



China Sourcing Update

March 21, 2017

Prices of Natural Textile Materials

1. Cotton price indices rise in February

The price indices¹ of cotton went up in February. For example, the CC Index 3128B rose from 15,799 on 26 January to 16,001 on 15 February, before retreating a bit to close at 15,963 on 28 February (see *exhibit 1*).

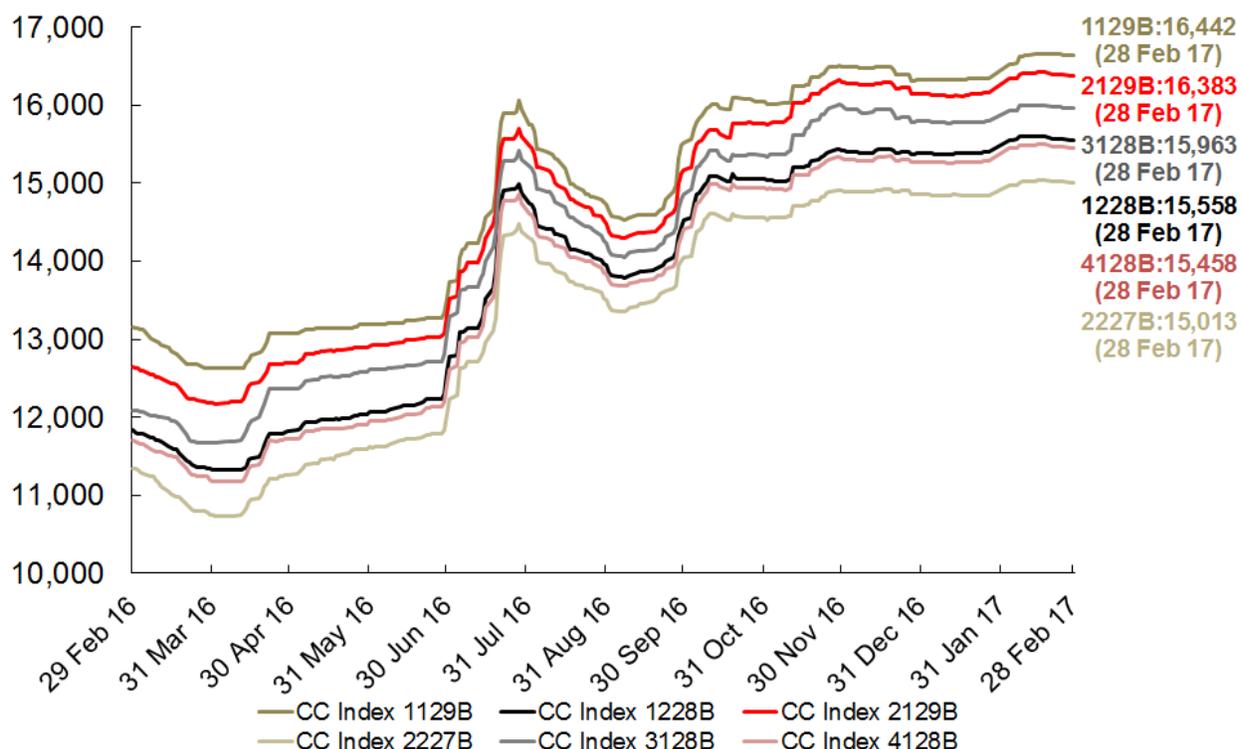
The main reasons for the increase in cotton prices in the month included a hike in the prices of cotton futures in China, a tight supply of cotton caused by a delay in the transportation of cotton from Xinjiang to other regions during the Chinese New Year Holidays, and an improvement in the downstream demand for cotton boosted by a rise in the prices of cotton yarn.

Going forward, the supply of cotton is expected to increase in the near term, boosted by the normalization of transportation of cotton from Xinjiang to other regions and the sales of state cotton reserves from 6 March onwards.² Meanwhile, the downstream demand from textile manufacturers for cotton is likely to remain strong. All in all, we expect cotton prices to stay high in the foreseeable 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/>

² http://www.sdpc.gov.cn/gzdt/201611/t20161124_827591.html

Exhibit 1: China's cotton price indices, February 2016 to February 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 further

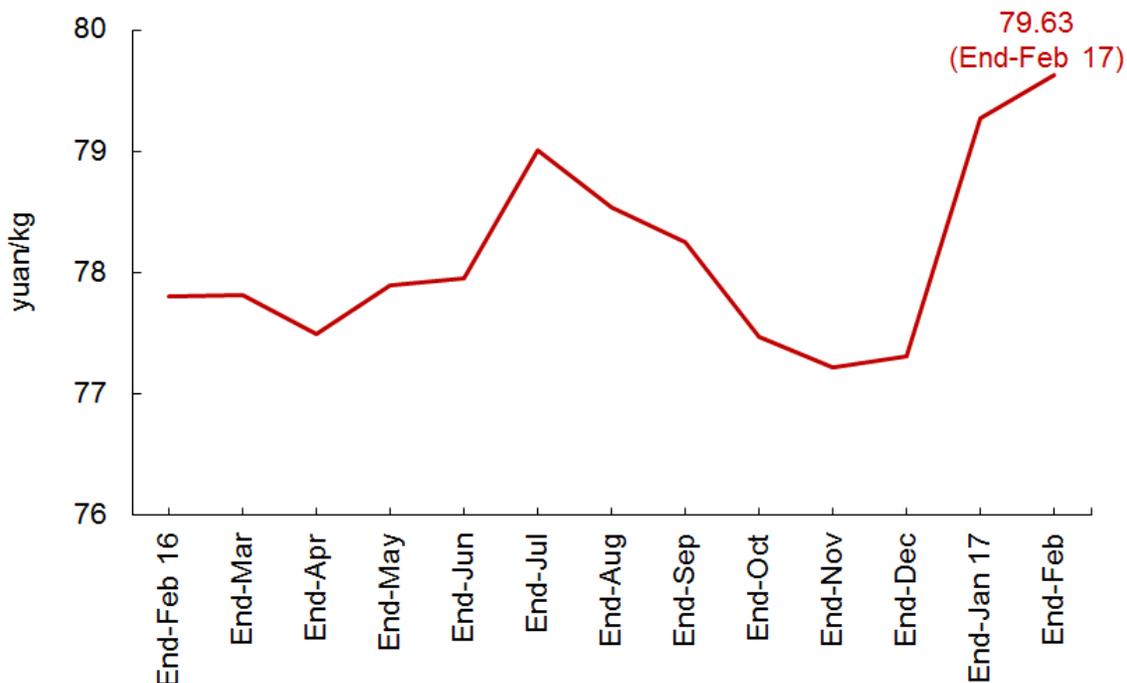
The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, rose slightly from 79.27 yuan per kg at end-January to 79.63 yuan per kg at end-February, the highest level since May 2012 (see exhibit 2).

In our view, the increase in the wool price index in February was due largely to a surge in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) soared from 73.27 yuan per kg on 27 January to 76.62 yuan per kg on 24 February, boosted by a strong demand from Chinese mills. 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.

³ <http://www.woolmarket.com.cn/>

Looking ahead, we expect the wool prices in China to rise further in the near future, as the AWEX-EMI has been hitting record highs recently.

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



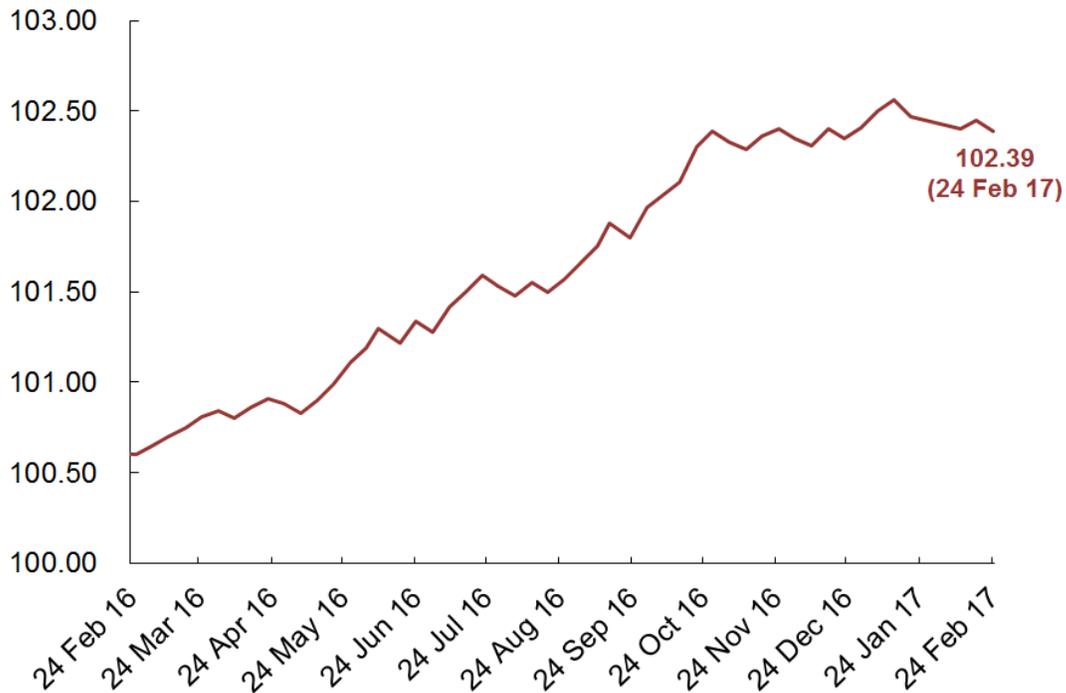
Source: The Nanjing Wool Market

3. Price index of silk edges down

The price index of silk trended downward in February, dropping slightly from 102.47 on 20 January to 102.39 on 24 February (see exhibit 3). The decline in silk prices was mainly attributable to a weak downstream demand, in our view.

Going forward, the downstream demand for silk is expected to remain soft in the near term. Meanwhile, the upstream costs of silk are likely to stay stable. All in all, we believe that the price index of silk will fluctuate around the current level in the coming months.

Exhibit 3: Price index of silk, February 2016 to February 2017



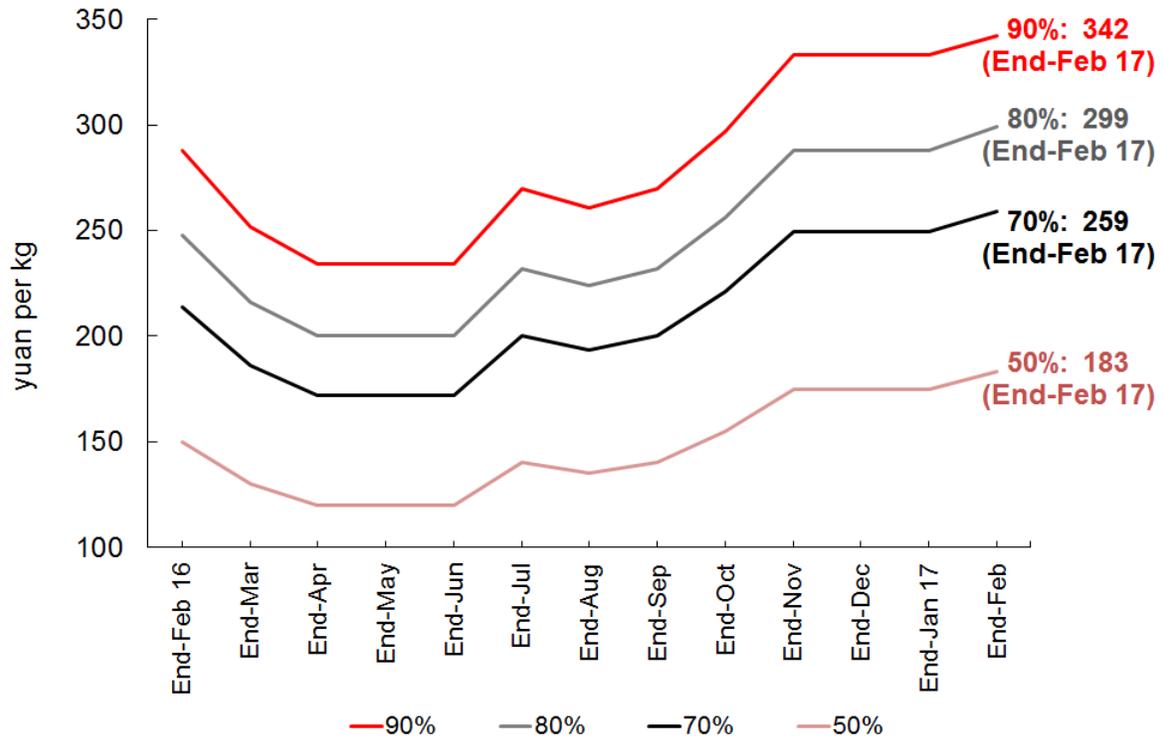
Source: Ministry of Commerce

4. Prices of grey goose down go up

The prices of various types of grey goose down rose in February. For example, the price of 80% grey goose went up from 288 yuan per kg at end-January to 299 yuan per kg at end-February (see exhibit 4). The main reason for the increase in the prices of grey goose down was an improved demand for goose down products as the weather turned colder in the month, in our view.

Looking ahead, the demand for down is likely to decline in the near term as the low season for down products is approaching. Thus, we expect the prices of grey goose down to fall in the coming months.

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



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 over 45,100 people across 40 economies worldwide, generating total revenue of over US\$24.8 billion in 2015. 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
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 2017 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.