Q3
2019

Retail Sourcing Report

Facts & Insight

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FORWARD

RETAIL SOURCING REPORT

CBX Software's Retail Sourcing Report provides research and analysis aimed at informing global sourcing and buying decisions for retailers, brands and other sourcing and supply chain professionals. Each issue includes a snapshot of key information and trends impacting global sourcing, such as economic conditions in sourcing countries, container shipping trends, currency exchange and commodity rates. We also cover hot topics ourselves and include insight from analysts and other experts.

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Content

Purchasing Manager's Index (PMI)

To help understand industry and economic conditions in a country, the PMI Index tracks variables such as output, new orders, stock levels, employment and prices across private companies in the manufacturing, construction, retail and service sectors. Over 30 countries and regions participate in various PMI surveys.

A reading below 50 indicates contraction from the previous month, while a reading above 50 indicates growth. This update looks at a selection of emerging economies and key sourcing countries, providing indicators for recent months based on data provided by IHS Markit, NIKKEI, CAIXIN and other sources.

Q3 2019 News & Analysis:
Global manufacturing indicators signal a general economic slowdown alongside waning business and consumer confidence in Europe, China and the United States. Based on a cross section of manufacturing focused economies across Asia, the Americas and Eastern Europe, with some exceptions such as Brazil, India and Vietnam, PMI numbers are showing a contraction. The common thread is a decline in business due to global trade tensions with increased input and output costs as manufacturers are forced to pass price increases on through their supply chains, meaning consumers are spending more.

Country	Apr 2019	May 2019	Jun 2019	Summary of Indicators
Brazil	51.5	50.2	51.0	Brazil was one of only a few companies to see some strengthening of their economy in June, mostly due to domestic market growth. Exports decreased noticeably.
China	50.2	50.2	49.4	Chinese business confidence fell to a 10-year low in June on uncertainty over the US/China trade dispute and the expectation of rising input and output costs.
Columbia	51.0	50.8	49.2	Despite some improvement in Q2, Columbia's manufacturing sector contracted in June and into Q3 on reports of slowing demand, rising input and inflationary costs.
Czech Republic	46.6	46.6	45.9	Czech manufacturing continued to decline through Q2 and into Q3, fueled by global trade tensions, lower business confidence for the near future and rising input costs.
India	51.8	52.7	52.1	Business sentiment in India fell to the lowest point since 2009 as companies predicted softer growth and higher costs in the manufacturing sector.
Indonesia	50.4	51.6	50.6	While still positive through Q2, Indonesia's manufacturing sector slowed somewhat in June, signaling caution for 2H 2019 over softer domestic and export demand.
Malaysia	49.4	48.8	47.8	Malaysia's manufacturing sector slipped further through Q2 in line trade tensions and a global slowdown, however business confidence remained positive for 2019.
Mexico	50.0	50.0	49.2	Mexico scaled back production volume in June following weak domestic and foreign demand along with trade tension, limited investment growth and political uncertainty.
Myanmar	53.7	54.2	53.0	Myanmar's manufacturing sector saw continued growth through Q2 on stronger domestic and foreign demand signaling optimism despite rising costs/inflation.
Poland	49.0	48.8	48.4	Poland's production sector declined for the 8th consecutive month, a 6-year record downturn based on reduced exports, but mostly on weaker domestic demand
Russia	51.8	49.8	48.6	Forecasts for business activity in Russia are weak for the foreseeable future due to cost increases, greater competition and weaker domestic and foreign demand
South Africa	50.3	49.3	49.7	Business conditions across South Africa faced challenges through June signaling difficulty in the domestic economy with a similar second half of the year predicted.
South Korea	50.2	48.4	47.5	South Korea's manufacturing sector declined to a 4-month low on lower output and new orders in line with a global slowdown which is indicative of rest of 2019.
Turkey	46.8	45.3	47.9	While growth in exports and softening inflation were positive signs for Turkey's manufacturing economy, conditions remained unpredictable for 2H 2019.
Vietnam	52.5	52.0	52.5	Vietnam's manufacturing continued a multi-year growth trend as Vietnam reaped benefits from the US the China/US trade war, but concerns remain for 2H 2019.

Sources: **IHS Markit Economics, Nikkei, Caixin**

Low Cost Country Sourcing (LCCS) Highlights

This section looks at selected issues impacting sourcing from key LCCS destinations based on data available at the time of printing the report, alongside official import/export numbers highlighting global sourcing trends.

Bangladesh – Ready Made Good Exports to global markets grew by 12.8% to US$31.73 bln for the July 2018 to June 2019 fiscal year. Woven Products ($16.05bln) grew slightly more than knitwear ($15.68 bln).

Cambodia – Cambodian garment and footwear exports to the US grew to record levels for the first half of 2019. Cambodia has been accused of channeling Chinese imports through their ports to bypass tariffs.

India – India imposed higher tariffs on 28 US imported products effective June 16, including nuts, fruit, iron and steel. These tariffs came after the US withdrew Indian export incentives under the GSP programme.

Indonesia – The first half of 2019 saw a reduction in both exports (8.7% yoy) and imports (7.63% yoy), attributed to the China/US trade war. Exports to China (their largest export market) reduced sharply in Q2.

Pakistan – Pakistan agreed to a US$ 6 bln bailout from the IMF to avert a balance of payments crisis due to the country's monthly trade deficit of around US$2.6 bln. Pakistan currency fell to a low against the USD.

Philippines – The Philippines recently concluded US$12.1 bln in trade deals covering infrastructure and other investment with China at the second Belt and Road Forum in Beijing in April this year.

Thailand – Amazon, recently opened a new office in Thailand, its second office in ASEAN after the regional flagship office in Singapore. Thailand has been one beneficiary of shifts in sourcing from China.

Turkey – In a positive move for trade relations, Turkey halved tariffs on 22 US imports after the US halved duties on US steel imports, following the removal of Turkish export privileges under the GSP programme.

Vietnam – Vietnam signed the EU-Vietnam Free Trade Agreement (EVFTA) in June, aimed at increasing Vietnamese garment exports to the EU, the second largest market after the US, by removing most tariffs.

Exports (% yoy growth)	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019
Bangladesh	11.9	2.2	8.0	10.1	9.4	2.7	14.8
Cambodia	-	-	-	-	-	-	-
India	0.8	0.3	3.7	2.4	11.0	0.5	3.9
Indonesia	-3.1	-3.9	-4.4	-11.2	-9.0	-13.1	-
Pakistan	-6.4	5.5	4.0	-0.4	-11.1	-1.6	-1.7
Philippines	1.0	-12.2	-6.7	-0.1	-2.5	-	-
Thailand	-0.9	-1.7	-5.6	5.9	-4.9	-2.6	-
Turkey	9.3	-0.1	6.0	3.2	-0.6	4.5	12.1
Vietnam	14.6	13.3	8.9	4.2	5.3	6.5	-
Imports (% yoy growth)	**Nov 2018**	**Dec 2018**	**Jan 2019**	**Feb 2019**	**Mar 2019**	**Apr 2019**	**May 2019**
Bangladesh	0.3	9.2	9.7	-5.8	11.0	4.8	-
Cambodia	-	-	-	-	-	-	-
India	4.3	-2.4	0.0	-5.4	1.4	3.6	4.3
Indonesia	11.8	1.7	-2.1	-13.8	-7.0	-6.6	-
Pakistan	-2.8	-8.9	-19.1	-12.3	-20.9	-6.4	-12.8
Philippines	9.6	-4.9	3.6	2.6	7.8	-	-
Thailand	14.7	-8.1	14.0	-10.0	-7.6	-0.7	-
Turkey	-21.3	-28.3	-27.2	-16.9	-17.8	-15.1	-19.3
Vietnam	12.2	11.2	5.4	5.8	8.0	10.9	-

Sources: **News Reports**, **Fung Group, Various Statistical Bureaus**

Global Competitiveness Index

The Global Competitiveness Index is a ranking of countries based on their competitiveness across different measures such as government regulations, labor market efficiency, education, infrastructure and other measures important to doing business in a country. Below is a selection of emerging economies which are important low cost and strategic sourcing locations. Most of these countries are increasing their competitiveness on key economic measures every year, with China leading overall.

Note: The below data is released annually by the World Economic Forum (WEF). For this report we have selected relevant countries and updated the chart as of current data released in October 2018.

Global Competitiveness Index: Selected Indicators, 2017-2018 (Ranking of 140 countries)

Rank/140	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
Overall competitiveness	103(↓4)	110(↓16)	28(↓1)	58(↓18)	45(↓9)	107(↑8)	56(-)	38(↓6)	61(↓8)	77(↓22)
Institutions	108(↓1)	126 (↓20)	65(↓24)	47(↓8)	48(↓1)	109(↓19)	101(↓7)	60(↑18)	71(-)	94(↓15)
Intellectual property protection	119(↑5)	123(↑7)	49(-)	45(↑7)	44(↑2)	83(↑14)	52(↑19)	99(↑7)	94(-)	105(↓6)
Burden of government regulation	69(↑9)	61(↑7)	18(-)	16(↑4)	26(↑1)	46(↑18)	91(↑20)	58(-)	74(↓7)	96(↓20)
Infrastructure	109(↑2)	112(↓6)	29(↑17)	63(↑3)	71(↓19)	93(↑17)	92(↑5)	60(↓17)	50(↑3)	75(↑4)
Quality of roads	111(↓6)	100(↓1)	42(-)	51(↑4)	75(↓11)	69(↑7)	88(↑16)	55(↑4)	33(↓3)	109(↓17)
Quality of railroad	40(↑20)	78((↑16)	58(↓41)	38(↓10)	82(↓52)	52(-)	87(↑4)	54(↑18)	51(↑6)	57(↑2)
Quality of port	93(↓8)	86(↓5)	48(↑1)	40(↑7)	61(↑11)	69(↑4)	84(↑30)	68(↓5)	50(↑4)	78(↑4)
Quality of air transport	109((↑6)	114(↓8)	63(↓18)	53(↑8)	49(↑2)	89(↑2)	92(↑32)	48(↓9)	35(↓4)	101(↑2)
Macroeconomic environment	88(↓32)	74(↓4)	39(↓22)	49(↑31)	51(↓25)	103(↑3)	43(↓21)	48(↓39)	116(↓66)	64(↑13)
Health & primary education	96(↑6)	104(↓3)	44(↓4)	108(↓17)	95(↓1)	109(↑20)	101(↓19)	42(↑48)	48(↑36)	68(↓1)
Higher education & training	116(↑1)	121(↑3)	63(↓16)	96(↓21)	62(↑2)	125(↓5)	67(↓12)	66(↓9)	77(↓29)	97(↓13)
Goods market efficiency	123(↓29)	114(↓29)	55(↓9)	110(↓54)	51(↓8)	122(↓15)	60(↑43)	92(↓59)	76(↓23)	102(↓11)
Prevalence of trade barriers	36(↓1)	84(↑9)	57(↑1)	53(↑1)	73(↑6)	110(↓4)	42(↑22)	61(↑6)	62(↓17)	124(↓15)
Trade tariffs, %duty	128(↓2)	98(↓2)	124(↓6)	133(↓9)	77(↓10)	138(↓3)	55(↑3)	92(↓3)	78(↓3)	93(↓2)
Labor market efficiency	115(↑3)	65(↓17)	69(↓31)	75(-)	82(↑14)	121(↑7)	36(↑48)	44(↑21)	111(↑16)	90(↓33)
Cooperation in labor-employer relations	87(↓11)	60(↑7)	52(↓2)	45(↑11)	50(↓9)	108(↑17)	24(↑9)	35(↑1)	113(↑5)	92(↓7)
Flexibility of wage determination	81(↓23)	109(↓9)	98(↓9)	95(↑9)	71(↑28)	123(↓1)	45(↑41)	111(↓8)	35(↑16)	89(↓8)
Pay and productivity	78(↑2)	55(↑9)	27(↓1)	23(↑10)	18(↑4)	61(↑24)	10(↑33)	36(↑11)	95(↓4)	66(-)
State of cluster development	63(↑2)	45(↑3)	29(↓2)	26(↑5)	28(↓2)	54(↑1)	49(↑13)	55(↑12)	80(↓21)	77(↓9)

Source: **World Economic Forum (WEF)**

China Wage Trend Snapshot

Q3 2019 News & Analysis:
Even without the added pressure of the US/China trade war, average wages in China's manufacturing sector have more than doubled in the past decade alongside increases in taxes and social security costs. With the trade war, general wage increases have slowed in 2019 to date. According to China Briefing, four key regions increased their minimum wages in the first half of 2019: Beijing, Chongqing, Shaanxi and Shanghai. While China wages are getting more expensive, it's still difficult for many manufacturers to shift their operations given China's extensive upstream supply chain and massive domestic market.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of July 1, 2019. As such these numbers serve as an indicator. Actual wages may include benefits, food, housing etc. Minimum wage is typically 40-60% of average total wage.

2019 Minimum Wage Updates (official) *(District variances are averaged across province)*			
City/Region/Province	**Monthly Min Avg Wage (RMB)**	**Increase %**	**Official Update**
Anhui	1,520	20.6%	Nov 1, 2018
Beijing	2,200	3.8%	Jul 1, 2019
Fujian	1,700	13.3%	Jul 1, 2017
Chongqing	1,800	20.0%	Jan 1, 2019
Gansu	1,620	10.2%	Jun 1, 2017
Guangxi	1,680	16.7%	Feb 1, 2018
Guangdong	1796	12.3%	Jul 1, 2018
Guizhou	1,680	5.0%	Jul 1, 2017
Hainan	1,430	12.6%	Feb 1, 2016
Heilongjiang	1,680	15.4%	Oct 1, 2017
Henan	1,900	8.2%	Oct 1, 2018
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,750	13.1%	Nov 1, 2017
Hunan	1,580	13.6%	Jul 1, 2017
Inner Mongolia	1,760	8.0%	Aug 1, 2017
Jiangsu	2,020	8.1%	Aug 1, 2018
Jiangxi	1,680	15.1%	Jan 1, 2018
Jilin	1,780	22.5%	Oct 1, 2017
Liaoning	1,620	7.6%	Jan 1, 2018
Ningxia	1,660	12.4%	Oct 1, 2017
Qinghai	1,500	15.3%	May 1, 2017
Shaanxi	1,800	7.0%	May 1, 2019
Shandong	1,910	6.7%	Jun 1, 2018
Shanghai	2,480	2.5%	Apr 1, 2019
Shenzhen	2,200	4.9%	Jul 1, 2018
Sichuan	1,780	7.1%	Jul 1, 2018
Tianjin	2,050	5.1%	Jul 1, 2017
Tibet	1,650	17.8%	Jan 1, 2015
Xinjiang Uyghur	1,820	12.9%	Jan 1, 2018
Yunnan	1,670	10.6%	May 1, 2018
Zhejiang	2,010	8.4%	Dec 1, 2017

Global Low-Cost Country Sourcing Wage Snapshot

Below is a snapshot of minimum wages in selected Asian sourcing locations, with the addition of Egypt, Ethiopia and Turkey to give a comparative view. Wages vary by region or province and indicate either an estimated or actual/official rate. In cases with a distinct variance, we provide an average. Currency fluctuations mean that these figures are approximate at the time of finalizing this report.

Q3 2019 News & Analysis: The US-China trade war is having a ripple effect across the globe. Higher tariffs have pushed some manufacturers in certain verticals to shift their sourcing which has meant more orders especially for Bangladesh, Vietnam and other South and South East Asian countries who produce apparel and other large volume US exports. As production and exports in these countries - which are viewed as "alternative" to China - we will see increased wage pressure.

Note: Figures are provided in USD/month based on currency exchange as of July 1, 2019. Minimum wage policies are updated as per data available at the time of finalizing this report and are based primarily on unskilled wages. Consult sources such as **Fair Wage Guide** or **Wageindicator.org** to assess and calculate benchmarks for wages in particular countries and regions not covered here.

BANGLADESH	CAMBODIA	CHINA	EGYPT	ETHIOPIA
$95 (Jan 2019)	$182 (Jan 2019)	$137-$639 (April 2018)	$116 (April 2019)	$18 (Jan 2015)
Bangladesh announced a wage increase to BT8000 (US&95) a 51% increase from the previous minimum wage which had been in place since 2013. Unions were calling for a BT16000 minimum wage.	Cambodia increased the minimum wage for the second consecutive year, to US$182, a 7.1% increase, which will take effect from January 1, 2019. Labor tension and strikes have calmed down.	Minimum wages in China are set by local governments and vary widely by region wages formulas (with housing, food, overtime etc.) Wages continue to increase each year in most regions.	Egypt raised the country's minimum age to 2000 Egyptian pounds ($116) from 1200 pounds, applying to all workers, with higher increases going to private sector workers. This increase came ahead of a June 30 target date.	Ethiopia is working on a system to determine a min. wage for the private sector (wage guidelines exist for govt. workers). Entry level wages in the textile sector range from $35 -$40. The base min wage is officially $18.
INDIA	**INDONESIA**	**LAO PDR**	**MALAYSIA**	**MYANMAR**
$40-$130 (Jan 2018)	$115-$273 (Jan 1/18)	$108 (May 2018)	$263 (Jan 2019)	$108 (Mar 2018)
Indian min. wages vary by region and skill level; however, the central Indian labor ministry is considering a significant increase for 2018, which could bring wages up to $280 in some areas.	In October 2018, Indonesia's manpower minister proposed an 8.13% minimum wage increase for 2019 and urged the provinces to accept. Indonesia wages vary by their 34 provinces and regions.	The Lao Government approved an increase in minimum wage from Kip 900,000 (US$107) to Kip 1,100,000 (US$142)) in key provinces for 2018. This raise took effect in May 2018.	Malaysia implemented a nationwide minimum wage of RM 1,100 as of January 2019. Wages vary by region and are supposed to be reviewed every 2 years. The new directive is being enforced widely.	Myanmar revised its minimum wage from K,600 Kyat ($2.70) per day to K4,800 (3.60) or K600 per hour for an eight-hour workday. This represents an increase of 33%, mostly impacting garment workers.
PHILLIPPINES	**SRI LANKA**	**THAILAND**	**TURKEY**	**VIETNAM**
$110-220 (Jan 25/18)	$67 (Mar 2016)	$190-$196 (Apr 1/18)	$381 (Jan 2019)	$125-180 (Jan 1/19)
Wages in the Philippines vary by region, skill level and wage classification. Negotiations are still underway, but Manila for example saw a 21 Peso ($0.42) increase in their daily wage to 491 Pesos ($9.82) in Q4 2017.	Sri Lanka adopted two laws on minimum wages as of early 2016, mandating a minimum wage of Rs 10,000 (+/- $67) and an increase of Rs 2,500 (+/-f$17) for workers earning less than Rs 40,000 per month (+/- $270)	Thailand increased minimum wages for the first time since 2013 by 2-5%, or around 5-22 Baht per day across the 69 provinces. Wages will range from 308 to 3330 THB ($9.60-$10.58) per day for unskilled workers.	Turkey announced a minimum wage increase of 26% for 2019 to 2,020 Lira per month. The hike was due to high inflation which has caused havoc on the Turkish economy in the past year. The economy grew by only 1.6% yoy in 2018.	Vietnam announced they will increase their minimum wage by 5.3% in 2019. This increase was relatively lower than the 2018 increase of 6.5%. Wages range from $125-$180 / month across 4 key regions in Vietnam.

Sources: **WageIndicator.org, SAFSA, Local News Reports**

Container Freight Rates for Major Routes

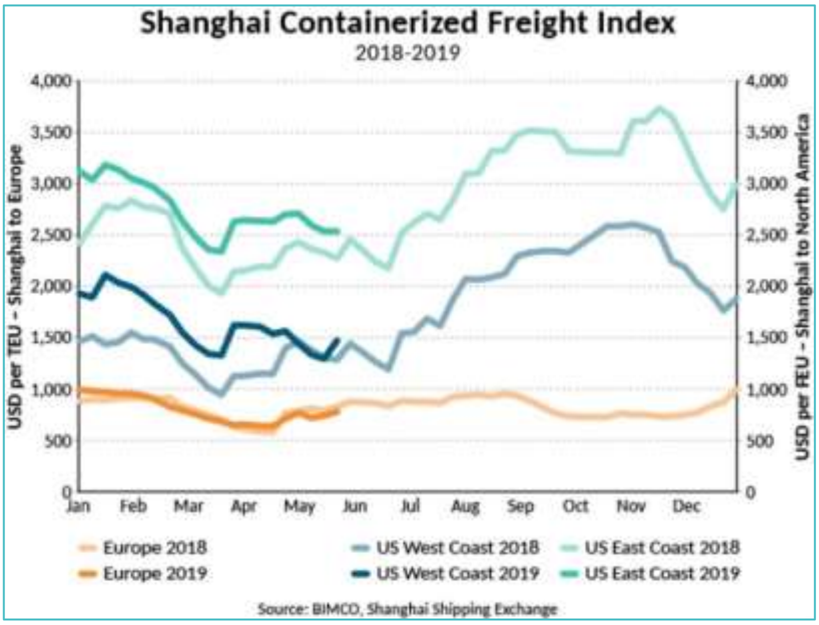
Q3 2019 News and Analysis:

Container shipping trends through 2019 are indicative of the US-China trade war. As a result of a slowdown in imports to the US and Europe, carriers have reduced capacity on key Asia to Europe and Asia to North America trade routes and are offering additional service from South-East Asia. While China still makes up over 50% of US imports, countries such Vietnam, Taiwan, Singapore, South Korea the Philippines and Cambodia are seeing significant growth in shipments. For example US imports from Vietnam increased by 19.7% since July 2018 and 36.7% in 2019 so far.

Asia - Europe Trade Lanes

Carriers have removed a large amount of capacity on the Asia-Europe trade lanes for July/August 2019 and have increased rates to boost a market slowdown. However spot rates still fell below $700 per TEU. On Asia-North Europe trade lanes, rates fell to $688 per TEU in July, bringing prices to post-Chinese New Year lows.

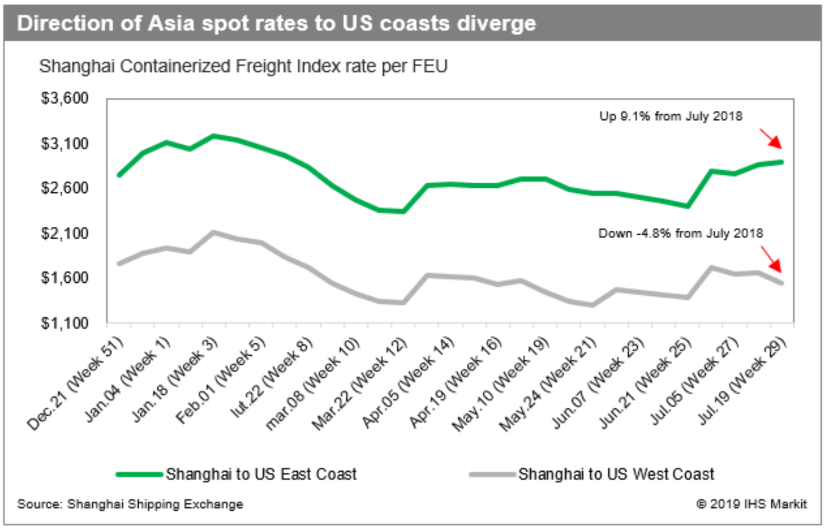
The prediction is for a slower 2019 Asia-Europe peak shipping season (from July) given weakness in European economies, slowing Chinese manufacturing and political uncertainty over tariffs.



Asia – North America Trade Lanes

Container shipments from Asia to North America have been noticeably affected by the US-China trade war, which makes for ongoing uncertainty for US importers. US imports from Asia in 1H 2019 increased by only 1.4%, half the compound annual growth rate since 2015.

Carriers have added minimal new capacity and canceled sailings in order to keep rates from falling. In response, importers have had to be creative to try and avoid the impact of tariffs.



Carriers are also preparing for the International Maritime Organization's (IMO) low-sulfur mandate, which goes into effect Jan 1, 2020. Because they have to dry dock vessels not fitted with "scrubbers" to flush out heavy diesel oil, major carriers have an excuse to keep more capacity off the market to drive spot prices higher in the coming peak season. Some Beneficial Cargo Owners (BCO's) or "importers of record" are pushing for cargo to ship prior to the Jan 1 deadline to avoid higher rates.

Sources: **IHS Markit, Joc.com Alphaliner, SeaIntel**

Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. The ups and downs of the US-China trade war continued to impact most currencies through Q2 and into Q3. The US dollar mostly gained against competitive currencies through Q2 then gave back the gains as Trump announced additional tariffs in late July. Part of the dollar's gains were due to growth in the US economy and projections for ongoing weakness in European markets. The dollar reached 2 year plus highs against both the Chinese Yuan and the Euro. This hurts the US especially as their exports become more expensive and sustains the general uncertainty in global markets.

EUR / USD (Aug 2018 – Jul 2019)

The USD made solid gains against the EUR through 1H 2019, reaching a 2 year high against the EUR following Federal Reserve interest rate cuts. With US exports now more expensive, President Trump threatened intervention to counter "currency manipulation" by the EU and China.

EUR/USD	Low	High
2 year	1.10	1.25
1 year	1.08	1.77
1 month	1.10	1.12

EUR / CNY (Aug 2018 – Jul 2019)

The EUR currency slid further against the Chinese Yuan through Q2 as predictions for European markets remained soft for the remainder of 2019. The European Commission predicts growth in the Eurozone to slow from 1.9% in 2018 to 1.2% in 2019. US/EU tariffs could also escalate, impacting both currencies.

EUR/CNY	Low	High
2 year	7.44	8.07
1 year	7.49	8.07
1 month	7.60	7.78

USD / CNY (Aug 2018 – Jul 2019)

The Chinese Yuan has fluctuated widely against the USD in the past year of US-China Trade tension. The CNY fell to its lowest point in over 2 years after President Trump announced new tariffs in late July. Predictions are that Beijing will continue to intervene to hold their currency at below 7 CNY against the dollar.

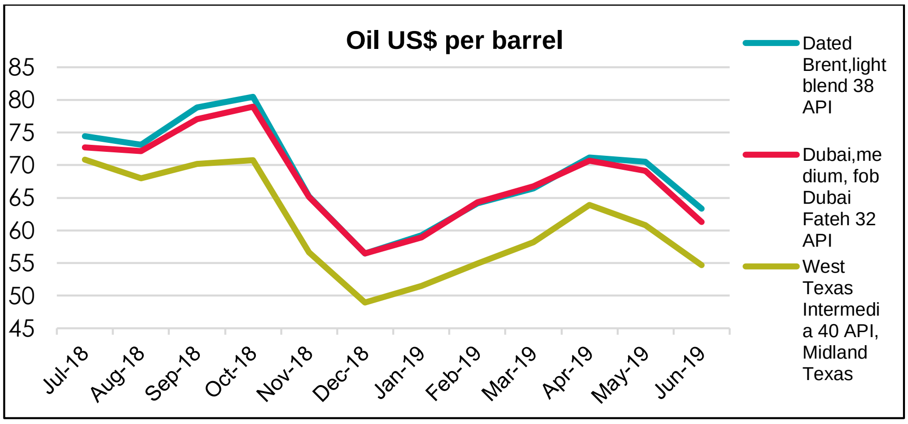
USD/CNY	Low	High
2 year	6.27	6.97
1 year	6.27	6.97
1 month	6.68	6.74

Sources: **XE.com, News/Analyst Reports**

Global Commodity Rates

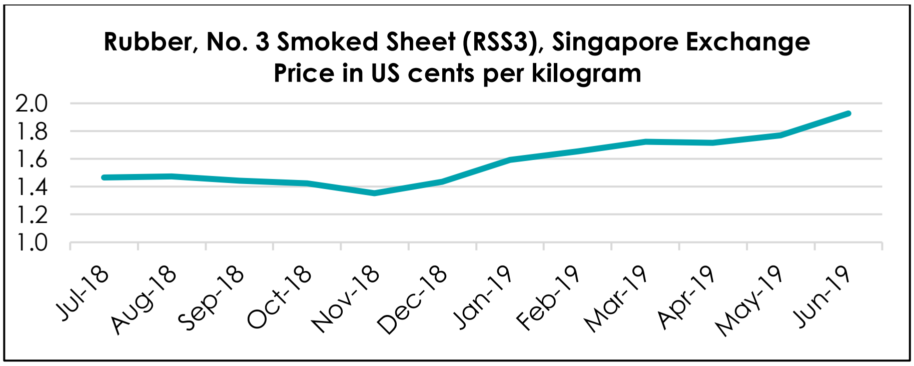
Q2 2019 News & Analysis: Most commodity prices fluctuated considerably through Q2 and into Q3 2019 as global economic growth slowed, demand from China reduced and tariffs impacted global supply manufacturing and supply chains. The US economy is one of the few bright spots somehow bucking the “slowdown” trend. Increased oil supply from the US has kept oil prices down and helped spur growth in the US economy and kept gas prices down for consumers. Other key supply chain commodities such as cotton have been hit hard creating uncertainty for the apparel sector.

Crude Oil



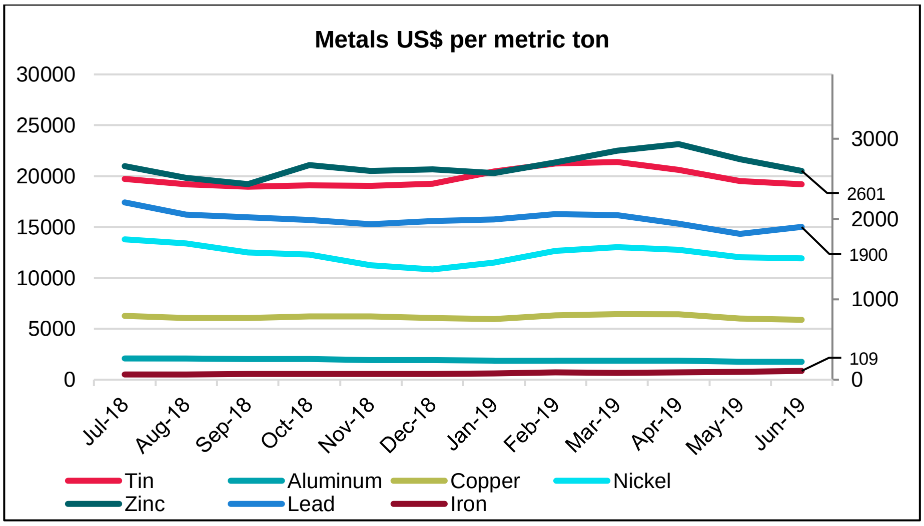
Oil prices trended down through Q2 and into Q3 on weaker demand from China, increased supply from the US and ongoing geopolitical tension. US sanctions against Iran and Venezuela have also limited supply from those countries. OPEC members along with other oil producers have also cut supply to try and boost prices. Weaker global economic growth remains a concern.

Rubber



Natural rubber prices gained through Q2 but slipped into Q3 on fears of reduced demand. The Tripartite Rubber Council (ITRC) agreement to curb exports for 4 months to maintain price strength helped bolster prices. Thailand, Indonesia and Malaysia will increase supply once prices reach acceptable levels. Slowing demand from China and Germany, the biggest importers, remains a concern.

Metals



Metal prices were negatively impacted by the ongoing trade tension through Q2 and into Q3. Concerns over global industrial demand for steel, aluminum and other metals have kept prices down. With increased tariffs on exports, Chinese manufacturers has contracted significantly, a trend which is expected to continue to impact metal prices. The impact of carbon taxes and emissions standards also means higher costs for steel producers.

Cotton

Cotton prices were down to a 3-year low in Q3 due to the impact of tariffs and a broader global economic slowdown. Global cotton prices were down by more than 25% from around 99 cents a pound in July 2018 to 74 cents in July 2019. While global cotton consumption is expected to increase in the range of 1.7%, production is expected to exceed demand over the 2019-2020 period, which should impact prices. The fact that China and the US are no closer to a trade deal is not helping raw material prices and global demand. China is both one of the biggest producers and one of the biggest importers of global cotton fiber.

Recent Price Data

cents/lb	Latest Value (Jul 11)	Latest Month (Jun)	Last 12 Months (Jul18-Jun19)
NY Nearby	62.9	65.4	76.3
A Index	74.8	77.6	86.1
CC Index	93.9	93.1	104.0
Indian Spot	82.1	83.8	82.1
Pakistani Spot	64.7	68.9	77.4

World Cotton Production

million 480 lb. bales		2019/20	
	2018/19	Jun	Jul
India	26.5	28.5	29.0
China	27.8	27.8	27.8
United States	18.4	22.0	22.0
Brazil	12.8	12.0	12.0
Pakistan	7.7	8.0	8.0
Rest of World	26.2	27.1	27.0
World	119.3	125.3	125.8

World Cotton Exports

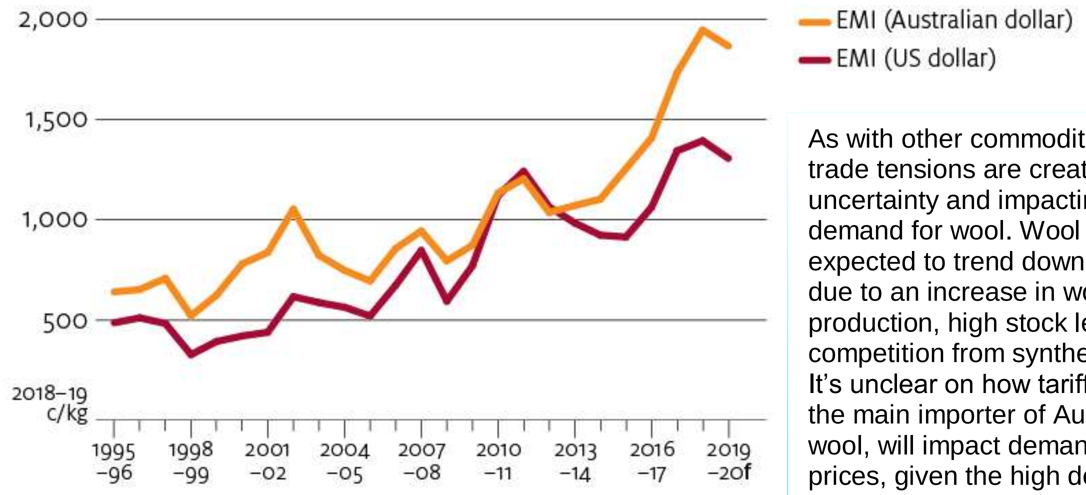
million 480 lb. bales		2019/20	
	2018/19	Jun	Jul
United States	14.5	17.0	17.0
Brazil	6.2	8.2	8.0
India	3.8	4.8	4.4
Australia	3.6	1.8	1.8
Benin	1.3	1.4	1.4
Rest of World	11.6	11.6	11.6
World	41.1	44.8	44.2

World Cotton Imports

million 480 lb. bales		2019/20	
	2018/19	Jun	Jul
China	9.3	10.5	10.5
Vietnam	7.0	7.6	7.8
Bangladesh	6.9	8.3	7.3
Indonesia	3.0	3.2	3.3
Pakistan	2.9	2.9	3.0
Rest of World	12.4	12.2	12.2
World	41.4	44.7	44.1

Sources: **Cotton Inc. and National Cotton Council**

Wool



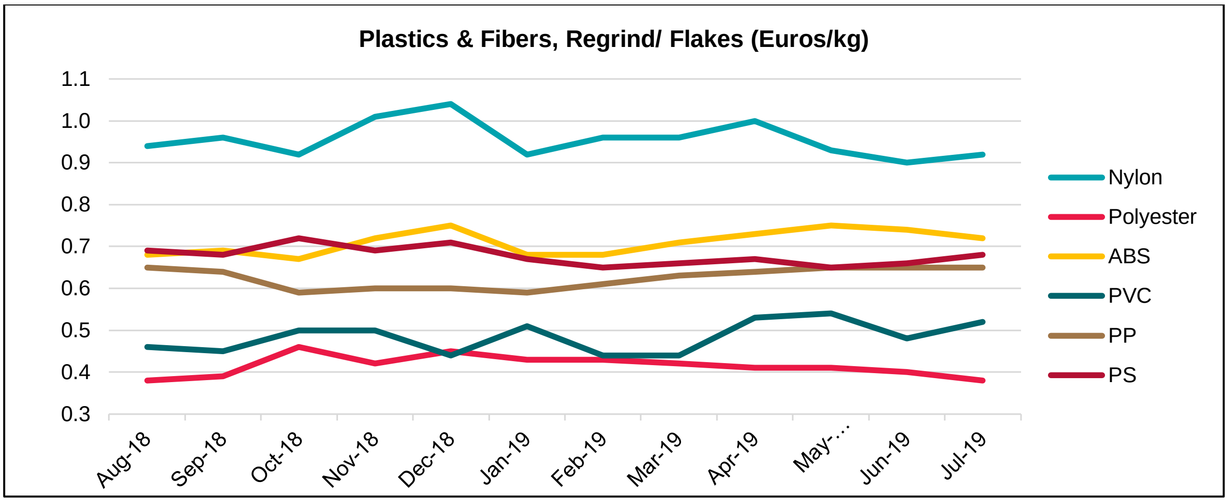
As with other commodities, global trade tensions are creating uncertainty and impacting the demand for wool. Wool prices are expected to trend down into 2020 due to an increase in world production, high stock levels and competition from synthetic fibers. It's unclear on how tariffs on China, the main importer of Australian wool, will impact demand and prices, given the high demand from Chinese consumers for a range of wool products.

Source: **Wool.com, Agriculture.gov.au, News Reports**

Plastics and Fibers

A selection of plastic related prices is provided below. These are calculated from offer prices in the Plasticker Material Exchange, which provides an indication of trends.

Q3 2019 Snapshot: The synthetic fiber market is projected to continue growing in the coming years as manufacturers of synthetic fibers develop new products to meet consumer demand for performance apparel and other applications. Artificial fur for example, which is made from polymeric fibers is growing in demand for apparel, home décor and other applications.

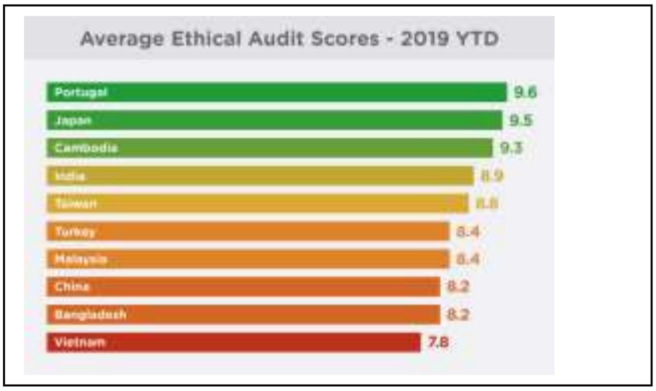


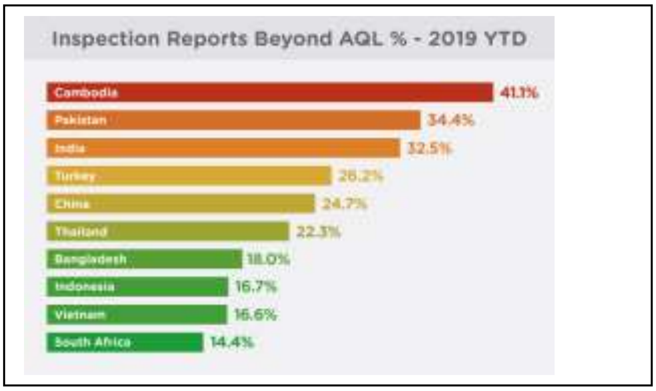
Sources: **IMF data, Index Mundi Plasticker**

Focus Topics

Quality Control Indicators

This report frequently covers quality control and quality assurance issues. Audit and inspection data provide an indicator of activity and trends in various sourcing regions. According to data from Quality Inspection provider QIMA, trade tensions and rising prices are pushing companies to diversify away from China. Demand for inspections from US companies in Vietnam, Indonesia and Cambodia saw 15-20% growth in 2019 so far, while inspections doubled in Bangladesh and Sri Lanka doubled and near shoring locations in Latin and South America saw close to 50% growth, European companies also sourced more in Africa and Turkey, which saw 40% growth in in inspections and audits.





US-China Trade War – Impact on China

China's trade war with the US has now been running for over a year and while both countries are feeling the impact, China seems to be feeling it more – at least at this point. The Chinese strategy of wanting to draw out the negotiations has resulted in increasing pressure from the Trump administration to strike a deal, including an additional 10% tariff on US$300 billion of Chinese imports that aren't currently taxed.

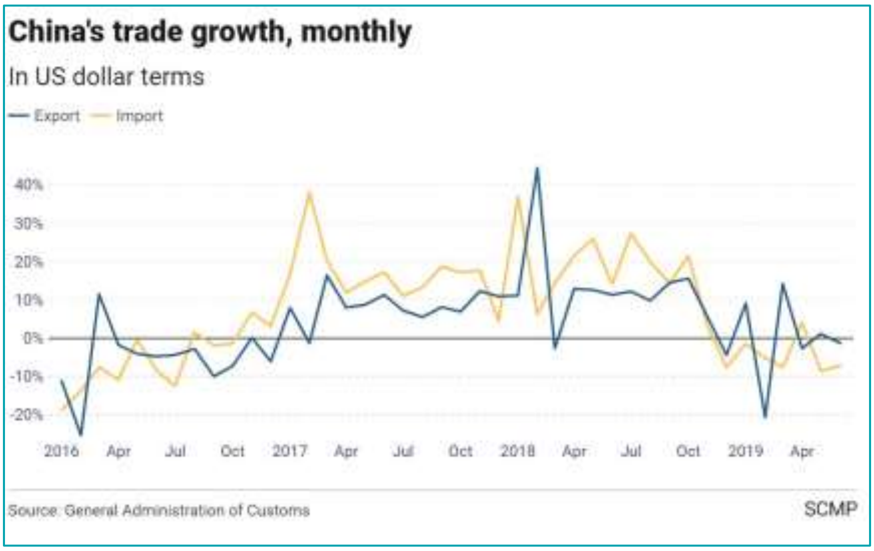
The Grim Numbers

Chinese exports fell by 1.3 per cent year-on-year after tariffs on US$200 billion of Chinese goods were raised from 10 per cent to 25 per cent by in May. In the first half of this year, China's exports to the US fell by 8.1 per cent to US$199.4 billion, while imports dropped by 29.9 per cent to US$58.9 billion.

China's overall trade surplus was US$50.98 billion in June, up from US$41.65 billion. This was ahead of one poll by Bloomberg, which predicted a balance of US$45 billion.

The Purchasing Managers' Index (PMI) for China's manufacturing sector stayed below 50 in June, which signals a contraction.

Quarterly data from logistics company DHL's Global Trade Barometer (GTB), which tracks early-cycle commodities shipments by sea and air, showed that Chinese trade could contract slightly from June to August because of shrinking sea freight volumes.



Shifting Markets

The trade war has impacted well beyond China and the US as certain countries such as Vietnam, Bangladesh, Cambodia have picked up orders being diverted from China. While it is difficult to move supply chains, especially when most of the upstream supply chain is in China, the apparel and textile sector has been shifting out of China for years. With less complexity and labor as a key factor in production, apparel will continue to grow outside of China even without trade tariffs.

What is more concerning for China is other foreign manufacturers that were on the fence and have decided to shift production elsewhere. Zebra Technologies is a good example. "All the high-volume products we were making in China have been moved to other Southeast Asian countries," Anders Gustafsson, Zebra's CEO, commented in a recent media report. "It's a benefit of having an outsourced supply chain."

The Long Game

On the flip side of the story, the US trade war has pushed China to grow alternative markets and trading partners. Bilateral trade between Russia and China grew by 27% year-on-year from 2017 to 2018 to $107 billion, So far Russia is exporting ($59 billion) more than it is importing ($48 billion), but Moscow reportedly has targeted $200 billion in trade with China by 2024. Aside from Russia, China's "Belt and Road" initiative is strategically designed to expand markets and trade routes for China's goods across the globe.

Some analysts believe that, at least until the next US election cycle, China will continue to play the waiting game since it has a higher pain tolerance and more capacity to intervene in their domestic economy. If that's the case, we can only expect the trade war to keep escalating.

China's new Regional Trade Deal

While the world is focused on the ups and downs of the China-US trade war, China is working hard on finalizing a regional trade deal by the end of 2019 which includes 16 countries and excludes the US.

The Regional Comprehensive Economic Partnership (RCEP) involves the 10 Asean nations, Indonesia, Thailand, Malaysia, Singapore, the Philippines, Vietnam, Myanmar, Cambodia, Brunei and Laos. Other partners include China, Japan, South Korea, Australia, New Zealand and India. Negotiations formally began in November 2012 at the ASEAN Summit in Cambodia.

China as Regional Leader

China is pushing for the RECEP as a response to the Trans-Pacific Partnership (TPP) which President Trump rejected on taking office in January 2017. The plan focused on cutting tariffs and improving market access for services and investment across member countries.

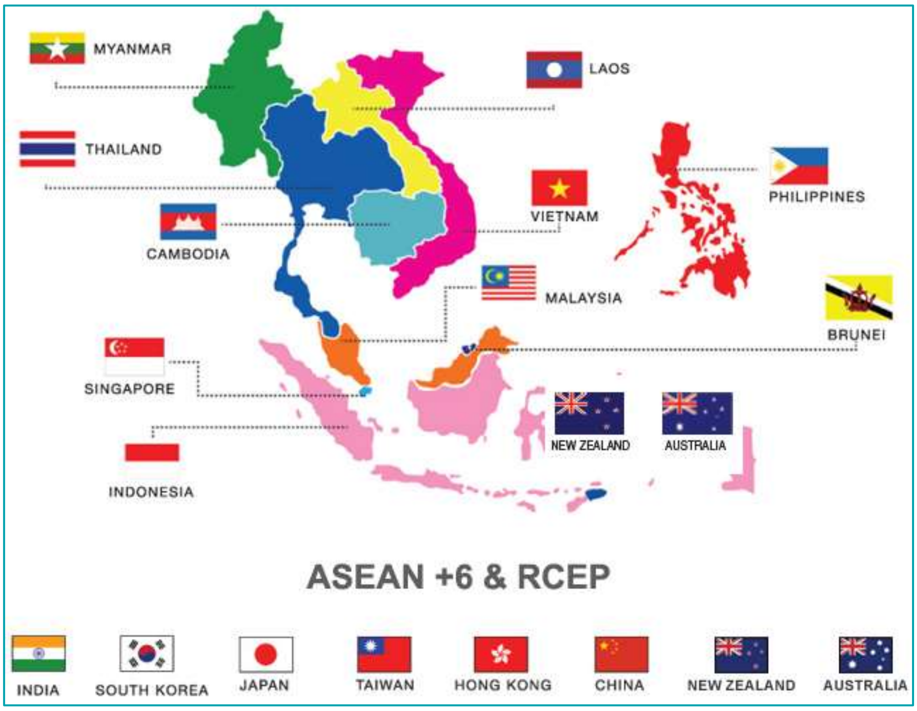
The most recent talks were held in Beijing in July at the same time US-China negotiations were taking place in Shanghai. The deal is obviously more important to China in mitigating the impact of US tariffs and opening markets across Asia with less opposition to Chinese trade.

RCEP Potential Impact

Beyond China, the RECP agreement is important for several reasons. The 16 potential member countries make up 45% of the world's population (3.4 billion people), contribute close to 40% of global GDP and comprise 30% of inter-country trade. According to estimates by PWC, the GDP of RCEP member states should reach $250 trillion by 2050, which would be more than half of global GDP.

In the first half of 2019, China's trade with Asean countries was $292 billion, second only to their trade with the European Union. Trade volumes are also growing as China extends their reach into consumer markets in the region.

Unlike the US, which has the power to push back, many of the Asean countries are heavily dependent on China as a trading partner. China also has political leverage in many of these countries through investments, loans and agreements.



No question, the RCEP agreement faces challenges - for one India is opposed to opening its domestic markets to tariff free goods and services. Criticism of the RCEP is also around the impact on land ownership, environmental and human rights issues. Human rights and environmental groups are concerned that the RCEP will give multinational companies and lobbying interests wider legal rights which pose a threat to the less developed countries covered in the RCEP agreement. Given the ongoing trade war though, we can expect China to keep pushing for an agreement.

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