



China Sourcing Update

November 22, 2016

Prices of Natural Textile Materials

1. Cotton price indices rise further during October to mid-November

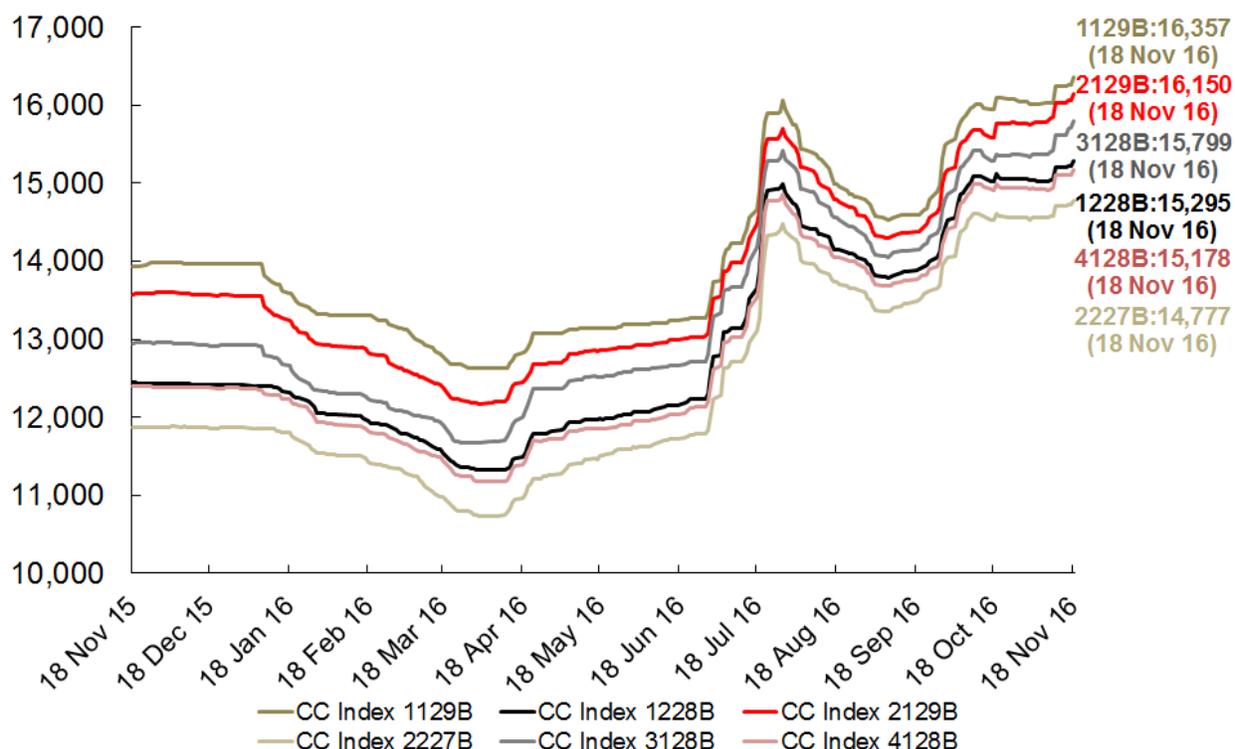
The price indices¹ of cotton rose in early October, and then stayed relatively stable till early November, before going up again in mid-November. The CC Index 3128B, for example, went up from 14,866 on 30 September to 15,419 on 11 October, and hovered between 15,289 and 15,419 in the following weeks. In mid-November, the index rose again to reach a two-year high of 15,799 on 18 November (see *exhibit 1*).

In our view, the increase in domestic cotton prices was due largely to a tight supply of cotton caused by a delay in the arrival of new cotton crop and the end of government's auction of cotton reserves in late September, and a strong restocking demand from downstream textile manufacturers, whose inventories dropped to low levels.

Going forward, the downstream demand for cotton from textile manufacturers is likely to stay strong. Meanwhile, the domestic supply of cotton is expected to remain tight. All in all, we expect the cotton prices to stay around the current high levels 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/>

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 drops

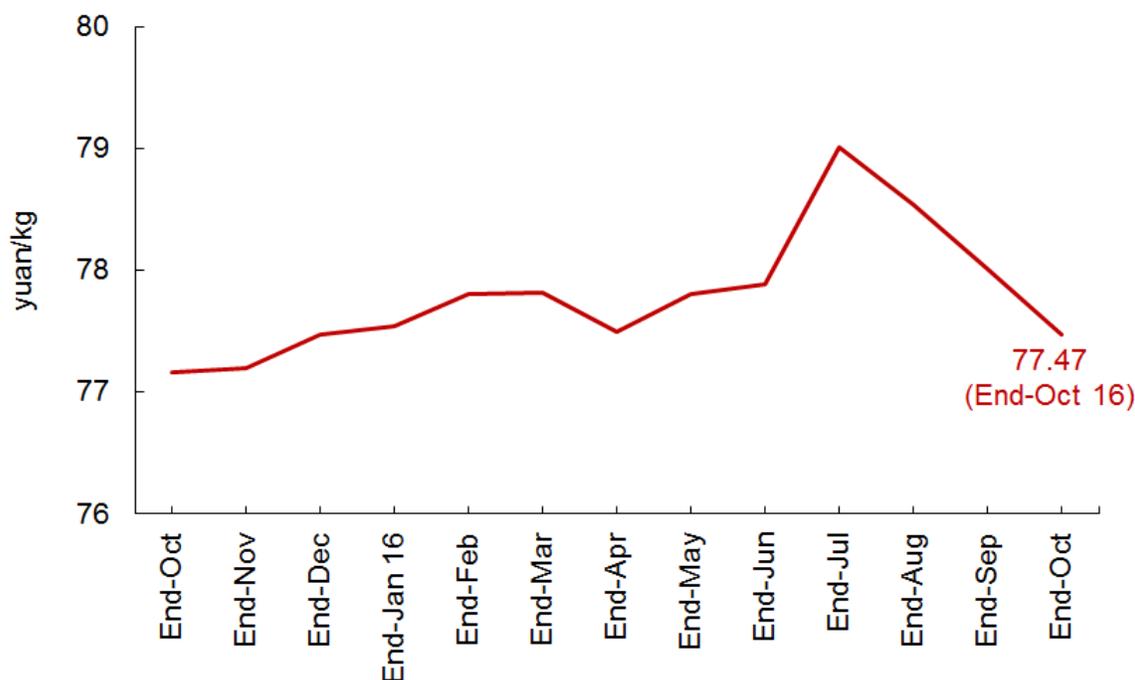
The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went down from 78.54 yuan per kg at end-August to 77.47 yuan per kg at end-October (see exhibit 2). We believe that the decline in the wool price index since end-August has been largely attributable to a weak domestic demand.

Looking ahead, the demand for wool is expected to remain soft. Meanwhile, the supply of wool in Australia is forecast to stay flat in 2016/17, according to the Australian Wool Production Forecasting Committee.³ In view of these factors, we expect the wool prices in China to stay low in the foreseeable future.

² <http://www.woolmarket.com.cn/>

³ <http://www.wool.com/globalassets/start/market-intelligence/wool-production-forecasts/awpfc-report-august-2016.pdf>

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



Source: The Nanjing Wool Market

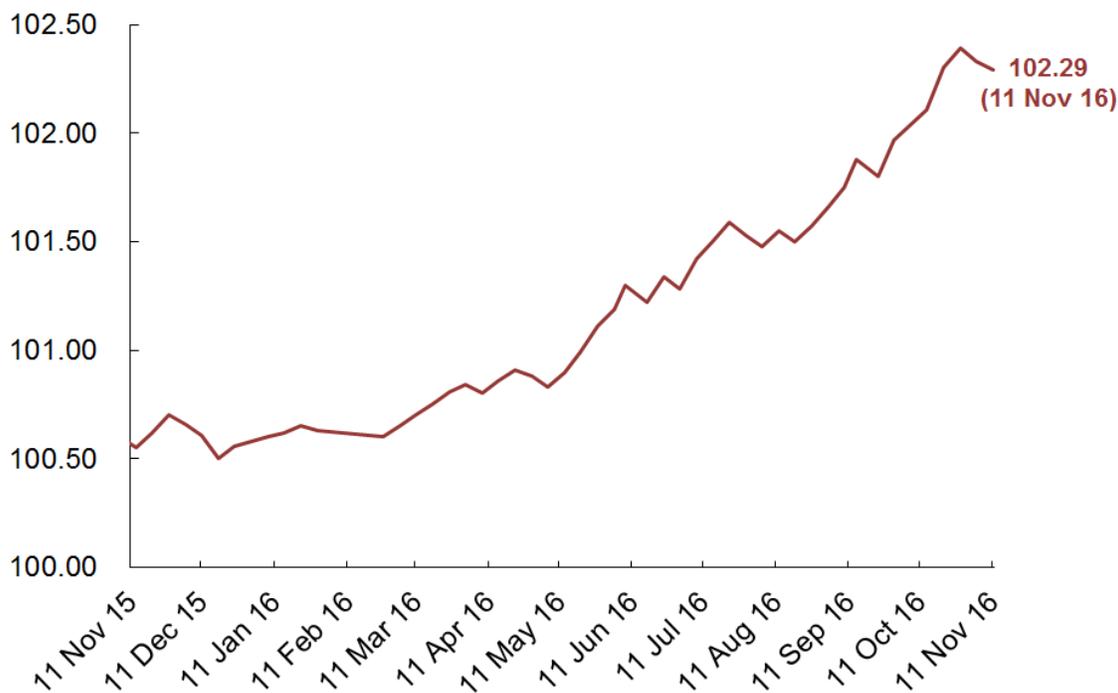
3. Price index of silk stays high in October and early November

The price index of silk trended upward in October before falling a bit in early November. The price index edged up from 101.97 on 30 September to 102.39 on 28 October, and then retreated to 102.29 on 11 November (see exhibit 2).

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

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

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



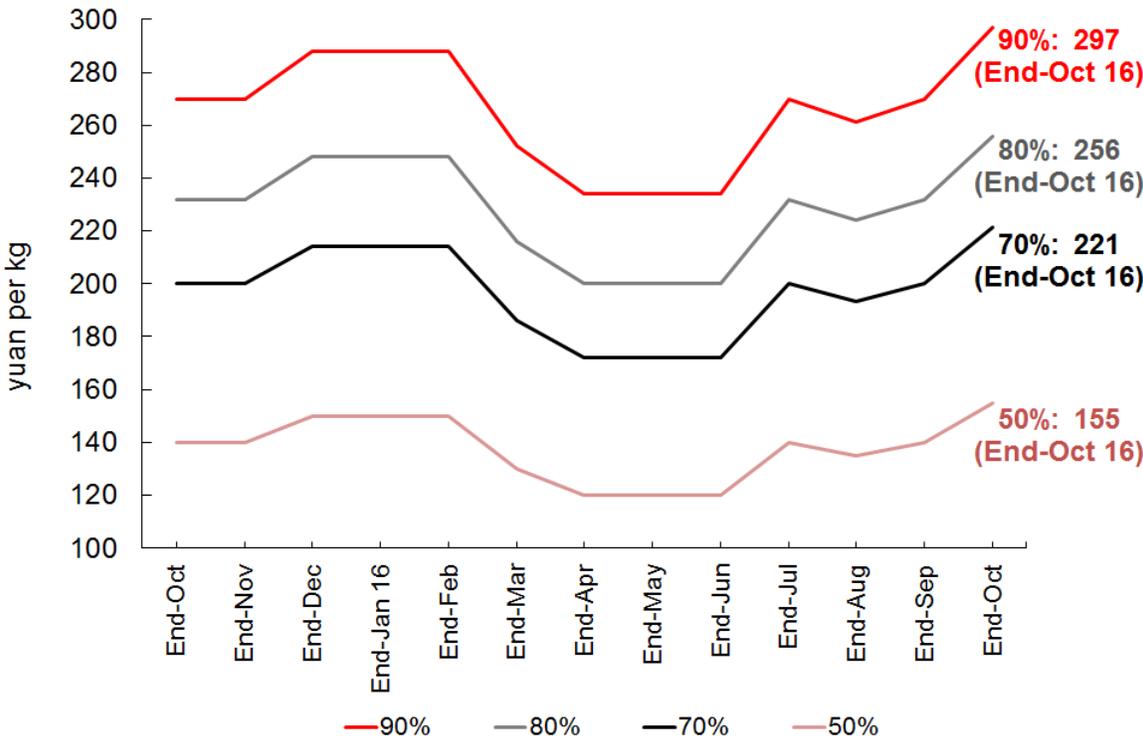
Source: Ministry of Commerce

4. Prices of grey goose down rise further in October

The prices of various types of grey goose down continued to rise in October. For example, the price of 80% grey goose went up from 232 yuan per kg at end-September to 256 yuan per kg at end-October (see exhibit 3). According to the local media, the downstream demand for grey goose down improved in the month in anticipation of a cold winter.

Looking ahead, the demand for down is likely to improve as the high season is approaching. Thus, we expect the prices of grey goose down to rise further in the near future.

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



Source: cn-down.com

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