



China Sourcing Update

June 17, 2019

Prices of Natural Textile Materials

1. Cotton price indices plunge in May

The price indices¹ of cotton fell by more than 6% in May. The CC Index 3128B, for example, decreased from 15,643 on 30 April to 14,581 on 31 May (*see exhibit 1*).

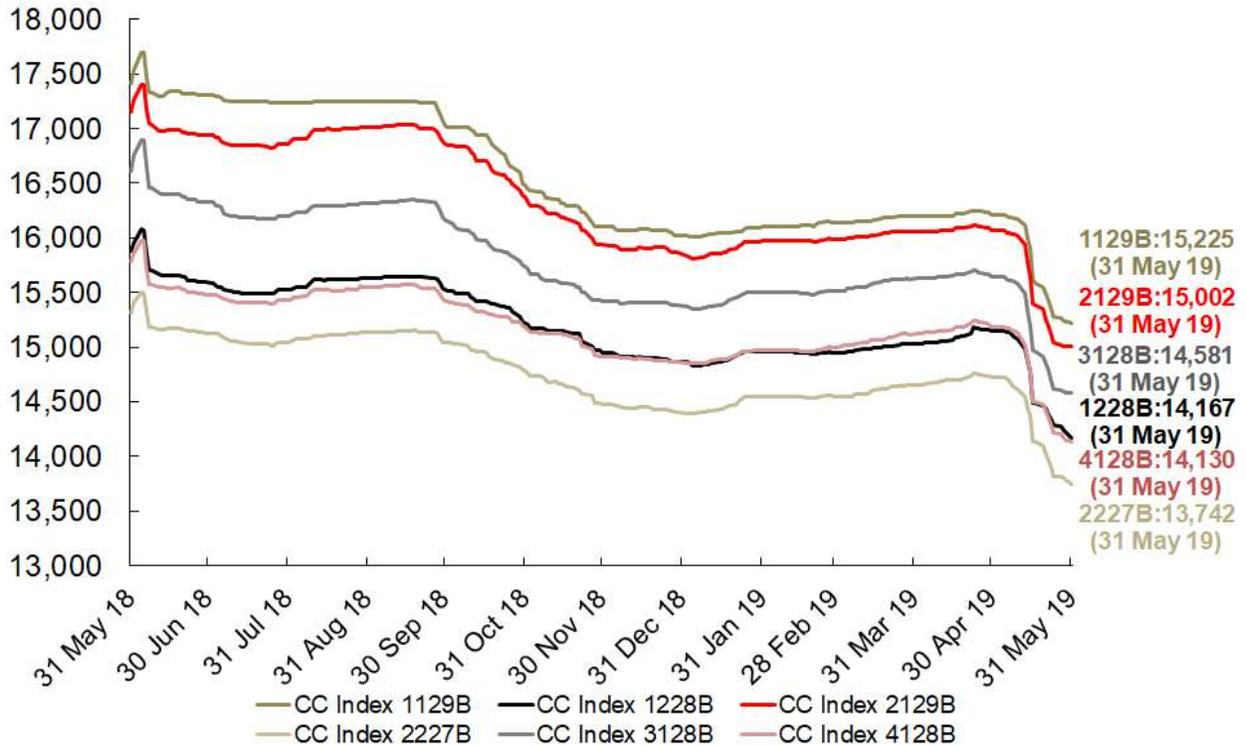
The fall in domestic cotton prices in May was attributed to sluggish downstream demand as apparel manufacturers turned pessimistic about the export outlook amidst worsening China-US trade tensions. In fact, China's official manufacturing PMI in May has dropped to 49.4, below the critical 50.0-level, indicating a contraction in manufacturing activities. At the same time, sale of cotton reserves by the Chinese government² and the increase in cotton supply internationally exerted additional downward pressure on domestic cotton prices.

Looking ahead, we expect domestic cotton prices to remain weak in the near future for two reasons. First, in view of the uncertainties arising from China-US trade tensions, downstream manufacturers have become cautious about purchasing materials. The US proposed on 13 May to impose 25% additional tariffs on US\$300 billion of Chinese imports, including all major apparel items. Second, the Chinese government's sale of cotton reserves is scheduled to last until the end of September, ensuring a generous supply of cotton in the market in the near term.

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.lswz.gov.cn/html/zcfb/2019-04/23/content_244229.shtml

Exhibit 1: China's cotton price indices, May 2018 to May 2019



Source: China Cotton Association

2. Nanjing Wool Market Composite Index continues to fall in May

The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, dropped from 86.16 yuan per kg on 26 April to 82.45 yuan per kg on 24 May before rebounding slightly to 83.02 yuan per kg on 31 May (see exhibit 2).

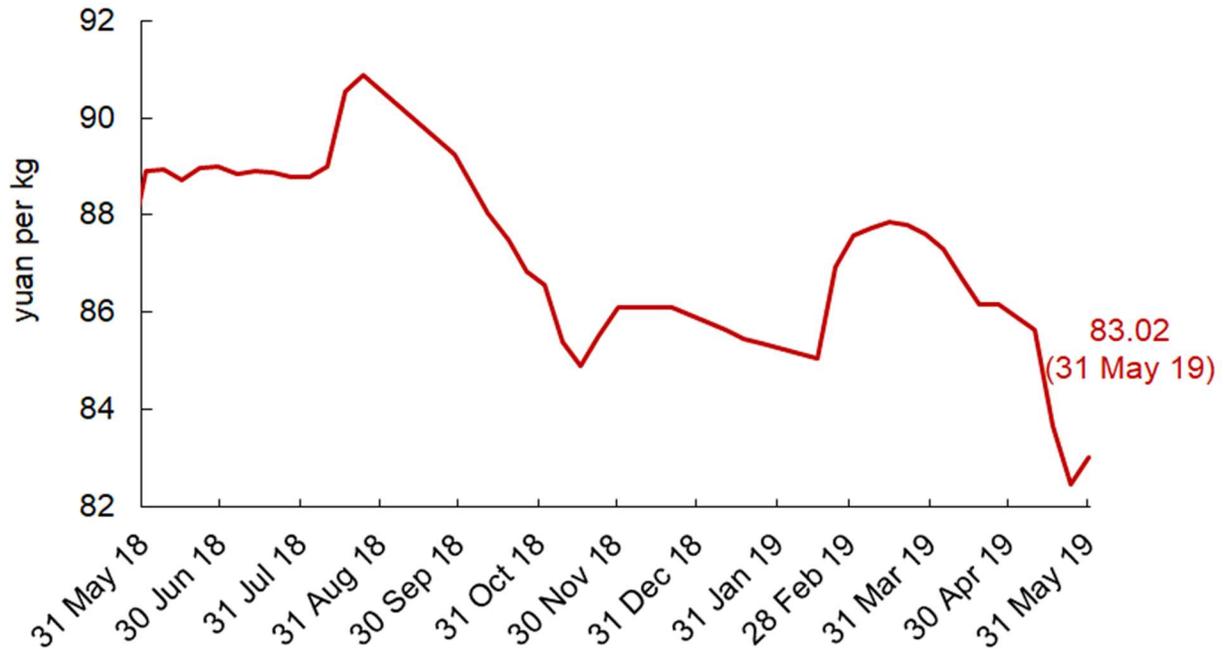
The fall in the wool prices in May was due largely to the downward trend in wool prices in Australia, a major exporter of wool to China, since late February: The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) went down markedly from its recent peak of 97.20 yuan per kg on 22 February to 90.36 yuan per kg on 31 May. Downward shifts in Australian wool prices were, in turn, attributed to the China-US tariff dispute and gloomy retail condition in Europe.

Looking ahead, we expect that domestic wool prices will remain soft in the near term, given the weak demand from Chinese mills due to the China-US trade tensions. In

³ <http://www.woolmarket.com.cn/>

addition, China's decision on 8 May to lift the ban on wool imports from South Africa, which had been put in place since February in response to the foot-and-mouth-disease outbreak, is likely to boost supply and contribute to downward pressure on the prices of wool.

**Exhibit 2: Nanjing Wool Market Composite Index,
May 2018 to May 2019**



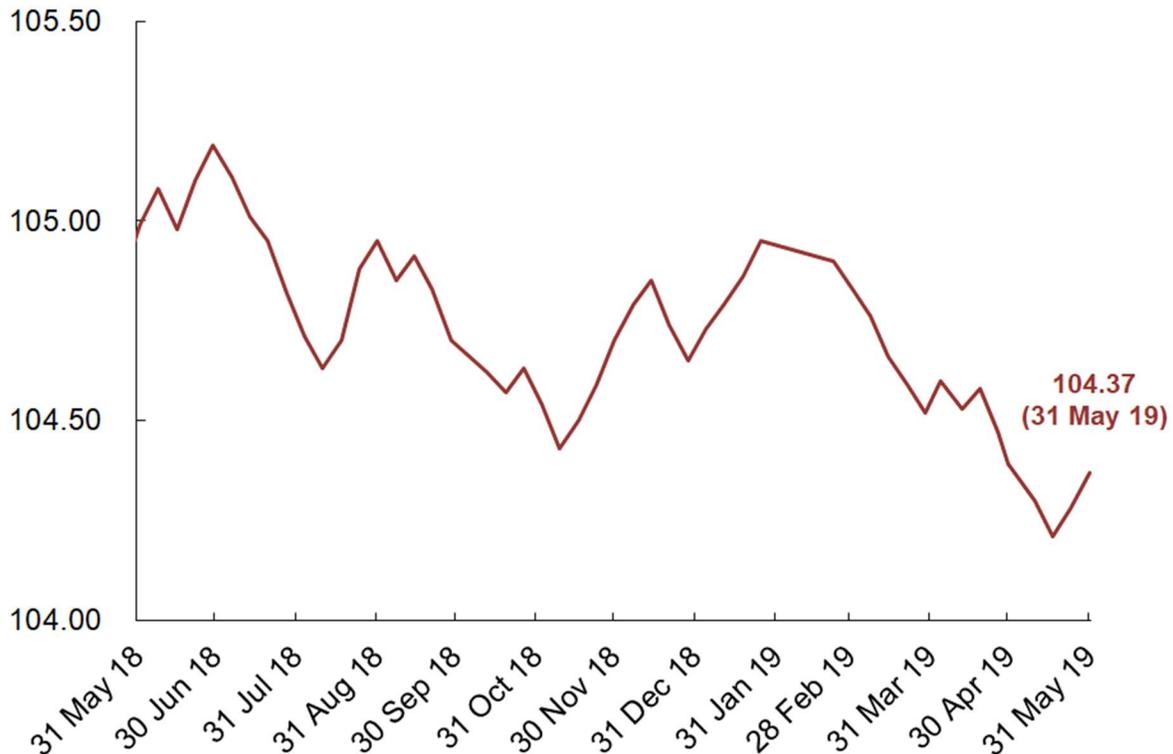
Source: The Nanjing Wool Market

3. Price index of silk fluctuates in May

The price index of silk fluctuated within a narrow range in May, falling from 104.39 on 30 April to 104.21 on 17 May, the lowest level since October 2017, before rebounding to 104.37 on 31 May. (see exhibit 3). In our view, the main reason for the decline in silk prices was a decline in downstream demand, as compared to a year ago.

Looking ahead, we expect the silk prices to stay soft in the near future, as the low season for silk garment manufacturing has begun in mid-May.

Exhibit 3: Price index of silk, May 2018 to May 2019



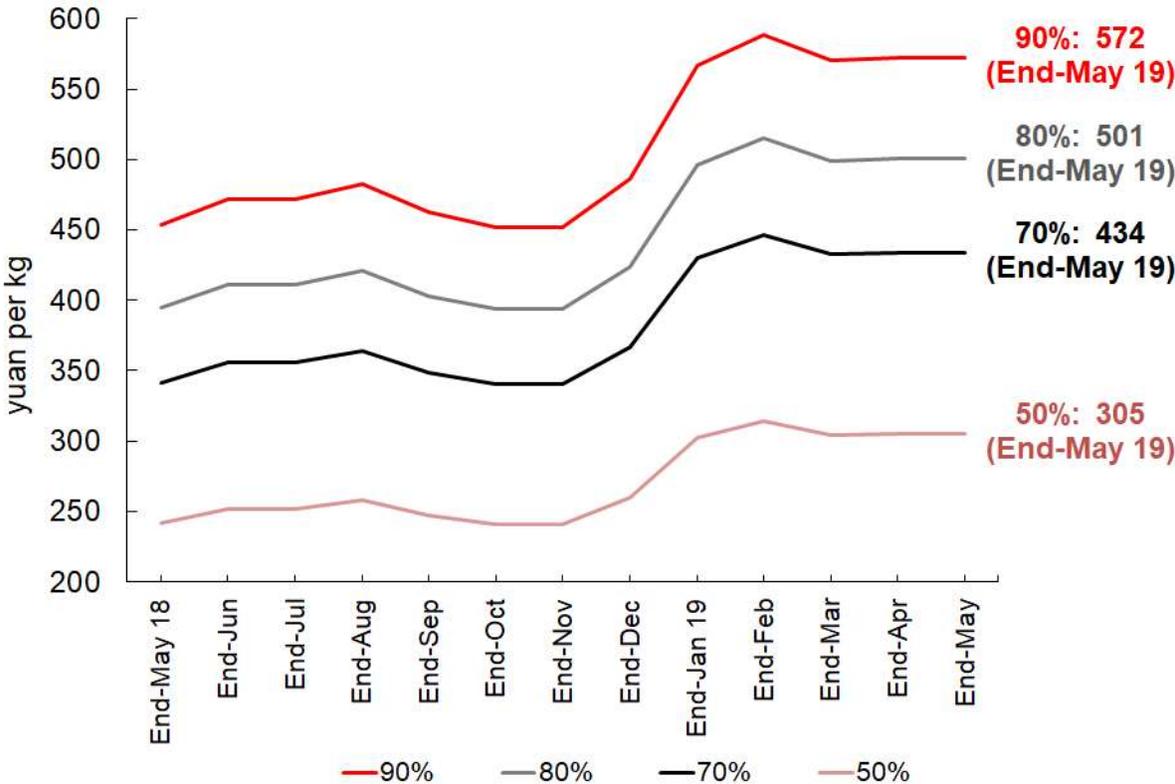
Source: Ministry of Commerce

4. Prices of grey goose down stay flat in May

The prices of various types of grey goose down remained stable in May. For example, the price of 80% grey goose down closed at 501 yuan per kg at end-May, the same price as that at end-April (see exhibit 4).

Looking ahead, we expect the prices of grey goose down to retreat in the coming months due to uncertainties arising from the China-US trade tensions. In particular, down products are on the product list on which 25% additional tariffs are proposed to be levied, as announced by the US on 13 May. If the US decides to implement the extra tariffs, the export orders for Chinese down products may be significantly impacted, reducing the demand for grey goose down in China.

Exhibit 4: Prices of grey goose down, May 2018 to May 2019



Source: cn-down.com

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