



China Sourcing Update

December 5, 2018

Prices of Natural Textile Materials

1. Cotton price indices trend further downward in November

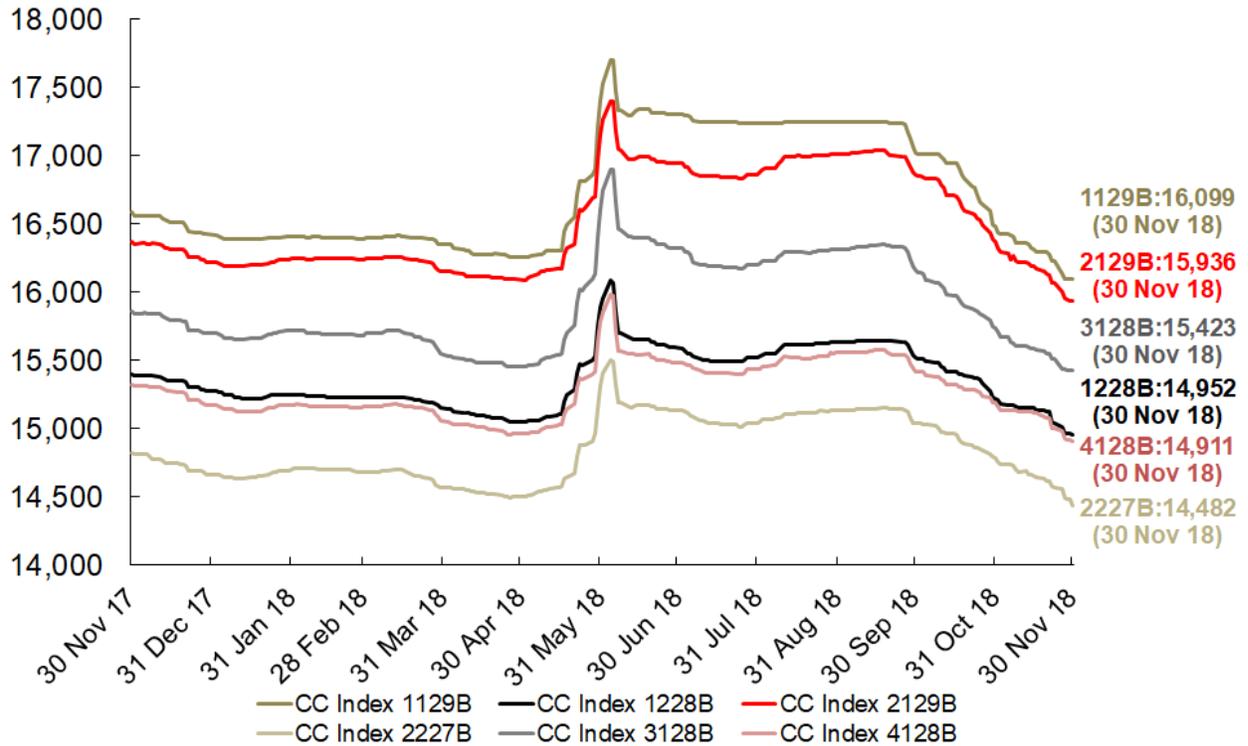
The price indices¹ of cotton trended downward in November. The CC Index 3128B, for example, dropped from 15,739 on 31 October to 15,423 on 30 November (*see exhibit 1*).

The fall in the domestic cotton prices in November was highly associated with a weak downstream demand amid the escalating China-US trade war. According to media reports, downstream enterprises were cautious about placing orders as they waited for the result of the meeting between the Chinese President Xi Jinping and the US President Donald Trump held on 1 December.

Afterwards, positive news emerged from the Trump-Xi meeting: the US agreed that the planned increase in tariff rate on US\$200 billion of Chinese imports from 10% to 25% is on hold for now, as China and the US will hold negotiations within the next 90 days (by end-February). The latest news is likely to improve the market sentiments for cotton in the near term, which would in turn provide support to the cotton prices. That being said, if no agreement is reached at the end of the abovementioned period of time, the 10% tariff rate will be raised to 25% and Trump may also carry out his threat of extra tariffs on the remaining US\$267 billion worth of Chinese imports, which will certainly put downward pressure on cotton prices.

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, November 2017 to November 2018



Source: China Cotton Association

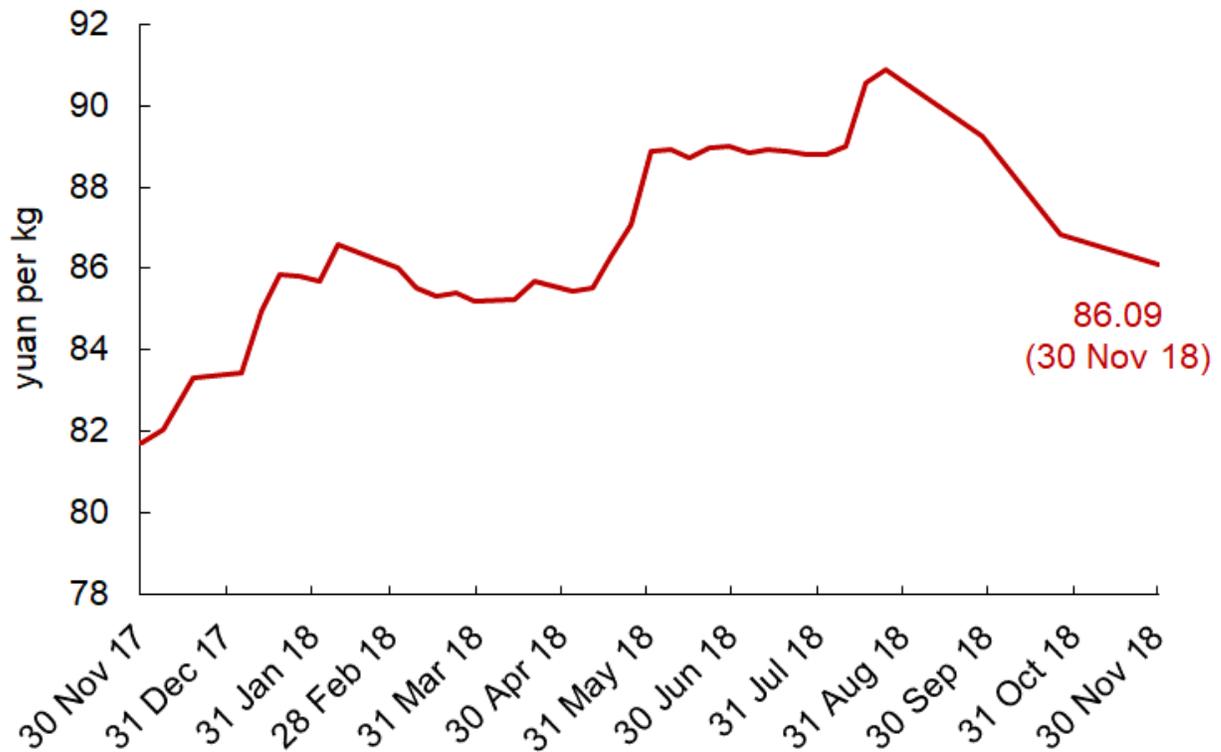
2. Nanjing Wool Market Composite Index drops in November

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went down from 86.83 yuan per kg on 26 October to 86.09 yuan per kg on 30 November (see exhibit 2). The main reason for the drop in wool prices in China in the month was the sluggish demand for wool.

Looking ahead, we expect that domestic wool prices will show a rebound in the near future, driven by the recent rise in wool prices in Australia. With wool sellers reducing the amount of wool for sale, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from its recent low of 89.56 yuan per kg on 9 November to 94.41 yuan per kg on 30 November. 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/>

**Exhibit 2: Nanjing Wool Market Composite Index,
November 2017 to November 2018**



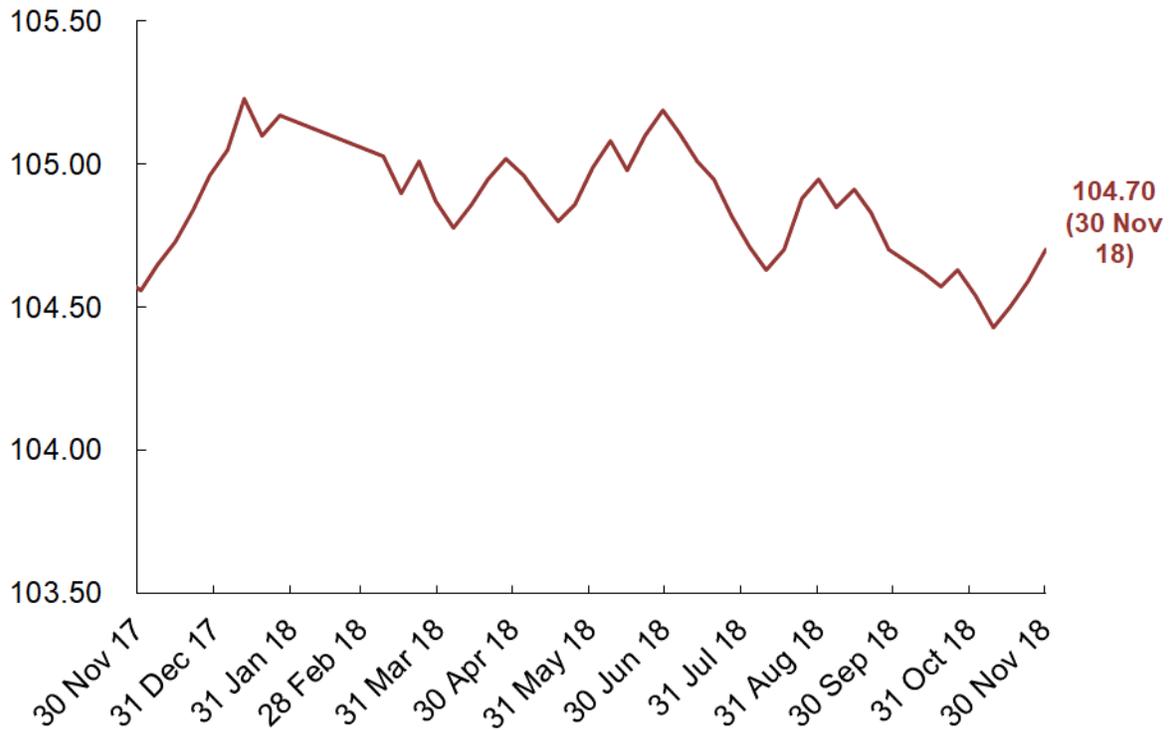
Source: The Nanjing Wool Market

3. Price index of silk rises in November

The price index of silk rose in November. The price index went down from 104.63 on 26 October to 104.43 on 9 November, before showing a rebound to 104.70 on 30 November (see exhibit 3). A major reason behind the rise in the price index in November was that a recent ease in China-US trade tensions boosted the commodity prices, thereby putting upward pressure on silk prices.

Recently, it has been rumoured that the Chinese government would start to purchase filature silk for reserve in the near future. Therefore, we expect that the future movement of the price index of silk will depend largely on whether China's government takes such a move.

Exhibit 3: Price index of silk, November 2017 to November 2018



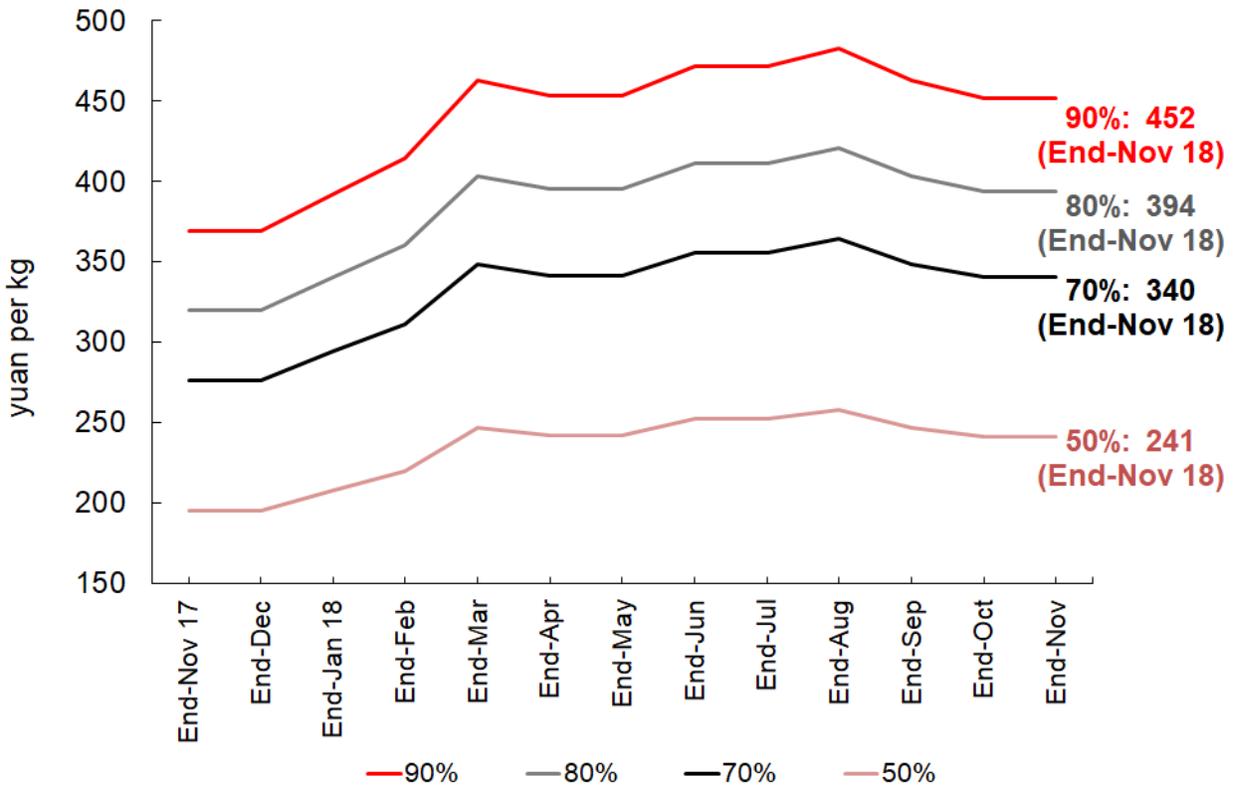
Source: Ministry of Commerce

4. Prices of grey goose down stay stable in November

The prices of various types of grey goose down stayed stable in November. For example, the price of 80% grey goose down came in at 393 yuan per kg at end-November, the same as at end-October (see exhibit 4).

Going forward, we expect the prices of grey goose down to stay around current levels in the coming months, supported by the high seasonal demand for down products in winter.

Exhibit 4: Prices of grey goose down, November 2017 to November 2018



Source: cn-down.com

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