



China Sourcing Update

December 2, 2016

Prices of Natural Textile Materials

1. Cotton price indices rise further in November

The price indices¹ of cotton trended upward in November. The CC Index 3128B, for example, went up from 15,358 on 31 October to a two-year high of 16,019 on 29 November, before closing at 15,999 on 30 November (see *exhibit 1*).

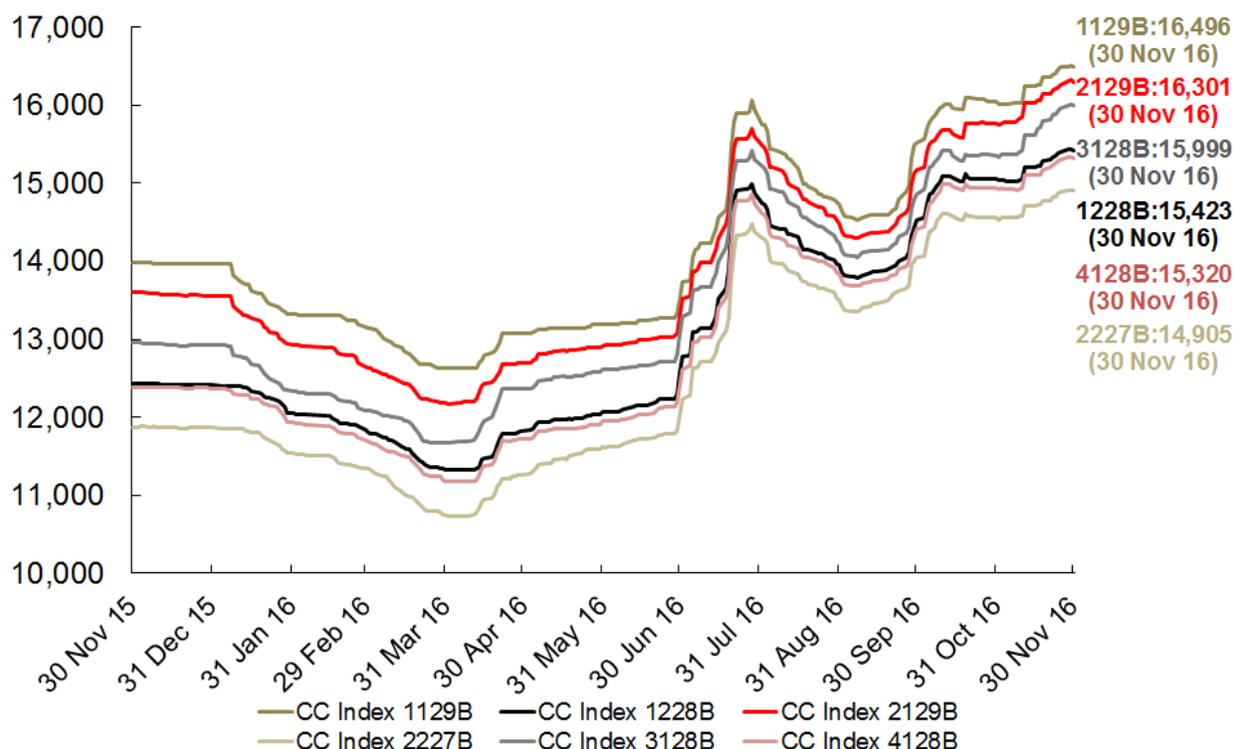
The main reasons for the increase in domestic cotton prices in the month were a tight supply of cotton caused by a delay in the transportation of cotton from Xinjiang to other regions, and a strong restocking demand from downstream textile manufacturers.

Going forward, the downstream demand for cotton from textile manufacturers is expected to remain strong in the near future. Meanwhile, the domestic supply of cotton is expected to increase as more Xinjiang cotton will arrive markets soon. Moreover, the Chinese government announced on 22 November that it will sell its cotton reserves again from 6 March to the end of August 2017.² The market expectations of the rise in future supply of cotton are likely to put downward pressures on cotton prices in the short term. All in all, we expect the cotton prices to fall in the near future.

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.sdpc.gov.cn/zcfb/zcfbgg/201611/t20161124_827588.html

Exhibit 1: China's cotton price indices, November 2015 to November 2016



* 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 goes down

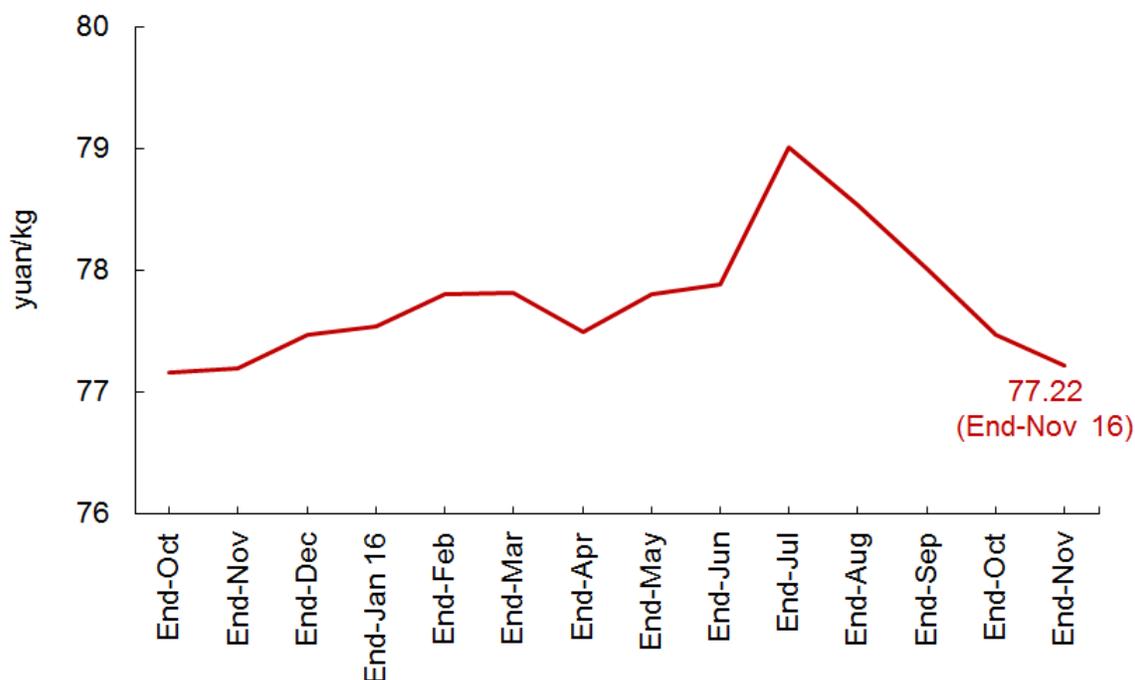
The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, dropped slightly from 77.47 yuan per kg at end-October to 77.22 yuan per kg at end-November (see exhibit 2). The main reason for the fall in the wool prices was a weak domestic demand, in our view.

Going forward, the demand for wool is expected to remain soft in the near term. Meanwhile, the supply of wool in Australia is forecast to stay flat in 2016/17, according to the Australian Wool Production Forecasting Committee.⁴ In view of these factors, we predict the wool prices in China to stay low in the foreseeable future.

³ <http://www.woolmarket.com.cn/>

⁴ <http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc-report-august-2016.pdf>

**Exhibit 2: Nanjing Wool Market Composite Index,
November 2015 to November 2016**



Source: The Nanjing Wool Market

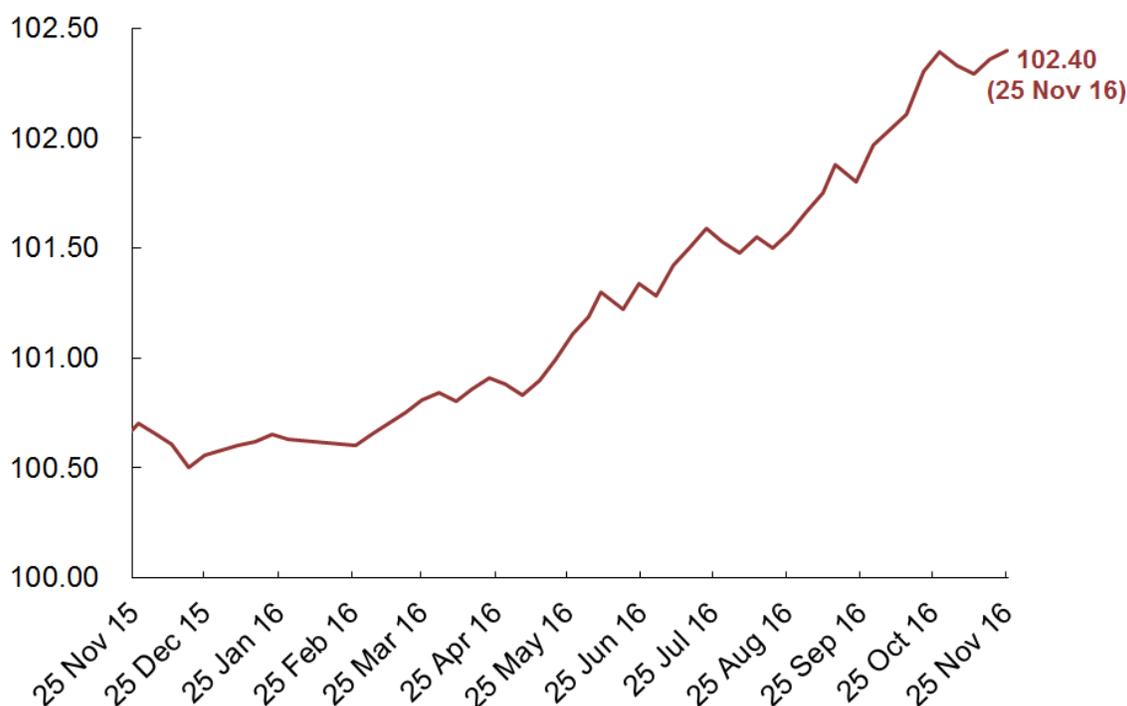
3. Price index of silk stays high

The price index of silk has hovered around 102.30 since late October, closing at a nearly four-year high of 102.40 on 25 November, slightly higher than the index reading of 102.39 registered on 28 October (see exhibit 3).

According to media reports, the downstream demand for silk stayed weak in November; however, high upstream costs helped support the silk prices.

Going forward, the upstream prices of raw silk are likely to stay high in the near term. Meanwhile, the downstream demand for silk is expected to remain soft. All in all, we expect the price index of silk to fluctuate around the current levels in the near future.

Exhibit 3: Price index of silk, November 2015 to November 2016



Source: Ministry of Commerce

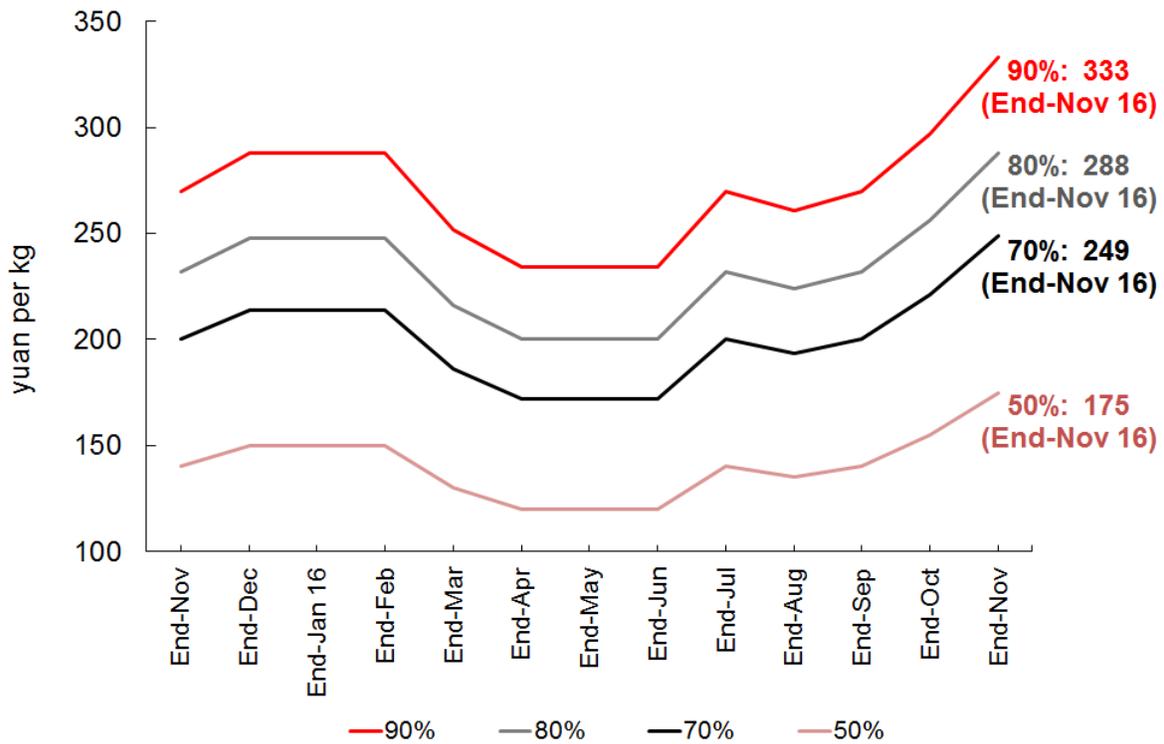
4. Prices of grey goose down surge

The prices of various types of grey goose down went up sharply in November. For example, the price of 80% grey goose soared from 256 yuan per kg at end-October to 288 yuan per kg at end-November, the highest level since March 2015 (see *exhibit 4*).

In our view, the rise in the grey goose down prices in November was mainly due to the seasonal increase in demand, as the weather turned cold in the month.

Looking ahead, the demand for down is likely to remain strong during the current high season. Thus, we expect the prices of grey goose down to stay at high levels in the near future.

Exhibit 4: Prices of grey goose down, November 2015 to November 2016



Source: cn-down.com

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