



China Sourcing Update

September 11, 2018

Prices of Natural Textile Materials

1. Cotton price indices rise in August

The price indices¹ of cotton trended upward throughout August. The CC Index 3128B, for example, went up from 16,199 on 31 July to 16,316 on 31 August (see *exhibit 1*).

The major reason for the increase in cotton prices was a stronger demand from downstream manufacturers during the current high season.

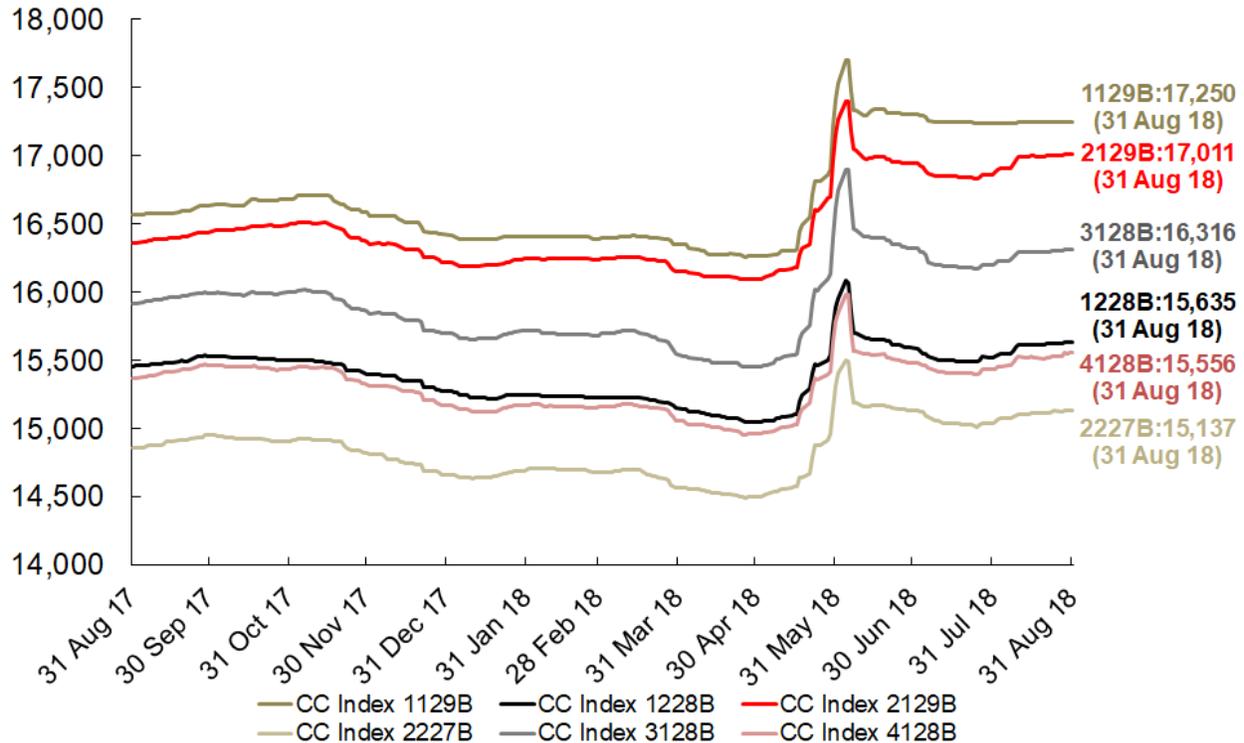
China's imposition of 25% additional tariffs on US cotton, which kicked in on 6 July, has had limited impacts on the Chinese textile industry thus far, because most of the imported US cotton is used for processing trade or imported by factories in bonded supervision areas, and is thus exempt from import duties.

The public consultations on another round of 25% additional tariffs proposed by the US on US\$200 billion of Chinese imports ended on 6 September. It is widely expected that the US government will issue a final determination and go ahead with the tariffs shortly. US President Donald Trump also warned to levy extra tariffs on all Chinese imports if China retaliates. If Trump follows through his threat, it is highly likely that many more (or all) apparel products will be hit with extra tariffs. The demand for cotton in China is likely to fall markedly as a result, in our view.

All in all, we expect that domestic cotton prices will be subject to fluctuations in the coming months amid the developments in 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, August 2017 to August 2018



Source: China Cotton Association

2. Nanjing Wool Market Composite Index goes up in August

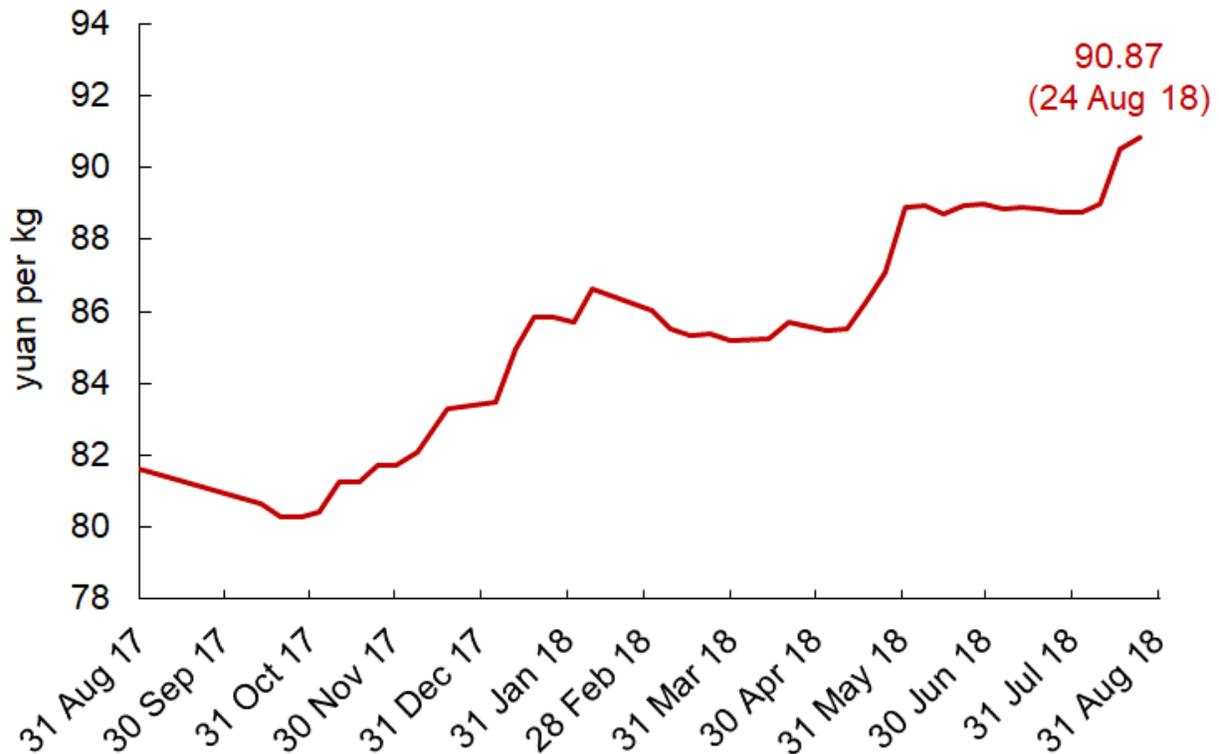
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, rose from 88.78 yuan per kg on 27 July to 90.87 yuan per kg on 24 August (see exhibit 2).

The rise in wool prices in China in August was due largely to a surge in wool prices in Australia, which hit record-high levels in the month. Triggered by a tight supply and an improved demand in particular from European mills, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) soared from 97.90 yuan per kg on 13 July (i.e. the last trading day of July) to 104.12 yuan per kg on 23 August. 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/>

Looking ahead, we believe that domestic wool prices will fluctuate around the current high levels in the near term, as wool prices in Australia are likely to stay high.

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



Source: The Nanjing Wool Market

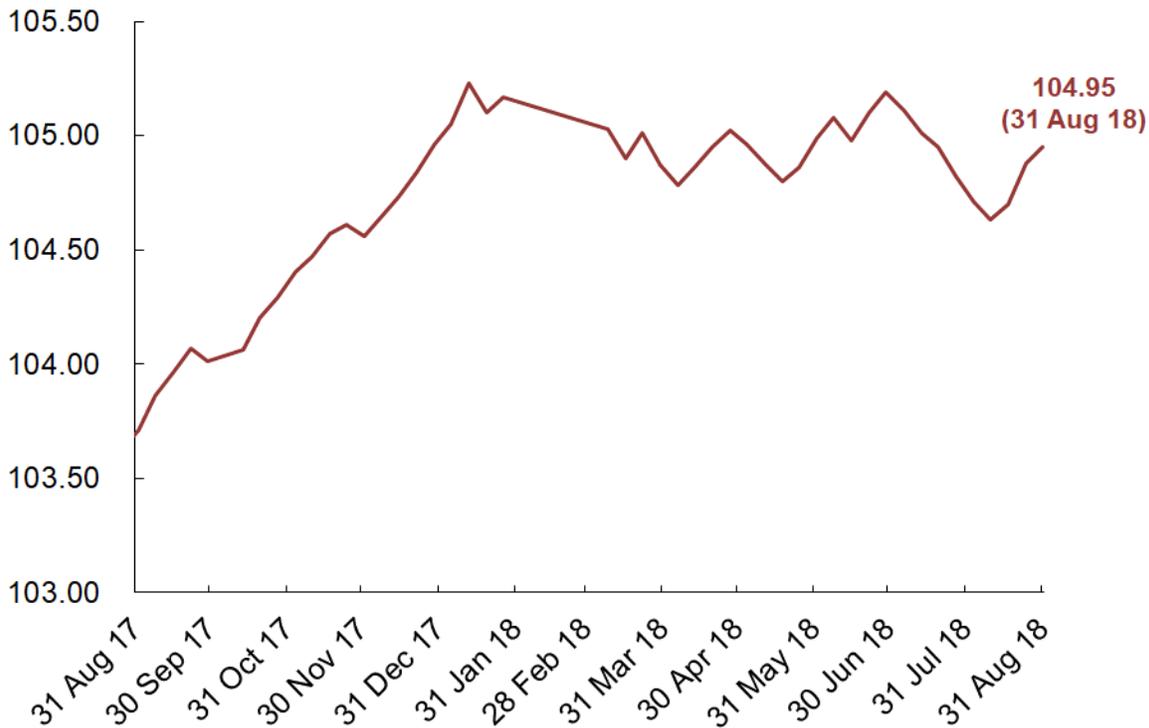
3. Price index of silk falls and then rises in August

After dropping from 104.82 on 27 July to 104.63 on 10 August, the price index of silk went up to 104.95 on 31 August (see exhibit 3).

The decline in the price index in early August was caused by a weak downstream demand for silk fabrics during the current low season for the sales of silk clothing. Afterwards, the higher prices of autumn cocoon pushed up the price index.

Looking ahead, we expect the price index of silk to stay high in the near term, as the prices of autumn cocoon is likely to remain high.

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



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 climbed from 411 yuan per kg at end-July to 421 yuan per kg at end-August (see exhibit 4).

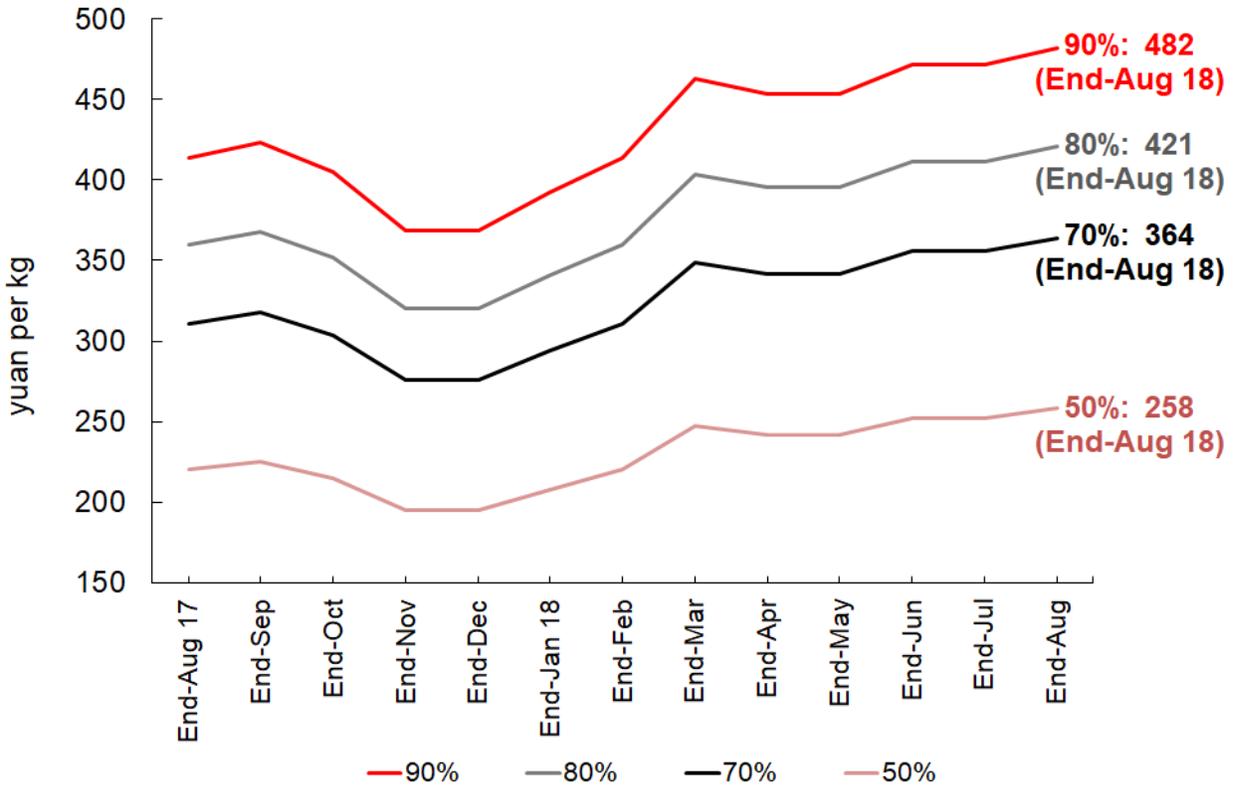
There are two main reasons for the rise in the prices of grey goose down in the month. First, export orders for down products remained strong in the month. Second, some feather and down factories were shut down by local governments to combat pollution, which led to a reduced supply of grey goose down.

On 3 August, the Chinese government announced that it will impose additional tariffs of 5% to 25% on US imports worth US\$60 billion if the US goes ahead with its threat of additional tariffs on US\$200 billion of Chinese goods. In particular, feathers used for stuffing, down, down clothing and other down products from the US will be subject to extra tariffs of 20% to 25%. In our view, there will 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 believe that the prices of grey goose down will stay around the current high levels in the coming months, as the positive factors for down prices mentioned above are expected to persist.

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



Source: cn-down.com

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The **Fung Group** is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs 42,150 people across 40 economies worldwide, generating total revenue of US\$22.66 billion in 2017. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Research Manager
williamkong@fung1937.com
(852) 2300 2404

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>



© Copyright 2018 Fung Business Intelligence. All rights reserved.

Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.