



China Sourcing Update

June 7, 2017

Prices of Natural Textile Materials

1. Cotton price indices rise in May

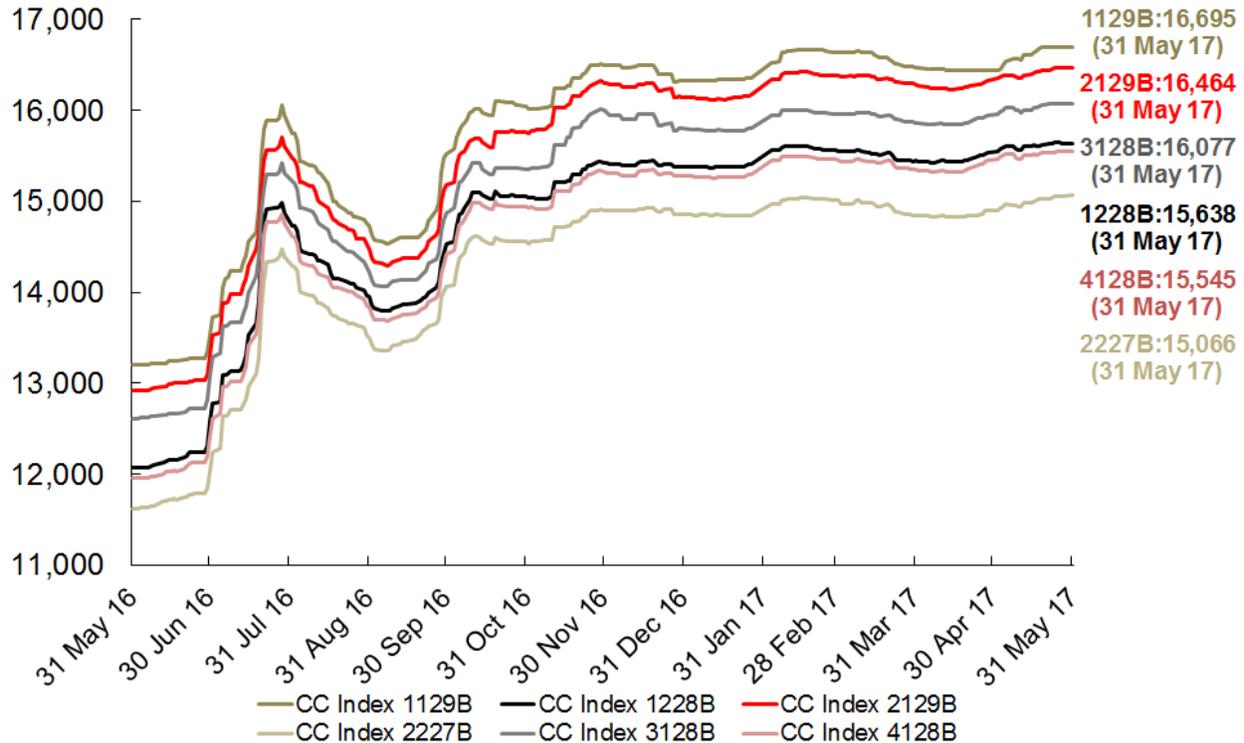
The price indices¹ of cotton trended upward in May. The CC Index 3128B, for example, went up from 15,949 on 28 April to 16,078 on 25 May, the highest level since September 2014, before closing at 16,077 on 31 May (see *exhibit 1*).

According to the local media, the rise in domestic cotton prices was due largely to a tightened supply of cotton, in particular the high-grade supplies. Meanwhile, the downstream demand from textile manufacturers was soft with the approach of the off-season.

Going forward, we do not expect domestic cotton prices to go up further in the near future, as the prices of cotton futures in China have fallen markedly since late May, which is likely to put downward pressure on the spot prices of cotton.

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, May 2016 to May 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 falls slightly in May

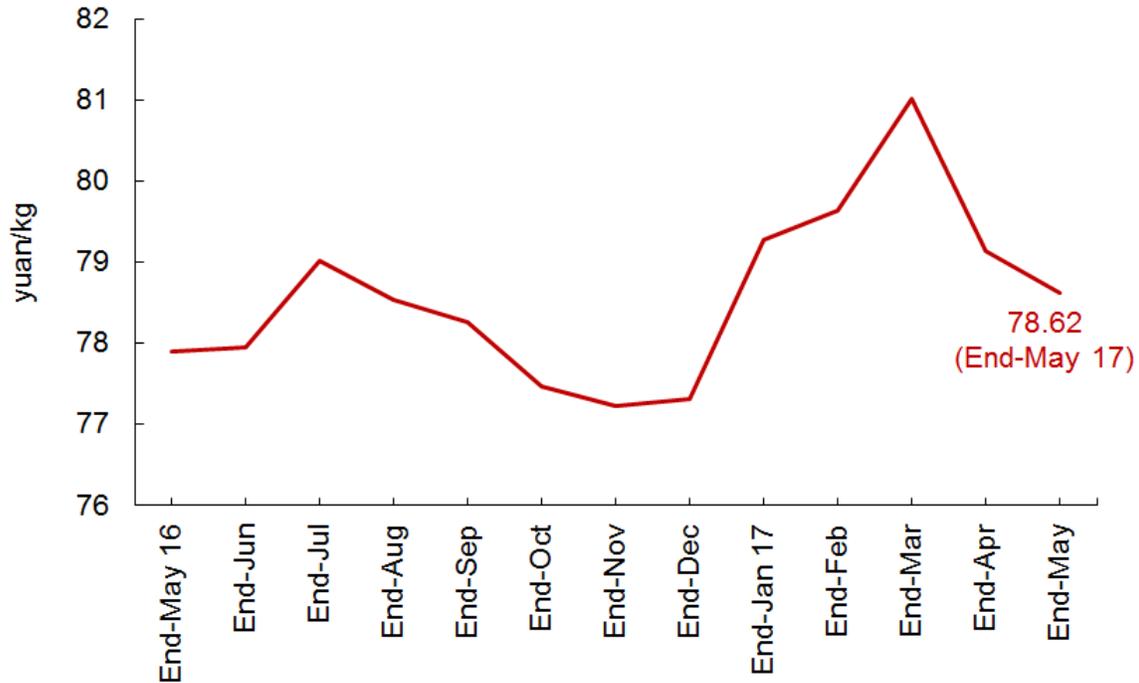
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, edged down from 79.13 yuan per kg at end-April to 78.62 yuan per kg at end-May (see exhibit 2).

In our view, the fall in the wool prices in China were primarily attributable to a drop in the wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) declined from 77.49 yuan per kg on 28 April to 77.16 yuan per kg on 26 May. 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.

² <http://www.woolmarket.com.cn/>

Looking ahead, we expect the wool prices in China to stay soft in the near term, in line with the movement of the wool prices in the Australian market.

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



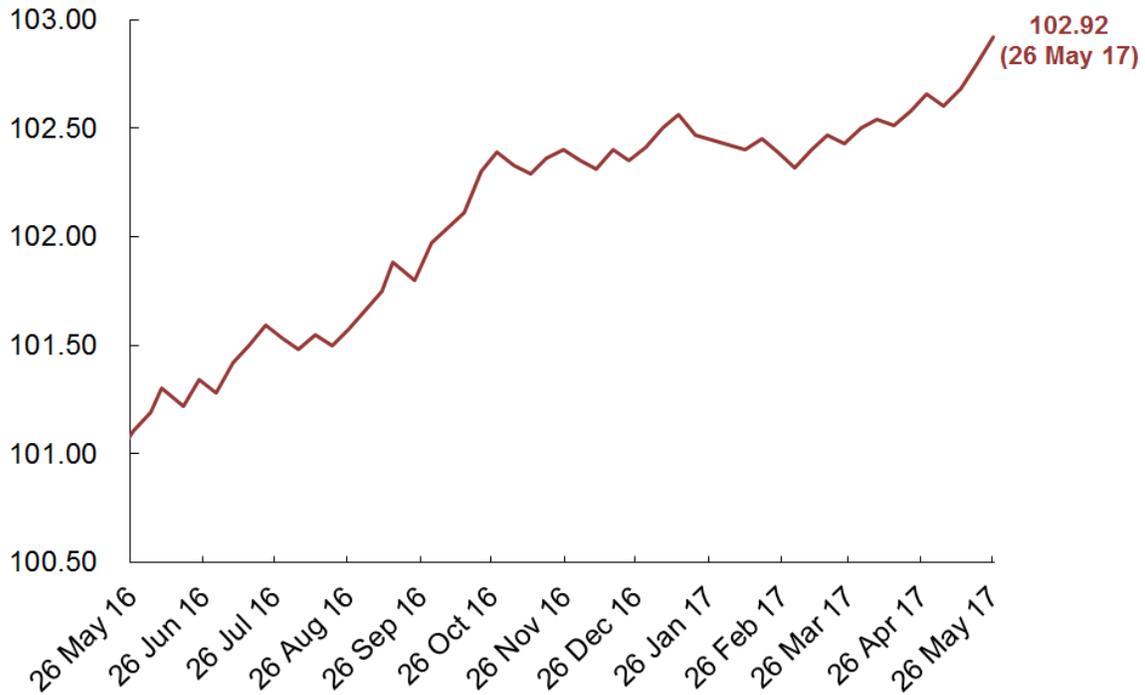
Source: The Nanjing Wool Market

3. Price index of silk edges up in May

The price index of silk went up slightly in May, rising from 102.66 on 28 April to 102.92 on 26 May, the highest level in more than eight years (see exhibit 3). The rise in silk prices in the month was mainly caused by high upstream costs.

Looking ahead, we believe that the price index of silk will continue to rise in the foreseeable future, as the upstream prices of silk are likely to go up further and the downstream demand for silk is expected to increase with the approach of the high season for production of silk products.

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



Source: Ministry of Commerce

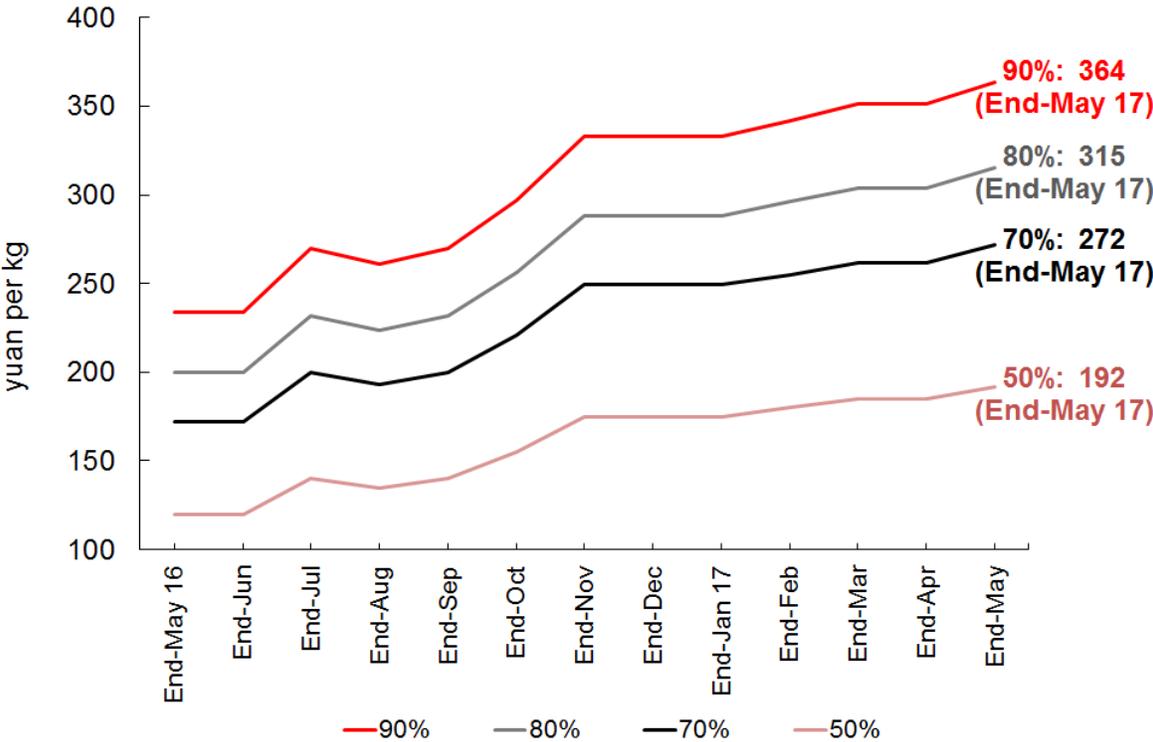
4. Prices of grey goose down rise in May

The prices of various types of grey goose down went up in May. For example, the price of 80% grey goose rose from 304 yuan per kg at end-April to 315 yuan per kg at end-May, the highest level since March 2015 (see exhibit 4).

In our view, the major factors behind the rise in prices of grey goose down in recent months were an increase in export orders for down products; a recovery in the domestic demand for down products; and a resurgence of avian flu in China and other parts of the world, which has reduced the supply of grey goose down.

Looking ahead, the positive factors mentioned above are expected to persist in the foreseeable future. Thus, we believe that the prices of grey goose down will stay high in the near term.

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



Source: cn-down.com

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