

China Sourcing Update

September 10, 2019

Prices of Natural Textile Materials

1. Cotton price indices plunge in August

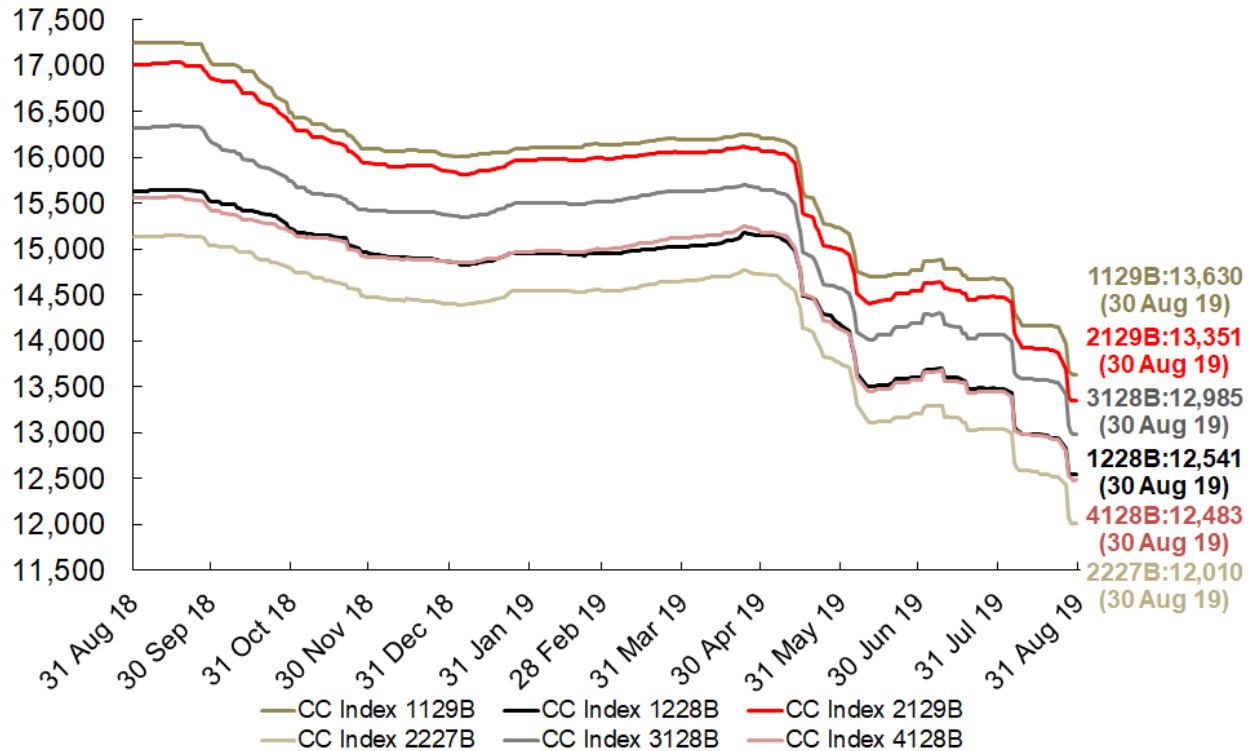
The price indices¹ of cotton slumped in August. The CC Index 3128B, for example, went down from 14,067 on 31 July to 12,985 on 30 August (see exhibit 1).

The fall in domestic cotton prices in August was due largely to the escalating China-US trade war. US President Donald Trump announced on 1 August to impose 10% additional tariffs on US\$300 billion of Chinese imports, including all major apparel items, effective 1 September. Although the US announced on 13 August that the tariffs on some of those products would be delayed to 15 December, most apparel items would still be subject to the additional tariffs starting 1 September. Then on 23 August, Trump said that the US would further increase the additional tariff rate on those US\$300 billion of Chinese imports by 5%; and the 25% tariffs in-place on US\$250 billion of Chinese imports would also increase to 30% on 15 December.

Going forward, the export orders for Chinese apparel products are likely to be significantly impacted by the hikes in US tariffs, reducing the demand for cotton in China. Thus, we expect domestic cotton prices to stay low in the near future.

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 2018 to August 2019



Source: China Cotton Association

2. Nanjing Wool Market Composite Index plummets in August

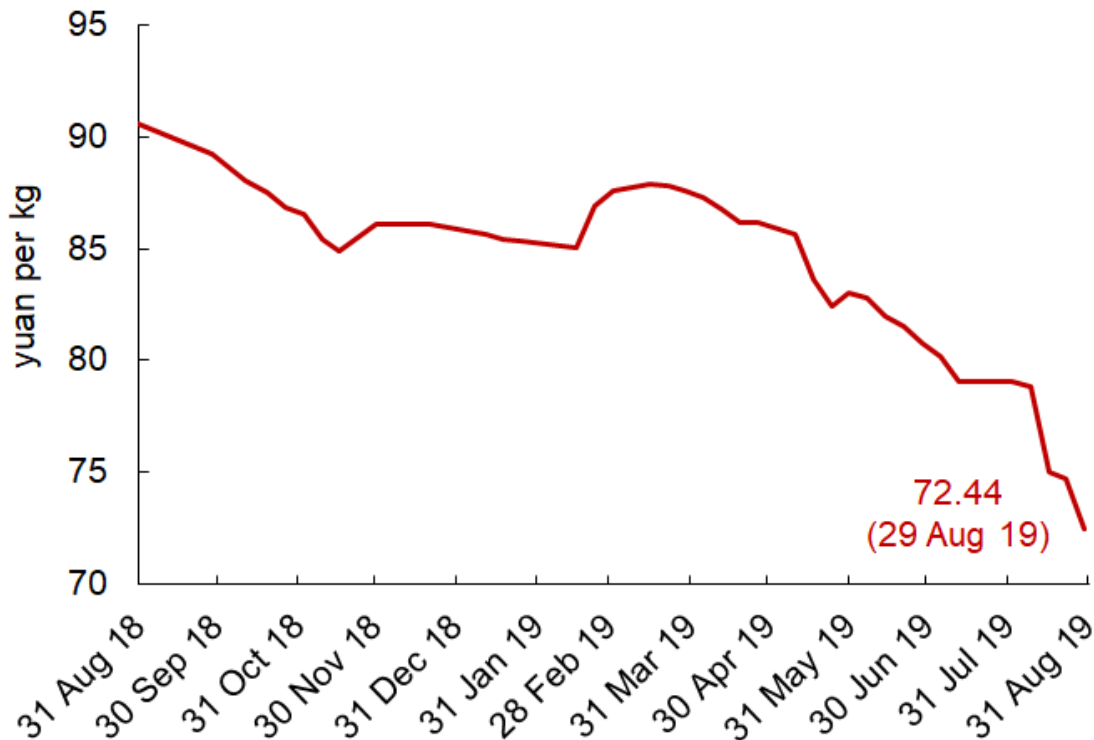
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, fell from 79.02 yuan per kg on 12 July to 72.44 yuan per kg on 29 August (see *exhibit 2*).

The plunge in domestic wool prices in August was due largely to the free-fall in wool prices in Australia, a major exporter of wool to China: The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) dropped by 21.1% from 83.94 yuan per kg on 12 July to 66.24 on 30 August. The slump in Australian wool prices was, in turn, attributed to the escalating China-US trade war, uncertainties arising from the Brexit and the general slowdown of the global economy.

Looking forward, we expect that domestic wool prices will fall further in the near future, given the weak wool prices in Australia.

² <http://www.woolmarket.com.cn/>

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



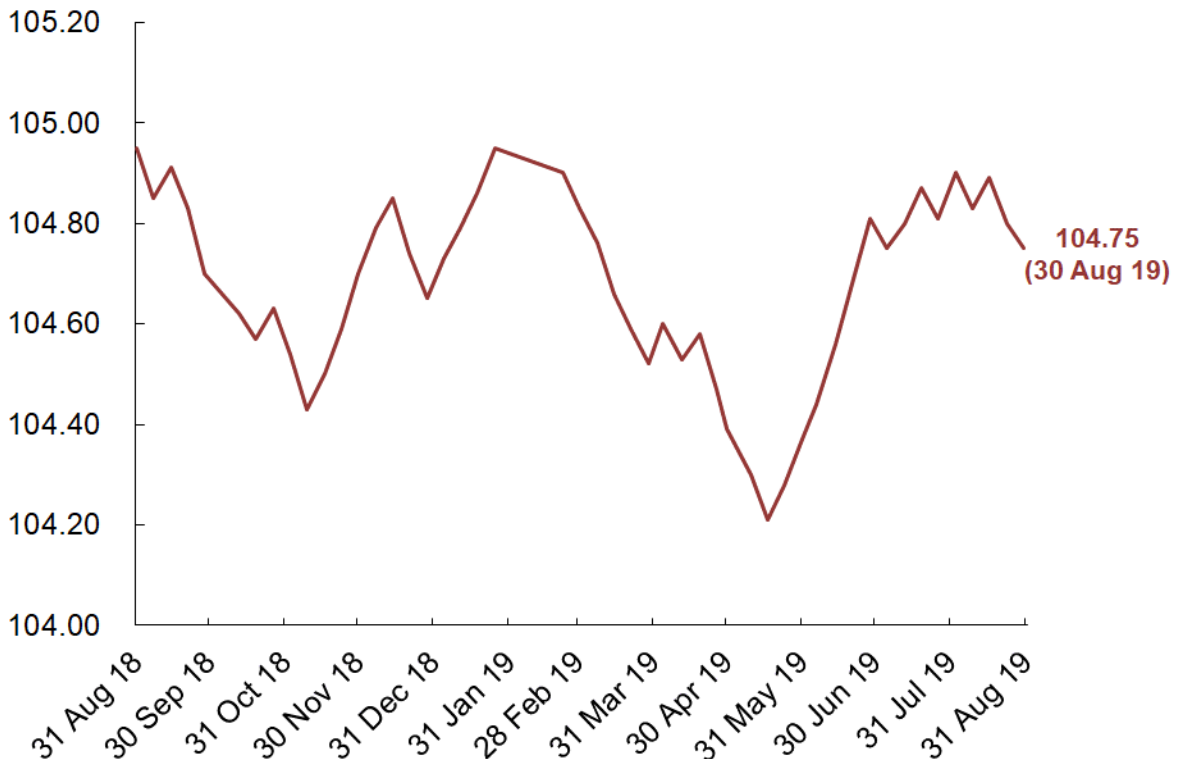
Source: *The Nanjing Wool Market*

3. Price index of silk stays high in August

The price index of silk fluctuated within a narrow range of 104.75 to 104.90 in August, closing at 104.75 on 30 August, slightly below the index reading of 104.81 as at end-July (see exhibit 3).

Going forward, we expect the price index of silk to stay high in the near future, as the supply of cocoon is likely to remain tight.

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



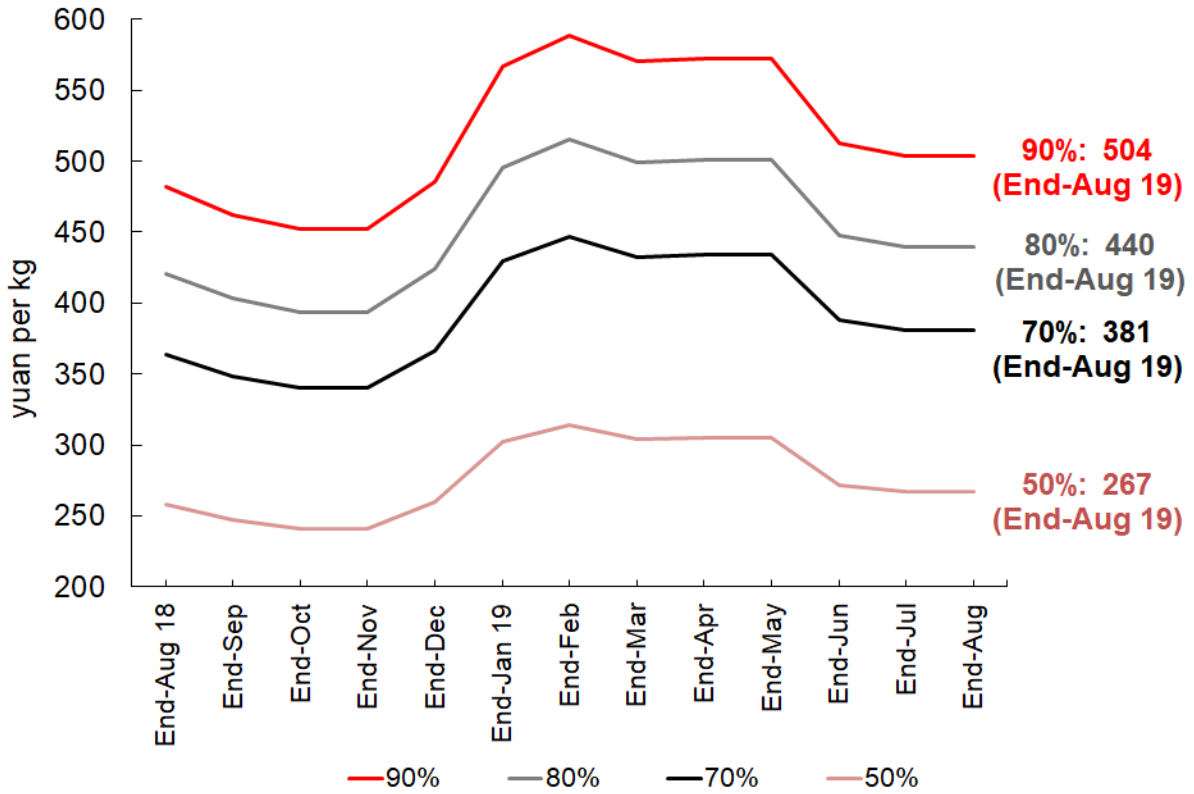
Source: Ministry of Commerce

4. Prices of grey goose down stay flat in August

The prices of various types of grey goose down stayed stable in August. For example, the price of 80% grey goose down came in at 440 yuan per kg at end-August, the same as at end-July (see exhibit 4).

Looking ahead, we expect the prices of grey goose down to soften in the coming months due to the escalating China-US trade war. Most US-bound down products have been subject to 25% additional tariffs since 1 September, and the tariff rate will further increase to 30% on 1 October. In our view, the export orders for Chinese down products are likely to be significantly impacted, reducing the demand for grey goose down in China.

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



Source: cn-down.com

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