



# China Sourcing Update

February 10, 2020

## Prices of Natural Textile Materials

### 1. Cotton price indices continue to rise in December

The price indices<sup>1</sup> of cotton rose in December, continuing their upward trend of the previous two months. This, though, was before China informed the World Health Organization on 31 December of a cluster of pneumonia cases of unknown cause detected in the city of Wuhan, Hubei Province. The CC Index 3128B, for example, rose from 13,092 on 29 November to 13,369 on 31 December 2019 (*see exhibit 1*). In the full year of 2019, cotton prices registered a decline, with the CC Index 3128B decreasing by 13.1%.

December's rise in domestic cotton prices was attributed to the stocking up of state cotton reserves<sup>2</sup> as well as the positive news that China and the US had reached agreement on a phase one trade deal.

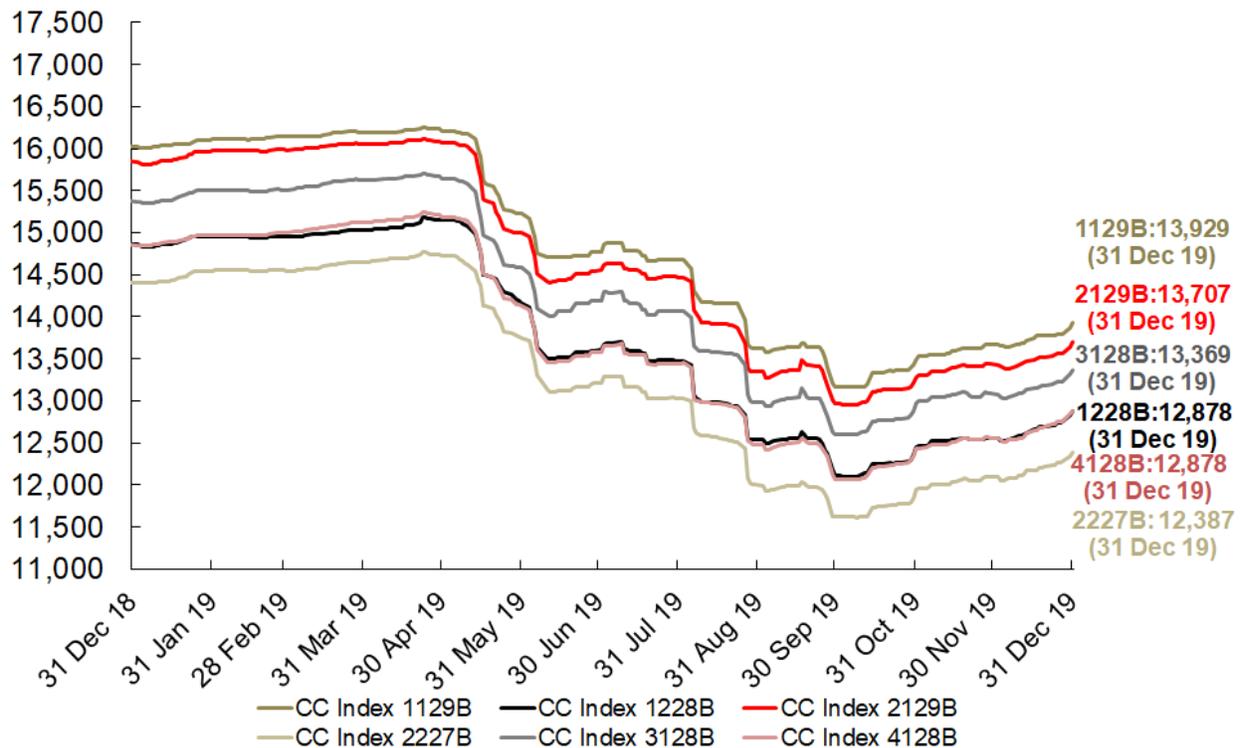
With the novel coronavirus, we expect a temporary but sharp decline in domestic cotton prices as many textile and garment factories remain closed after the Chinese New Year break in response to proactive government measures to contain the virus. This, in turn, is reducing downstream demand for cotton. More broadly, the outbreak is expected to have an immediate, adverse effect on the global economy and international trade, including

<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> On 14 November, the Chinese central government announced the decision to stock up approximately 500,000 tonnes of cotton for the state cotton reserves between 2 December 2019 and 31 March 2020. See official announcement (Chinese only): [http://www.lswz.gov.cn/html/zcfb/2019-11/14/content\\_247673.shtml](http://www.lswz.gov.cn/html/zcfb/2019-11/14/content_247673.shtml)

domestic demand for apparel products, which will prevent rebound of cotton prices in the near term.

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



Source: China Cotton Association

## 2. Nanjing Wool Market Composite Index fluctuates in December

The Nanjing Wool Market Composite Index<sup>3</sup>, one of the major wool price indices in China, dropped in early December and subsequently rebounded before closing at 73.99 yuan per kg on 20 December, slightly higher than the reading of 74.33 yuan per kg on 22 November (see exhibit 2). The index went down by 14.1% during the year, compared to 86.1 yuan per kg on 22 December 2018.

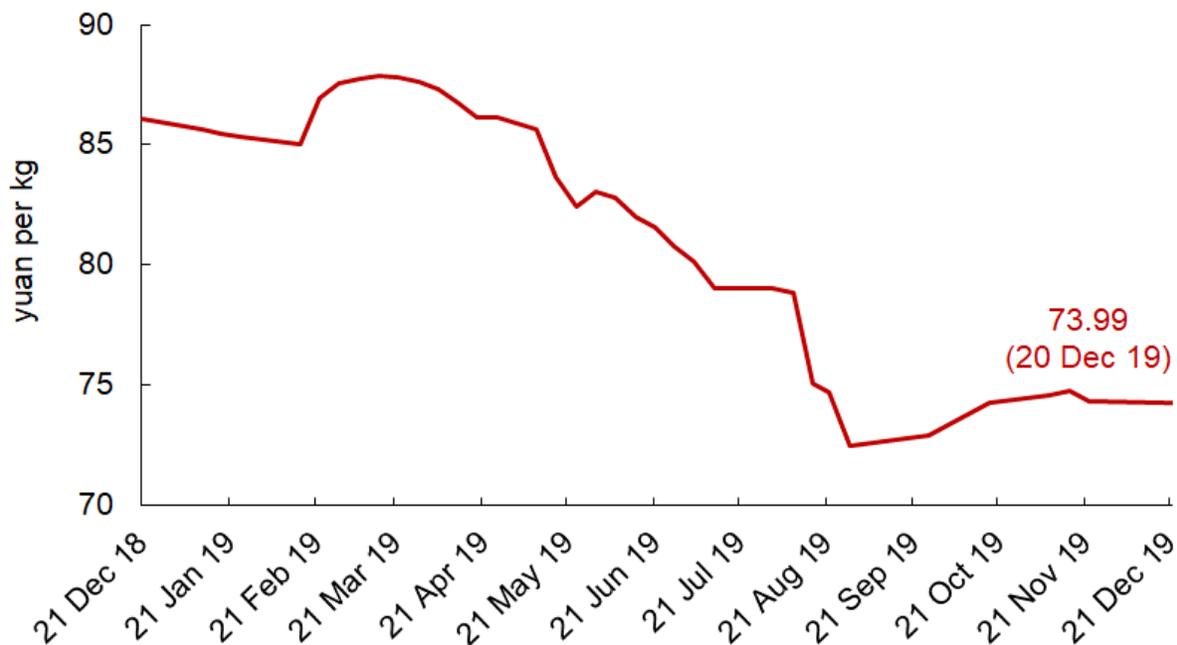
The movements in domestic wool prices in December largely shadowed those in Australia, a major exporter of wool to China: The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went down in early December amidst poor market sentiment, and subsequently rebounded on the back of positive news regarding the China-US trade deal.

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

The AWEX-EMI came in at 74.73 yuan per kg on 19 December, slightly above the reading of 74.40 yuan per kg on 22 November.

We expect that domestic wool prices will decline in the period immediately ahead following disruptions to manufacturing activities and exports due to the novel coronavirus and proactive government efforts to contain it. Furthermore, domestic consumption demand will likely decrease as the outbreak and related restrictions on people's movements negatively impact consumer sentiment, putting further downward pressure on wool prices.

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



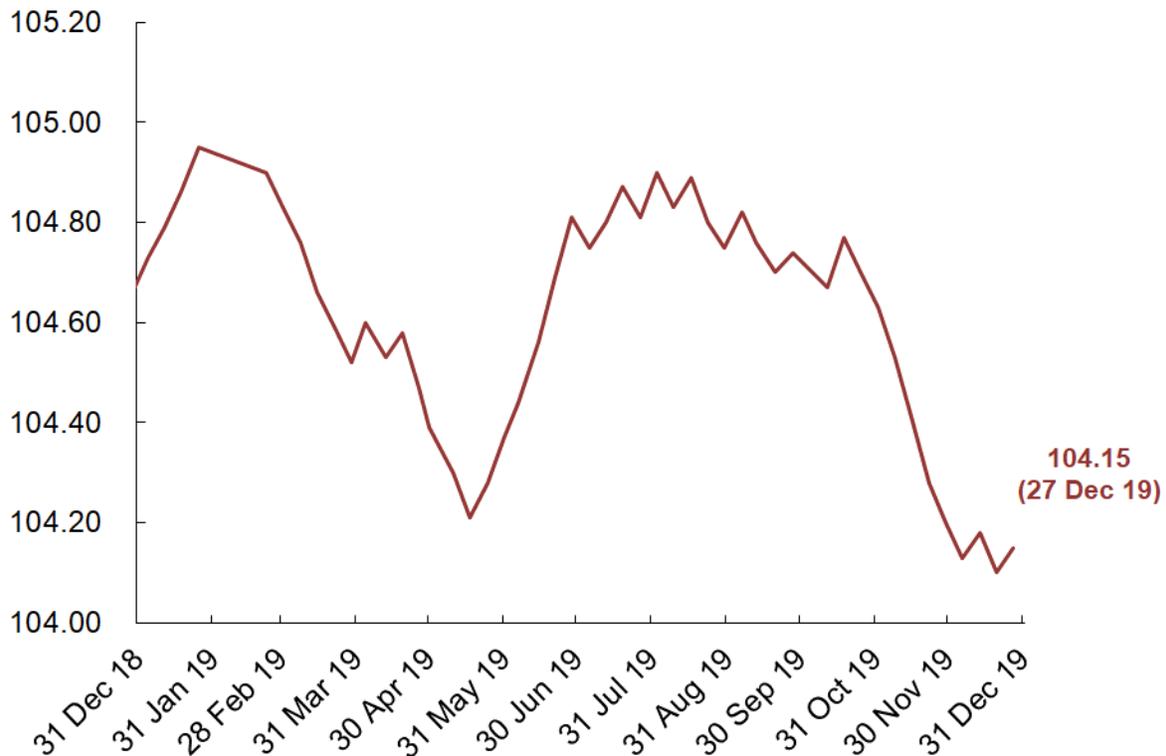
Source: The Nanjing Wool Market

### 3. Price index of silk edges down in December

The price index of silk edged down in December, closing at 104.15 on 27 December, compared with the index reading of 104.20 on 29 November (see exhibit 3). Compared with 28 December 2018, the index dropped by a modest 0.5%. The dip in silk prices in December is attributable to high inventory levels and sluggish downstream demand in the textile industry.

In the near future, we expect the price index of silk to fall significantly as the novel coronavirus outbreak prolongs Chinese New Year factory closures for many factories, and given highly uncertain consumer demand for silk apparel products.

**Exhibit 3: Price index of silk, December 2018 to December 2019**



Source: Ministry of Commerce

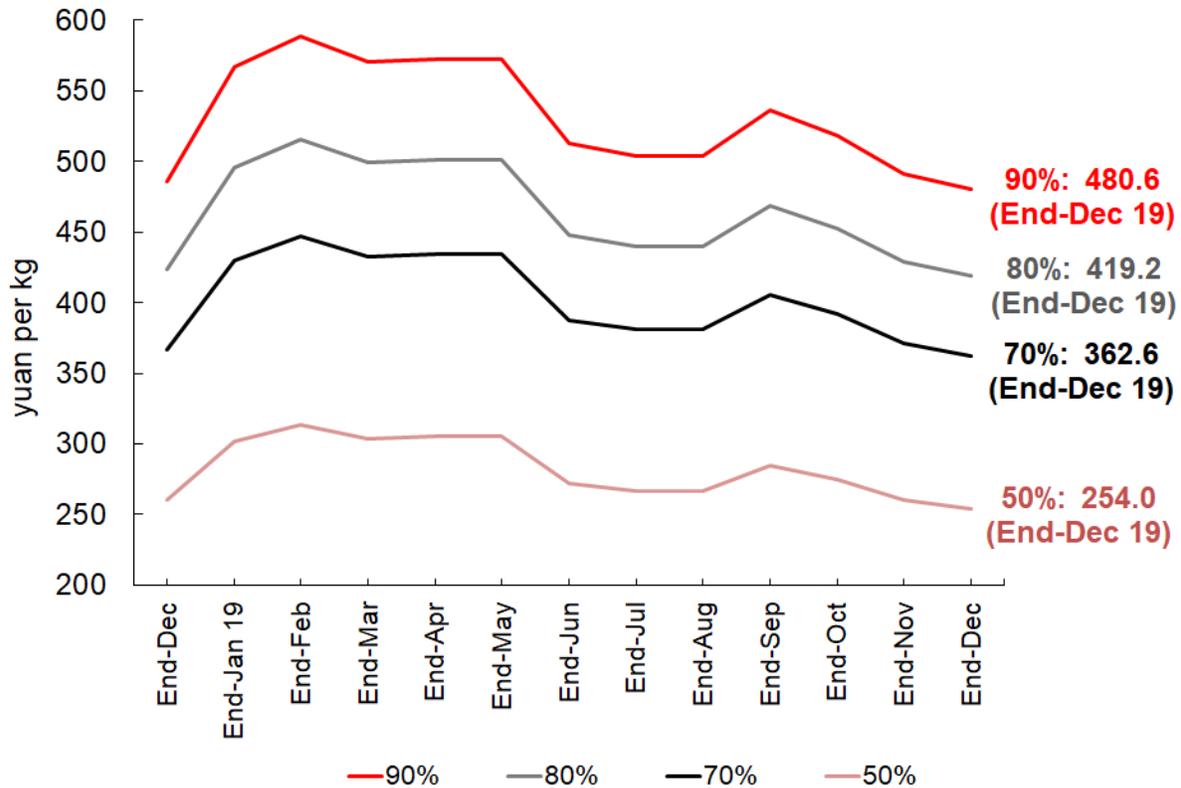
#### 4. Prices of grey goose down continue to fall in December

The prices of various types of grey goose down dropped December, continuing their downward trend in October and November. For example, the price of 80% grey goose down dropped from 428.8 yuan per kg at end-November to 419.2 yuan per kg at end-December (see exhibit 4). The prices of grey goose down saw a relatively modest decline in 2019, with the price of 80% grey goose down falling by 1.1% during the year.

Notwithstanding the year-end outbreak of the novel coronavirus, the main reason for the decline is sluggish downstream demand, in part due to a warmer northern winter.

In the near future, we expect the prices of grey goose down to continue declining reflecting high uncertainties in demand for down as factories remain temporarily closed because of government efforts to contain the novel coronavirus outbreak, and related dampening of consumer sentiment.

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



Source: cn-down.com

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