



China Sourcing Update

May 24, 2019

Prices of Natural Textile Materials

1. Cotton price indices rise and then retreat in April

The price indices¹ of cotton rose and then fell in April. The CC Index 3128B, for example, climbed from 15,626 on 29 March to 15,706 on 23 April, before retreating to 15,643 on 30 April (see exhibit 1).

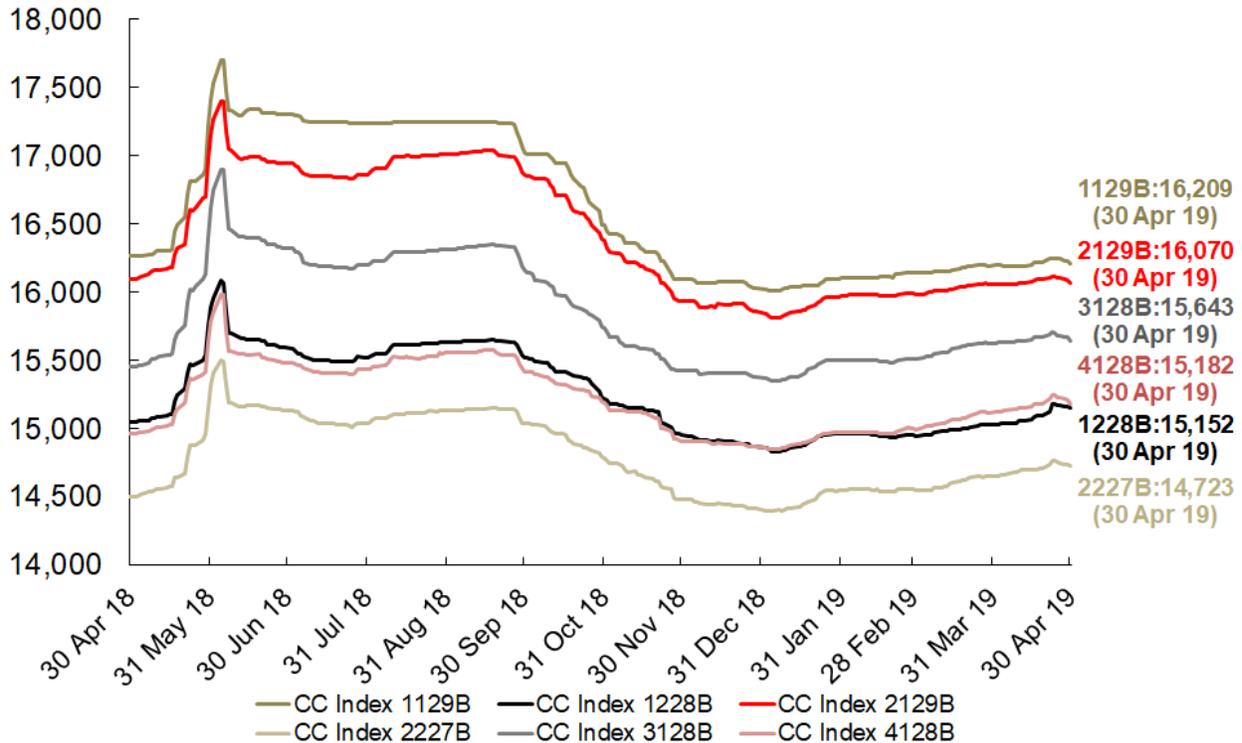
The fall in domestic cotton prices in late April was triggered mainly by the government announcement of the sale of cotton reserves. The Chinese government announced on 23 April that it would sell up to 1 million tonnes of cotton reserves from 5 May to 30 September², easing market concerns over a tight supply of cotton.

Looking ahead, we expect domestic cotton prices to remain weak in the near future for two reasons. First, the sale of cotton reserves would lead to an increase in domestic supply of cotton. Second, the heightened China-US trade tensions in recent weeks would adversely affect the prospects of China's apparel exports and thus the sentiments of downstream manufacturers. The US raised the additional tariff rate on US\$200 billion of Chinese imports to 25% on 10 May, and proposed on 13 May to impose 25% additional tariffs on another US\$300 billion of Chinese imports, including all major apparel items. If the tariffs on Chinese apparels do come into effect, the demand for cotton in China is likely to fall sharply, in our view.

¹ The indices, compiled by the China Cotton Association, track cotton prices quoted from over two hundred textile enterprises. <http://www.china-cotton.org/>

² http://www.lswz.gov.cn/html/zcfb/2019-04/23/content_244229.shtml

Exhibit 1: China's cotton price indices, April 2018 to April 2019



Source: China Cotton Association

2. Nanjing Wool Market Composite Index goes down in April

The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, dropped from 87.61 yuan per kg on 29 March to 86.16 yuan per kg on 26 April (see exhibit 2).

The fall in the wool prices in April was due largely to a decline in wool prices in Australia since late February: The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went down markedly from its recent peak of 97.20 yuan per kg on 22 February to 92.37 yuan per kg on 3 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.

³ <http://www.woolmarket.com.cn/>

Looking forward, we expect that domestic wool prices will remain weak in the near term, given the soft wool prices in Australia lately and a possible decrease in the demand for wool from Chinese mills amid the escalating China-US trade tensions.

Exhibit 2: Nanjing Wool Market Composite Index, April 2018 to April 2019



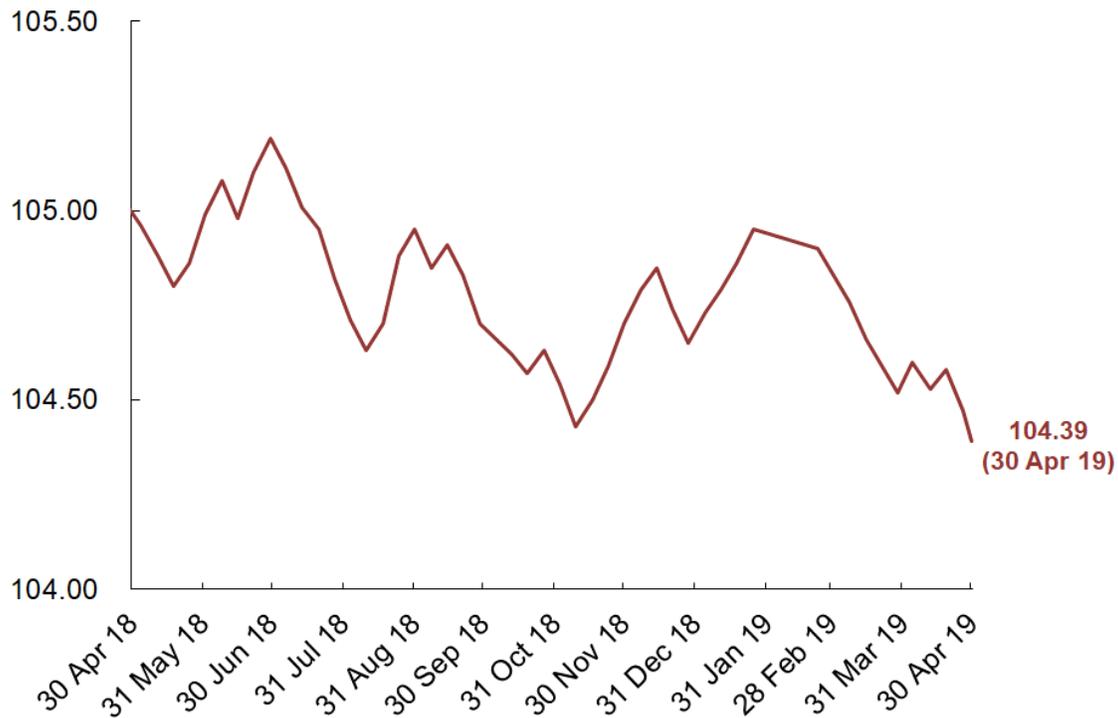
Source: The Nanjing Wool Market

3. Price index of silk drops in April

The price index of silk went down in April, falling from 104.52 on 29 March to 104.39 on 30 April, the lowest level since October 2017 (see exhibit 3). In our view, the main reason for the decline in silk prices was an abundant domestic supply of silk, as more spring cocoon arrived in the market.

Looking ahead, we expect the silk prices to stay soft in the near future, as the domestic supply of silk is likely to remain abundant.

Exhibit 3: Price index of silk, April 2018 to April 2019



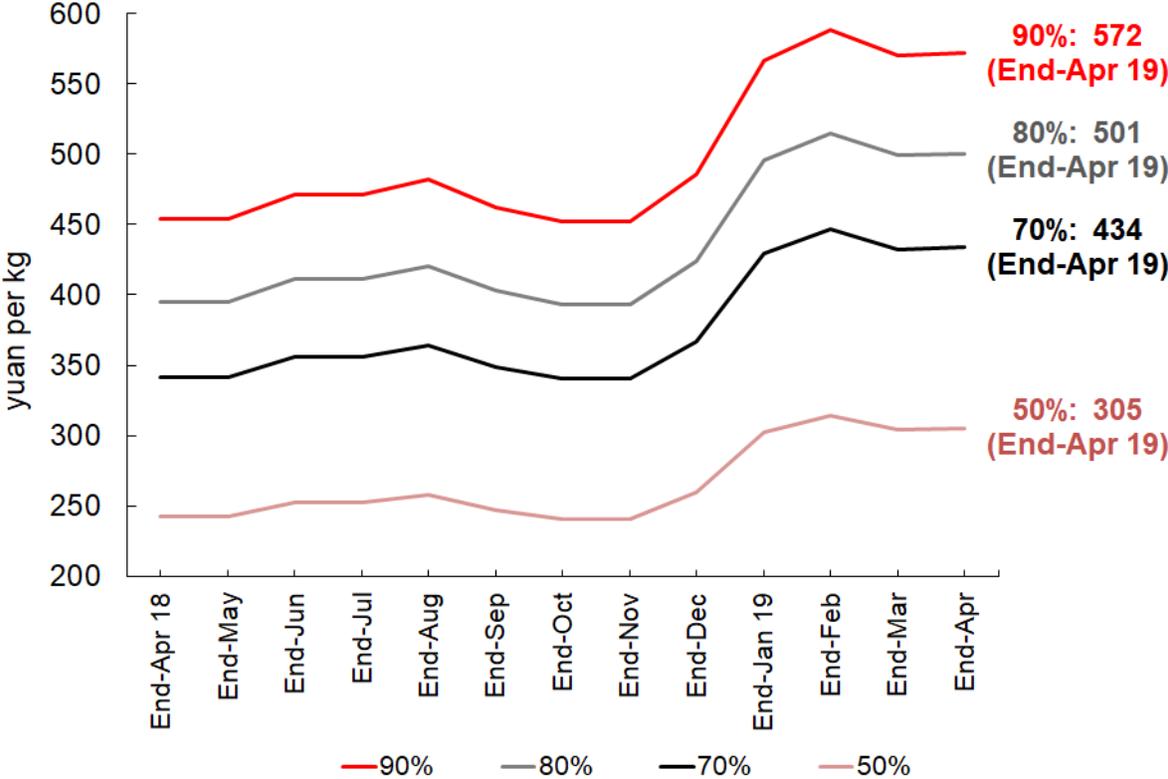
Source: Ministry of Commerce

4. Prices of grey goose down stay high in April

The prices of various types of grey goose down stayed high in April. For example, the price of 80% grey goose down came in at 501 yuan per kg at end-April, slightly higher than the 499 yuan per kg at end-March (see exhibit 4).

Looking ahead, we expect that the prices of grey goose down will fall in the coming months, as the low season for down products is approaching. It is noteworthy that down products are also on the proposed product list for 25% additional tariffs released by the US on 13 May. If the extra tariffs are implemented, the export orders for Chinese down products and the demand for grey goose down in China are likely to drop as a result, in our view.

Exhibit 4: Prices of grey goose down, April 2018 to April 2019



Source: cn-down.com

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