

China Sourcing Update

November 8, 2017

Prices of Natural Textile Materials

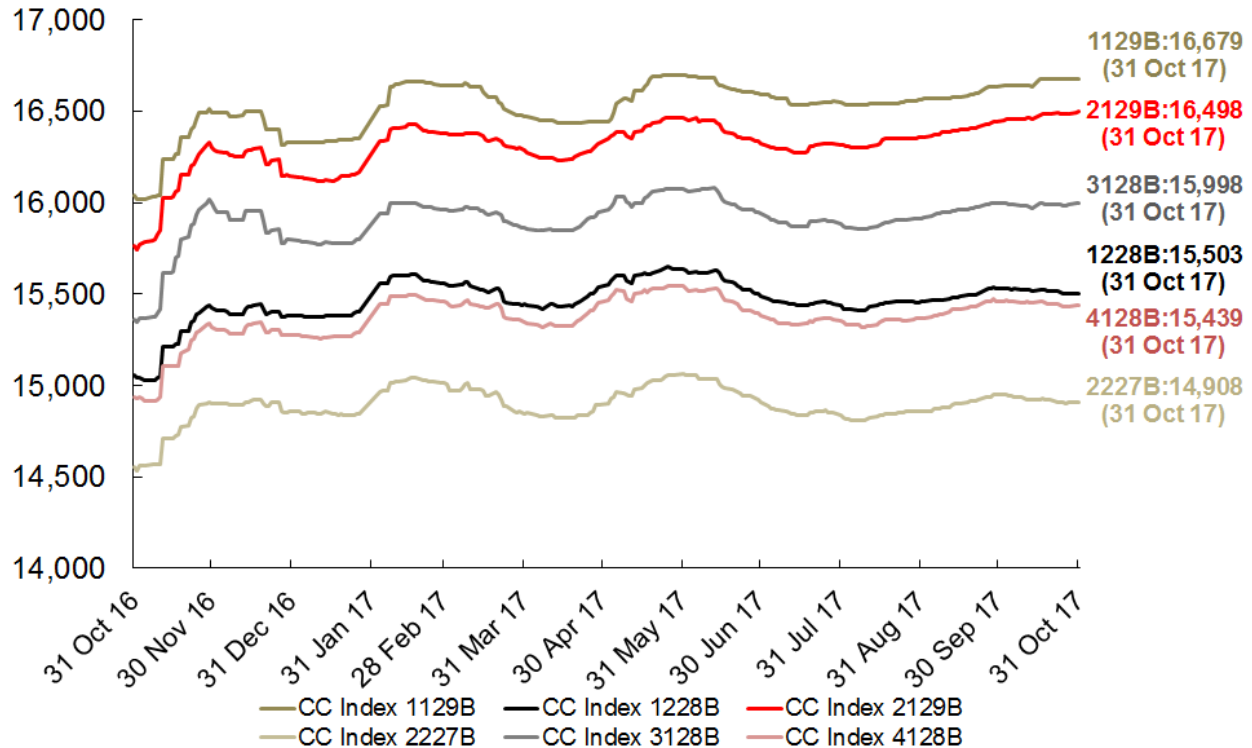
1. Cotton price indices stay high in October

The price indices¹ of cotton stayed high and fluctuated within a narrow range in October. The CC Index 3128B, for example, hovered between 15,970 and 15,998 throughout the month before closing at 15,998 on 31 October, slightly higher than the index reading of 15,995 on 29 September (*see exhibit 1*).

According to media reports, cotton harvest has been underway in Xinjiang, the major cotton growing region in China. The domestic supply of cotton is expected to increase as more cotton from Xinjiang will arrive in market in the coming months. Therefore, we expect cotton prices to peak soon.

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, October 2016 to October 2017



* 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 falls during September to October

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went down from a five-year high of 81.73 yuan per kg on 25 August to 80.25 yuan per kg on 27 October (see exhibit 2).

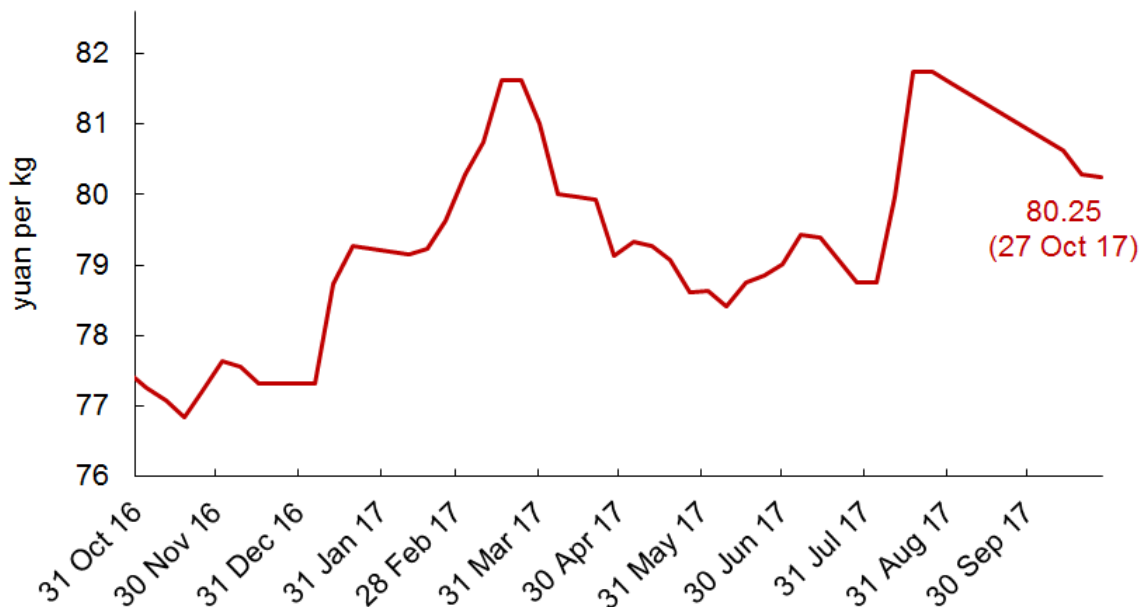
The wool prices in China dropped in the two-month period despite a rise in the wool prices in the Australian market. The main reason was an appreciation of the Chinese yuan against the Australian dollar. The Australian Wool Exchange Eastern Market Indicator (AWEX-EMI), the major wool price index in Australia, rose from 1,572 Australian cents per kilogram on 24 August to 1,578 Australian cents per kilogram on 27 October. Meanwhile, according to Bloomberg, the spot exchange rate of the Chinese

² <http://www.woolmarket.com.cn/>

yuan against the Australian dollar appreciated from 5.2659 on 24 August to 5.0959 on 27 October, thereby driving down the wool prices denominated in the yuan. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by both the wool price movements in the Australian market and the exchange rate movement of the Chinese yuan against the Australian dollar.

Looking ahead, we expect that domestic cotton prices will continue to decline in the near term, as the strengthening of the Chinese yuan against the Australian dollar in recent weeks are likely to further suppress wool prices denominated in the yuan.

Exhibit 2: Nanjing Wool Market Composite Index, October 2016 to October 2017



Source: The Nanjing Wool Market

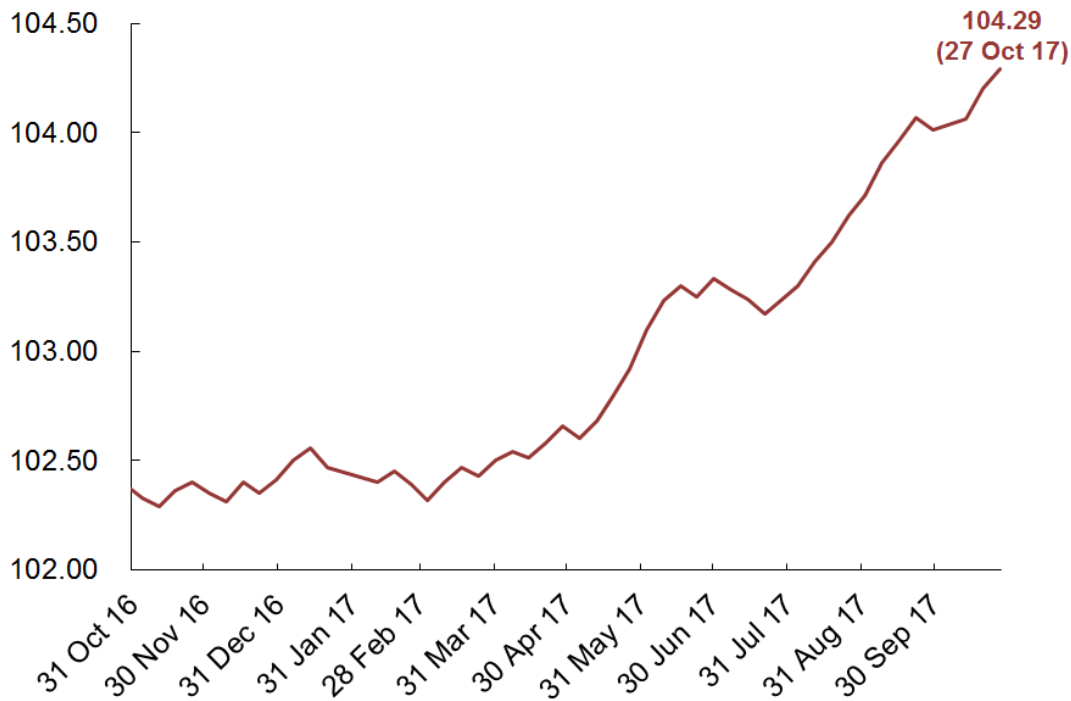
3. Price index of silk hits nine-year high in October

The price index of silk edged up in October, rising from 104.01 on 29 September to a nine-year high of 104.29 on 27 October (see exhibit 3).

According to the local media, the main reason for the increase in the price index in the month was an improvement in the restocking demand from downstream manufacturers during the current high season for silk wadding.

Looking ahead, we expect the price index of silk to stay high as the downstream demand for silk is likely to stay strong in the foreseeable future.

Exhibit 3: Price index of silk, October 2016 to October 2017



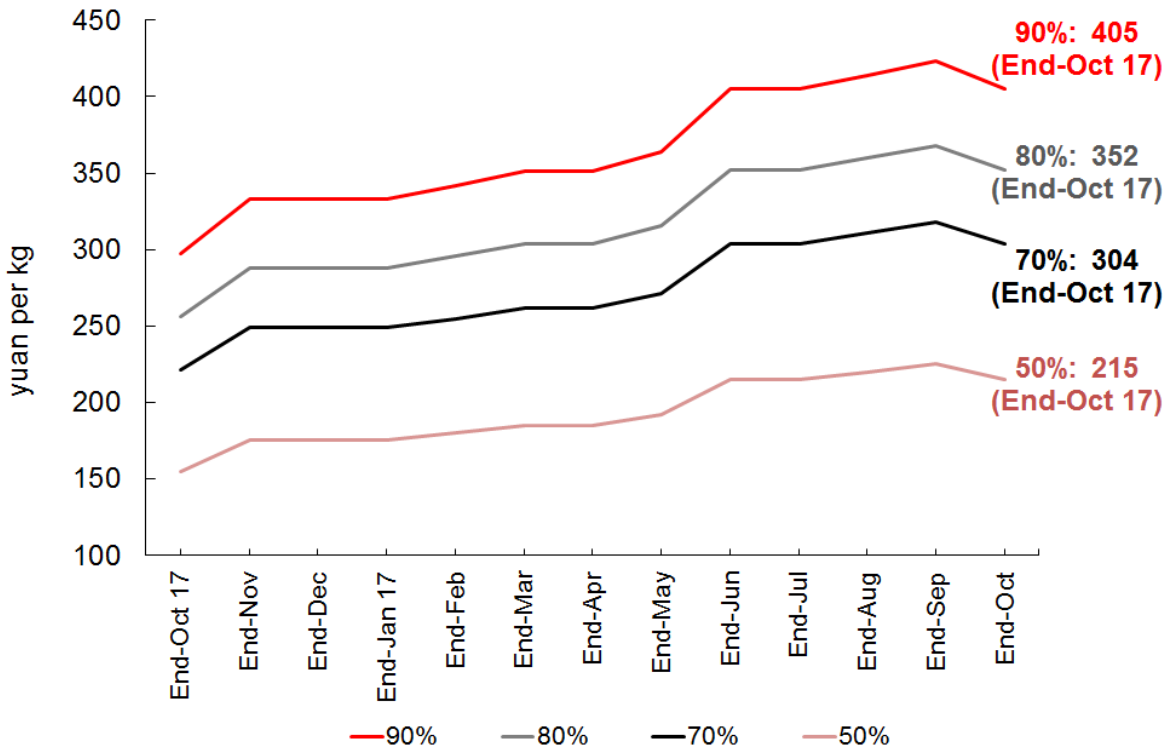
Source: Ministry of Commerce

4. Prices of grey goose down drop in October

The prices of various types of grey goose down retreated in October after a year of continuous rise. For example, the price of 80% grey goose down went down from a three-year high of 368 yuan per kg at end-September to 352 yuan per kg at end-October (see exhibit 4).

Looking ahead, the demand for down is likely to improve in the near term as the high season for down products is approaching. Thus, we expect that the prices of grey goose down are unlikely to fall further in the foreseeable future.

Exhibit 4: Prices of grey goose down, October 2016 to October 2017



Source: cn-down.com

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