



China Sourcing Update

April 16, 2020

Prices of Natural Textile Materials

1. Cotton price indices plunge in February and March

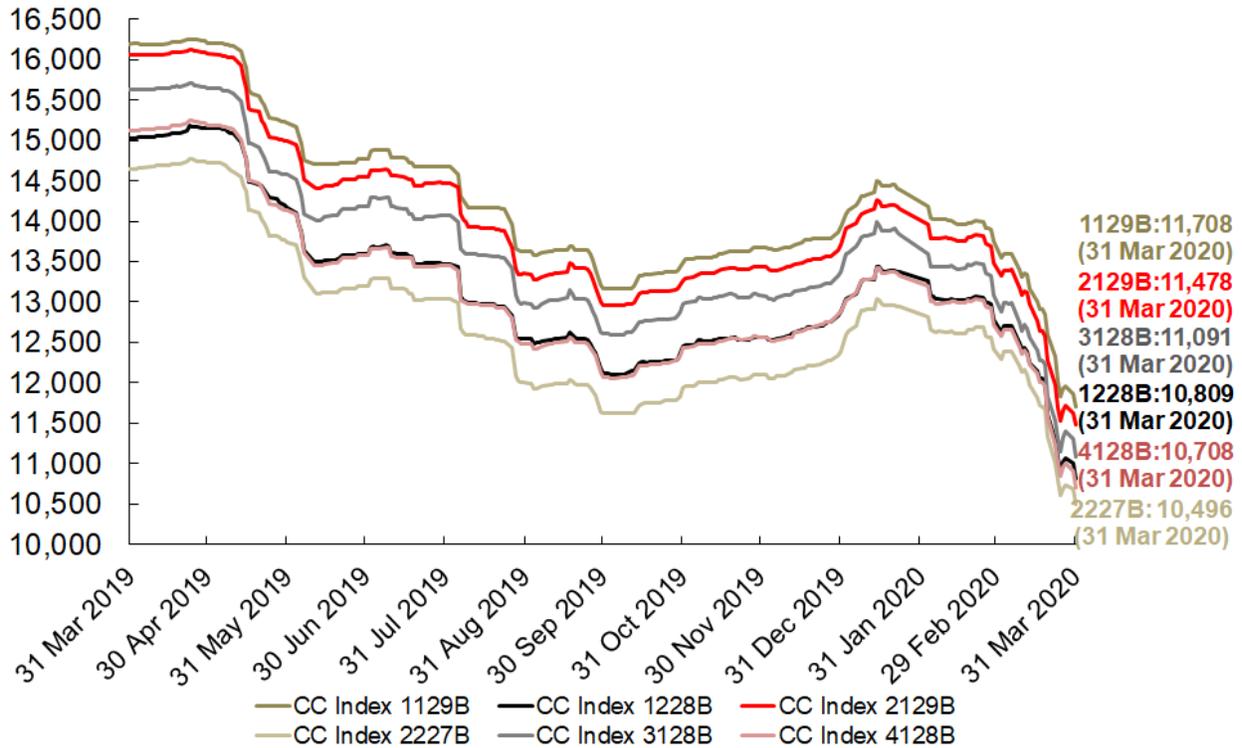
The price indices¹ of cotton dropped by more than 15% in March after a 4% fall in February and a 3% rise in January. The CC Index 3128B, for example, fell from 13,833 on 23 January before the market closed for the Chinese New Year, and fell to 13,086 as of 28 February and 11,091 as of 31 March (see *exhibit 1*).

Cotton prices rose in January on optimism brought about by the phase one trade deal between China and the US, and then started softening around mid-month as the Chinese New Year holiday approached. In February, cotton prices dropped due to plummeting downstream demand, as many textile and garment factories remain closed after the Chinese New Year break in response to government measures to contain the COVID-19 outbreak. The drop in prices steepened in March as the COVID-19 became a global pandemic, leading to lockdowns and travel restrictions, which stalled economic activity worldwide. On the other hand, the stepping up of China's state cotton reserve stockpiling, together with concerns about the locust plague in India and Pakistan, limited the decline in cotton prices during the period.

Looking ahead, we expect domestic cotton prices to remain weak in the near future. Although Chinese factories have gradually resumed operation, the COVID-19 pandemic in Europe and the US prompted cancellation of orders by retailers and brands, severely impacting downstream demand for cotton. As the latest round of state purchasing of cotton ended on 31 March, oversupply of cotton is likely to worsen 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/>

Exhibit 1: China's cotton price indices, March 2019 to March 2020



Source: China Cotton Association

2. Nanjing Wool Market Composite Index falls to ten-year low in March

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, rose from 73.99 yuan per kg on 20 December to 74.33 yuan per kg on 17 January, before taking a sharp turn in February and in March. The index closed at a ten-year low of 70.26 yuan per kg on 31 March. (See exhibit 2)

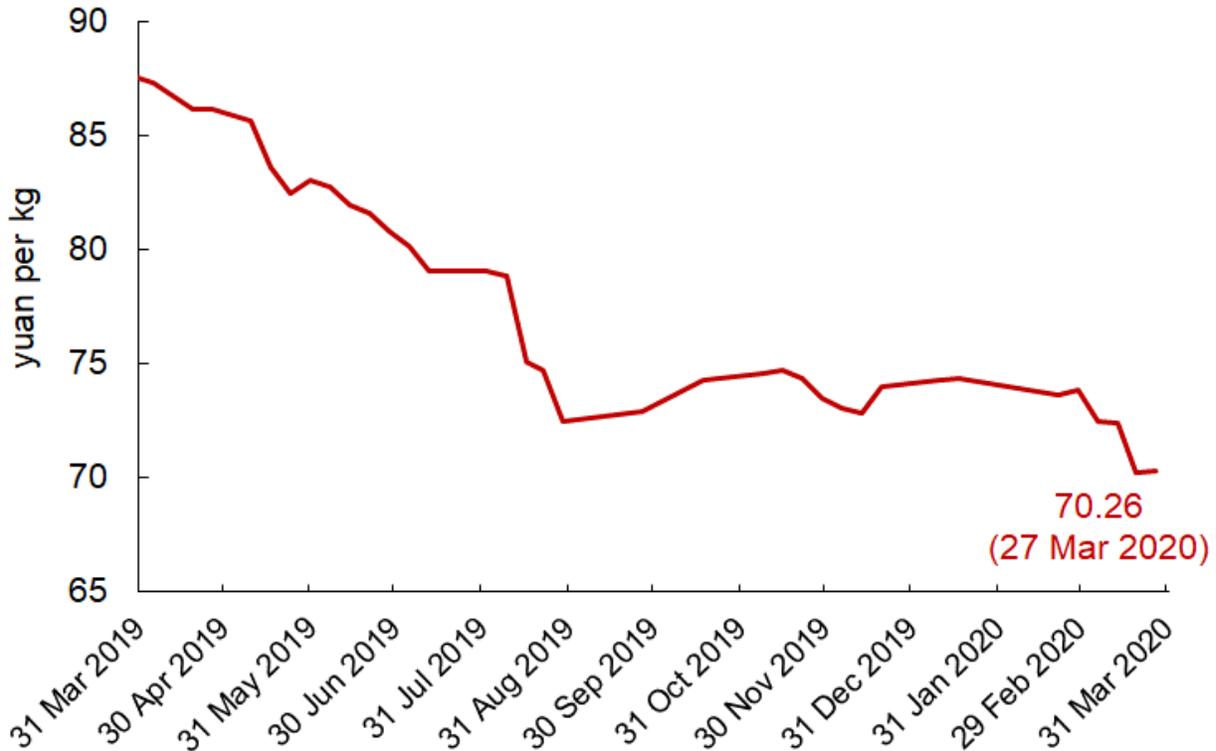
The decline in domestic wool prices in February was mainly a result of lower downstream demand, as most factories for wool products in China remained closed during most of the month due to the COVID-19 outbreak. The drop steepened in March as lockdowns and travel restrictions were imposed in Italy and India, the second and third top export markets of Australian wool, in a bid to contain the spread of the disease.³ The fall in wool prices, however, has so far been contained because many wool suppliers withdrew from wool auctions in response to low prices.

² <http://www.woolmarket.com.cn/>

³ The movements in domestic wool prices largely shadow those in Australia, a major exporter of wool to China.

Looking ahead, we expect domestic wool prices to decline further. Downstream demand is likely to remain sluggish in the near future amid disruptions of economic activity as governments worldwide strive to contain the COVID-19 pandemic.

Exhibit 2: Nanjing Wool Market Composite Index, March 2019 to March 2020



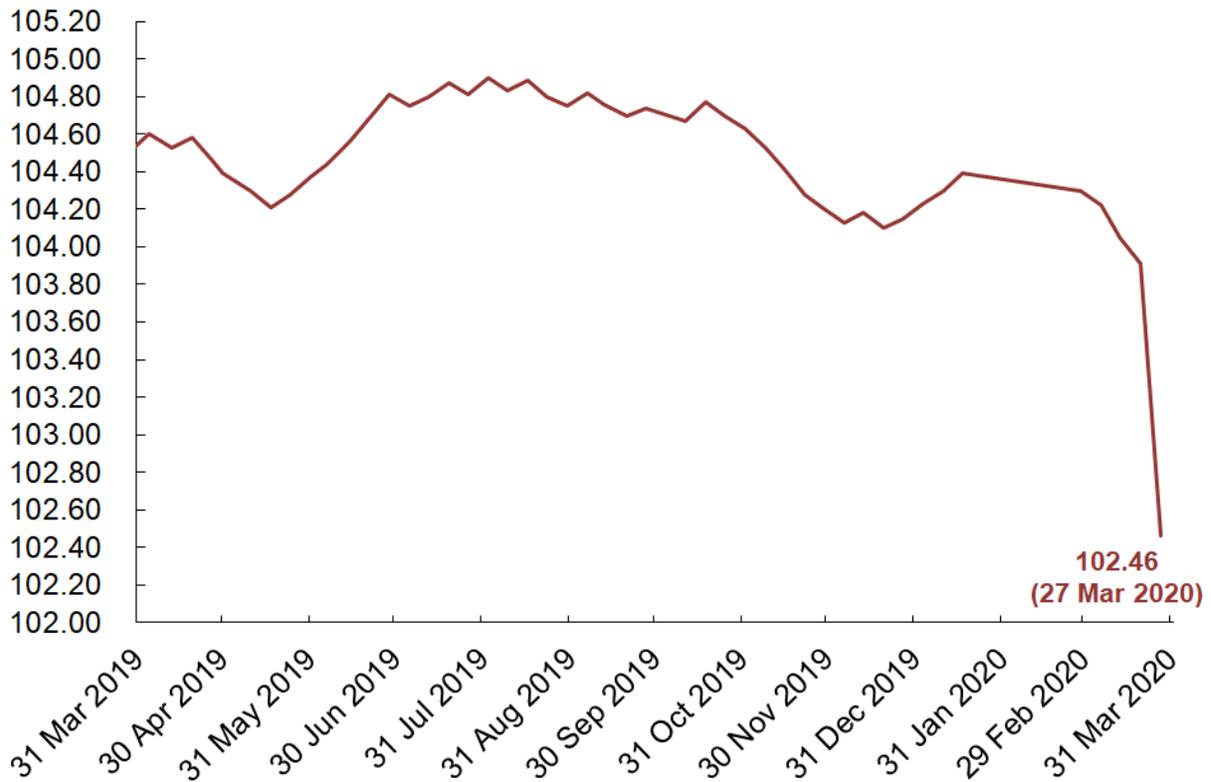
Source: The Nanjing Wool Market

3. Price index of silk falls in March

The price index of silk fluctuated within a narrow range of 104.23 – 104.30 in January and February before declining in March, closing at 102.46 on 27 March (see exhibit 3). The dip in silk prices in March is attributed to an expectation of decline in fashion consumption in developed economies amid government measures to contain the COVID-19 pandemic.

Despite the approach of the traditional high season for silk products in April, we expect the price index of silk to stay low in the near future as cancellation of orders by apparel brands and retailers in Europe and the US leads to a decrease in downstream demand.

Exhibit 3: Price index of silk, March 2019 to March 2020



Source: Ministry of Commerce

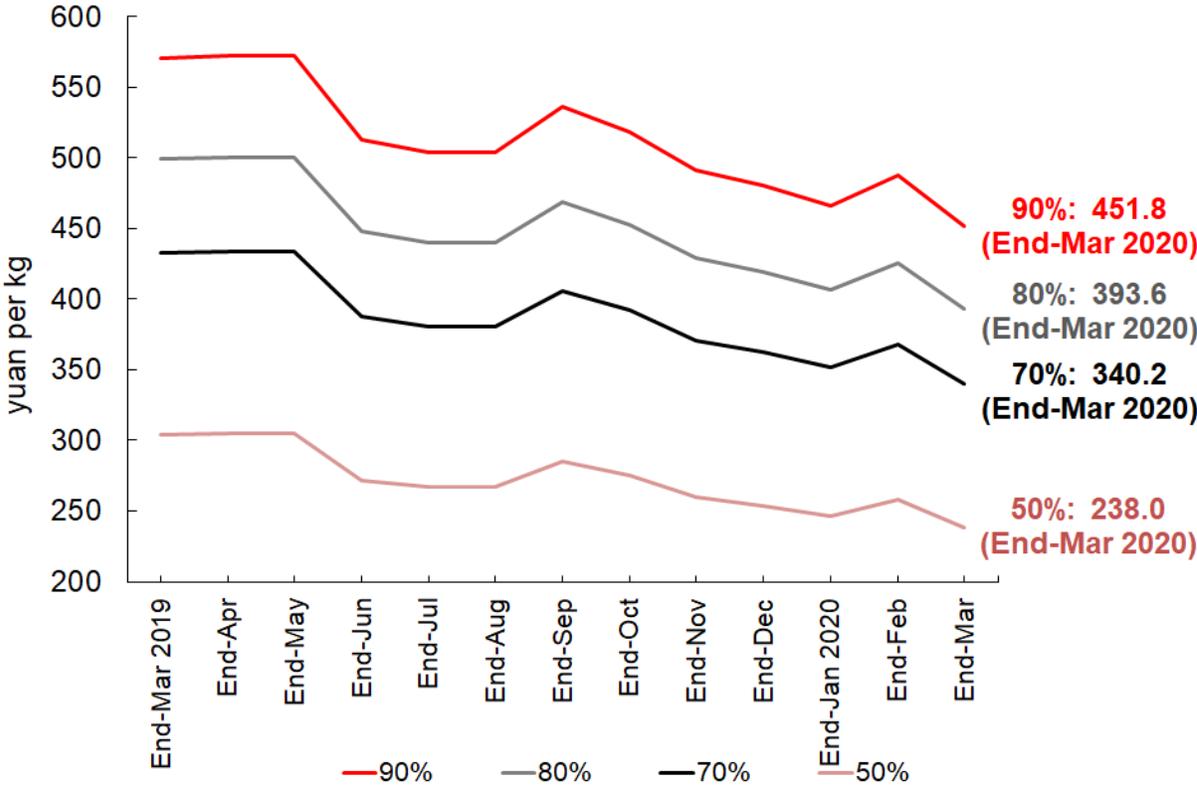
4. Prices of grey goose down fall in March after rebound in February

The prices of various types of grey goose down rebounded in February after a four-month downward streak from last October to January, before dropping by more than 7% in March. For example, the price of 80% grey goose down dropped from 425.6 yuan per kg at end-February to 393.6 yuan per kg at end-March (see exhibit 4).

In February, the Chinese poultry industry was temporarily suspended amidst the government's efforts to contain the COVID-19 outbreak. This led to a shortfall in supply, which outweighed the dip in downstream demand caused by the prolonged Chinese New Year factory closure. The decline in grey goose down prices steepened in March as the outbreak deepens in major export markets of Chinese goose down products, including South Korea and Japan, leading to a reduction in downstream demand.

In the near future, we expect the prices of grey goose down to remain low as downstream demand continues to be affected by the COVID-19 epidemic.

Exhibit 4: Prices of grey goose down, March 2019 to March 2020



Source: cn-down.com

FUNG BUSINESS INTELLIGENCE

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