



China Sourcing Update

August 8, 2019

Prices of Natural Textile Materials

1. Cotton price indices rise and then fall in July

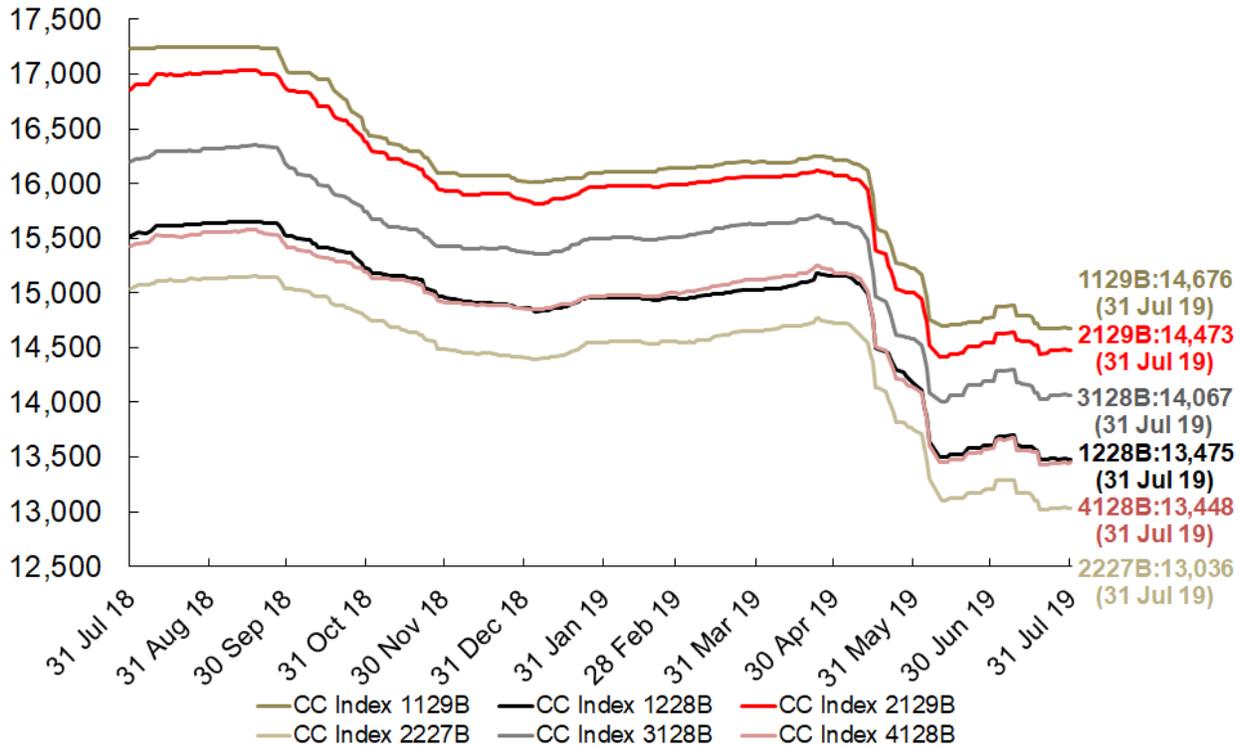
The price indices¹ of cotton increased in early July and declined afterwards. The CC Index 3128B, for example, went up from 14,189 on 28 June to 14,301 on 8 July, before falling to 14,067 on 31 July (*see exhibit 1*).

The rise in domestic cotton prices in early July was mainly attributed to the announcement of the temporary suspension of further US tariffs on Chinese goods on 29 June. Afterwards, uncertainty about the trade negotiations between China and the US hurt market sentiments and dragged down cotton prices again.

Looking ahead, we expect domestic cotton prices to go down further in the near future due to the escalating China-US trade war. US President Donald Trump announced on 1 August to impose 10% additional tariffs on US\$300 billion of Chinese imports, including all major apparel items, effective 1 September. In our view, the export orders for Chinese apparel products are likely to be significantly impacted, reducing the demand for cotton in China.

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 2018 to July 2019



Source: China Cotton Association

2. Nanjing Wool Market Composite Index drops in first half of July

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, fell from 80.77 yuan per kg on 28 June to 79.02 yuan per kg on 12 July (see exhibit 2).

Looking forward, we expect that domestic wool prices will rebound in the near future, driven by the latest increase in wool prices in Australia, a major exporter of wool to China: The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from 81.49 yuan per kg on 28 June to 83.94 yuan per kg on 12 July before the annual three-week recess.

² <http://www.woolmarket.com.cn/>

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



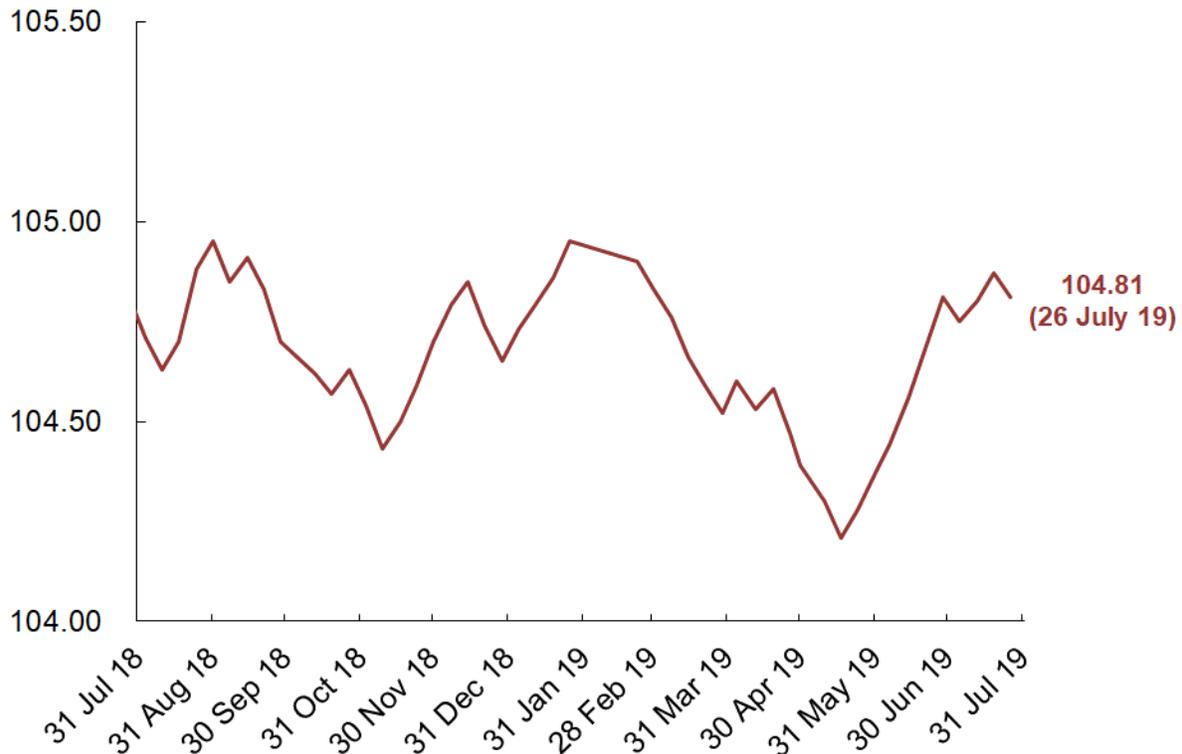
Source: The Nanjing Wool Market

3. Price index of silk stays high in July

The price index of silk fluctuated within a narrow range of 104.75 to 104.87 in July, closing at 104.81 on 26 July, the same as at end-June (see exhibit 3).

Going forward, we expect the price index of silk to stay high in the near future, as the supply of cocoon is likely to remain tight.

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



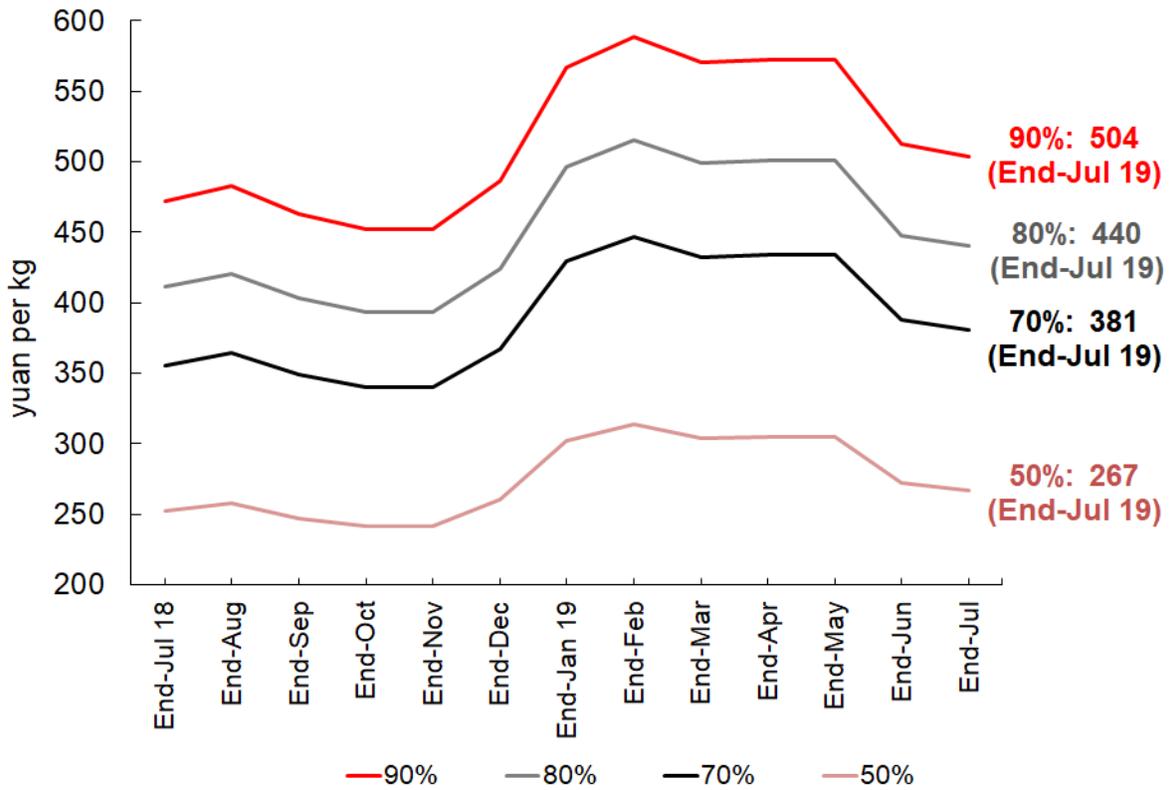
Source: Ministry of Commerce

4. Prices of grey goose down fall in July

The prices of various types of grey goose down declined in July. For example, the price of 80% grey goose down fell from 448 yuan per kg at end-June to 440 yuan per kg at end-July (see exhibit 4).

Looking ahead, we expect the prices of grey goose down to stay soft in the coming months due to the escalating China-US trade war. Down products are on the product list on which 10% additional tariffs are to be levied starting from 1 September. In our view, the export orders for Chinese down products are likely to be significantly impacted, reducing the demand for grey goose down in China.

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



Source: cn-down.com

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