



China Sourcing Update

July 13, 2018

Prices of Natural Textile Materials

1. Cotton price indices rise and then fall in June

The price indices¹ of cotton went up in early June and declined afterwards. The CC Index 3128B, for example, climbed from 16,611 on 31 May to 16,900 on 4 June, the highest level since September 2014, before falling to 16,326 on 29 June (*see exhibit 1*).

Domestic cotton prices jumped in early June after the US government threatened on 29 May to go ahead with its proposal to impose additional tariffs of 25% on US\$50 billion worth of Chinese imports, which sparked fears that the Chinese government would retaliate by imposing additional tariffs on imported US cotton.

Afterwards, cotton prices trended downward as the Chinese government announced measures to cool down the cotton market. On 2 June, the Chinese government announced to prohibit non-textile companies from buying state cotton reserves starting from 4 June, to prevent traders from hoarding cotton and manipulating cotton prices.² Moreover, according to a report by the China Cotton Association published on 4 June, Chinese government officials indicated that the ongoing sales of state cotton reserves can be extended an additional month through the end of September if needed to ensure an adequate supply of cotton.³

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.cottonchina.org/news/pubzmb.php?articleid=222852&newstime=2018-06-02>

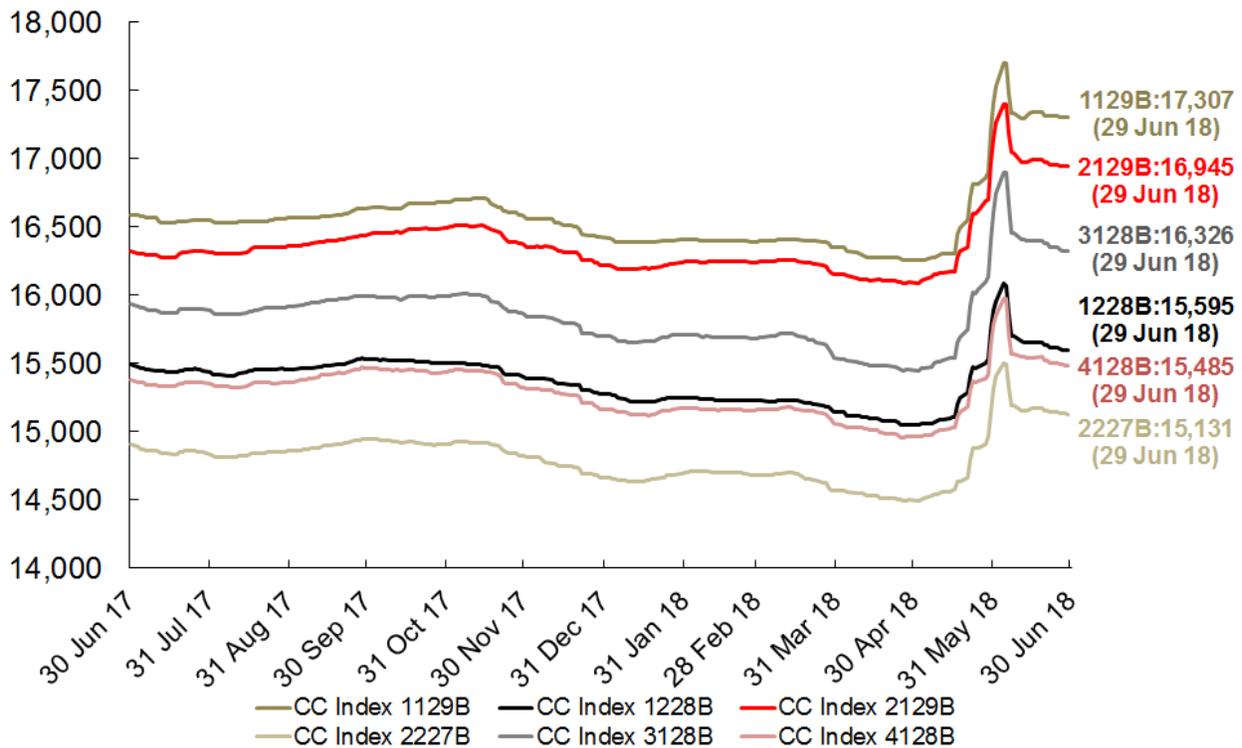
³ <http://www.cottonchina.org/news/pubzmb.php?articleid=222874&newstime=2018-06-04>

At 12:01 am (US Eastern time) 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 also took effect immediately after that. In our view, the increase in the tariff rate on US cotton will lead to a tightened supply of high-grade supplies in the domestic market.

On 10 July, the US administration announced a list of 10% tariffs on US\$200 billion of Chinese goods. Only a few items of apparel are included in the product list. However, it is highly likely that more (or almost all) apparel products will be hit with extra tariffs if Trump follows through his threat of tariffs on another US\$300 billion of Chinese goods if China retaliates, given that only US\$255 billion of Chinese imports are not yet affected by the existing and proposed tariffs. The demand for cotton in China is likely to fall as a consequence, in our view.

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, June 2017 to June 2018



Source: China Cotton Association

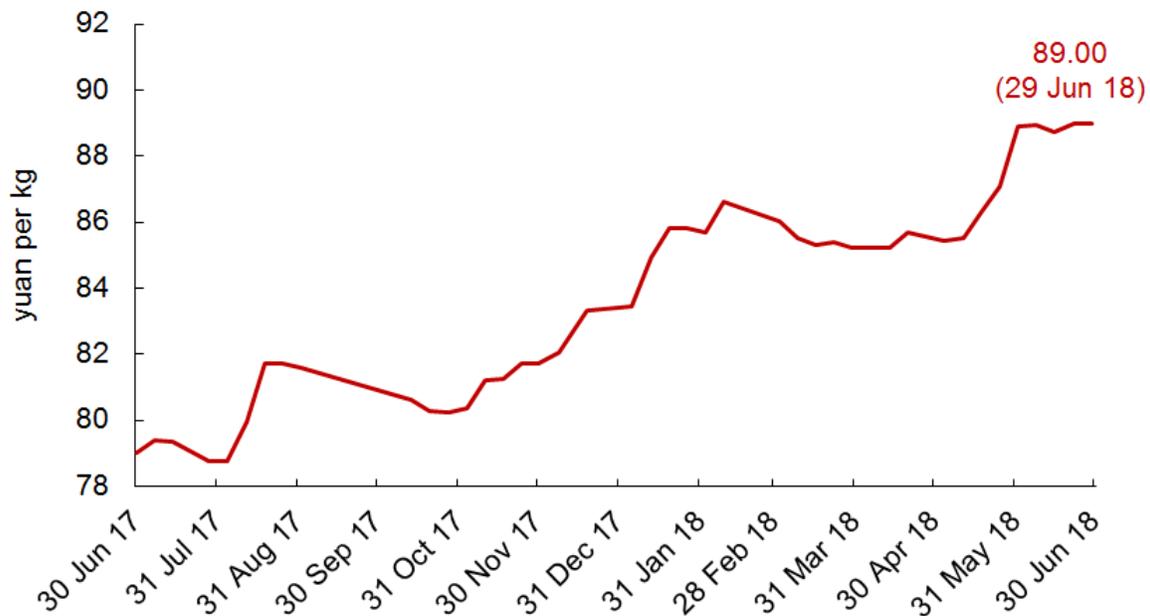
2. Nanjing Wool Market Composite Index goes up in June

The Nanjing Wool Market Composite Index⁴, one of the major wool price indices in China, increased from 87.10 yuan per kg on 25 May to 89.00 yuan per kg on 29 June (see exhibit 2).

The rise in wool prices in China in the month was triggered by a jump in wool prices in Australia, which hit record-high levels. Triggered by a strong demand from Chinese and Indian mills, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) soared from 95.84 yuan per kg on 25 May to 99.95 yuan per kg on 29 June. 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, 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 rise further in the near future.

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



Source: The Nanjing Wool Market

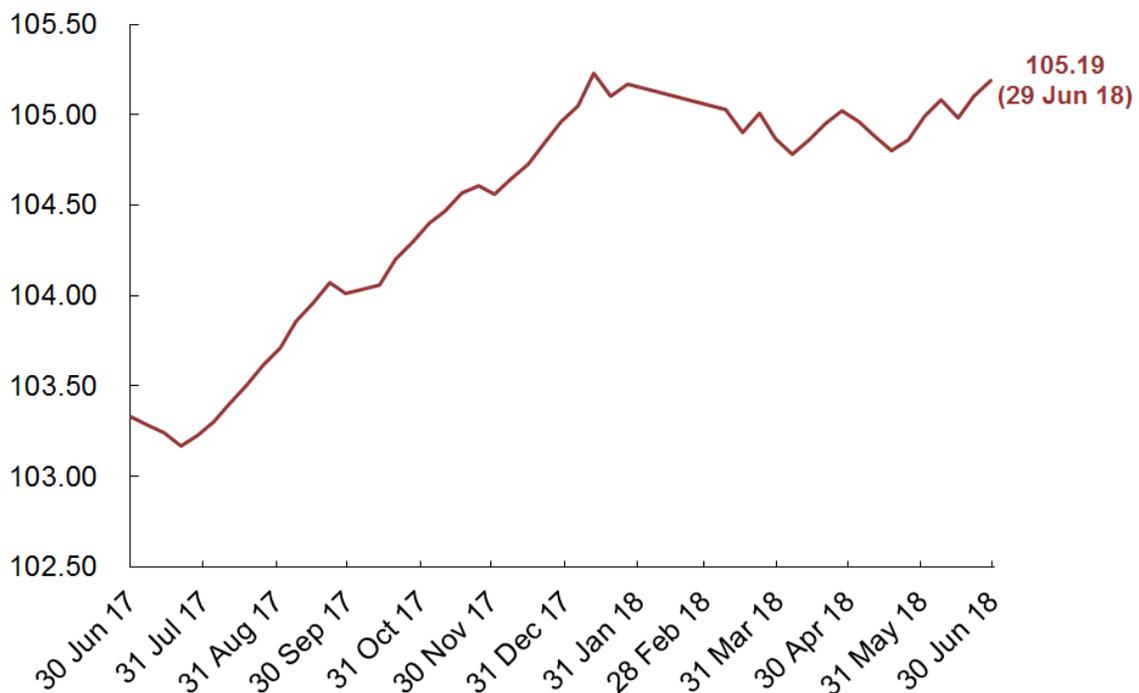
⁴ <http://www.woolmarket.com.cn/>

3. Price index of silk rises slightly in June

The price index of silk trended upward in June, rising from 104.86 on 25 May to 105.19 on 29 June (see exhibit 3). An improvement in the restocking demand from textile manufacturers supported silk prices in the month, in our view.

Going forward, the restocking demand for silk is likely to be strong as the stock levels of silk held by textile manufacturers remain low. Thus, we expect the price index of silk to stay around the current high level in the near term.

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



Source: Ministry of Commerce

4. Prices of grey goose down go up in June

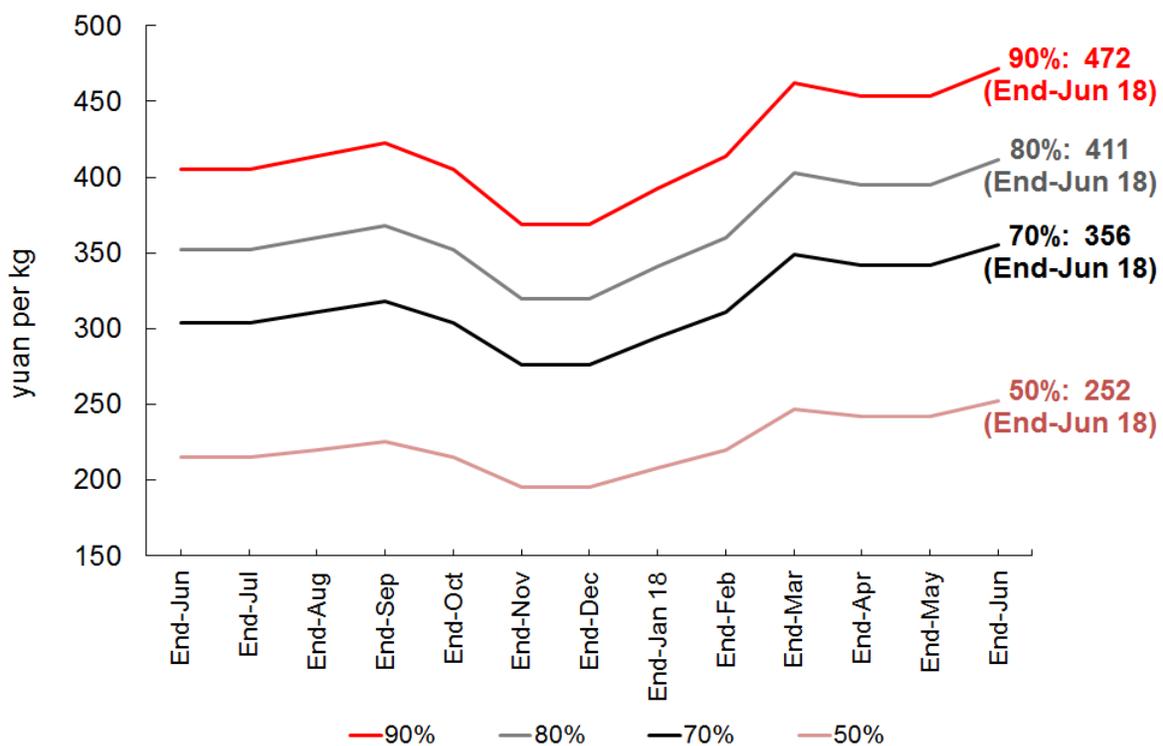
The prices of various types of grey goose down rose in June. For example, the price of 80% grey goose down climbed from 395 yuan per kg at end-May to 411 yuan per kg at end-June (see exhibit 4).

In our view, the prices of grey goose down stayed high during the current low season for domestic consumption of down products because of strong export orders for down products in recent months.

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 highly likely that down products will be imposed additional tariffs if Trump makes good on his threat of tariffs on another US\$300 billion of Chinese goods, given that only US\$255 billion of Chinese imports are not yet affected by the existing and proposed tariffs. The export orders for Chinese down products and the demand for grey goose down in China are likely to drop as a result, in our view.

Looking ahead, we expect that the prices of grey goose down will stay around the current high levels in the coming months, as the export orders for down products are likely to remain strong.

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



Source: cn-down.com

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