup>, one of the major wool price indices in China, went up from 77.89 yuan per kg at end-June to 79.01 yuan per kg at end-July (see exhibit 2).

In our view, the rise in the wool price index in the month was attributable to the increase in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from 1,285 cents per kilogram on 24 June to 1,311 cents per kilogram on 15 July (i.e. the last trading day of July). 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.

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

Looking ahead, the demand for double-faced wool fabrics is expected to stay strong, which will in turn support the downstream demand for wool. Also, the supply of wool in Australia is forecast to drop further in 2016/17, according to the Australian Wool Production Forecasting Committee.<sup>4</sup> In view of these factors, we expect the wool prices in China to remain at the current high levels in the foreseeable future.

**Exhibit 2: Nanjing Wool Market Composite Index, July 2015 to July 2016**



Source: The Nanjing Wool Market

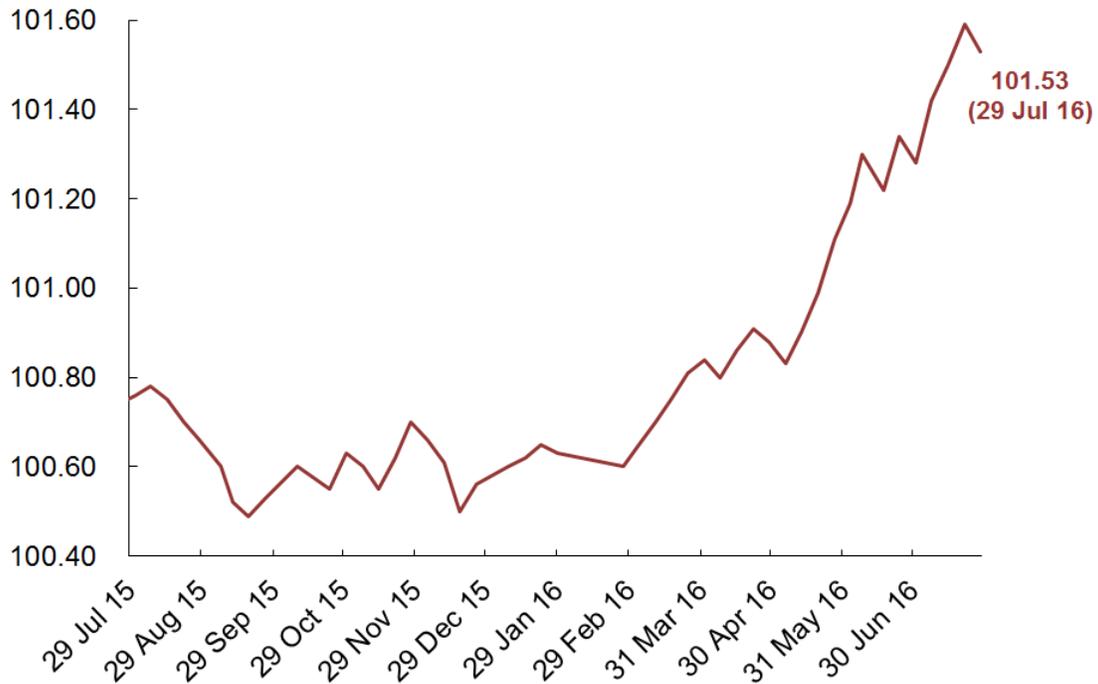
### 3. Price index of silk edges up

The price index of silk trended upward in July. The price index went up slightly from 101.34 on 24 June to 101.59 on 22 July, before retreating to 101.53 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, it is expected that orders from downstream manufacturers will remain soft. Therefore, we expect the silk price index to peak soon.

<sup>4</sup> [http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc\\_wool\\_forecast\\_report\\_april\\_2016\\_corr.pdf](http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc_wool_forecast_report_april_2016_corr.pdf)

**Exhibit 3: Price index of silk, July 2015 to July 2016**



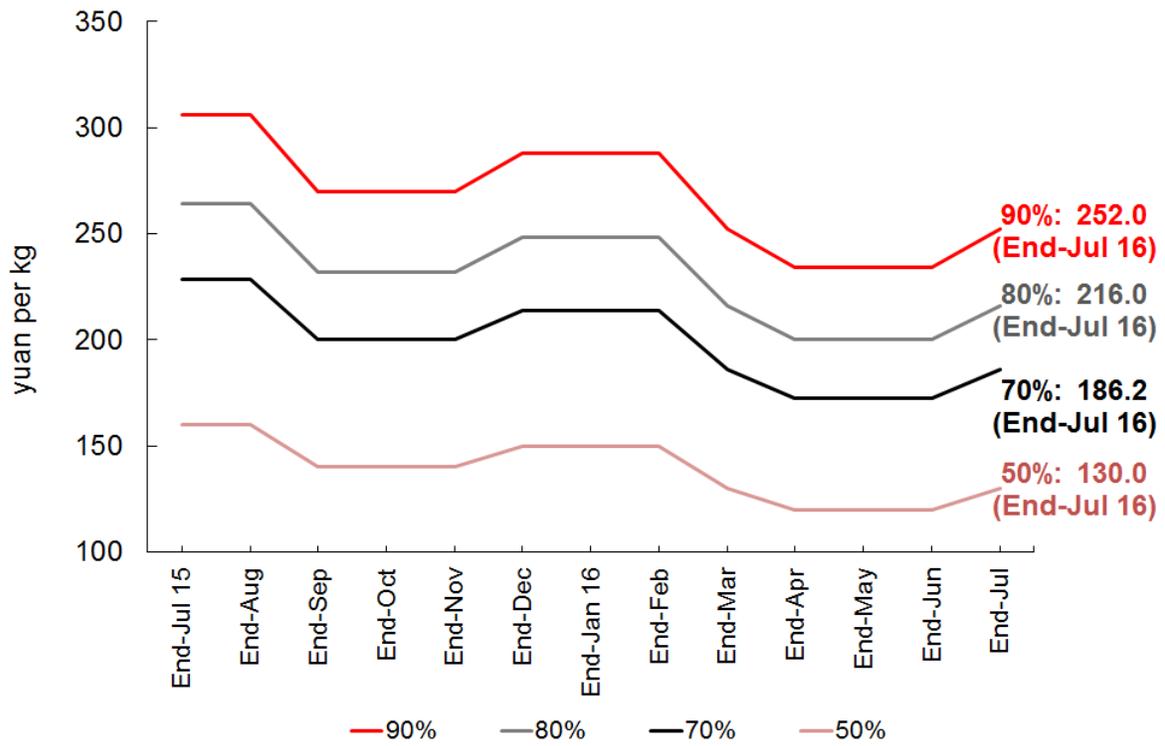
Source: Ministry of Commerce

#### **4. Prices of grey goose down rise**

The prices of various types of grey goose down went up in July. For example, the price of 80% grey goose went up from 200 yuan per kg at end-June to 216 yuan per kg at end-July. The prices of grey goose down rose despite a weak downstream demand during the current low season for down, according to the local media.

Looking ahead, as the weather remains warm in the coming months, the demand for down will stay low. Thus, we do not expect the prices of grey goose down to start an upward trend in the foreseeable future.

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



Source: cn-down.com

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