



China Sourcing Update

July 10, 2019

Prices of Natural Textile Materials

1. Cotton price indices drop and then rebound in June

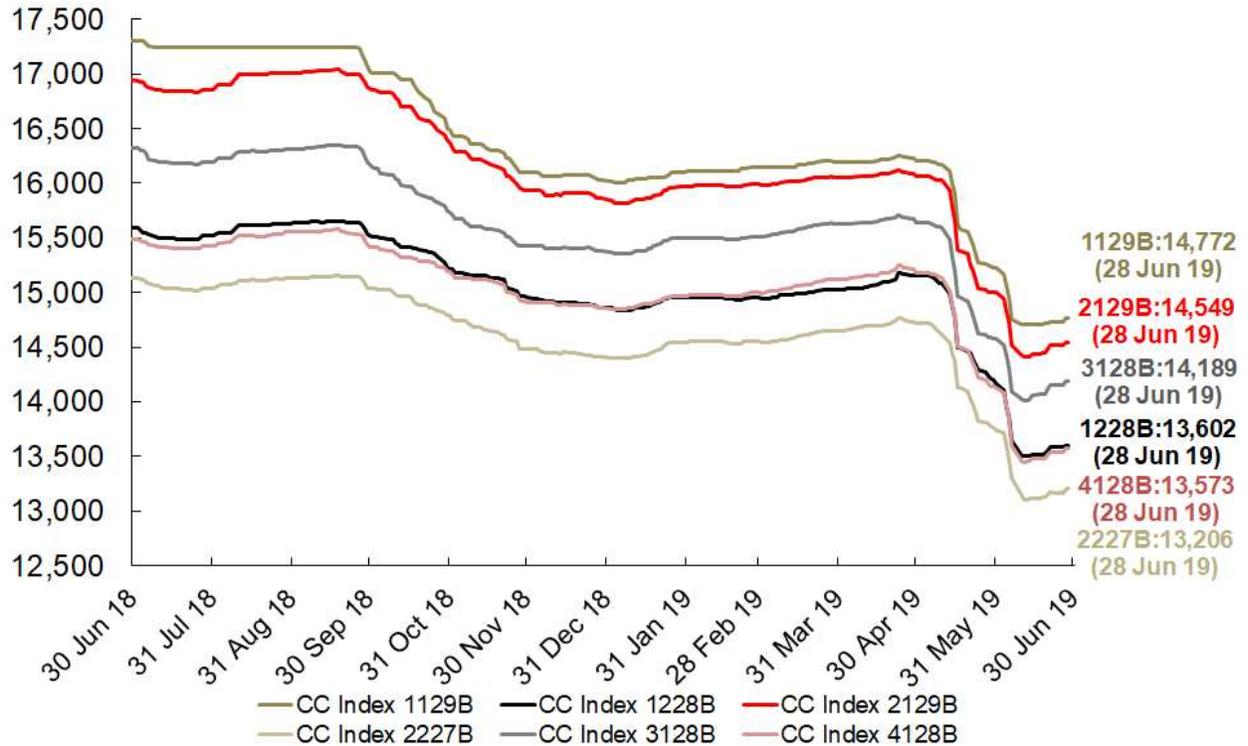
The price indices¹ of cotton dropped in the first half of June, continuing the downward trend from the previous month, but rebounded slightly for the rest of the month. The CC Index 3128B, for example, decreased from 14,581 on 31 May to 14,008 on 11 June, before rising to 14,189 on 28 June (see *exhibit 1*).

The fall in domestic cotton prices in the first half of June was attributed to sluggish downstream demand and high inventory level. In the second half of June, positive news regarding the trade negotiations between China and the US provided support for the cotton prices.

Looking ahead, we expect domestic cotton prices to remain weak in the near future as companies remain cautious with their purchasing decisions in view of the uncertain outlook of China-US trade relations.

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, June 2018 to June 2019



Source: China Cotton Association

2. Nanjing Wool Market Composite Index continues to fall in June

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, dropped from 83.02 yuan per kg on 31 May to 80.77 yuan per kg on 28 June (see exhibit 2).

The fall in the wool prices in June was due largely to the plunge in wool prices in Australia, a major exporter of wool to China: The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) dropped by 9.8% from 90.36 yuan per kg on 31 May to 81.49 on 28 June. Downward shifts in Australian wool prices were, in turn, attributed to the ongoing China-US tariff dispute, uncertainties arising from Brexit and the general slowdown of the global economy.

Looking ahead, we expect that domestic wool prices will remain soft in the near term given the weak demand from downstream manufacturers.

² <http://www.woolmarket.com.cn/>

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



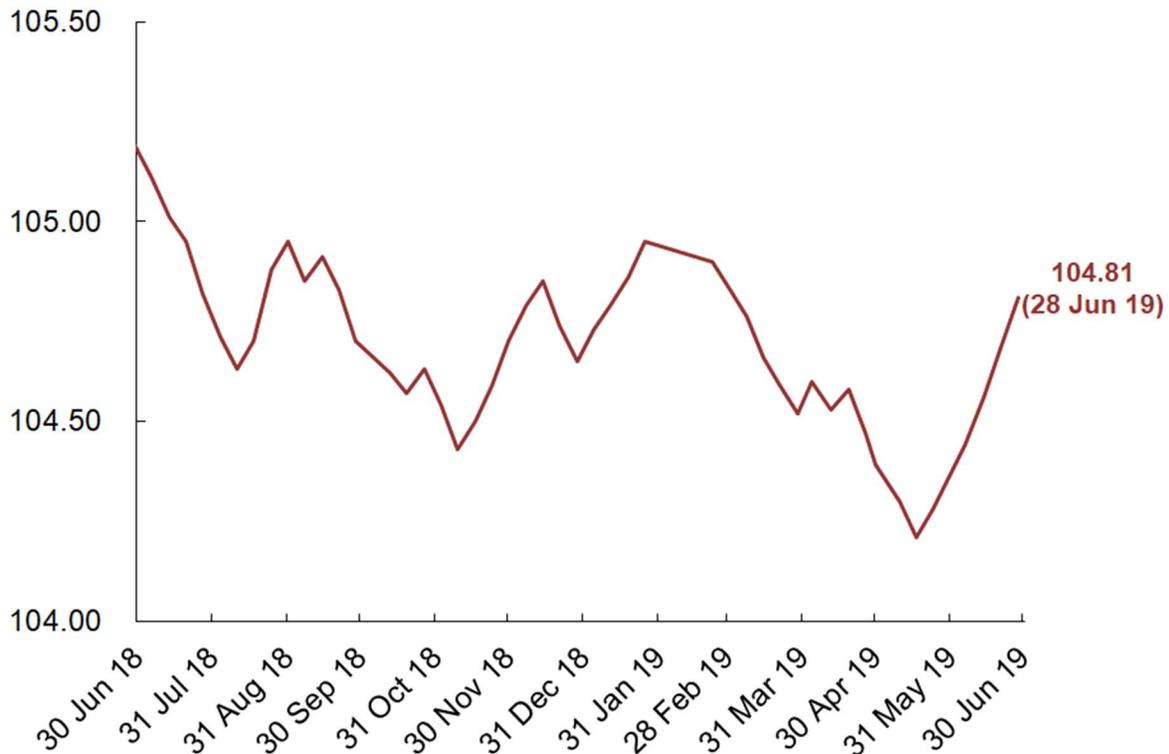
Source: The Nanjing Wool Market

3. Price index of silk rises in June

The price index of silk rose from 104.37 on 31 May to 104.81 on 28 June (see exhibit 3). In our view, the main reason for the rise in silk prices was improved market sentiments amid positive news on China-US trade negotiations during the month.

Going forward, we expect the price index of silk to remain soft in the near future for two reasons. First, the low season for the industry is approaching. Second, exports of silk products showed a sharp year-on-year decline in the first four months of the year, suggesting a decline in downstream demand.

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



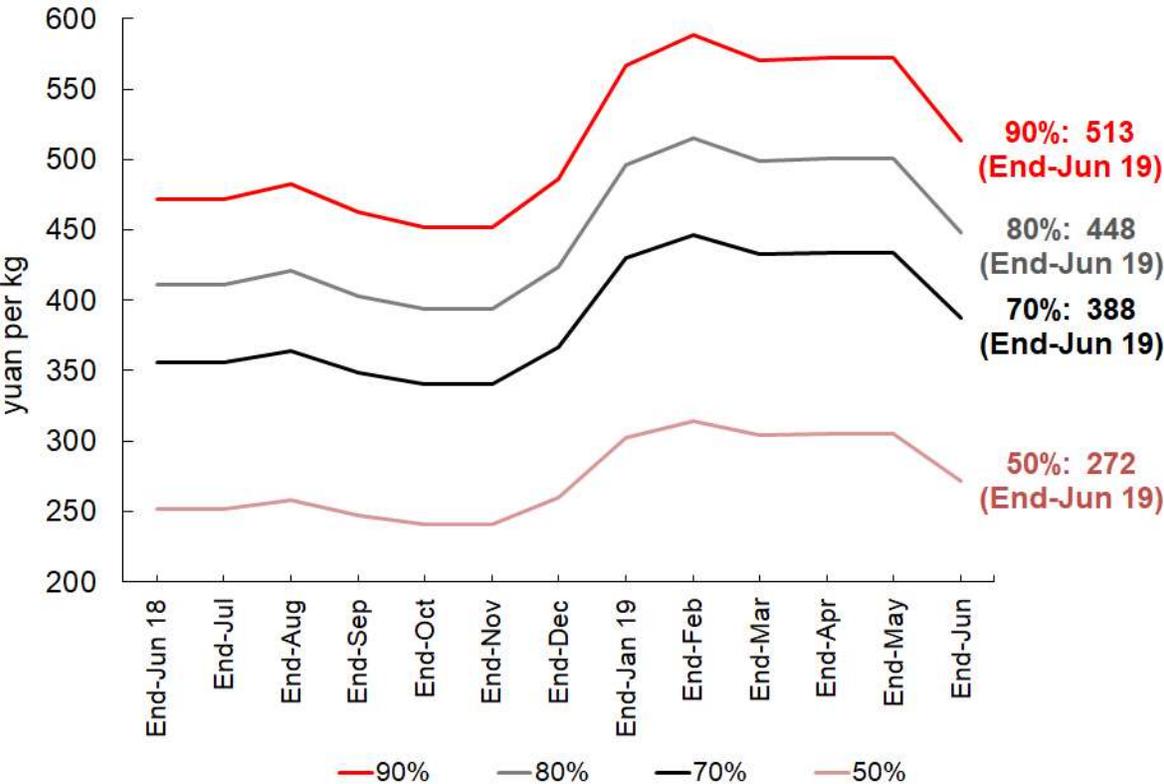
Source: Ministry of Commerce

4. Prices of grey goose down decline in June

The prices of various types of grey goose down declined in June. For example, the price of 80% grey goose down fell from 501 yuan per kg at end-May to 448 yuan per kg at end-June (see exhibit 4).

Looking ahead, we expect the prices of grey goose down to stay soft in the coming months due to uncertainties arising from the China-US trade tensions. It is noteworthy that down products are on the product list on which 25% additional tariffs are proposed to be levied, as announced by the US on 13 May. Although the leaders from both sides agreed to resume trade negotiations, the US could still impose the proposed 25% additional tariffs if the two sides fail to reach an agreement.

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



Source: cn-down.com

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises 42,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Li & Fung Limited (SEHK: 00494), Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Denise Cheung
Senior Research Manager
denisecheungwy@fung1937.com
(852) 2300 2463

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>



© Copyright 2019 Fung Business Intelligence. All rights reserved.
Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.