



# China Sourcing Update

July 19, 2016

## Prices of Natural Textile Materials

### 1. Cotton price indices surge sharply

The price indices<sup>1</sup> of cotton continued a steady climb during early to mid-June, and went up sharply from late June to early July. The CC Index 3128B, for example, rose from 12,613 on 31 May to 13,666 on 8 July, the highest level since December 2014 (see *exhibit 1*).

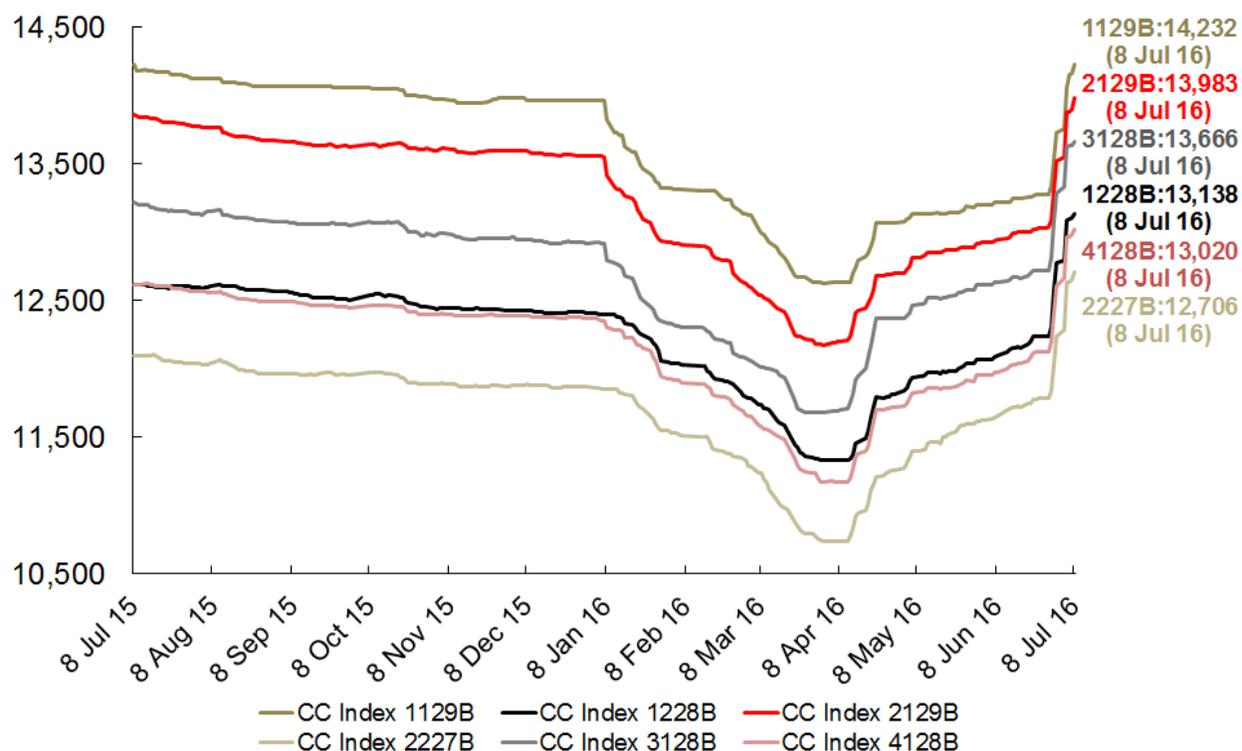
According to the local media, the latest hike in domestic cotton prices was triggered by the rise in the prices of cotton futures in China. For example, the price of CF1701 contract surged by 22% during 31 May to 4 July. Moreover, the bad weather across the country in recent months, coupled with smaller cotton planting area in China this year, also contributed to the rise in domestic cotton prices.

Going forward, we believe that the price indices of cotton will mainly be affected by market speculations.

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<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/>

**Exhibit 1: China's cotton price indices, July 2015 to July 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

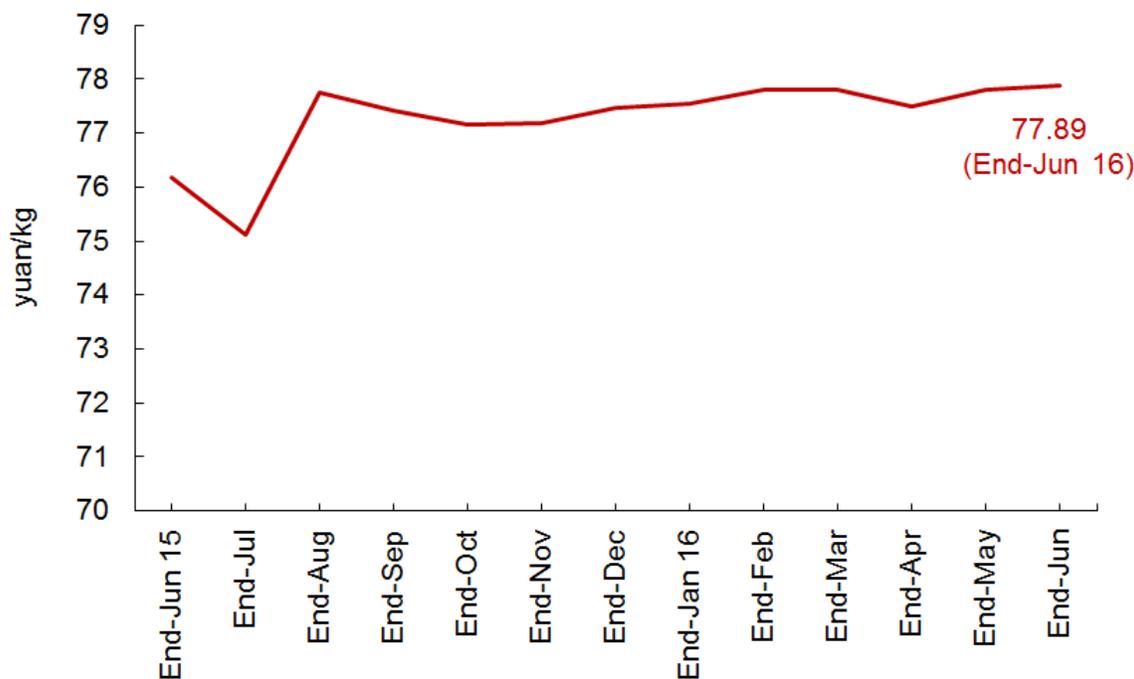
The Nanjing Wool Market Composite Index<sup>2</sup>, one of the major wool price indices in China, went up slightly from 77.49 yuan per kg at end-April to 77.89 yuan per kg at end-June (see exhibit 2), hovering around 77-78 yuan per kg for the past 11 months.

In our view, the rise in the wool price index in the two-month period was attributable to the increase in wool prices in Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from 1,241 cents per kilogram on 29 April to 1,285 cents per kilogram on 24 June. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by the wool price movements in Australian market.

<sup>2</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>3</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, June 2015 to June 2016**



Source: The Nanjing Wool Market

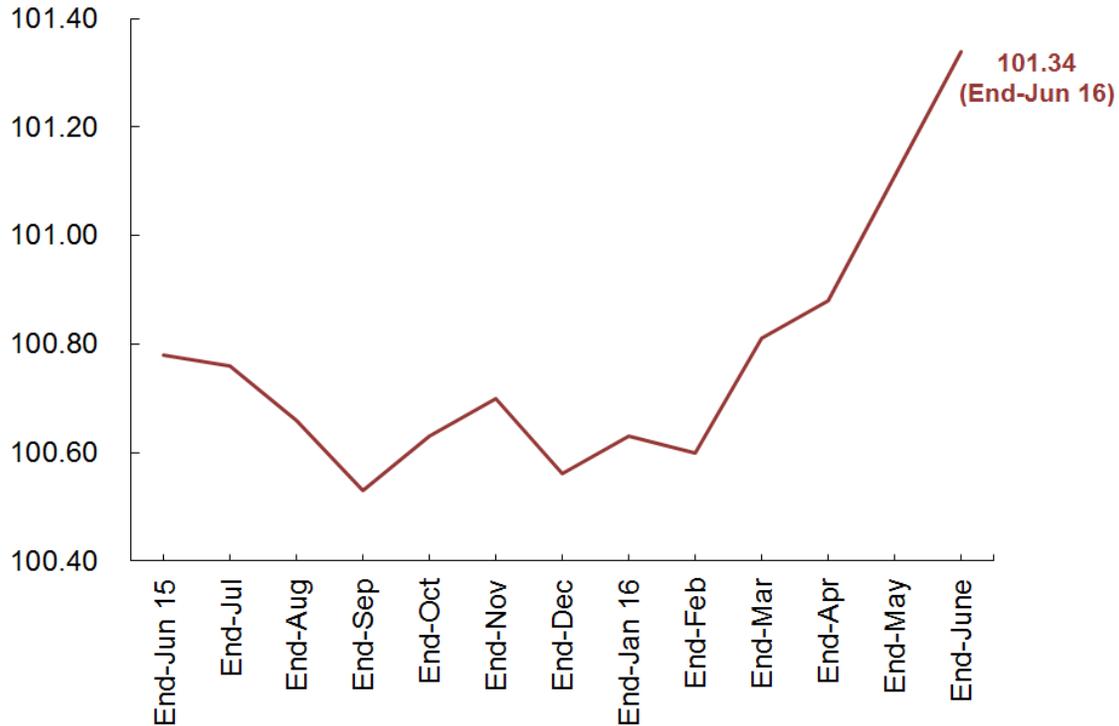
### 3. Price index of silk goes up slightly

The price index of silk trended upward in June. The price index went up slightly from 101.11 at end-May to 101.34 at end-June (see exhibit 3). The silk prices rose despite a weak downstream demand, according to the local media.

Looking ahead, it is expected that orders from downstream manufacturers will remain soft. Therefore, we expect the silk price index to peak soon.

<sup>3</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, June 2015 to June 2016**



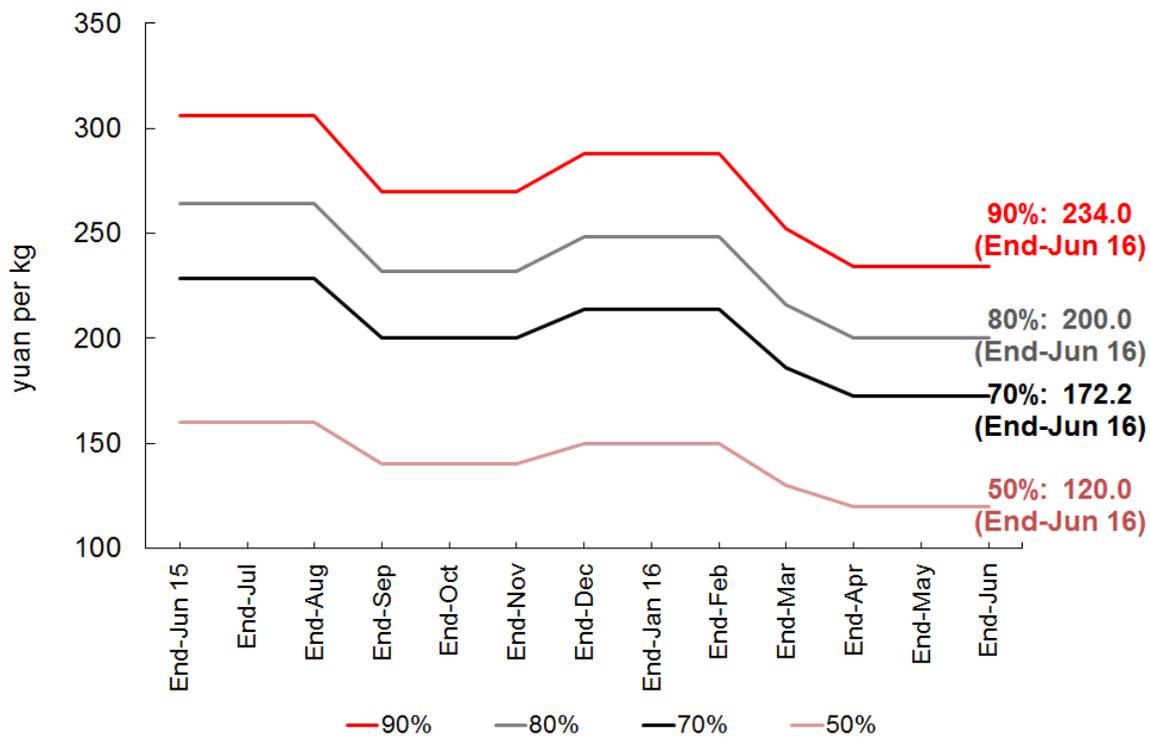
Source: Ministry of Commerce

#### **4. Prices of grey goose down stay stable**

The prices of various types of grey goose down stayed stable in June. For example, the price of 70% grey goose stayed at 200 yuan per kg throughout June.

Looking ahead, as the weather turns warmer in coming months, the demand for down will further decline. Thus, we expect the prices of grey goose down to stay at low levels in the current low season for down.

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



Source: cn-down.com

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