



China Sourcing Update

December 9, 2019

Prices of Natural Textile Materials

1. Cotton price indices rebound in October and November

The price indices¹ of cotton rebounded in October and November, ending the three-month long downward streak between July and September. The CC Index 3128B, for example, rose from 12,608 on 30 September to 12,971 on 31 October and closed at 13,092 on 29 November (see exhibit 1).

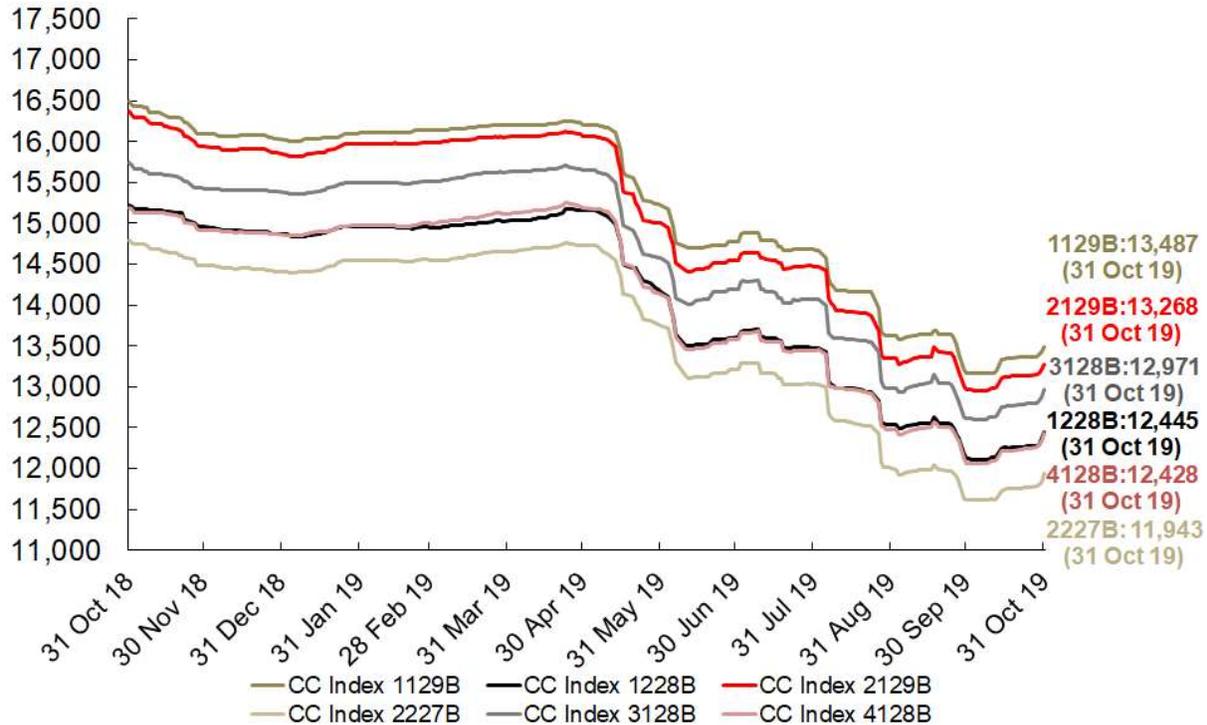
The rebound in domestic cotton prices in October and November was mainly fueled by expectation of a reduction in cotton harvest in Xinjiang. Renewed optimism toward China-US trade negotiations also strengthened demand for cotton. In addition, the Chinese central government's announcement in mid-November about upcoming purchases for the state cotton reserves provided support for cotton prices.²

Going forward, we expect domestic cotton prices to fluctuate near the current levels in the near future. While the stocking up of state cotton reserves starting December is expected to lift prices, sluggish downstream demand is likely to limit the price gains.

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 On 14 November, the Chinese central government announced the decision to stock up approximately 500,000 tonnes of cotton for the state cotton reserves between 2 December 2019 and 31 March 2020. See official announcement (Chinese only): http://www.lswz.gov.cn/html/zcfb/2019-11/14/content_247673.shtml

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



Source: China Cotton Association

2. Nanjing Wool Market Composite Index rises in October and fluctuates in November

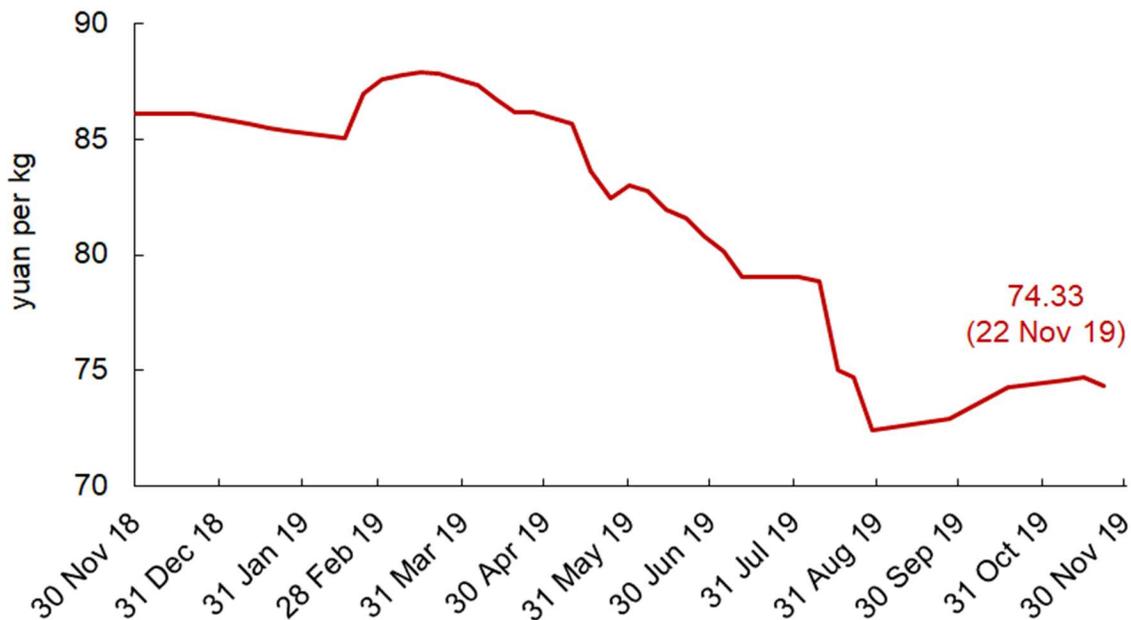
The Nanjing Wool Market Composite Index³, one of the major wool price indices in China, went up from 72.89 yuan per kg on 26 September to 74.26 yuan per kg on 18 October, before fluctuating around the 74-75 yuan per kg range and closing at 74.33 on 22 November (see exhibit 2).

The movements in domestic wool prices in October and November largely shadowed those in Australia, a major exporter of wool to China: After a sharp decline in the beginning of October, from 77.42 yuan per kg on 27 September to 72.55 yuan per kg on 4 October, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) rebounded to 77.71 yuan per kg as of 1 November as renewed optimism on the global economy raised expectations on consumer spending. In November, wool prices in Australia oscillated, dominated by short-term fluctuations in downstream demand.

³ <http://www.woolmarket.com.cn/>

We expect that domestic wool prices will remain volatile in the near future as market sentiment continues to be driven by uncertainties in the global economy and international trade. That said, we do not expect domestic wool prices to drop significantly as adverse weather conditions in Australia is forecast to result in a decline in wool production.

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



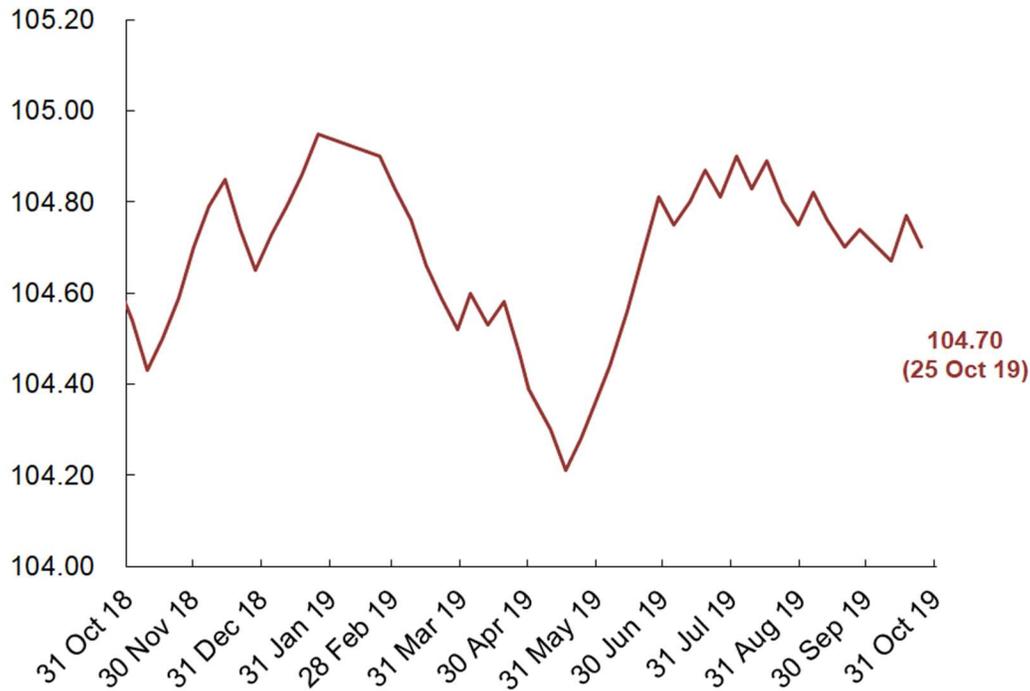
Source: The Nanjing Wool Market

3. Price index of silk declines in October and November

The price index of silk fluctuated within a narrow range in October and declined in November, closing at 104.20 on 29 November, compared with the index reading of 104.74 on 27 September (see exhibit 3).

Going forward, we expect the price index of silk to stay within a narrow range in the near future, as the effect of a tight supply of cocoon counterbalance the effect of a weak downstream demand.

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



Source: Ministry of Commerce

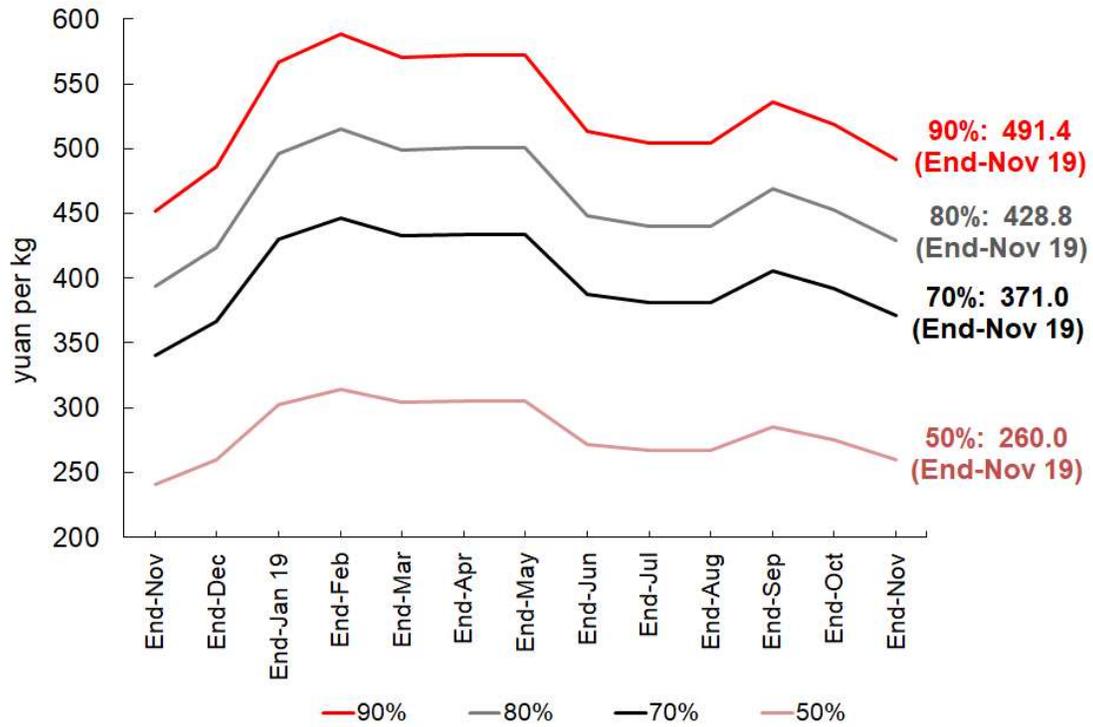
4. Prices of grey goose down drop in October and November

The prices of various types of grey goose down dropped in October and November. For example, the price of 80% grey goose down dropped from 468.8 yuan per kg at end-September to 452.8 yuan per kg at end-October, and further to 428.8 yuan per kg at end-November (see exhibit 4).

The main reason for the decline in grey goose down prices is a decrease in downstream demand both domestically and globally.

Looking ahead, we expect downward adjustment in the prices of grey goose down in the near future, reflecting the reduction in production of down jackets as the industry shifts focus from quantity to quality.

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



Source: cn-down.com

FUNG BUSINESS INTELLIGENCE

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