



# China Sourcing Update

September 8, 2017

## Prices of Natural Textile Materials

### 1. Cotton price indices rise slightly in August

The price indices<sup>1</sup> of cotton edged down in early August and then went up afterwards. The CC Index 3128B, for example, rose to 15,916 on 31 August after falling from 15,888 on 31 July to 15,858 on 9 August (see *exhibit 1*).

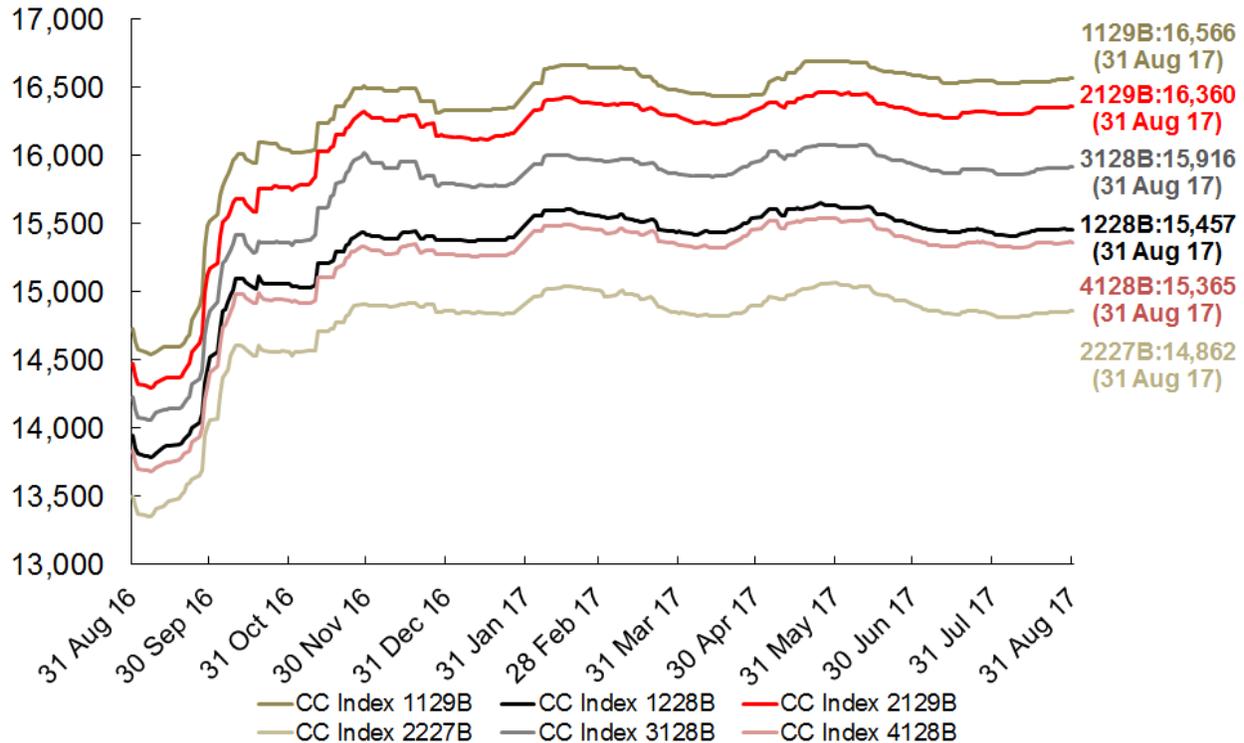
In our view, the slight drop in cotton prices in early August was caused by market rumours about the possible extension of the sales of state cotton reserves by a month to 29 September. After the news became official on 9 August<sup>2</sup>, however, cotton prices have trended upward due largely to an increase in the restocking demand from downstream textile manufacturers.

Going forward, the global supply of cotton is expected to be abundant in the current autumn harvest season. Meanwhile, the domestic downstream demand for cotton is likely to stay strong during the current high season. All in all, we expect domestic cotton prices to stay high in the near future.

<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/>

<sup>2</sup> <http://www.cottonchina.org/news/pubzmb.php?articleid=214381&newstime=2017-08-09>

**Exhibit 1: China's cotton price indices, August 2016 to August 2017**



\* 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 goes up in August

The Nanjing Wool Market Composite Index<sup>3</sup>, one of the major wool price indices in China, rose from 78.76 yuan per kg on 28 July to 81.73 yuan per kg on 25 August, the highest level in more than five years (see exhibit 2).

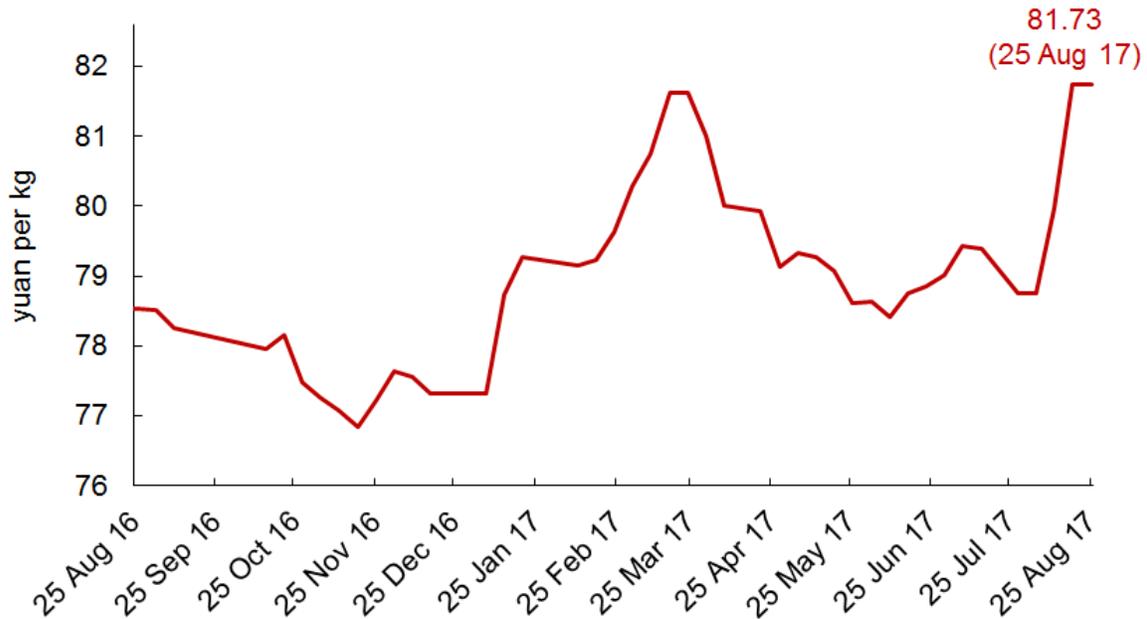
The main reason for the increase in the wool prices in China in August was a surge in the wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) soared from 79.47 yuan per kg on 14 July (i.e. the last trading day of July) to 82.67 yuan per kg on 24 August, boosted by a strong demand from Chinese mills. As China imports a large amount of wool from Australia, the domestic

<sup>3</sup> <http://www.woolmarket.com.cn/>

wool prices are significantly affected by the wool price movements in the Australian market.

Looking ahead, we expect domestic cotton prices to drop in the near future, as the latest fall in the demand from Chinese mills and the strengthening of the Chinese yuan against the Australian dollar in recent weeks are likely to suppress wool prices denominated in the yuan.

**Exhibit 2: Nanjing Wool Market Composite Index,  
August 2016 to August 2017**



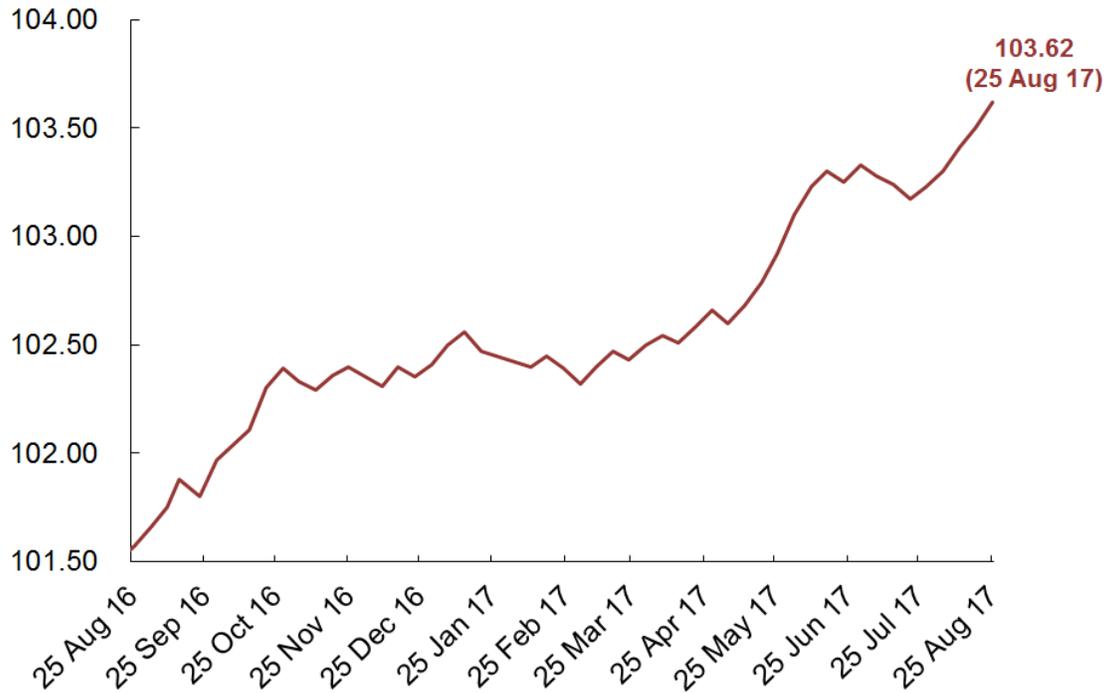
Source: The Nanjing Wool Market

### 3. Price index of silk advances in August

The price index of silk went up in August, rising from 103.23 on 28 July to 103.62 on 25 August, the highest level in almost nine years (see exhibit 3). According to the local media, the high prices of autumn cocoon and raw silk pushed up the price index in the month.

Looking ahead, the upstream prices of silk are expected to stay high and the downstream demand for silk is likely to improve in the coming months. Thus, we expect the price index of silk to go up further in the near future.

**Exhibit 3: Price index of silk, August 2016 to August 2017**



Source: Ministry of Commerce

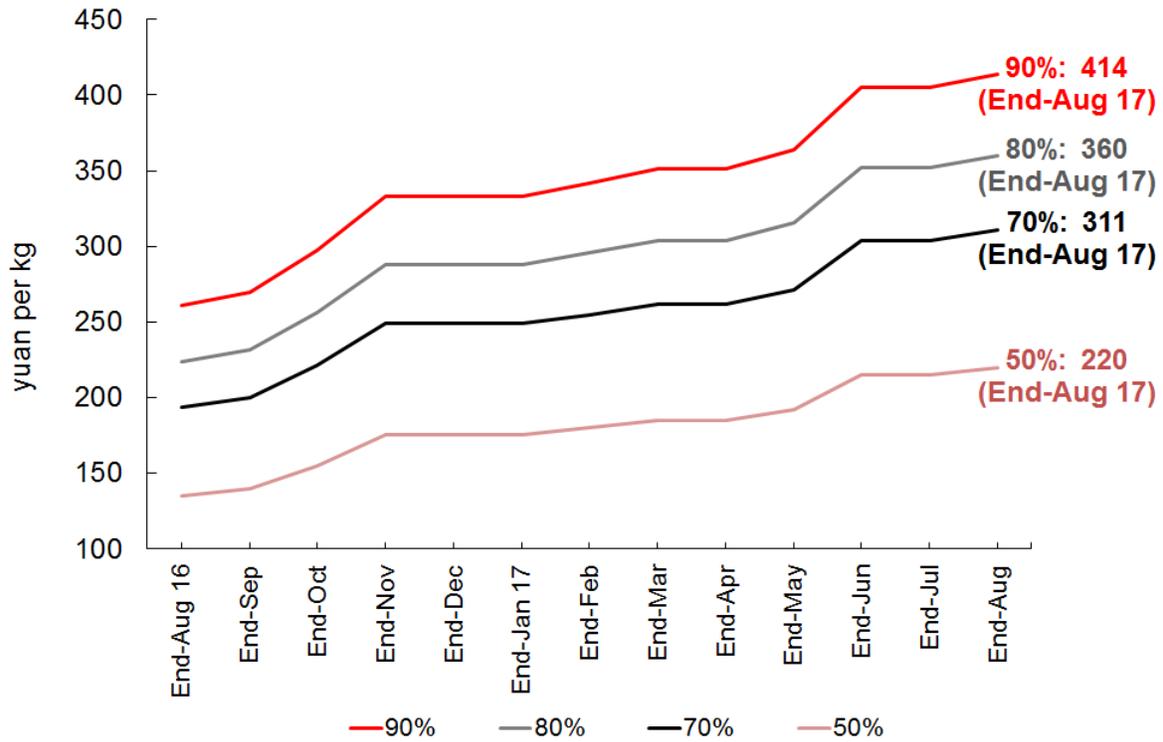
#### 4. Prices of grey goose down go up in August

The prices of various types of grey goose down increased in August. For example, the price of 80% grey goose down rose from 352 yuan per kg at end-July to 360 yuan per kg at end-August, the highest level since January 2015 (see exhibit 4).

In our view, the major factors behind the high prices of grey goose down in the past few months were the strong export orders for down products, and a tight supply of grey goose down due to a resurgence of avian flu around the world and the environmental examinations conducted by the Chinese government on domestic poultry farms.

Going forward, the factors mentioned above are expected to persist in the foreseeable future. Therefore, we expect that the prices of grey goose down will stay high.

**Exhibit 4: Prices of grey goose down, August 2016 to August 2017**



Source: cn-down.com

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