



# China Sourcing Update

January 6, 2017

## Prices of Natural Textile Materials

### 1. Cotton price indices drop in December

The price indices<sup>1</sup> of cotton dropped in December. The CC Index 3128B, for example, went down from a two-year high of 16,019 on 29 November to 15,779 on 28 December, before rebounding a bit to close at 15,798 on 30 December (see *exhibit 1*).

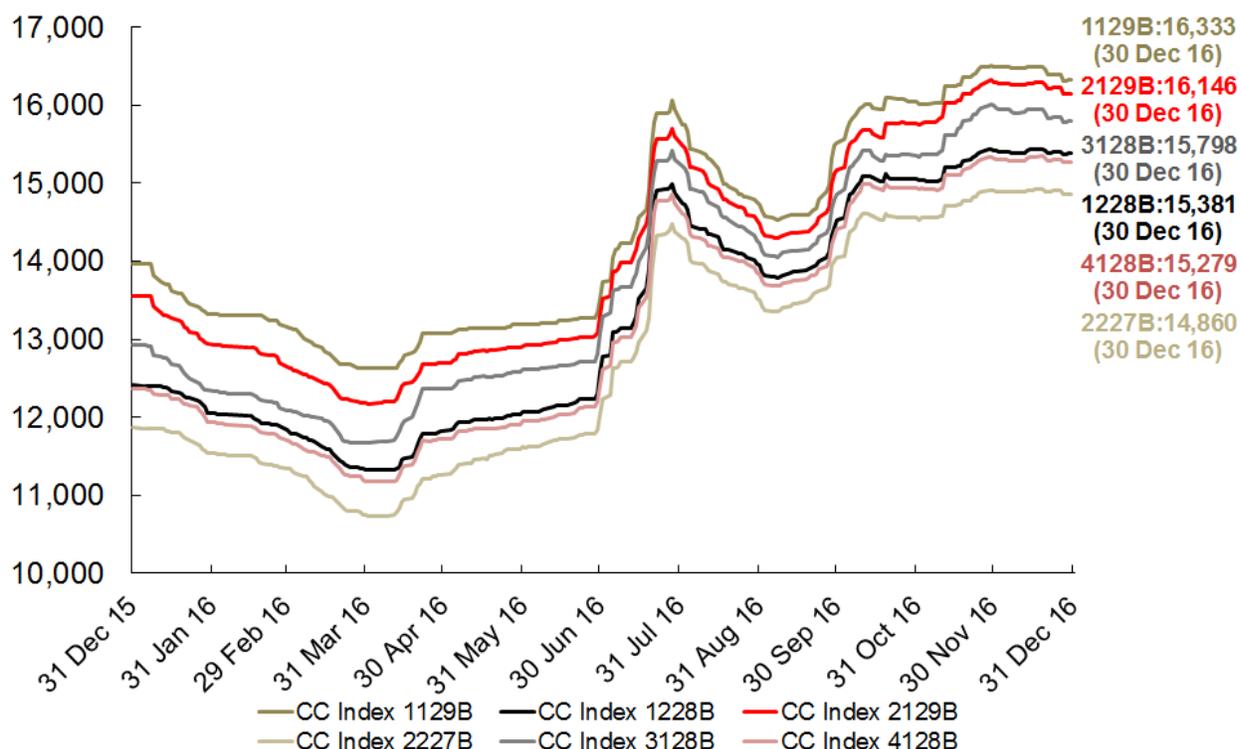
The main reasons for the fall in cotton prices in the month include a drop in the prices of cotton futures in China; an increased domestic supply of cotton as more cotton from Xinjiang, the major cotton producing region in China, was transported to other regions; and market expectations of a rise in the future supply of cotton after the Chinese government announced on 22 November that it would sell its cotton reserves again from 6 March to end-August 2017.<sup>2</sup>

Looking ahead, the domestic supply of cotton is expected to increase further in the near term. The upcoming sale of state cotton reserves is likely to exaggerate the downward pressures on cotton prices. Moreover, most textile manufacturers are expected to suspend their production from late January to mid-February (i.e. from a few days before to a couple of weeks after the Chinese New Year), and thus their purchase of cotton will drop significantly. Therefore, we predict that cotton prices will fall further in the coming months.

<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.sdpc.gov.cn/gzdt/201611/t20161124\\_827591.html](http://www.sdpc.gov.cn/gzdt/201611/t20161124_827591.html)

**Exhibit 1: China's cotton price indices, December 2015 to December 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. Nanjing Wool Market Composite Index rebounds slightly

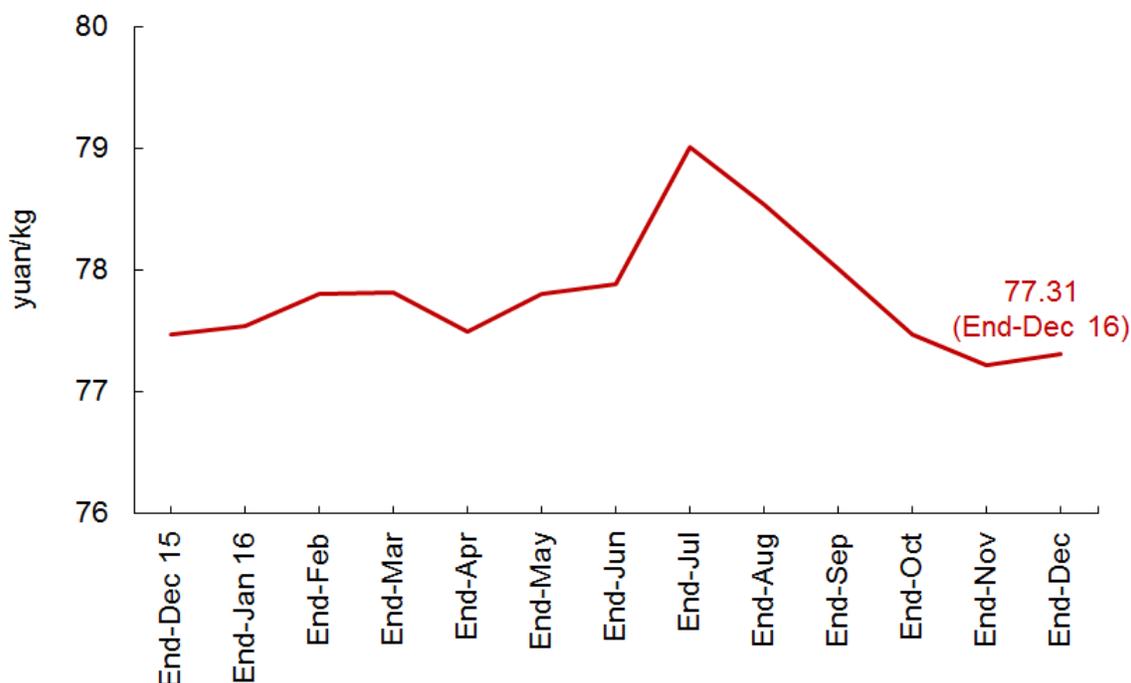
The Nanjing Wool Market Composite Index<sup>3</sup>, one of the major wool price indices in China, picked up slightly from 77.22 yuan per kg at end-November to 77.31 yuan per kg at end-December (see exhibit 2).

We believe that the rise in the wool price index in the month was due largely to an increase in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) rose from 69.56 yuan per kg on 25 November to 69.72 yuan per kg on 16 December (i.e. the last trading day of December). 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.

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

Looking ahead, the domestic demand for wool is expected to remain stable in the near term. Meanwhile, the supply of wool in Australia is forecast to rise in 2016/17, according to the Australian Wool Production Forecasting Committee.<sup>4</sup> All in all, we expect the wool prices in China to stay low in the foreseeable future.

**Exhibit 2: Nanjing Wool Market Composite Index, December 2015 to December 2016**



Source: The Nanjing Wool Market

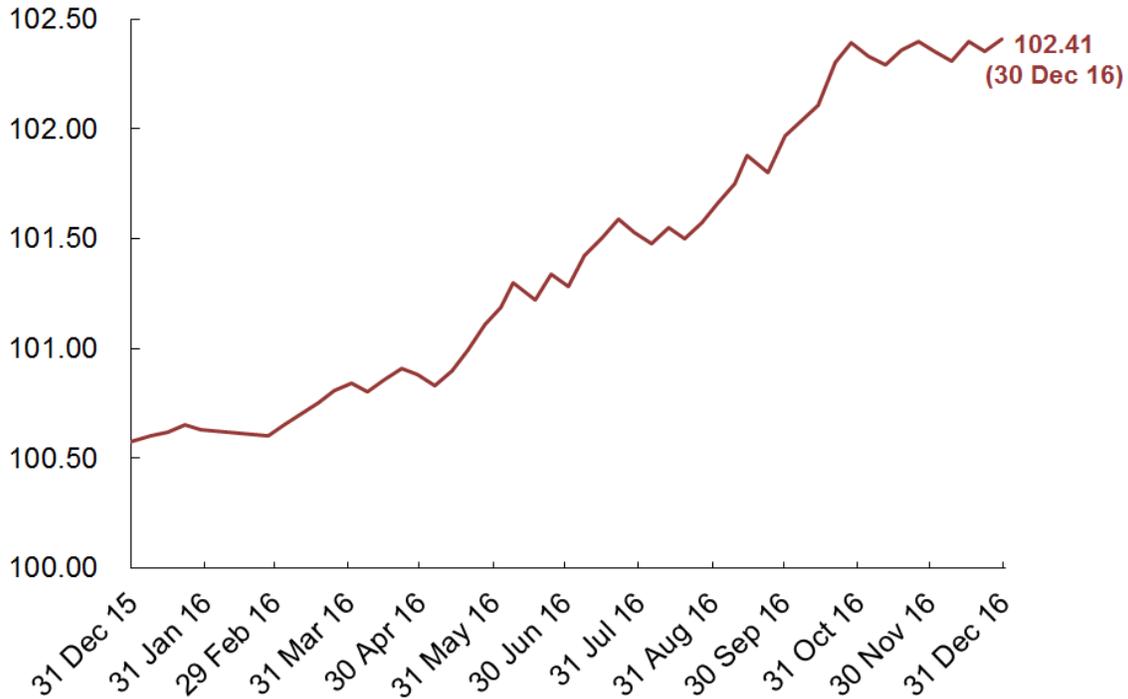
### 3. Price index of silk stays high

The price index of silk fluctuated around 102.4 in December, closing at a four-year high of 102.41 on 30 December, slightly higher than the index reading of 102.40 registered on 25 November (see exhibit 3). The increase in silk prices was mainly due to rising upstream costs, in our view.

Going forward, the upstream prices of raw silk are likely to stay high in the near term. Meanwhile, the downstream demand for silk is expected to remain soft amid a weak demand for silk products. All in all, we expect the price index of silk to fluctuate around the current level in the near future.

<sup>4</sup> <https://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc-forecast-report-2016-december.pdf>

**Exhibit 3: Price index of silk, December 2015 to December 2016**



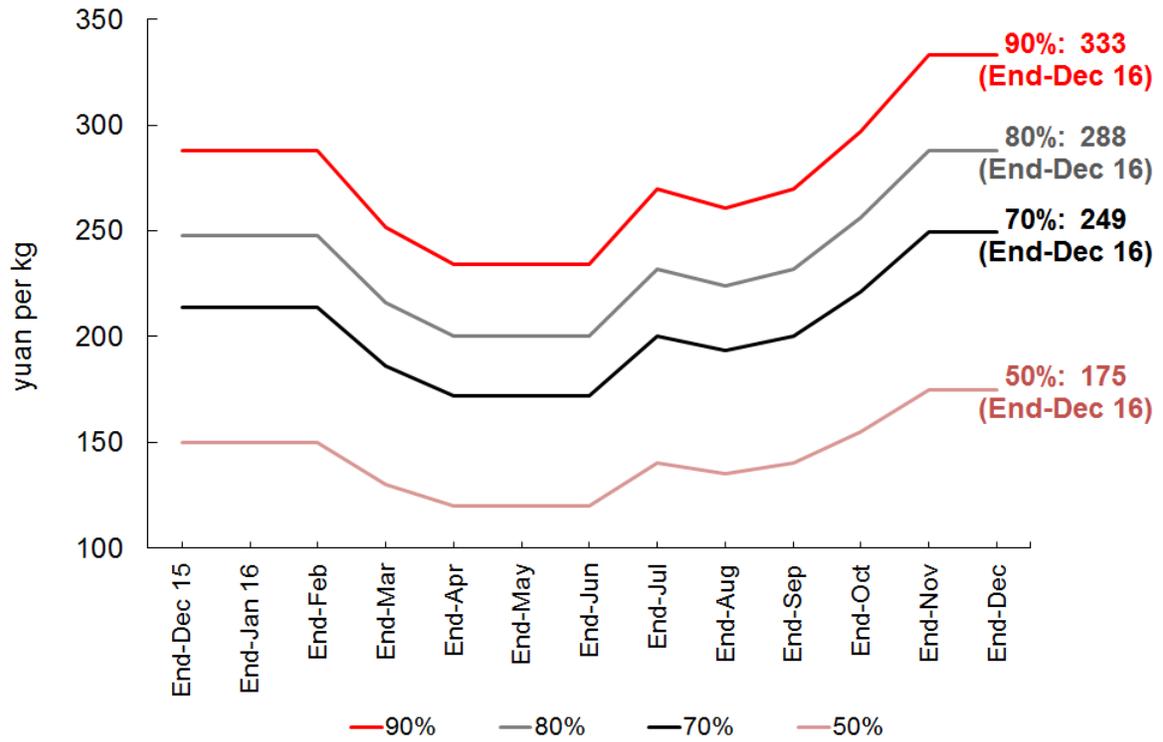
Source: Ministry of Commerce

#### **4. Prices of grey goose down stay stable**

The prices of various types of grey goose down stayed flat in December. For example, the price of 80% grey goose came in at 288 yuan per kg at end-December, the same as at end-November (see exhibit 4). The prices of grey goose down remained high despite a warmer-than-usual winter, according to the local media.

Looking ahead, we expect that the prices of grey goose down will stay high in the near future. The demand for goose down products is likely to improve as the weather in many parts of China will turn colder starting from early January, according to the latest weather forecasts.

**Exhibit 4: Prices of grey goose down, December 2015 to December 2016**



Source: cn-down.com

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