



China Sourcing Update

June 8, 2016

Prices of Natural Textile Materials

1. Cotton price indices continue to trend upward

The price indices¹ of cotton continued to trend upward in May. The CC Index 3128B, for example, rose from 12,372 on 29 April to 12,613 on 31 May, the highest level since mid-January this year (see exhibit 1).

According to the local media, the latest rise in domestic cotton prices was mainly due to the tight supply of cotton, in particular the high-grade supplies. The downstream demand from textile manufacturers remained stable in the month.

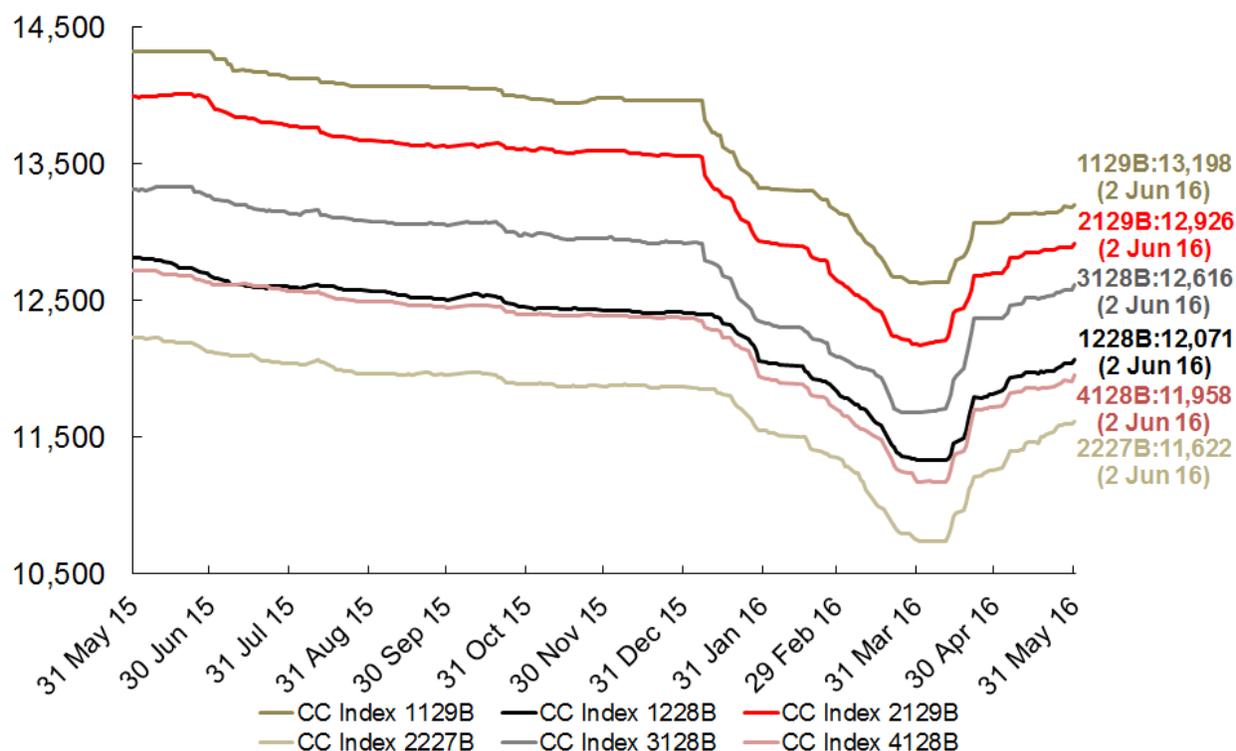
In our view, the uptrend of cotton prices is unlikely to continue, as the supply of cotton is expected to increase in coming months due to the sale of up to 2 million tonnes of cotton reserves by the Chinese government from 3 May to 31 August this year.² As of 31 May, over 582,000 tonnes of cotton reserves had been auctioned.³

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

² http://www.sdpc.gov.cn/zcfb/zcfbgg/201604/t20160415_798290.html

³ <http://www.cottonchina.org/news/pubzmb.php?articleid=198525&newstime=2016-05-31>

Exhibit 1: China's cotton price indices, May 2015 to May 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 falls slightly

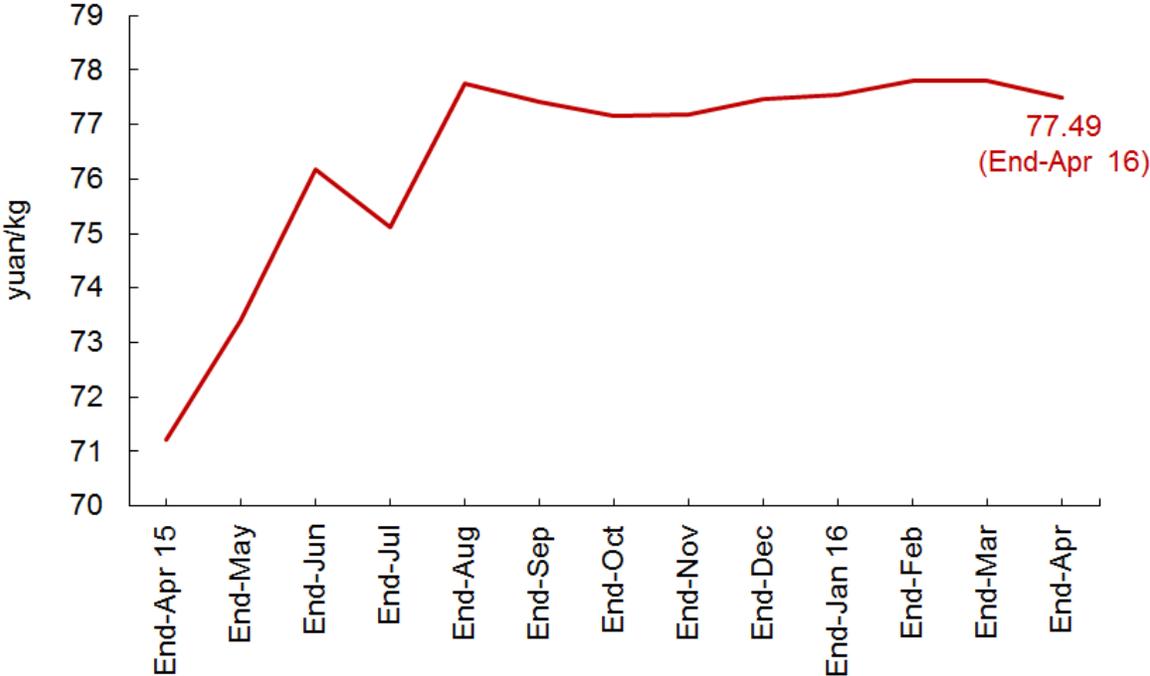
The Nanjing Wool Market Composite Index⁴, one of the major wool price indices in China, fell slightly from 77.81 yuan per kg at end-March to 77.49 yuan per kg at end-April (see exhibit 2), hovering around 77-78 yuan per kg during the past nine months.

We believe that the fall in the wool price index in April was largely attributable to the appreciation of the Chinese yuan against the Australian dollar. The spot exchange rate of the Chinese yuan against the Australian dollar appreciated from 4.9599 on 31 March to 4.9345 on 29 April, according to Bloomberg. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by the exchange rate fluctuation of the Chinese yuan against the Australian dollar.

⁴ <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.⁵ 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, April 2015 to April 2016



Source: The Nanjing Wool Market

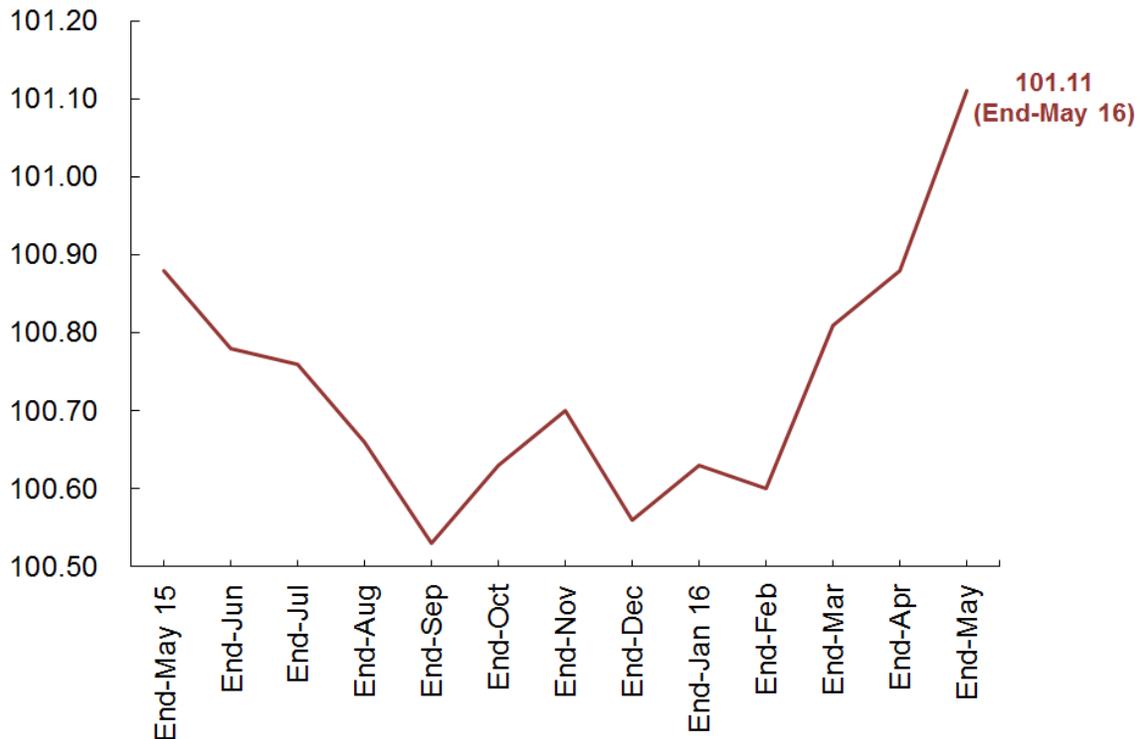
3. Price index of silk trends upward

The price index of silk trended upward in May. The price index went up from 100.88 at end-April to 101.11 at end-May (see exhibit 3). The rise in silk prices took place despite the fact that downstream demand had remained weak for months, according to the local media.

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

⁵ 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, May 2015 to May 2016



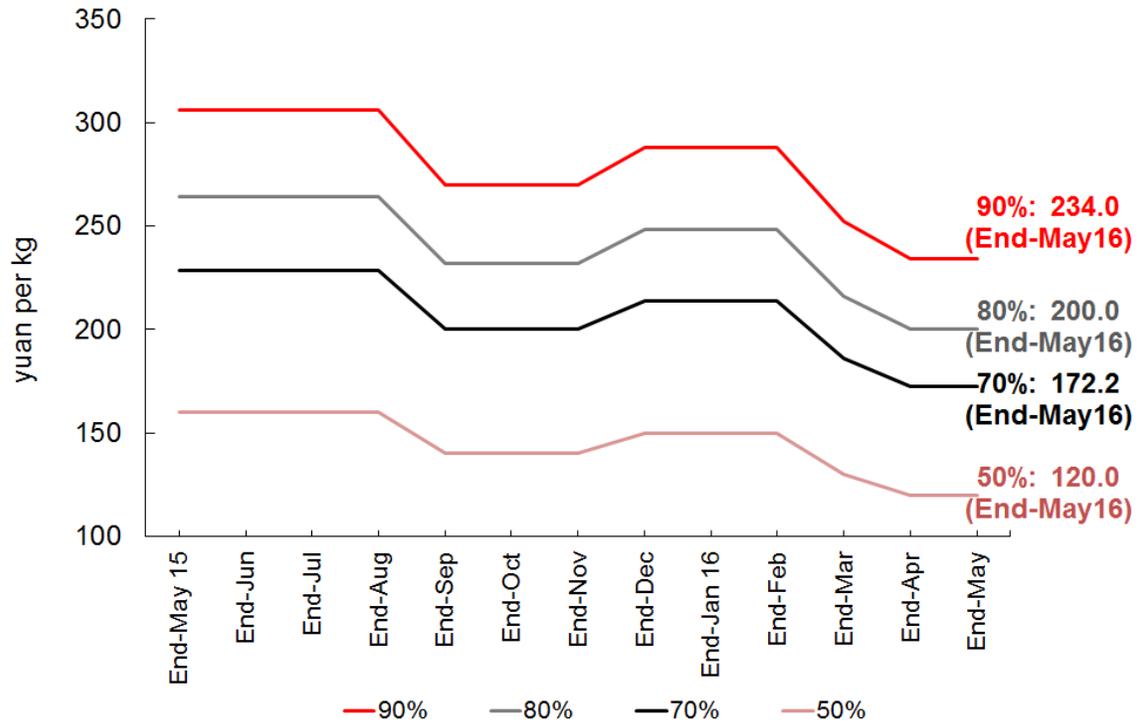
Source: Ministry of Commerce

4. Prices of grey goose down stay stable

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

As the weather turns warmer in coming months, the demand for down will further decrease. Thus, we expect the prices of grey goose down to stay at low levels in the coming low season for down.

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



Source: cn-down.com

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