



China Sourcing Update

February 7, 2017

Prices of Natural Textile Materials

1. Cotton price indices stay relatively stable in January

The price indices¹ of cotton were relatively stable in January. For example, the CC Index 3128B hovered between 15,769 and 15,799 throughout the month, before closing at 15,799 on 26 January 2017, which was slightly higher than the index reading of 15,798 registered on 30 December 2016 (see *exhibit 1*).

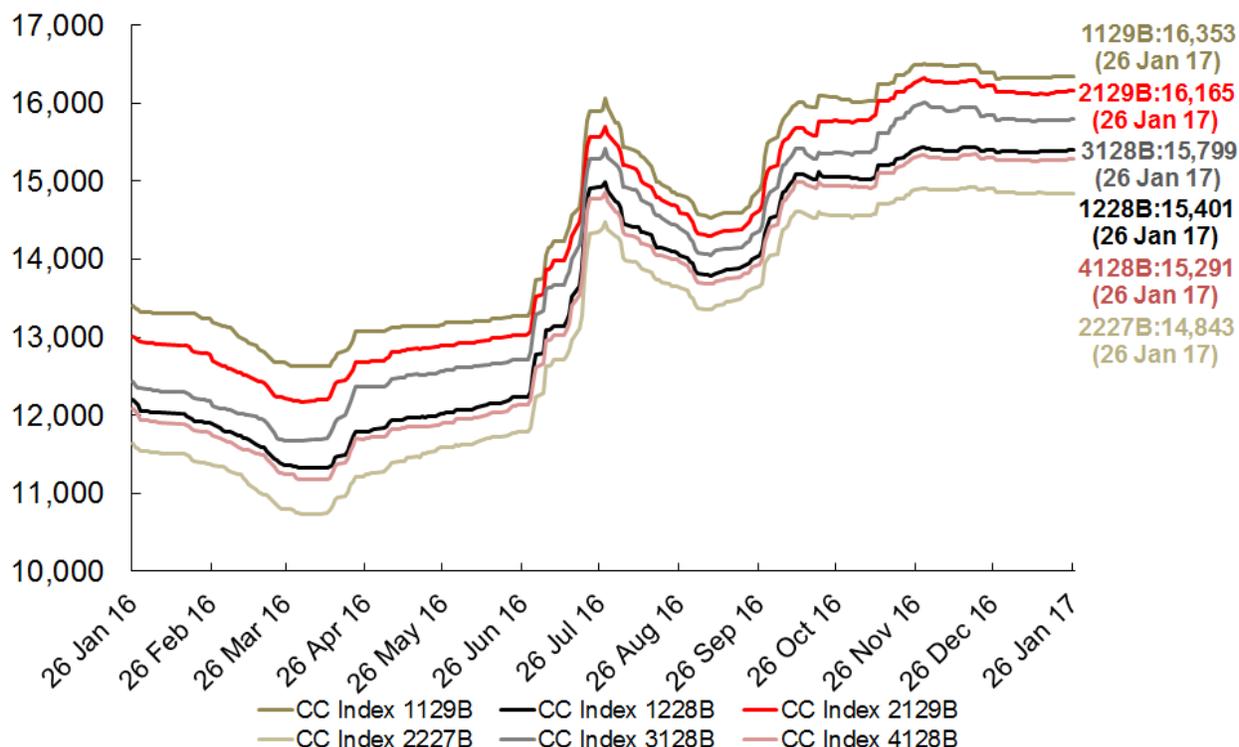
During mid- to late January (i.e. the period ahead of and during the Chinese New Year holidays), there was not much activity in the domestic cotton market, resulting in stagnation of cotton prices.

Looking ahead, the supply of cotton is expected to be abundant in the near term, boosted by the upcoming sale of state cotton reserves from 6 March to end-August²; and downstream demand for cotton is likely to improve as most textile manufacturers are expected to resume their production from early to mid-February. All in all, we expect cotton prices to stay high 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/>

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

Exhibit 1: China's cotton price indices, January 2016 to January 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 rises

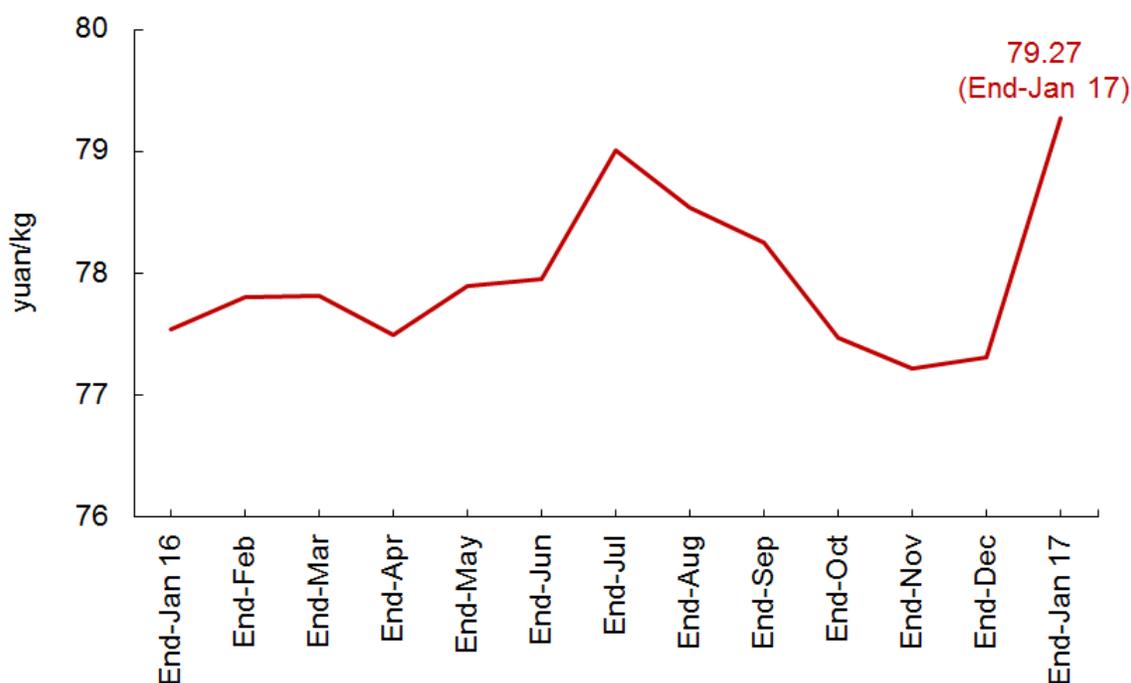
The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, went up from 77.31 yuan per kg at end-December 2016 to 79.27 yuan per kg at end-January 2017, the highest level in more than four years (see exhibit 2).

In our view, the main reason for the increase in the wool price index in January was a rise in wool prices in the Australian market. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) jumped from 69.72 yuan per kg on 16 December 2016 (i.e. the last trading day of December) to 73.27 yuan per kg on 27 January 2017. 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/>

Going forward, the supply of wool in Australia is forecast to rise in 2016/17, according to the Australian Wool Production Forecasting Committee.⁴ Therefore, we believe that the wool prices in China are unlikely to go up further in the near future.

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



Source: The Nanjing Wool Market

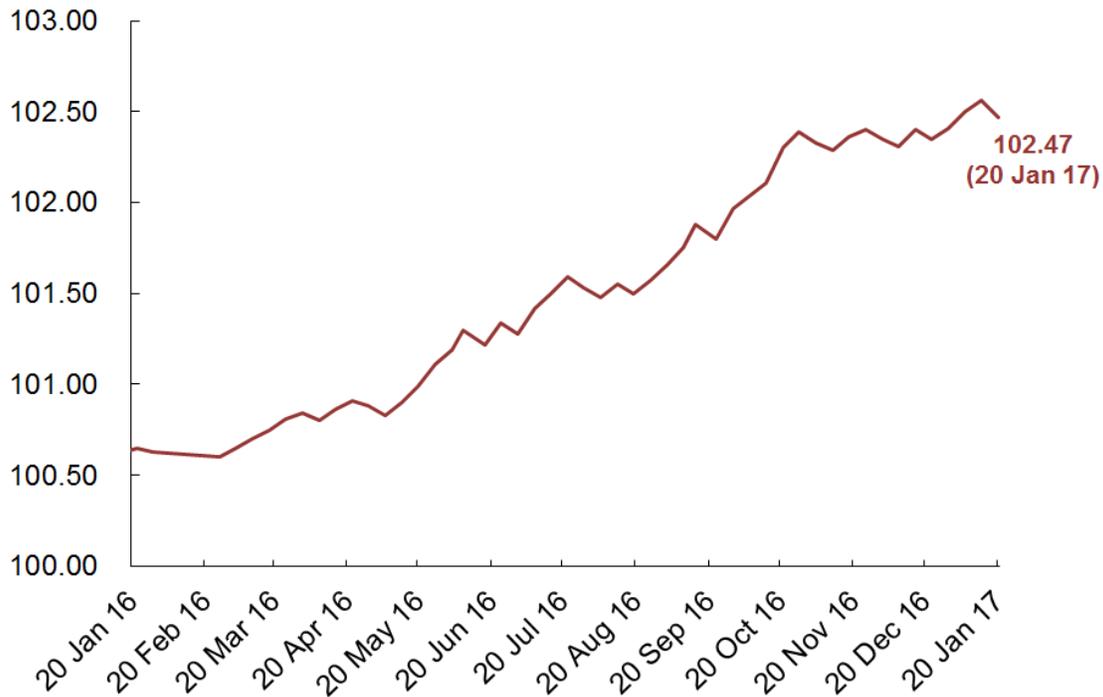
3. Price index of silk goes up

The price index of silk trended upward in January 2017. The price index inched up from 102.41 on 30 December 2016 to a five-year high of 102.56 on 13 January 2017, before retreating a bit to 102.47 on 20 January 2017 (see exhibit 3). The increase in silk prices was due largely to a rise in upstream costs, in our view.

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

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

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



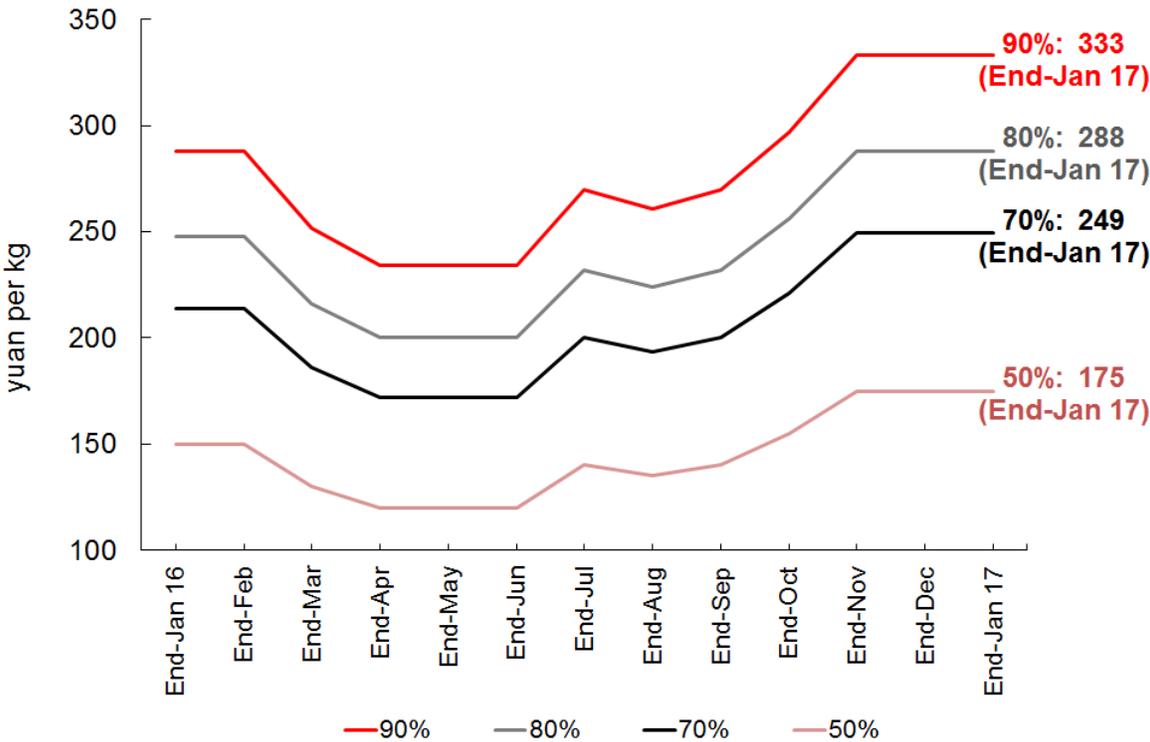
Source: Ministry of Commerce

4. Prices of grey goose down remain stable

The prices of various types of grey goose down stayed flat in January 2017. For example, the price of 80% grey goose came in at 288 yuan per kg at end-January 2017, the same as at end-December 2016 (see exhibit 4). The prices of grey goose down remained high despite a warmer-than-usual winter, according to the local media.

Going forward, the demand for down is expected to decline as the high season is coming to an end. Thus, we expect the prices of grey goose down to fall in the coming months.

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



Source: cn-down.com

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