



China Sourcing Update

November 8, 2018

Prices of Natural Textile Materials

1. Cotton price indices trend further downward in October

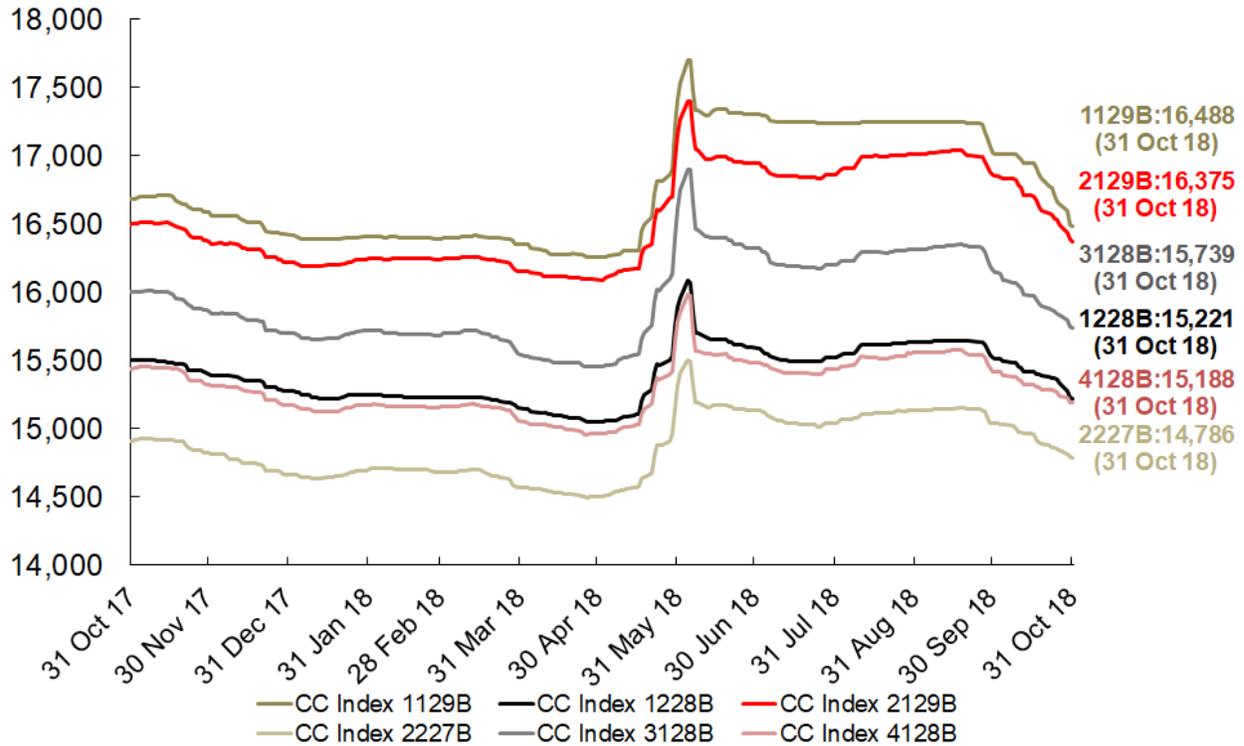
The price indices¹ of cotton trended downward in October. The CC Index 3128B, for example, dropped from 16,165 on 30 September to 15,739 on 31 October (see exhibit 1).

The fall in the domestic cotton prices in October was highly associated with an increase in supply of domestic cotton during the current harvest time and a weak downstream demand due partly to the escalating China-US trade war. The US government announced on 18 September that 10% additional tariffs would be imposed on US\$200 billion of Chinese imports, including some apparel products, starting from 24 September. According to media reports, the move worsened the market sentiments, which in turn caused a decrease in orders received by downstream enterprises.

The US additional tariff rate on US\$200 billion of Chinese imports is set to jump to 25% on 1 January 2019. Besides, US President Donald Trump warned to levy extra tariffs on another US\$267 billion of Chinese imports. If Trump follows through his threat, it is highly likely that many more (or all) apparel products will be hit with additional tariffs, and thus leading to a drop in the demand for cotton in China. All in all, we expect that domestic cotton prices will continue to fall amid the China-US trade war.

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, October 2017 to October 2018



Source: China Cotton Association

2. Nanjing Wool Market Composite Index falls in October

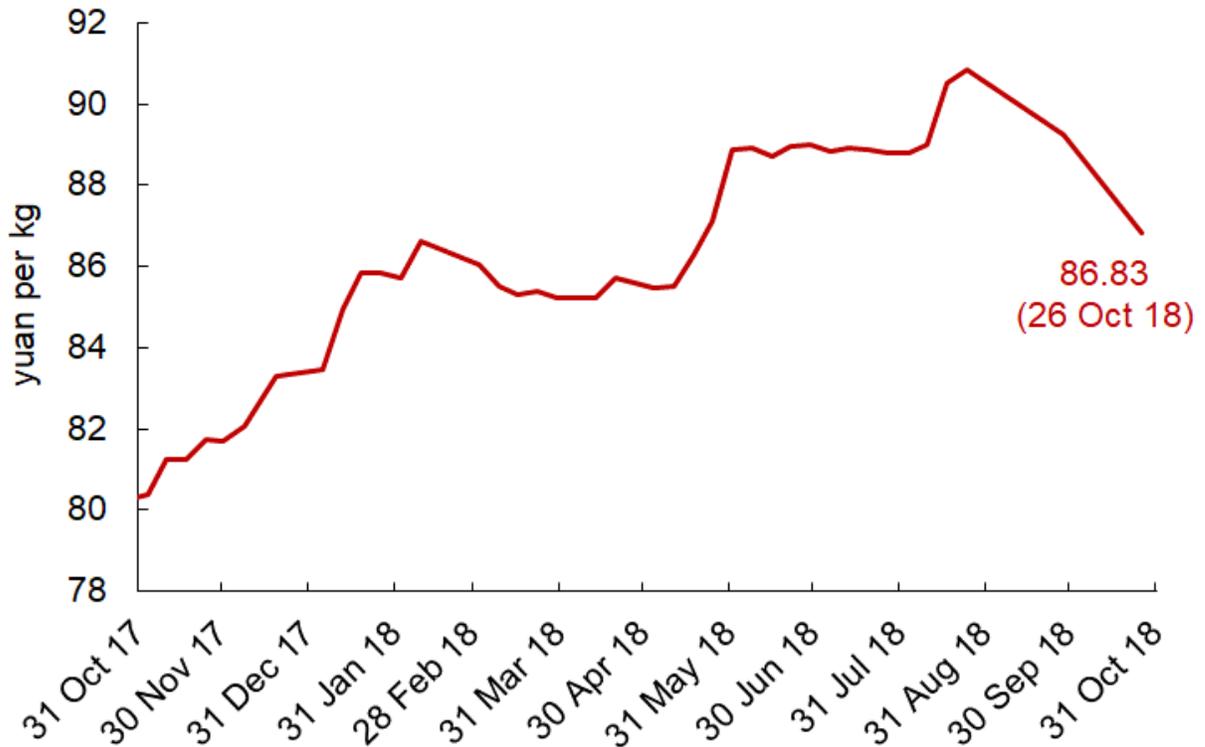
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went down from 89.25 yuan per kg on 28 September to 86.83 yuan per kg on 26 October (see exhibit 2).

The main reason for the drop in wool prices in China in the month was a fall in wool prices in Australia. Caused mainly by a slowing demand from China, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) declined sharply from 100.09 yuan per kg on 28 September to 92.08 yuan per kg on 26 October. 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.

Looking ahead, we believe that domestic wool prices will drop further in the near future, in line with the wool price movements in Australia.

² <http://www.woolmarket.com.cn/>

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



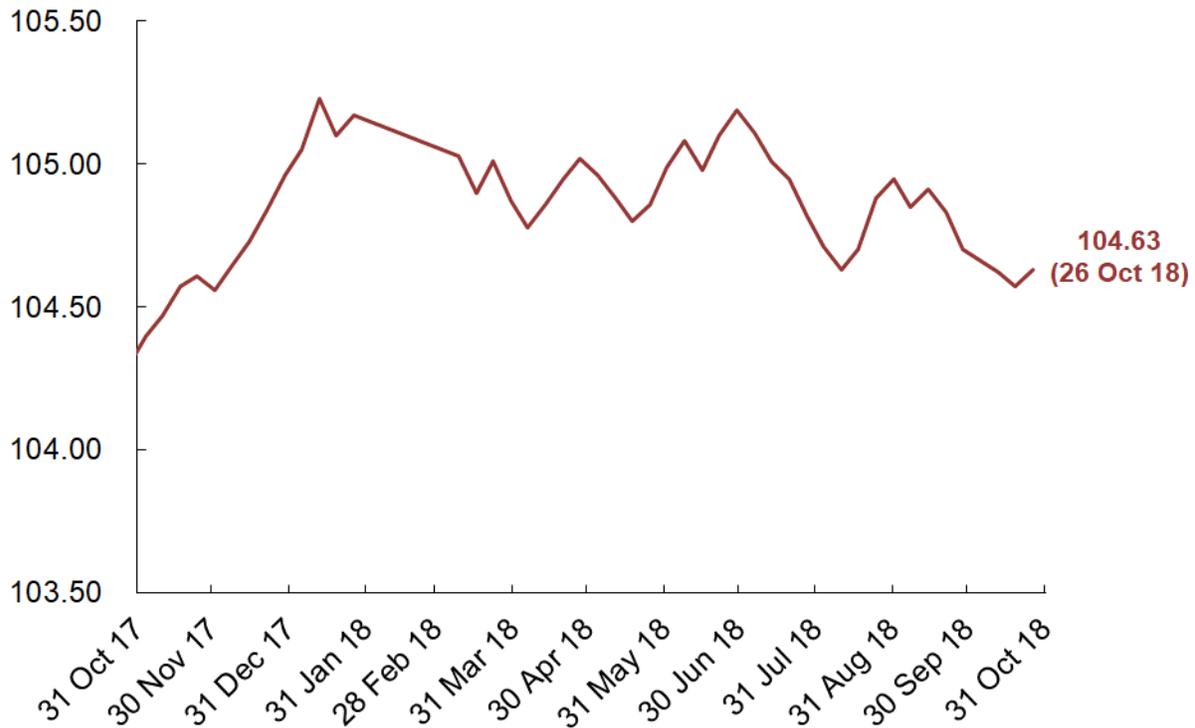
Source: The Nanjing Wool Market

3. Price index of silk drops further in October

The price index of silk dropped further in October. The price index went down from 104.70 on 28 September to 104.57 on 19 October, before showing a slight rebound to 104.63 on 26 October (see exhibit 3). A major reason behind the fall in the price index in October was that some factories reduced prices of their products in order to drive sales.

Looking ahead, we expect the price index of silk to trend slightly downward in the near term, given a sluggish downstream demand.

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



Source: Ministry of Commerce

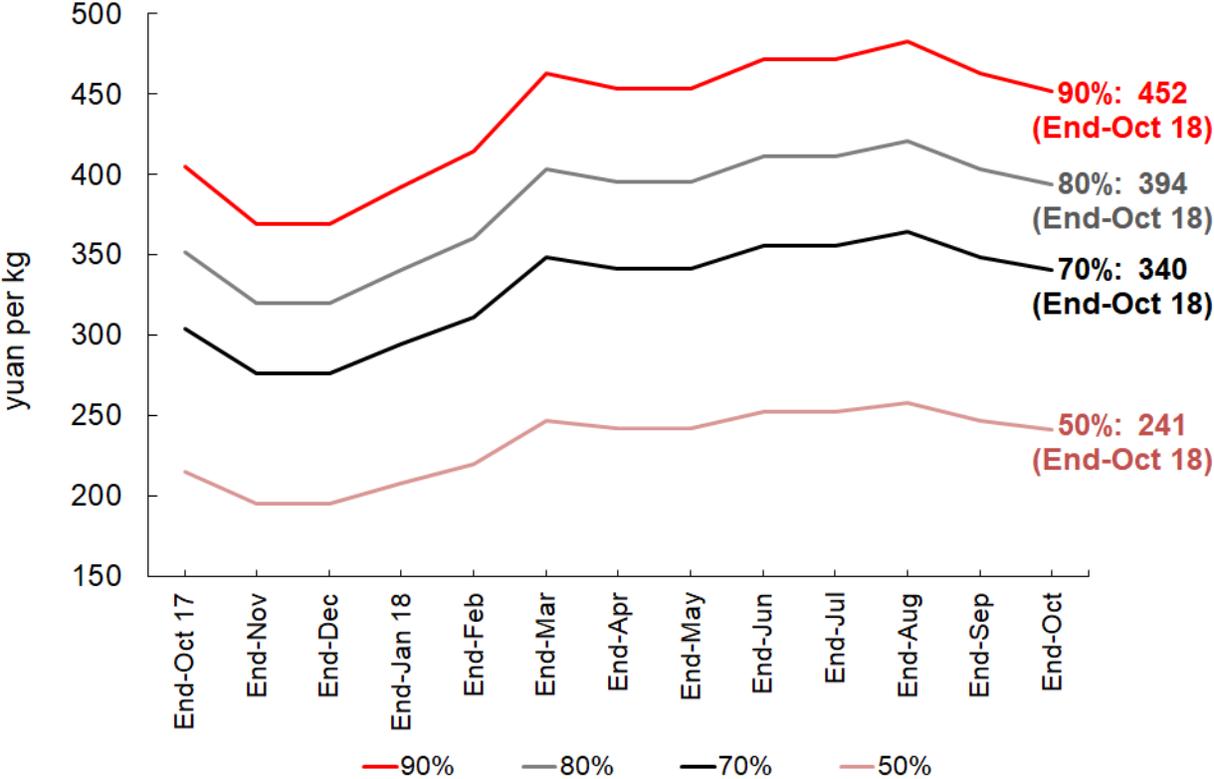
4. Prices of grey goose down drop in October

The prices of various types of grey goose down fell in October. For example, the price of 80% grey goose down declined from 403 yuan per kg at end-September to 393 yuan per kg at end-October (see exhibit 4).

On 24 September, China's retaliatory tariffs of 5% to 10% on US imports worth US\$60 billion kicked in. Feathers used for stuffing, down, down clothing and other down products from the US have been subject to extra tariffs of 10% since then. In our view, there would be limited impacts on China's markets for down and down products, as both US down and down products have a small market share in the domestic market.

Looking ahead, we do not expect the prices of grey goose down to drop much in the coming months, as the demand for down products is likely to increase in winter.

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



Source: cn-down.com

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