



# China Sourcing Update

October 14, 2016

## Prices of Natural Textile Materials

### 1. Cotton price indices surge in September and early October

The price indices<sup>1</sup> of cotton have rebounded sharply since early September. The CC Index 3128B, for example, picked up from the recent low of 14,058 on 7 September to 14,866 on 30 September, and surged further to 15,268 on 7 October (see *exhibit 1*).

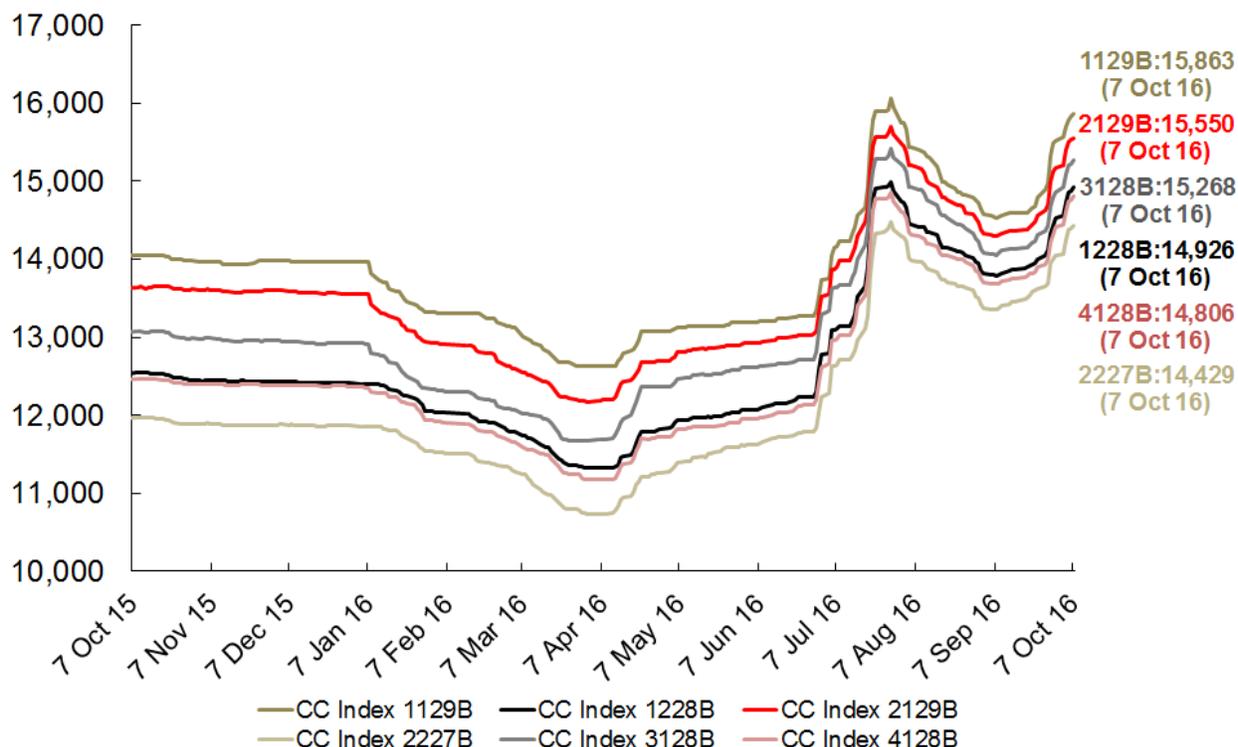
In our view, the rise in domestic cotton prices since early September was due to both the improved downstream demand and the tight supply of cotton. Textile manufacturers have increased their purchases of cotton since the beginning of the current high season, in particular after the G20 Leaders Summit ended on 5 September. Meanwhile, the domestic supply of cotton has remained tight due to the delay in the arrival of new cotton crop.

Looking ahead, the downstream demand for cotton from textile manufacturers is likely to stay stable during the high season of October. Meanwhile, the domestic supply of cotton is expected to increase as the new cotton crop will arrive the market later in the month. All in all, we expect the cotton prices to peak soon.

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<sup>1</sup> 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 2015 to October 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

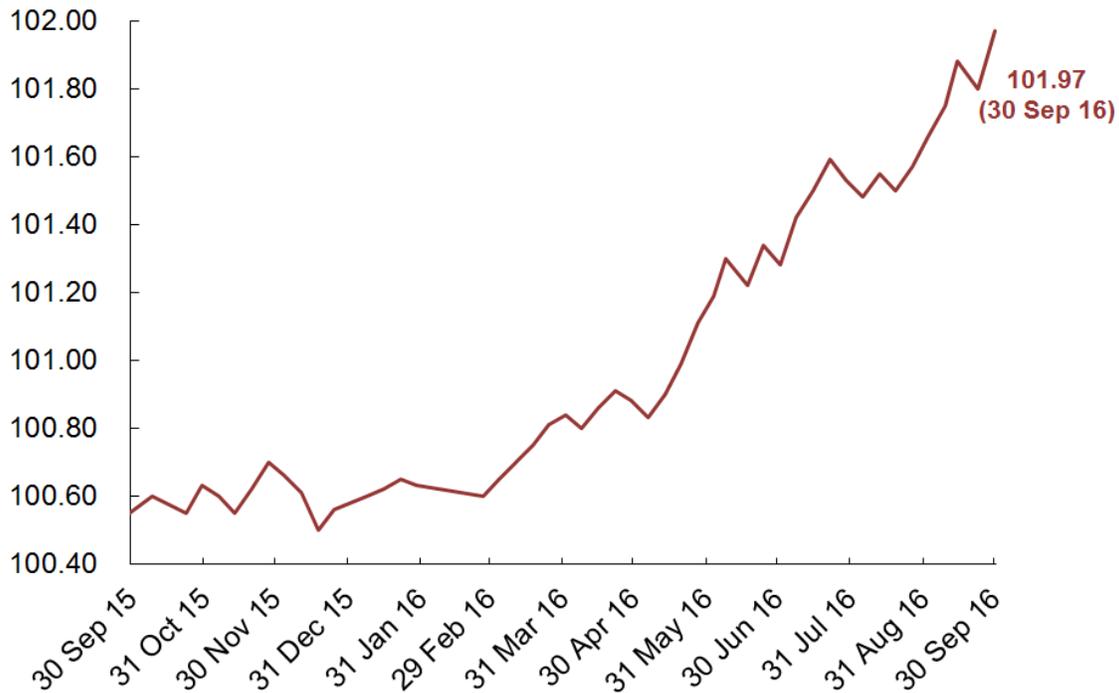
## 2. Price index of silk rises slightly in September

The price index of silk trended upward in September. The price index edged up from 101.57 on 26 August to 101.97 on 30 September (see exhibit 2).

According to media reports, the downstream demand for silk stayed weak in the month; however, the rising upstream costs pushed up silk prices.

Looking ahead, the upstream prices of raw silk are likely to stay high. However, the supply of silk is expected to increase as more autumn cocoon is set to come to the market in the near term, which will put downward pressure on silk prices. All in all, we expect the price index of silk to peak soon.

**Exhibit 2: Price index of silk, September 2015 to September 2016**



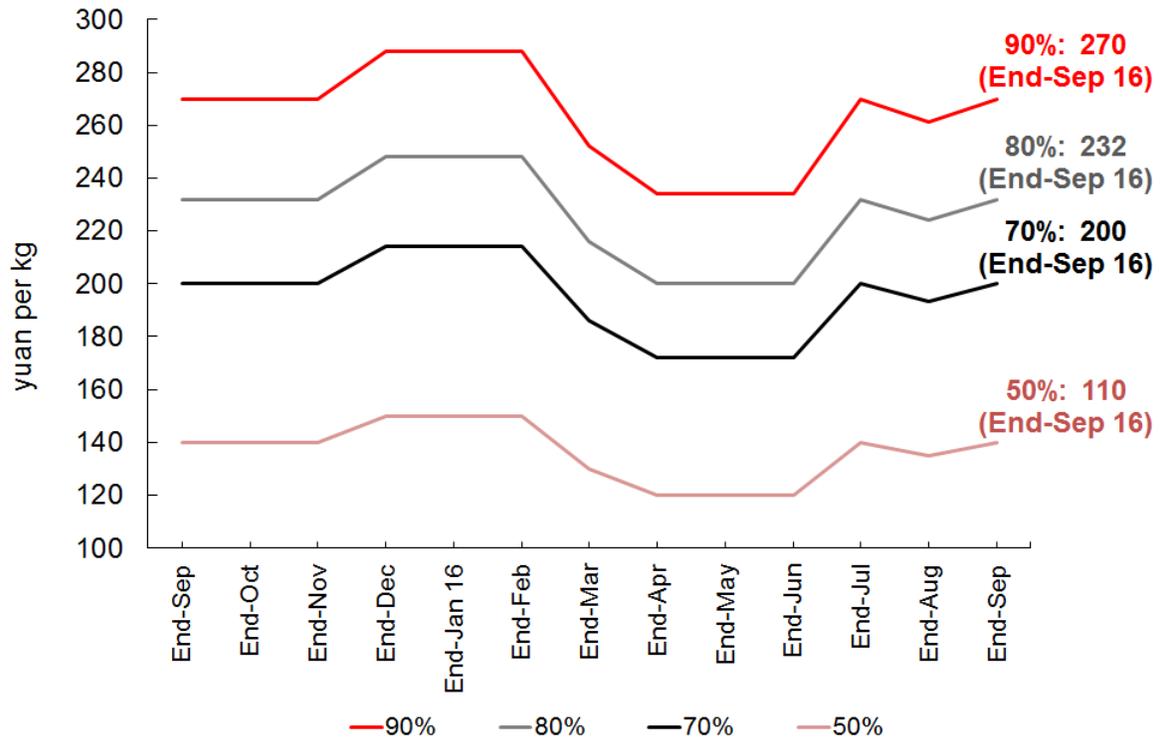
Source: Ministry of Commerce

### **3. Prices of grey goose down pick up in September**

The prices of various types of grey goose down rebounded in September. For example, the price of 80% grey goose went up from 224 yuan per kg at end-August to 232 yuan per kg at end-September (see exhibit 3). According to the local media, the downstream demand for grey goose down improved in the month.

Looking ahead, as the high season is approaching, the demand for down is likely to remain stable. Therefore, we expect that the prices of grey goose down will stay around the current high levels in the near term.

**Exhibit 3: Prices of grey goose down, September 2015 to September 2016**



Source: cn-down.com

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