



China Sourcing Update

April 13, 2017

Prices of Natural Textile Materials

1. Cotton price indices go down slightly in March

The price indices¹ of cotton edged up in early March and have dropped since then. For example, the CC Index 3128B rose from 15,963 on 28 February to 15,975 on 8 March, before falling to 15,862 on 31 March (see *exhibit 1*).

The slight decline in cotton prices in March was mainly caused by an increase in the supply of cotton boosted by the ongoing sales of state cotton reserves.² As of 31 March, about 466,000 tonnes of cotton reserves had been auctioned.³ A fall in the prices of cotton futures in China in the month also put downward pressure on the spot prices of cotton.

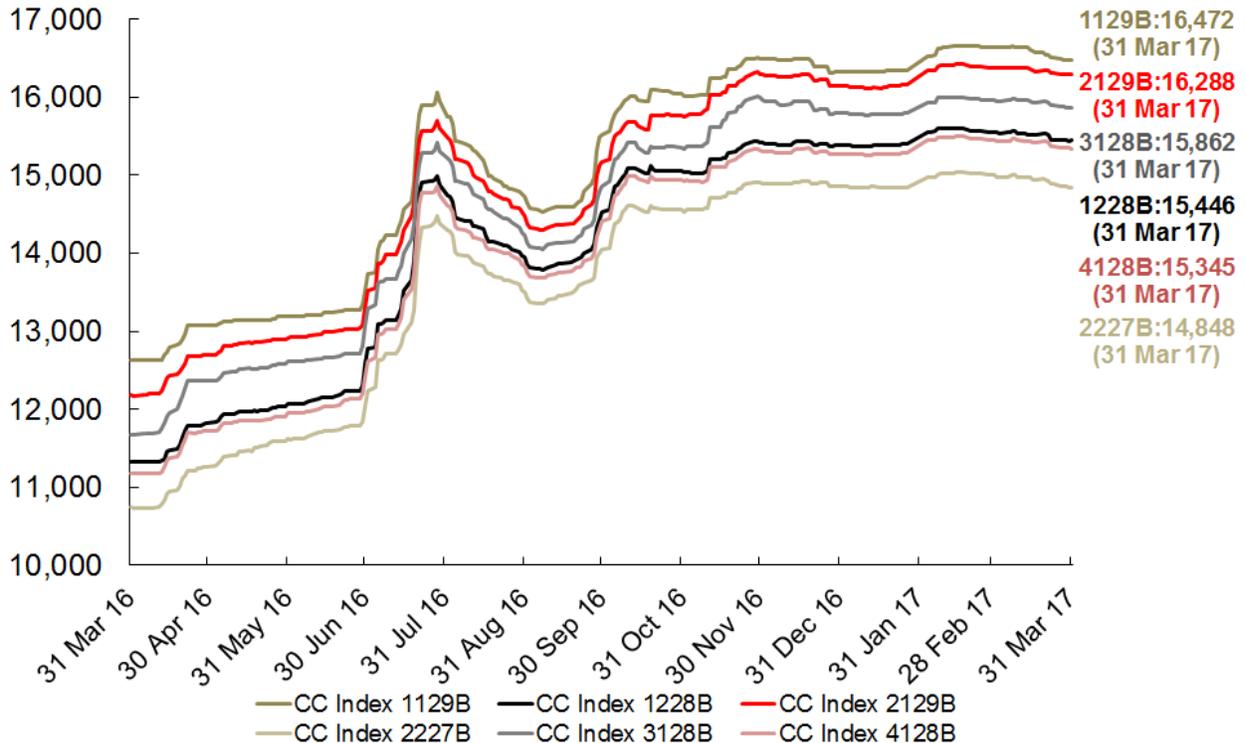
Going forward, the supply of cotton is expected to remain abundant in the near term, as the sales of state cotton reserves will continue till end-August. Therefore, we expect cotton prices to trend slightly downward in the foreseeable future.

¹ The indices, compiled by the China Cotton Association, track cotton prices quoted from over two hundred textile enterprises. <http://www.china-cotton.org/>

² http://www.sdpc.gov.cn/gzdt/201611/t20161124_827591.html

³ <http://www.china-cotton.org/app/html/2017/04/01/78300.html>

Exhibit 1: China's cotton price indices, March 2016 to March 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 further in March

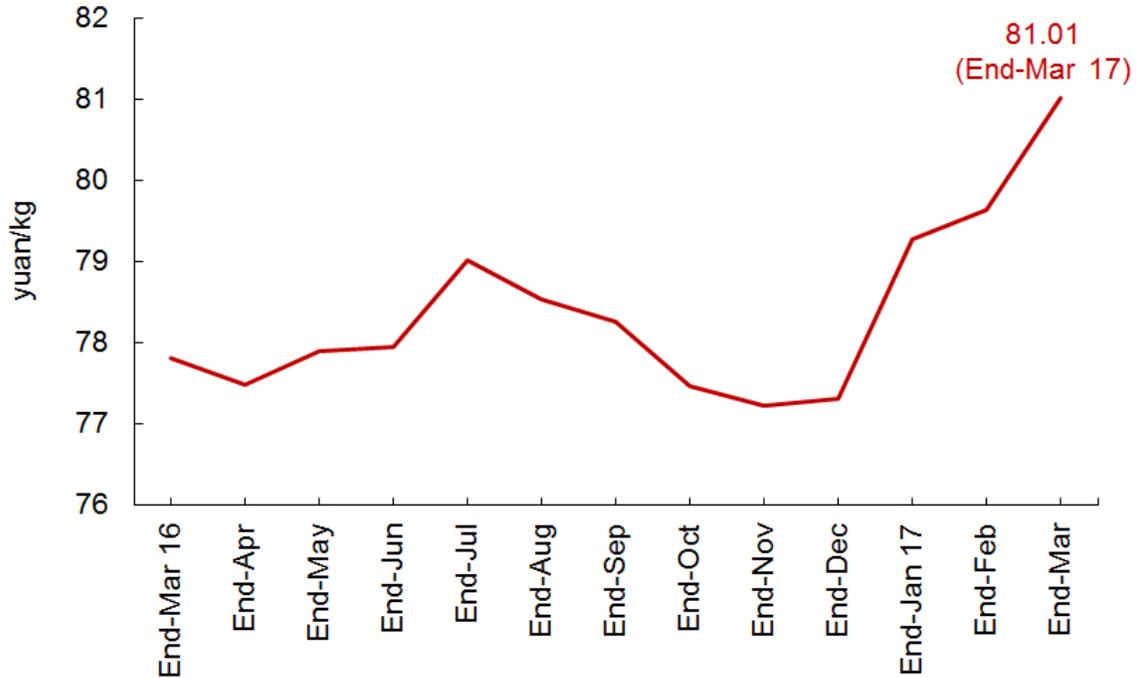
The Nanjing Wool Market Composite Index⁴, one of the major wool price indices in China, went up from 79.63 yuan per kg at end-February to 81.01 yuan per kg at end-March, the highest level in nearly five years (see exhibit 2).

In our view, the rise in the wool price index in the month was mainly attributable to a surge in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) jumped from 76.62 yuan per kg on 24 February to 79.34 yuan per kg on 31 March. 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.

⁴ <http://www.woolmarket.com.cn/>

Looking ahead, we believe that the wool prices in China will fall in the near future, as the wool prices in the Australian market have dropped since late March.

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



Source: The Nanjing Wool Market

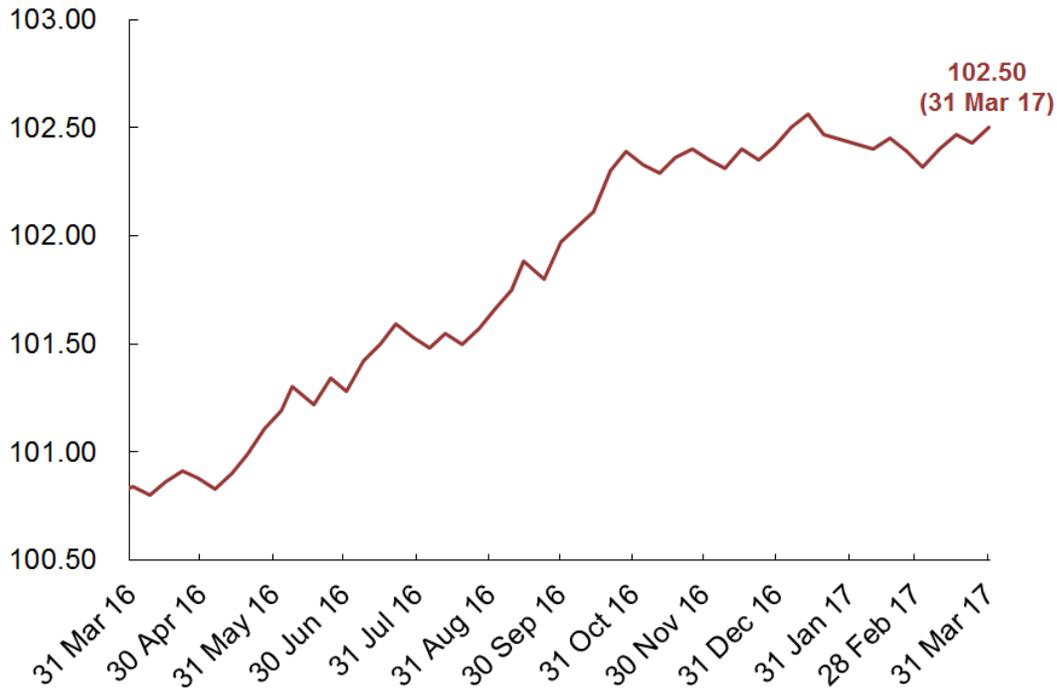
3. Price index of silk edges up in March

The price index of silk went up slightly in March, rising from 102.39 on 24 February to 102.50 on 31 March (see exhibit 3).

According to media reports, the downstream demand for silk was weak in the month; however, a rise in upstream costs pushed up silk prices.

Looking ahead, the upstream prices of silk are likely to remain high in the near term. Thus, we expect the price index of silk to stay high or even rise further in the foreseeable future.

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



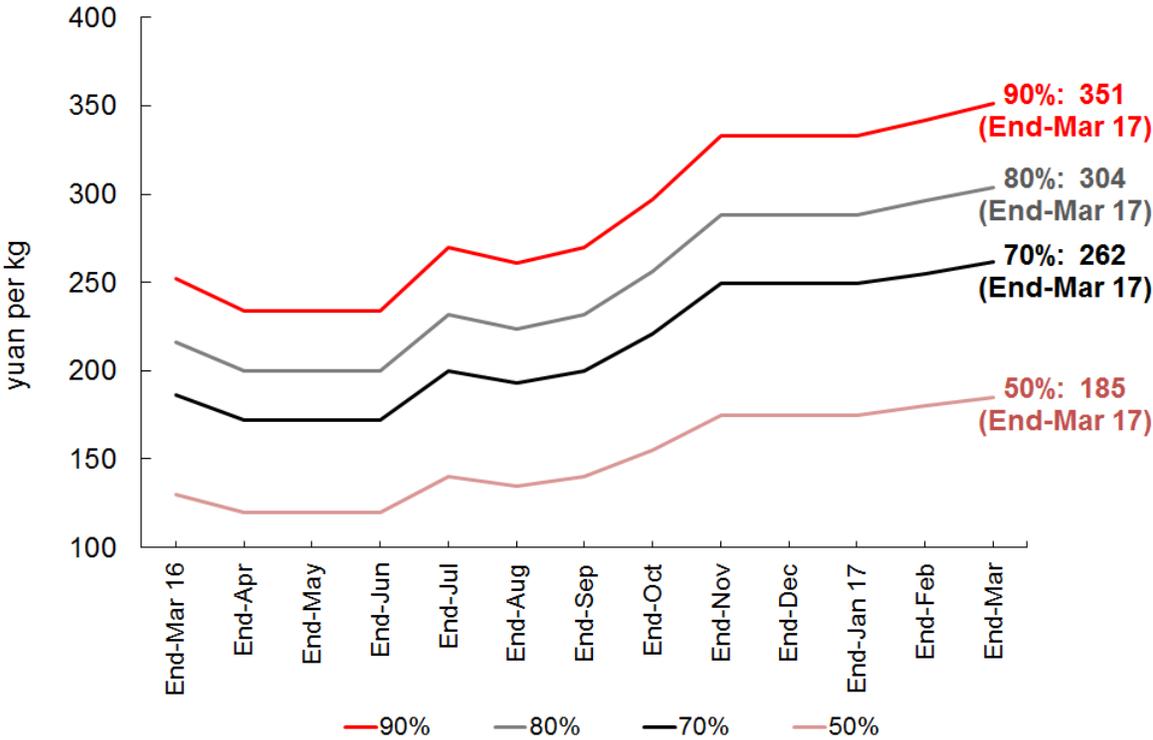
Source: Ministry of Commerce

4. Prices of grey goose down rise in March

Despite a warmer-than-usual spring, the prices of various types of grey goose down rose in March. For example, the price of 80% grey goose went up from 296 yuan per kg at end-February to 304 yuan per kg at end-March (see exhibit 4).

Going forward, the demand for down is likely to decline in the near term as the low season for down products is approaching. Thus, we expect the prices of grey goose down to fall in the coming months.

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



Source: cn-down.com

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