



China Sourcing Update

August 8, 2018

Prices of Natural Textile Materials

1. Cotton price indices go down in July

The price indices¹ of cotton trended downward throughout most of July, before rebounding a bit in the last few days of the month. The CC Index 3128B, for example, fell from 16,326 on 29 June to 16,173 on 25 July, before picking up to 16,199 on 31 July (see exhibit 1).

Cotton prices trended downward throughout early June to the end of July, after the Chinese government announced a series of measures to cool down the cotton market.

On 6 July, the US additional tariffs of 25% on US\$34 billion worth of Chinese imports kicked in, and China's additional tariffs on the same amount of US imports, including cotton, also took effect immediately after that. According to media reports, the additional tariff on US cotton has had limited impacts on the Chinese textile industry thus far, because most of the imported cotton is used for processing trade or imported by factories in bonded supervision areas, and is thus exempt from import tariffs.

On 10 July, the US administration announced a list of Chinese imports for 10% additional tariffs, which includes only a few items of apparel. On 1 August, the US proposed to raise the tariff rate to 25%. This round of tariffs is undergoing a public review process until 5 September, after which the United States Trade Representative will issue a final determination.

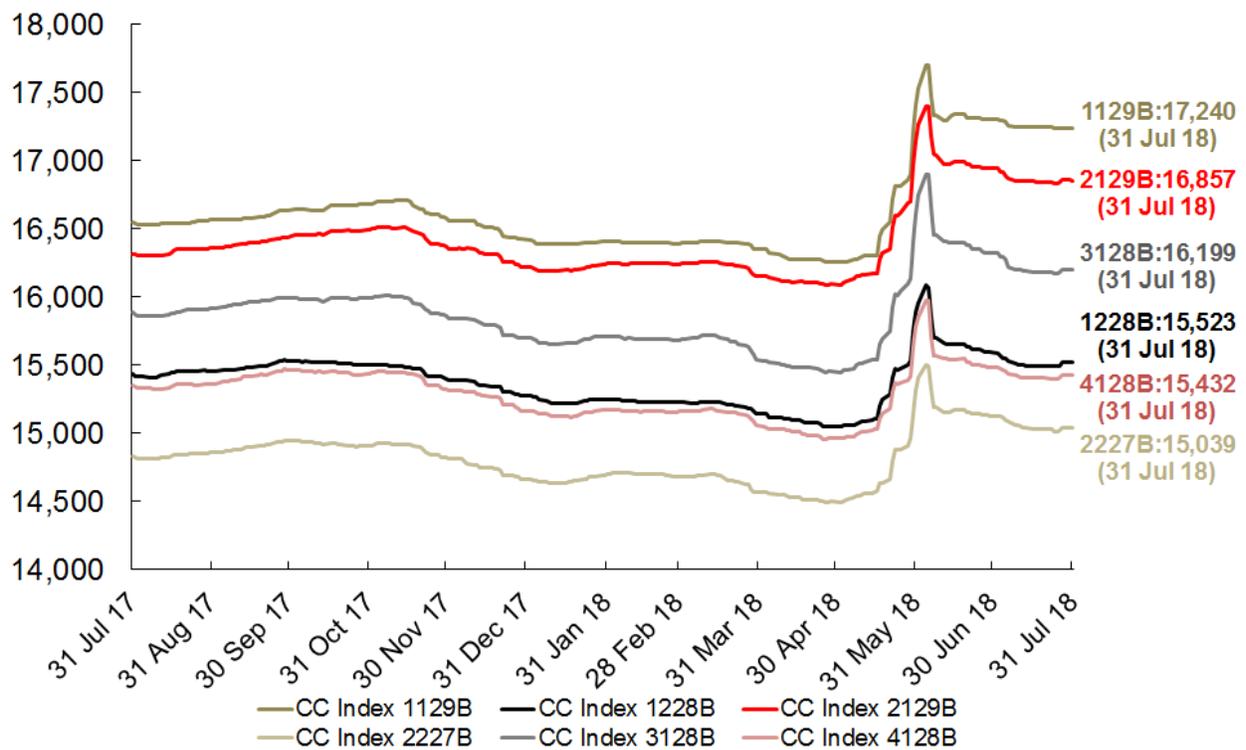
¹ The indices, compiled by the China Cotton Association, track cotton prices quoted from over two hundred textile enterprises. <http://www.china-cotton.org/>

US President Donald Trump also warned to levy extra tariffs on all Chinese imports if China retaliates. If Trump follows through his threat, it is highly likely that many more (or all) apparel products will be hit with extra tariffs. The demand for cotton in China is likely to fall markedly as a consequence, in our view.

Meanwhile, the Chinese government announced on 31 July that the ongoing sales of state cotton reserves are extended for a month through 30 September to ensure an adequate supply of cotton.²

All in all, we expect that domestic cotton prices will be subject to fluctuations in the coming months amid the developments in the China-US trade war.

Exhibit 1: China's cotton price indices, July 2017 to July 2018



Source: China Cotton Association

² http://tech.ifeng.com/a/20180731/45094316_0.shtml

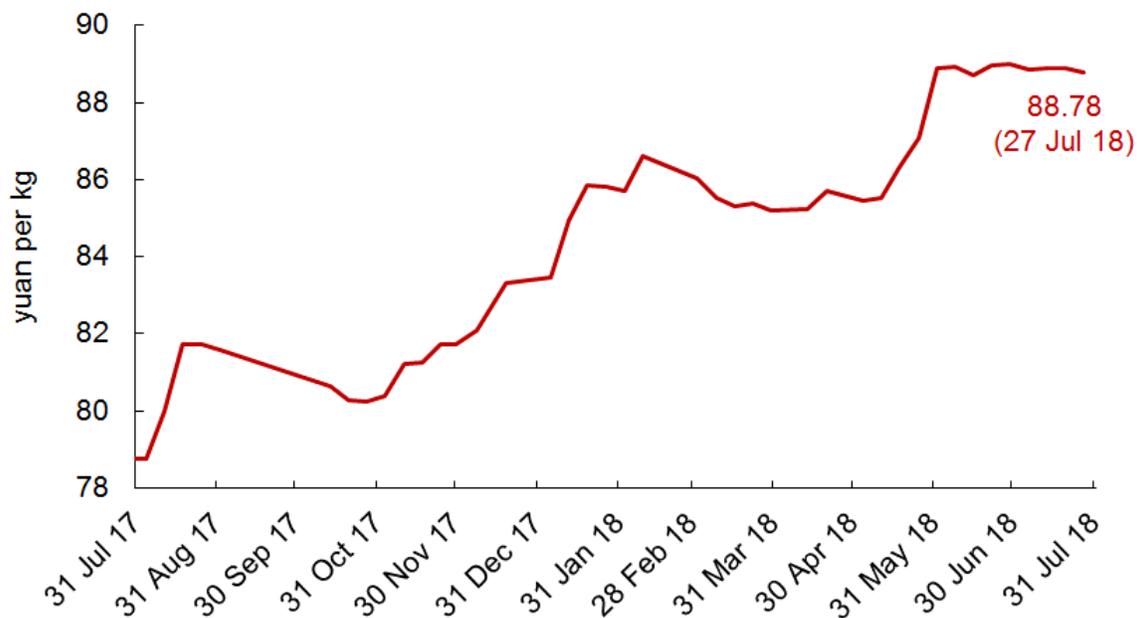
2. Nanjing Wool Market Composite Index stays high in July

The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, hovered within a narrow range of 88.70 to 89.00 yuan per kg in July and closed at 88.78 yuan per kg on 27 July, slightly lower than the index reading of 89.00 yuan per kg on 29 June (see exhibit 2).

The strong wool prices in China in July was due mainly to high wool prices in Australia, which fluctuated near record-high levels in the first half of the month before the annual three-week recess began in mid-July. 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.

Going forward, wool prices in Australia are likely to stay high after the three-week recess, and the downstream demand for wool in China is expected to remain strong as more apparel items are now using wool. Thus, we believe that domestic wool prices will stay high in the near term.

**Exhibit 2: Nanjing Wool Market Composite Index,
July 2017 to July 2018**



Source: The Nanjing Wool Market

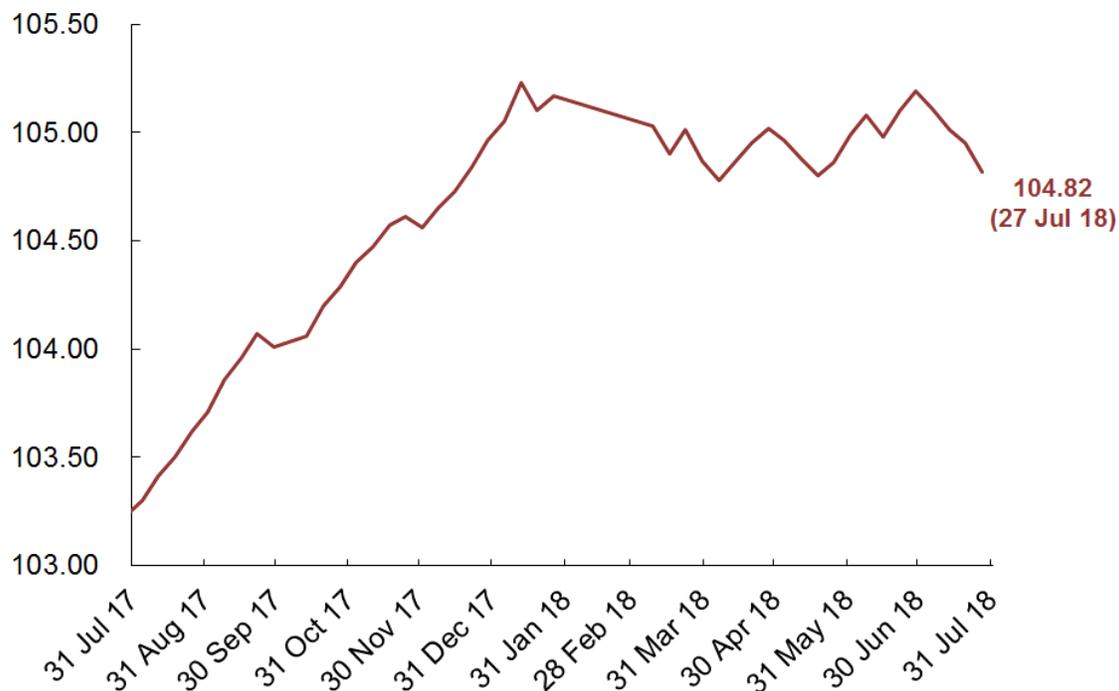
³ <http://www.woolmarket.com.cn/>

3. Price index of silk edges down in July

The price index of silk went down slightly in July, falling from 105.19 on 29 June to 104.82 on 27 July (see *exhibit 3*). The main reason for the drop in silk prices was a weak restocking demand from textile manufacturers, despite their low stock levels of silk.

Going forward, the restocking demand for silk is likely to remain weak during the current low season for silk products. Therefore, we expect that the price index of silk will decline in August.

Exhibit 3: Price index of silk, July 2017 to July 2018



Source: Ministry of Commerce

4. Prices of grey goose down stay high in July

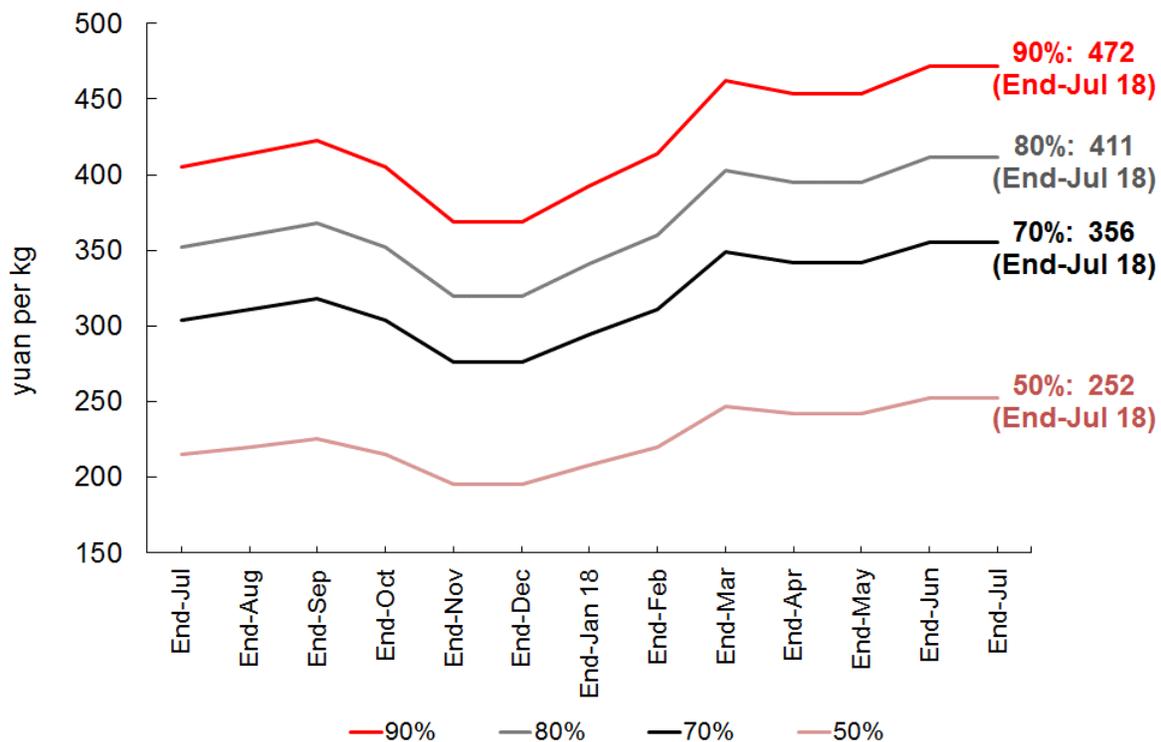
The prices of various types of grey goose down stayed high in July. For example, the price of 80% grey goose down came in at 411 yuan per kg at end-July, the same as at end-June (see *exhibit 4*).

There are two main reasons for the high prices of grey goose down during the current low season for domestic consumption of down products. First, export orders for down products remained strong in the month. Second, some feather and down factories were shut down by local governments to reduce pollution, which led to a reduced supply of grey goose down.

Looking ahead, we believe that the prices of grey goose down will stay around the current high levels in the coming months, as the positive factors for down prices mentioned above are expected to persist.

It is noteworthy that down products are not on the product list released on 10 July by the US for the second round of tariffs imposed on Chinese imports. However, it is almost certain that down products will be affected if Trump makes good on his threat of tariffs on another US\$300 billion of Chinese goods. In that case, the export orders for Chinese down products and the demand for grey goose down in China are likely to decline, in our view.

Exhibit 4: Prices of grey goose down, July 2017 to July 2018



Source: cn-down.com

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Research Manager
williamkong@fung1937.com
(852) 2300 2404

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>



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