



China Sourcing Update

July 7, 2017

Prices of Natural Textile Materials

1. Cotton price indices rise and then fall in June

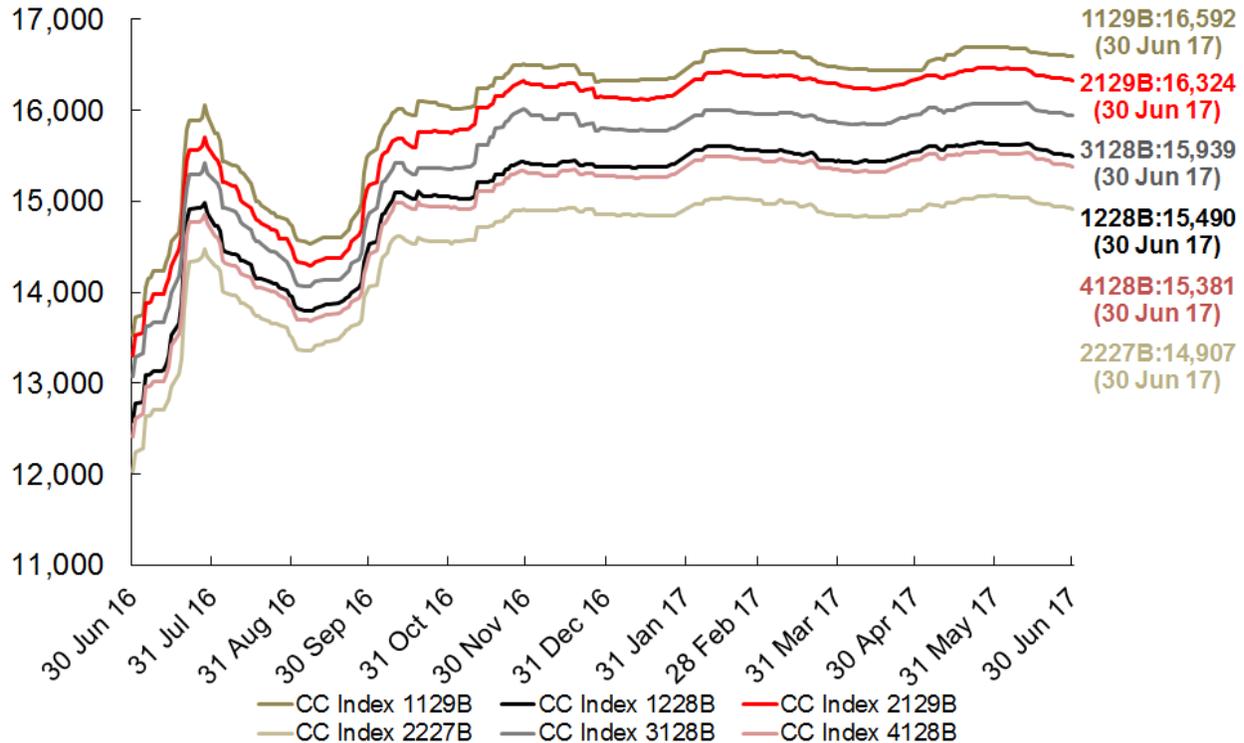
The price indices¹ of cotton stayed relatively stable in early June and then picked up in mid-June, but have dropped since then. The CC Index 3128B, for example, hovered around 16,070 in early June and rose to a nearly four-year high of 16,083 on 12 June, before falling to 15,939 on 30 June (*see exhibit 1*).

Cotton prices fluctuated around high levels in early June as the restocking demand from textile manufacturers was strong. After peaking in mid-June, the spot prices of cotton dropped as the prices of cotton futures in China fell and some textile manufacturers postponed their purchases of cotton until 1 July, when the value added tax on cotton was reduced from 13% to 11%.

Looking ahead, we expect domestic cotton prices to trend downward in the near term, as market expectations of an increased global supply of cotton in the coming months have dragged down the prices of cotton futures in China as well as the international markets in recent weeks.

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

Exhibit 1: China's cotton price indices, June 2016 to June 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 edges up in June

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went up from 78.62 yuan per kg at end-May to 79.02 yuan per kg at end-June (see exhibit 2).

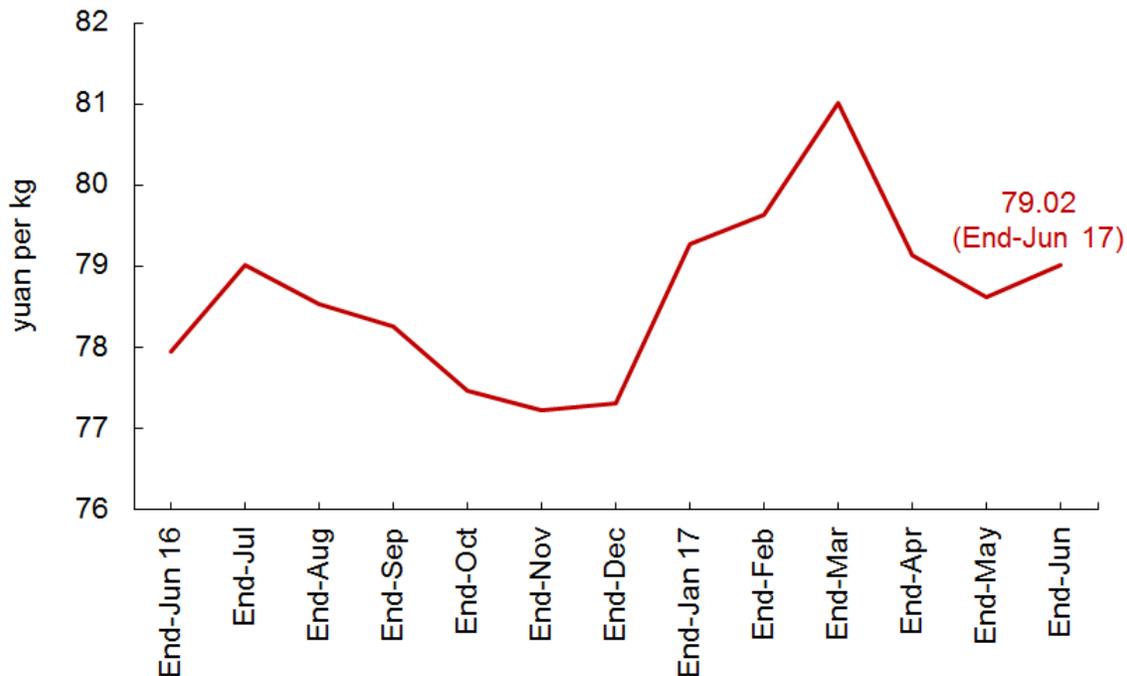
In our view, the increase in the wool prices in China was due largely to a rise in the wool prices in the Australian market. With Australian wool producers holding wool for sale into the new financial year starting from July, the limited supply of wool drove up wool prices in June: the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went up from 77.16 yuan per kg on 26 May to 78.28 yuan per kg on 30 June. As China imports a

² <http://www.woolmarket.com.cn/>

large amount of wool from Australia, the domestic wool prices are significantly affected by the wool price movements in the Australian market.

Going forward, we expect the wool prices in China to decline in the near future in line with the movement of the wool prices in the Australian market, where an abundant supply of wool for sale in July is likely to put downward pressure on wool prices.

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



Source: The Nanjing Wool Market

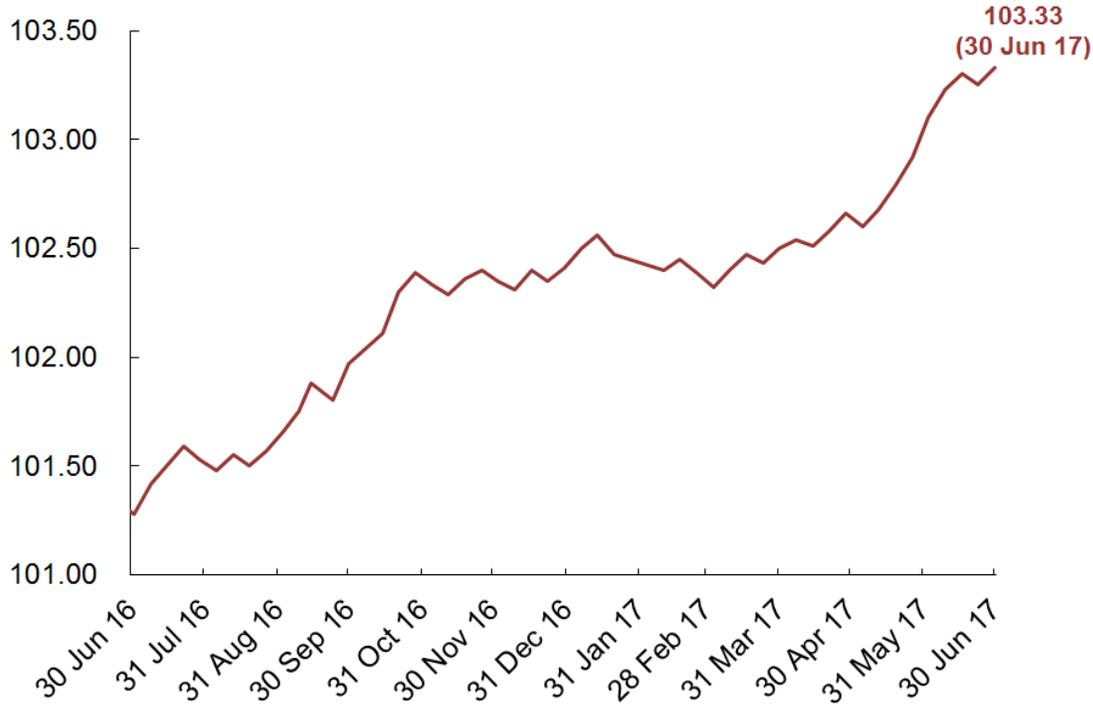
3. Price index of silk rises slightly in June

The price index of silk went up in June, rising from 102.92 on 26 May to 103.33 on 30 June, the highest level in more than eight years (see exhibit 3).

The rise in silk prices in the month was mainly attributable to high upstream costs and a strong downstream demand from silk mills during the current high season for the production of silk products, in our view.

Looking ahead, we expect that the price index of silk will fluctuate around the current high level in the near term as the upstream prices of silk are likely to remain high.

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



Source: Ministry of Commerce

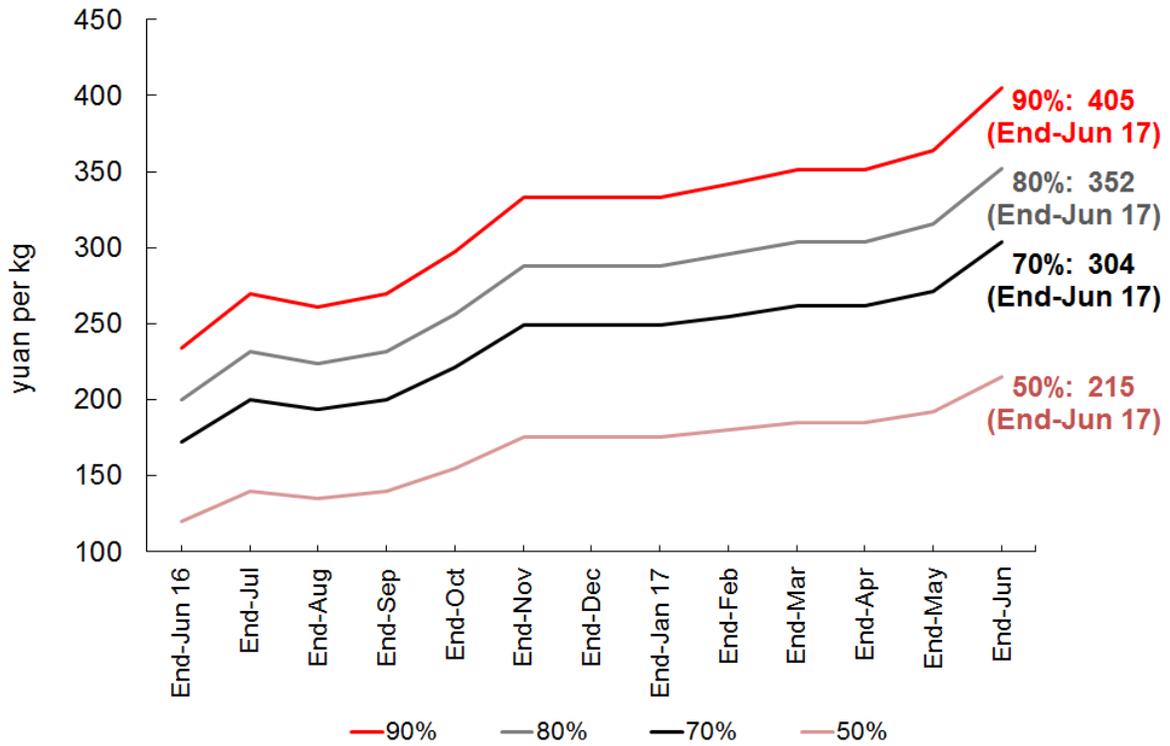
4. Prices of grey goose down go up further in June

The prices of various types of grey goose down increased in June. For example, the price of 80% grey goose down rose from 315 yuan per kg at end-May to 352 yuan per kg at end-June, the highest level since January 2015 (see exhibit 4).

In our view, the main reasons for the increase in the prices of grey goose down in the past few months were a rise in export orders for down products; a recovery in the domestic demand for down products; and a resurgence of avian flu in China and other parts of the world, which has led to a reduced supply of grey goose down.

Looking ahead, the positive factors mentioned above are expected to persist in the near term. Therefore, we expect that the prices of grey goose down will stay high in the foreseeable future.

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



Source: cn-down.com

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