



China Sourcing Update

August 8, 2017

Prices of Natural Textile Materials

1. Cotton price indices drop slightly in July

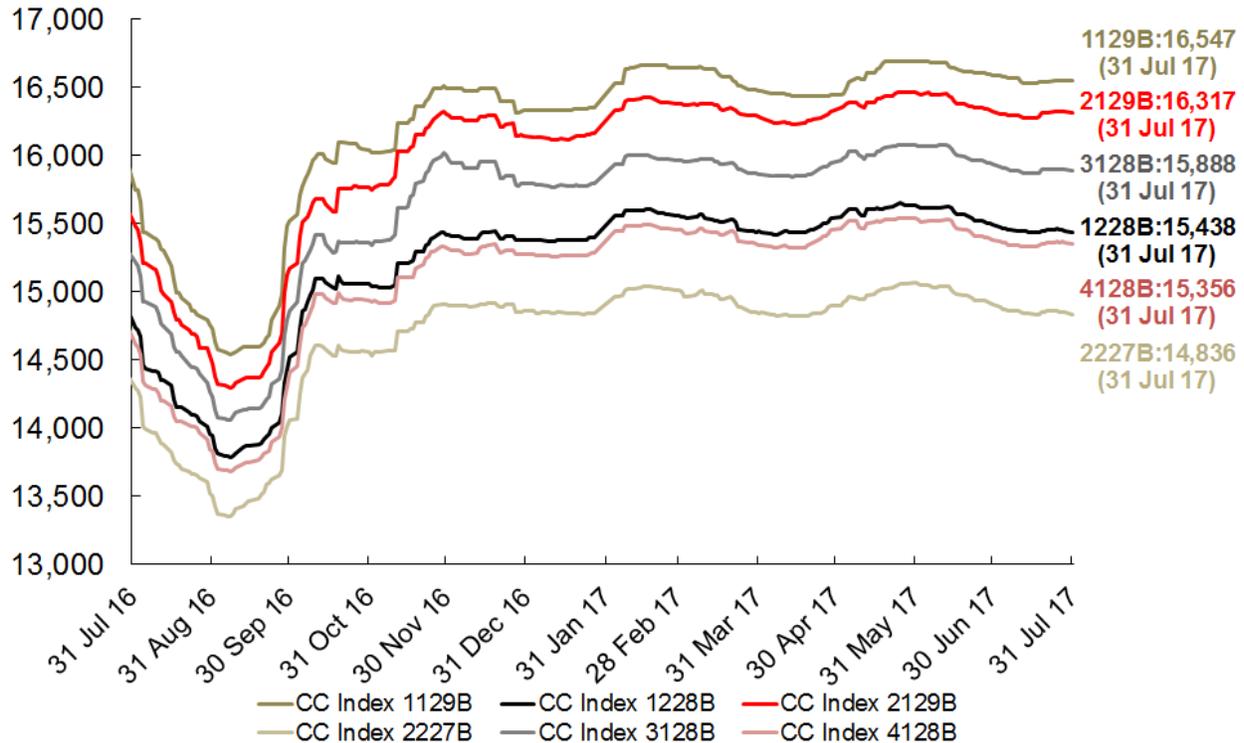
The price indices¹ of cotton trended slightly downward in July. The CC Index 3128B, for example, fell from 15,939 on 30 June to 15,888 on 31 July (see *exhibit 1*).

In our view, the main reasons for the soft cotton prices were market expectations of an increased global supply of cotton, and a weak downstream demand for cotton from domestic textile manufacturers.

Going forward, the global supply of cotton is expected to be abundant in the coming autumn harvest season. Meanwhile, the domestic downstream demand for cotton is likely to improve as the current off-season is about to end. All in all, we expect that domestic cotton prices will fluctuate around the current levels in the near term.

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, July 2016 to July 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 and then falls in July

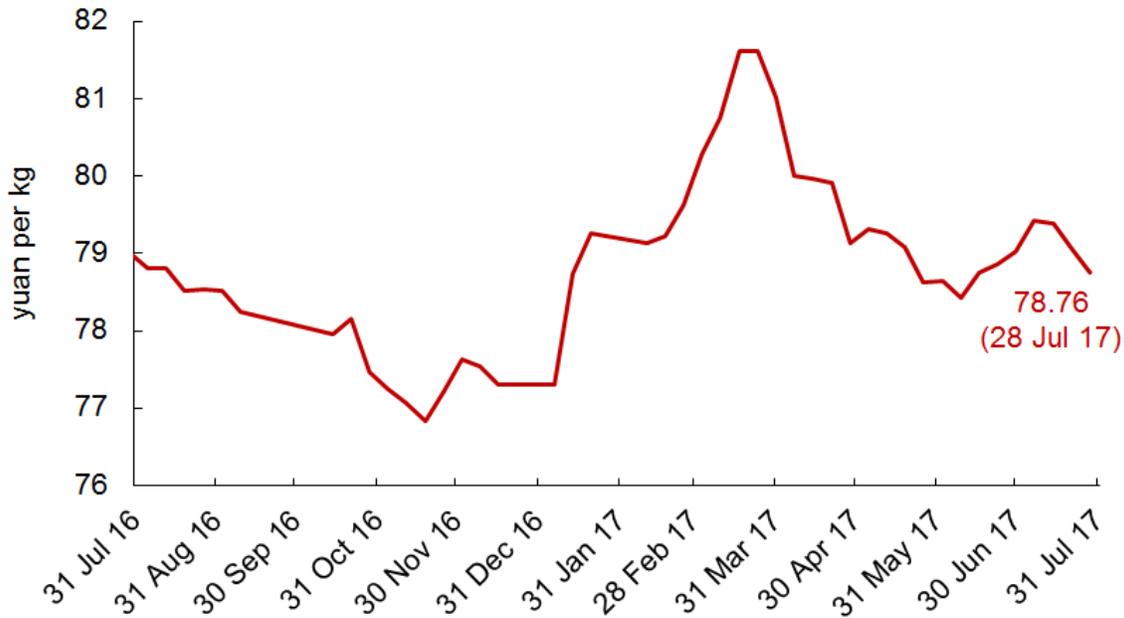
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went up from 79.02 yuan per kg on 30 June to 79.42 yuan per kg on 7 July, and then dropped to 78.76 yuan per kg on 28 July (see exhibit 2).

The increase in the wool prices in China in early July was mainly caused by a rise in the wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from 78.28 yuan per kg on 30 June to 78.78 yuan per kg on 7 July. However, wool prices in China softened in the second half of the month during the annual three-week recess of the Australian market, which began in mid-July.

² <http://www.woolmarket.com.cn/>

Looking ahead, we expect the wool prices in China to go up in the near future, as the strengthening of the Australian dollar against the Chinese yuan in recent weeks will lead to an increase in the wool prices denominated in the yuan.

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



Source: The Nanjing Wool Market

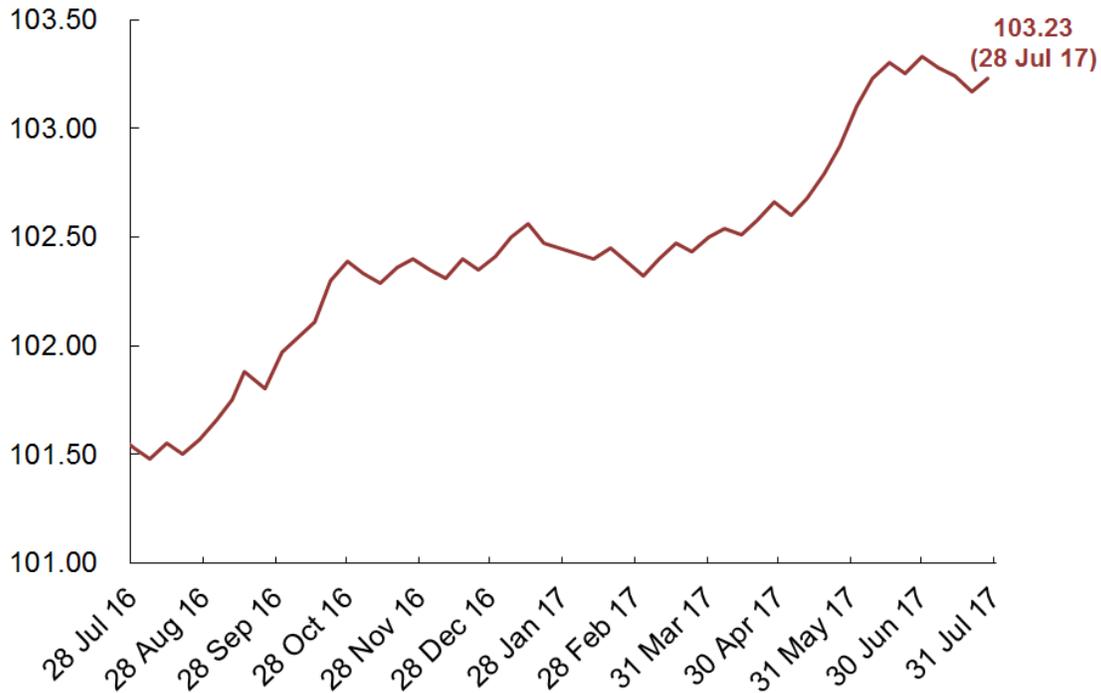
3. Price index of silk stays high in July

The price index of silk stayed high and hovered around 103.20 in the month, before closing at 103.23 on 28 July, which was slightly lower than the index reading of 103.33 on 30 June (see exhibit 3).

According to the local media, the downstream demand for silk was weak in the month; however, high upstream costs helped support silk prices.

Going forward, the upstream prices of silk are likely to remain high in the near term. Therefore, we expect the price index of silk to fluctuate around the current high level in the foreseeable future.

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



Source: Ministry of Commerce

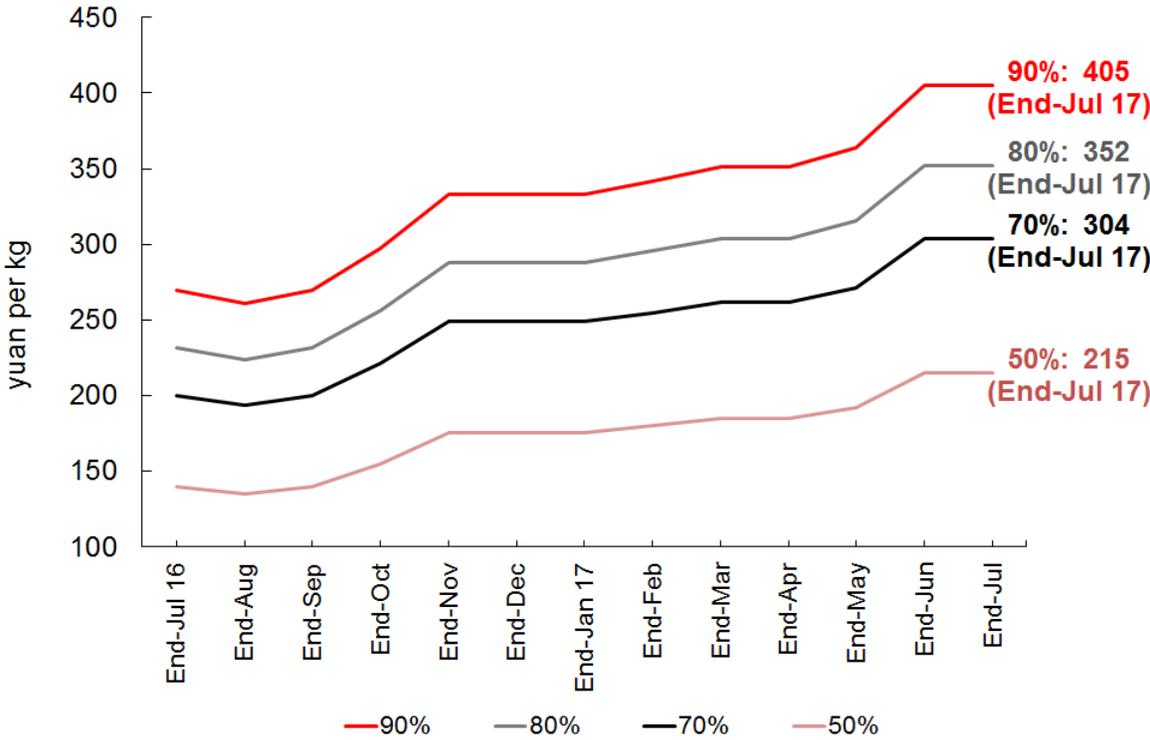
4. Prices of grey goose down stay high in July

The prices of various types of grey goose down stayed high in July. For example, the price of 80% grey goose down came in at 352 yuan per kg at end-July, the same as at end-June (see exhibit 4).

In our view, the major factors behind the high prices of grey goose down in the past few months were the strong export orders for down products; and a resurgence of avian flu in China and other parts of the world, which has led to a tight supply of grey goose down.

Looking ahead, the positive factors mentioned above are expected to persist in the near future. Therefore, we expect the prices of grey goose down to stay high.

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



Source: cn-down.com

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