

China Sourcing Update

December 17, 2015

Prices of Natural Textile Materials

1. Cotton price indices trend slightly downward

The price indices¹ of cotton have trended slightly downward in recent months. The CC Index 3128B, for example, fell from 13,006 on 23 October to 12,956 on 20 November (see *exhibit 1*).

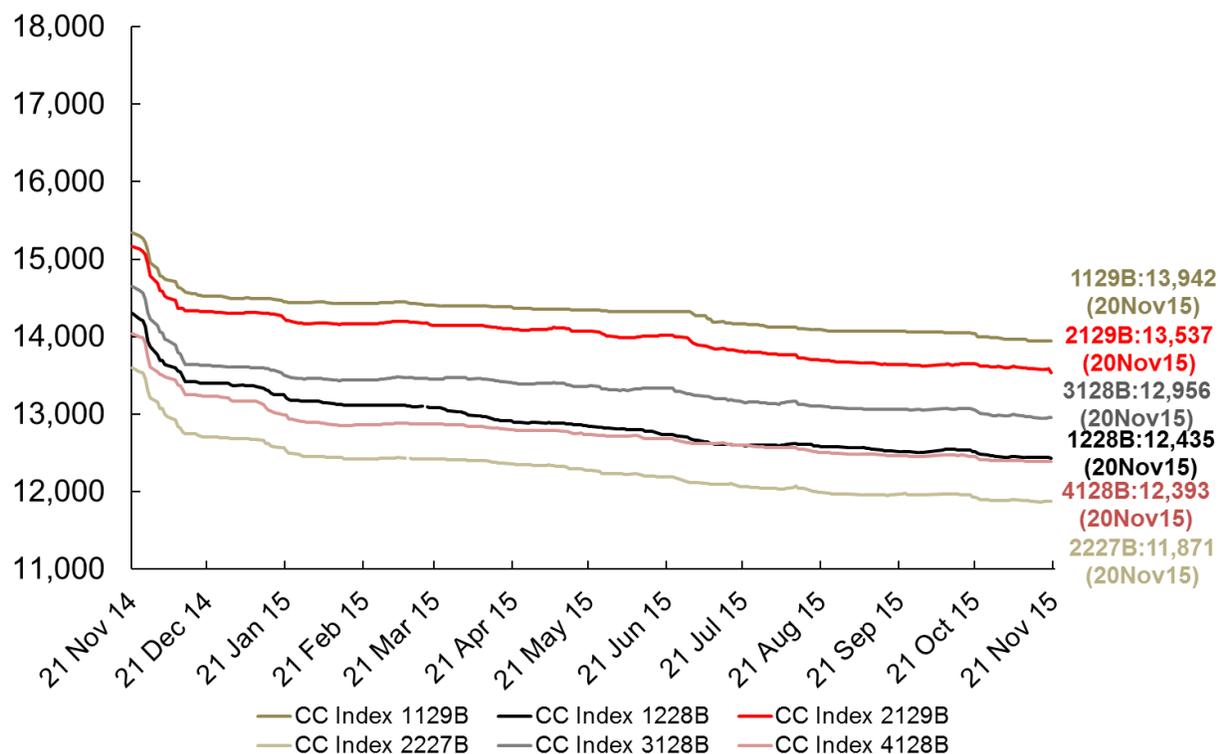
According to local media, cotton harvest was nearing completion in late November, and the market supply of cotton stayed abundant during October and November. Meanwhile, the downstream demand from textile manufacturers remained weak. Most manufacturers only made hand-to-mouth purchases.

In our view, the cotton prices are likely to fluctuate around the current price levels in the near term, amid the weak domestic demand of cotton. We do not expect the cotton prices to plunge in the near future. As most cotton harvest activities have been completed, the cotton output is expected to return to a lower level soon. According to the China Cotton Association, the total cotton production for the year 2015/16 is expected to be 5.22 million tonnes, down by 19.7% yoy.² Also, the prices of imported cotton have been increasing, which has weakened the price advantage of imported cotton.

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.china-cotton.org/app/html/2015/11/18/75436.html>

Exhibit 1: China's cotton price indices, November 2014 to November 2015



* 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 drops in September

The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, slightly dropped from 77.75 yuan per kg at end-August to 77.42 yuan per kg at end-September (see exhibit 2).

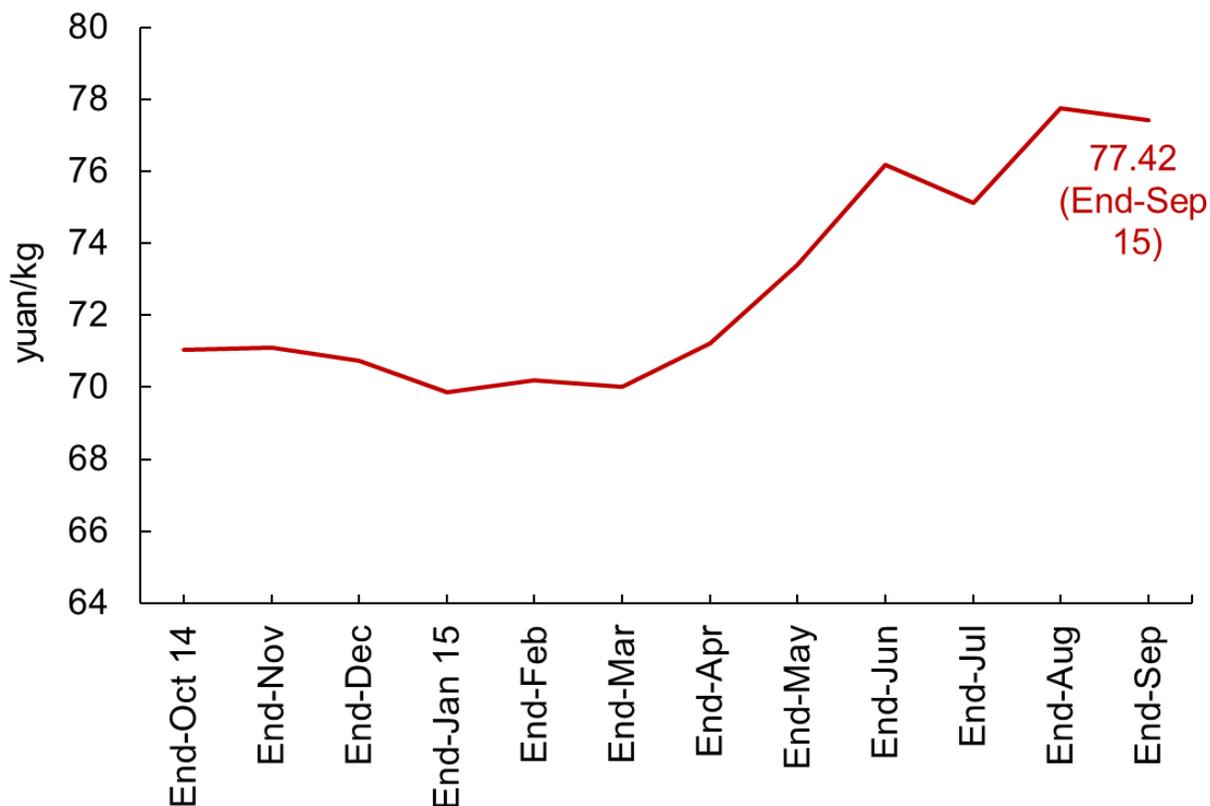
In our view, the decline in the wool price index in September was attributable to the decrease in domestic demand for wool. According to local media, quality problems of some double-faced woolen fabric have been discovered, as a number of manufacturers just followed the latest trend to produce double-faced woolen fabric without having the required technique and professionals. Thus, in September, purchases of wool by manufacturers of double-faced woolen coats slowed down.⁴ Also, during the last two weeks of September, the Australian wool prices trended downward, which in turn put downward pressures on the wool prices in the wool market in China, as China imports a large amount of wool from Australia.

³ <http://www.woolmarket.com.cn/>

⁴ <http://www.woolmarket.com.cn/NewsDetail.aspx?id=41112>

Looking ahead, in the near term, we expect the wool prices in China to trend slightly downward, as a result of the sluggish wool purchases in the domestic market. However, the supply of wool in Australia is forecast to drop in 2015/2016, according to the Australian Wool Production Forecasting Committee; and the woolen products are still on-trend in China.⁵ Thus, in our view, wool prices in domestic market are unlikely to drop significantly.

Exhibit 2: Nanjing Wool Market Composite Index, October 2014 to September 2015



Source: The Nanjing Wool Market

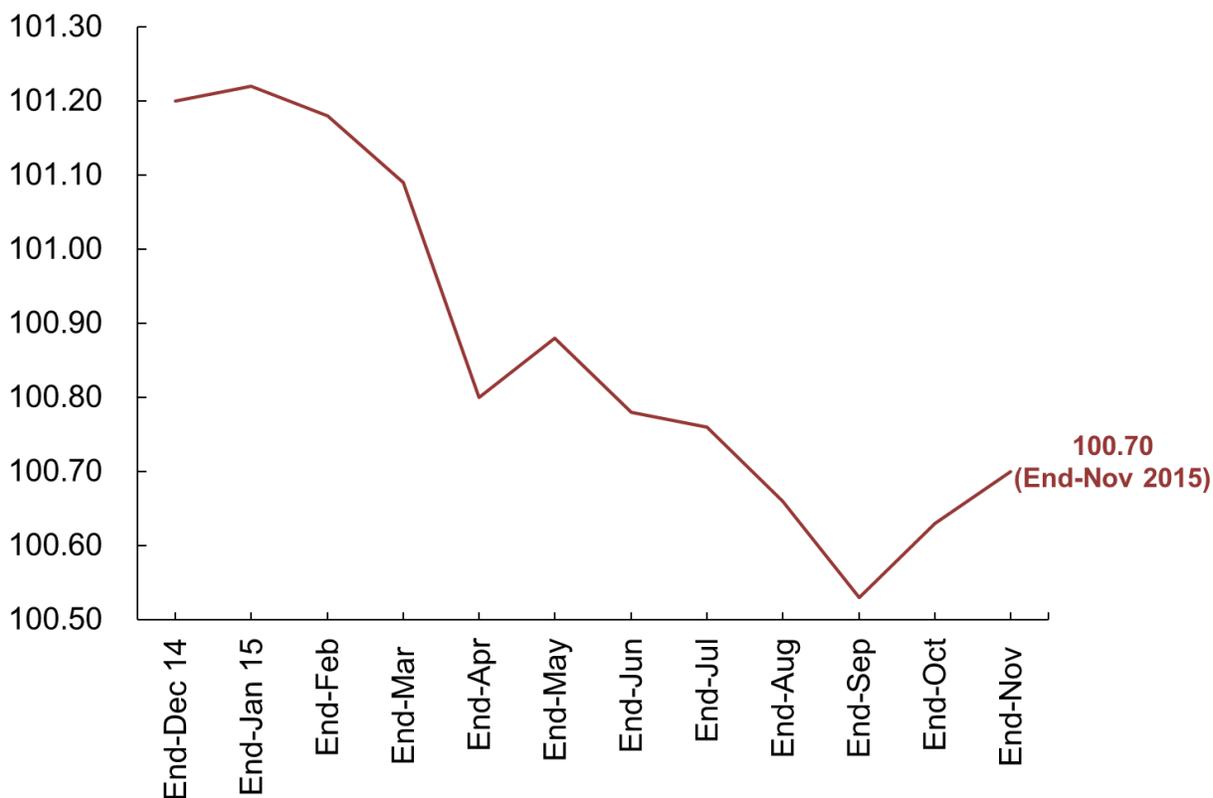
3. Price index of silk rebounds

After registering 100.53 at end-September, the lowest level since July 2010, the price index of silk rebounded in October and November. The price index went up to 100.63 at end-October, and further to 100.70 at end-November (see exhibit 3). According to local media, the rise in silk price index was mainly due to downstream manufacturers' move to increase their stocks of silk.

⁵ <http://www.theland.com.au/news/agriculture/sheep/wool/meat-demand-clips-wool-forecast/2741298.aspx?storypage=0>

However, looking ahead, the restocking activities of downstream manufacturers may end soon, as the downstream demand for silk products remains weak. Thus, in our view, it is unlikely that the silk price index will start an upward trend.

Exhibit 3: Price index of silk, December 2014 to November 2015



Source: Ministry of Commerce

4. Prices of grey goose down remain stable

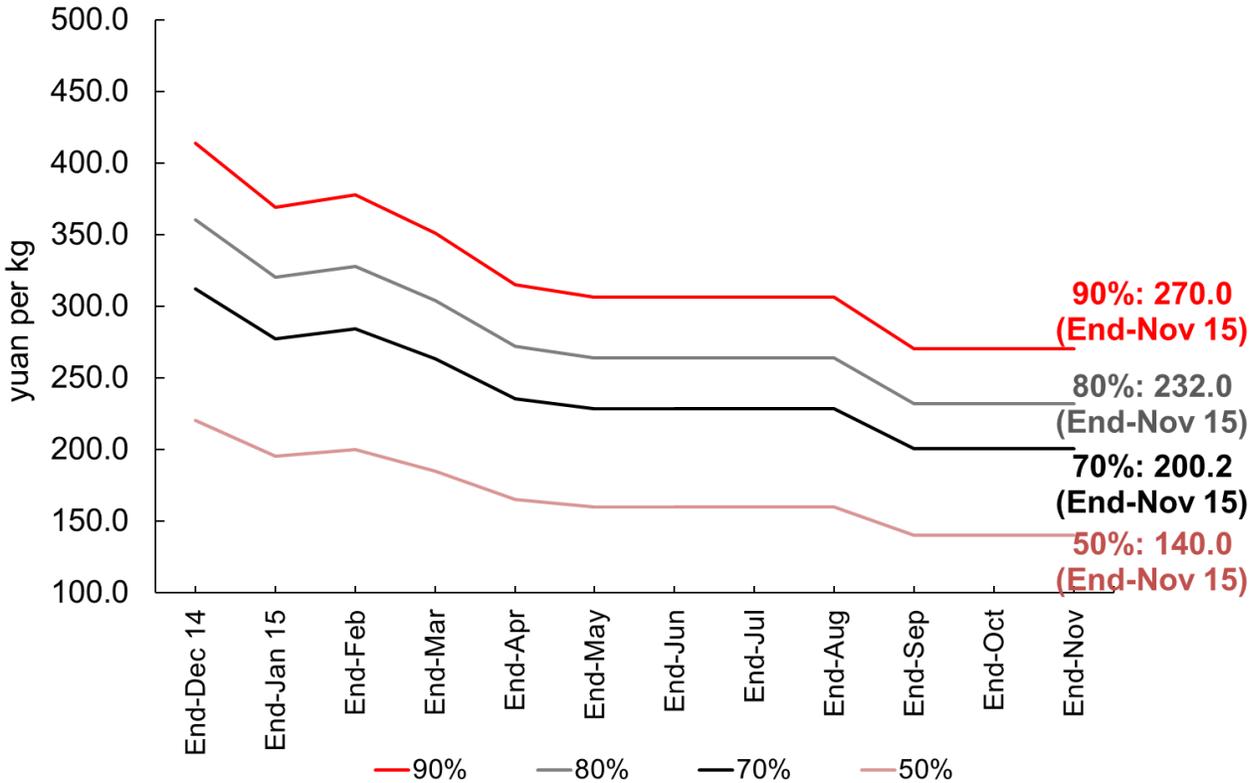
The prices of various types of grey goose down stayed stable during October and November. For example, the price of 70% grey goose stayed at 200.2 yuan per kg throughout October and November.

Chinese consumers reduced their purchases of high-priced winter wear, due largely to the expectation of a warmer winter, according to a media report in mid-November.⁶ Also, as the stocks of down jackets held by manufacturers are still at high level, manufacturers have been cautious about placing orders for down, resulting in the weak downstream demand for down.

⁶ http://www.cn-down.com/newsView_1788.html

Moreover, according to the media reports, the export orders for down have been decreasing;⁷ and more and more consumers prefer woolen coats to down jackets. Going forward, we expect the prices of grey goose down to stay low in the foreseeable future.

Exhibit 4: Prices of grey goose down, December 2014 to November 2015



Source: cn-down.com

⁷ <http://myyj.168tex.com/2015-12-11/579593.html>

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