



China Sourcing Update

October 11, 2018

Prices of Natural Textile Materials

1. Cotton price indices decline in September

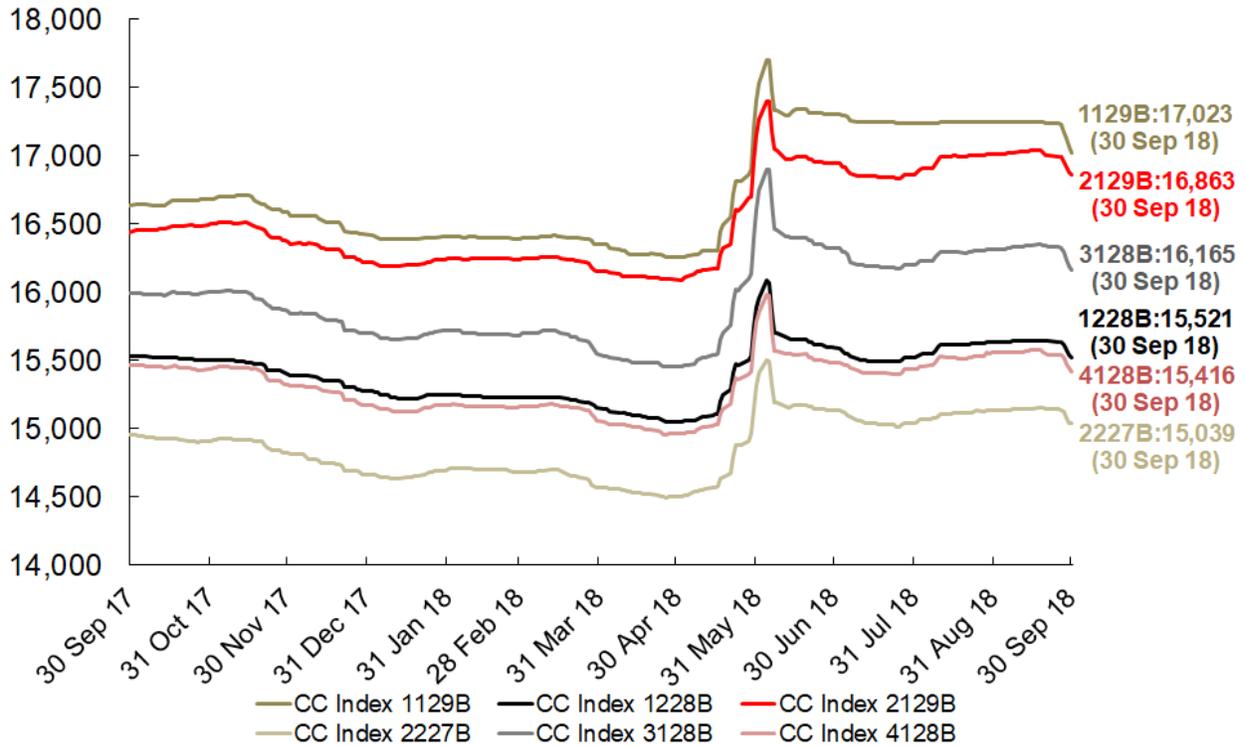
The price indices¹ of cotton rose slightly during early to mid-September and went down afterwards. The CC Index 3128B, for example, edged up from 16,316 on 31 August to 16,350 on 18 September, before dropping to 16,165 on 30 September (*see exhibit 1*).

Domestic cotton prices started to fall after the US announced on 18 September that 10% additional tariffs would be imposed on US\$200 billion of Chinese imports, including some apparel products, effective from 24 September. In addition, a weaker-than-expected downstream demand for cotton during the current high season put downward pressures on cotton prices.

The US additional tariff rate on US\$200 billion of Chinese imports is set to jump to 25% on 1 January 2019. Besides, US President Donald Trump warned to levy extra tariffs on another US\$267 billion of Chinese imports. If Trump follows through his threat, it is highly likely that many more (or all) apparel products will be hit with additional tariffs, thereby leading to a drop in the demand for cotton in China. All in all, we expect that domestic cotton prices will continue to fall amid the China-US trade war.

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, September 2017 to September 2018



Source: China Cotton Association

2. Nanjing Wool Market Composite Index falls in September

The Nanjing Wool Market Composite Index², one of the major wool price indices in China, went down from 90.87 yuan per kg on 24 August to 89.25 yuan per kg on 28 September (see exhibit 2).

The main reason for the drop in wool prices in China in the month was a fall in wool prices in Australia. Triggered by a weaker demand, the Australian Wool Exchange Eastern Market Indicator (AWEX-EMI) fell from 104.12 yuan per kg on 23 August to 100.09 yuan per kg on 28 September. As China imports a large amount of wool from Australia, the domestic wool prices are significantly affected by the wool price movements in the Australian market.

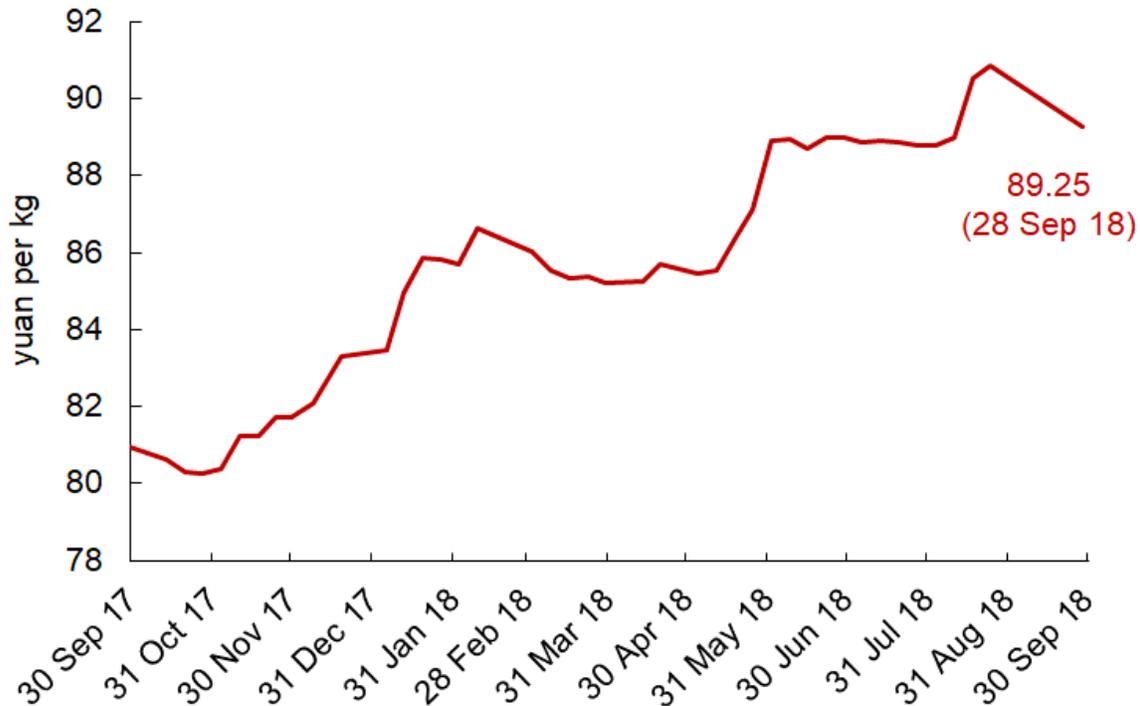
At the 30th Nanjing Wool Market Conference held during 11-14 September, Chinese wool textile manufacturers revealed that they are now focusing on the domestic retail market rather than the overseas market, with the aim of extending profit margins as well

² <http://www.woolmarket.com.cn/>

as satisfying the growing demand for quality locally-made garments from the younger consumers.

Looking ahead, we believe that domestic wool prices will trend downward in the near future, in line with the wool price movements in Australia.

Exhibit 2: Nanjing Wool Market Composite Index, September 2017 to September 2018



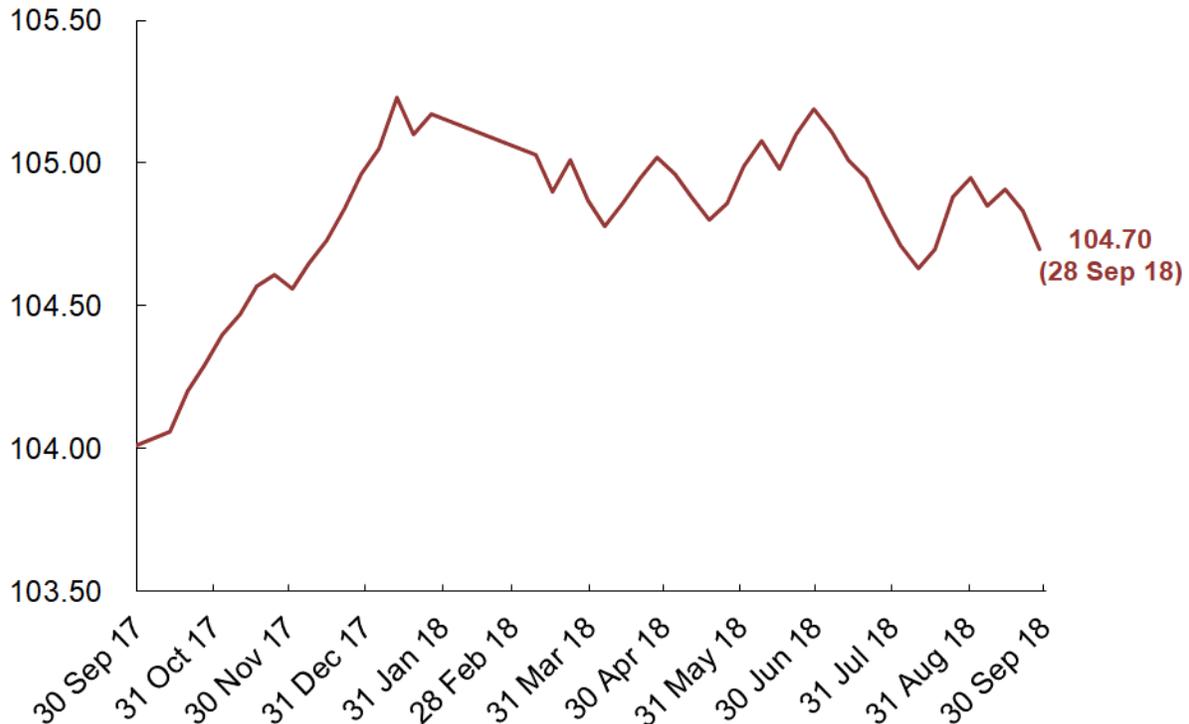
Source: The Nanjing Wool Market

3. Price index of silk goes down in September

The price index of silk dropped slightly in September, falling from 104.95 on 31 August to 104.70 on 28 September (see exhibit 3). The decline in the price index in the month was due mainly to a weak downstream demand.

Looking ahead, we expect the price index of silk to trend slightly downward in the near term, given a sluggish downstream demand.

Exhibit 3: Price index of silk, September 2017 to September 2018



Source: Ministry of Commerce

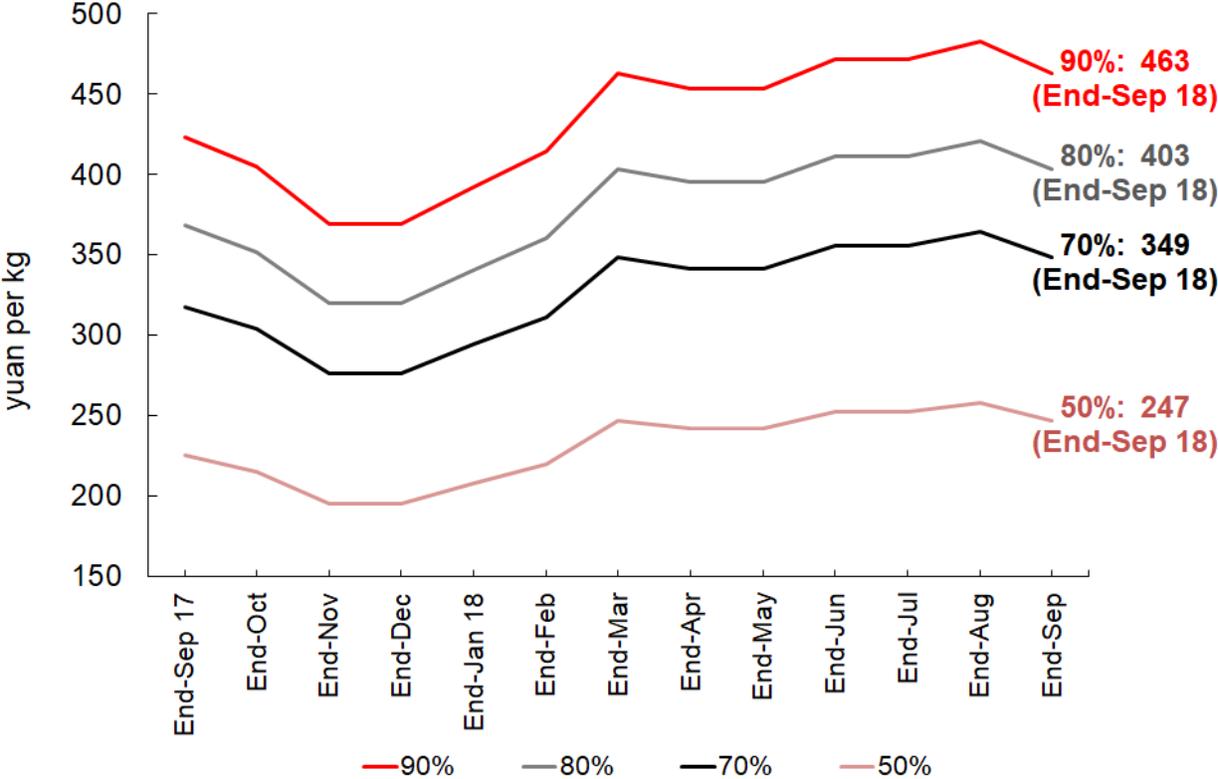
4. Prices of grey goose down drop in September

The prices of various types of grey goose down fell in September. For example, the price of 80% grey goose down declined from a four-year high of 421 yuan per kg at end-August to 403 yuan per kg at end-September (see exhibit 4).

On 24 September, China's retaliatory tariffs of 5% to 10% on US imports worth US\$60 billion kicked in. Feathers used for stuffing, down, down clothing and other down products from the US have been subject to extra tariffs of 10% since then. In our view, there would be limited impacts on China's markets for down and down products, as both US down and down products have a small market share in the domestic market.

Looking ahead, we expect that the prices of grey goose down will stay high in the coming months, as the high season for down products is approaching.

Exhibit 4: Prices of grey goose down, September 2017 to September 2018



Source: cn-down.com

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