Q4
2017

Retail Sourcing Report

Facts & Insight

CBX SOFTWARE

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 professionals. Each issue includes a snapshot of key information impacting global sourcing, such as economic conditions in sourcing countries, container shipping prices, currency exchange rates and commodity costs. We also cover hot topics ourselves and include insight from analysts and other experts.

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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. https://www.markiteconomics.com/public/page.mvc/pressreleases

Q4 News & Analysis: Global manufacturing conditions improved through Q3 alongside economic expansion. The European region drove strong demand and countries such as Russia and Brazil returned to growth. With the exception of Malaysia and Myanmar, most Asia manufacturing economies saw growth in new orders, production output and sustained levels of both domestic and international demand. Despite input cost pressures and rising inflation, the indicators are that Q4 should be strong quarter for growth.

Country	Jul 2017	Aug 2017	Sep 2017	Summary of Indicators
Brazil	50.0	50.9	50.9	Despite cost pressures, Brazilian manufacturing saw sustained growth into Q4 based on domestic and international demand. Inventory levels remained low.
China	51.1	51.6	51.0	Chinese manufacturing saw a sustained improvement through Q3, with expansion in new orders, despite inflation pressures and inspection delays.
Czech Republic	55.3	54.9	56.6	Manufacturing in Czechoslovakia saw strong improvements into Q4, with expansion in new orders, output and export sales and employment growth.
Egypt	48.6	48.9	47.4	Business downturn extended into Q4 with inflation, reductions in new orders, output and employment, despite some improvement in export demand.
India	47.9	51.2	51.2	India saw a sustained improvement in manufacturing conditions into Q4, despite inflation, with increases in new orders, output and employment growth
Indonesia	48.6	50.7	50.4	Business conditions in Indonesia improved into Q4 with an increase in new orders both domestically and for export. Employment increased marginally.
Malaysia	48.3	50.4	49.9	Malaysian manufacturing trended fairly flat heading into Q4 on a decline in new orders and reports of weak demand both domestically and internationally.
Mexico	51.2	52.2	52.8	Manufacturing conditions in Mexico improved at the highest rate in almost 2 years, with order expansion, output increases and employment growth.
Myanmar	49.1	49.3	49.4	Business confidence hit a low in Q3 on contraction in output and, decreased demand alongside cost inflation and labor and raw material shortages.
Poland	52.3	52.5	53.7	Despite input cost inflation, in Q3, Poland saw the fastest increase in new orders in more than 2 years, with output growth and a backlog in fulfillment.
Russia	52.7	51.6	51.9	Russia saw an increase in exports and new orders through Q3 and into Q4, with output and employment growth, alongside input price increases.
South Africa	50.1	49.8	48.5	Business conditions deteriorate through Q3 based on falling output, new orders, employment as well as decreased demand in the domestic market.
South Korea	49.1	49.9	50.6	South Korea's manufacturing sector recovered somewhat in later Q3/early Q4 on new order growth, despite declines in export demand, especially to China.
Turkey	53.6	55.3	53.5	Manufacturing conditions continued to improve through Q3 and into Q4 in Turkey, with robust growth in orders, output, purchasing and employment.
Vietnam	51.7	51.8	53.3	Vietnam saw robust growth momentum in manufacturing through Q3, with growth in new output, orders and employment, driven by customer demand.

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

Major Economic Indicators

This section looks at major economic indicators from key “low-cost” sourcing destinations, also pulling out highlights and sourcing trends in these countries.

Q4 News & Analysis: The second half of 2017 looks optimistic for global trade as exports from Turkey, India, Thailand, Cambodia and other countries all saw yoy increases. China has concluded trade and development agreements with various countries which will support infrastructure growth and further economic development, giving China increasing global influence.

Selected Highlights:
Bangladesh –Bangladesh exports grew early in the 2017 fiscal year by 13.84% yoy to US$6.62 billion.
Cambodia – Garment exports grew by only 4% yoy in the first half of 2017, much slower than 9% of 2016.
India – India’s readymade garment exports grew yoy by 4.9% to US$7.5 bln in 1H 2017, faster than 2016.
Indonesia – The Indonesian government launched its 16th economic policy package in Q3 to drive activity.
Pakistan – Pakistan is gearing up to sign two FTA’s with Thailand and Turkey aimed at boosting exports.
Philippines – Philippines’ GDP grew by 6.45% yoy in Q2 2017, due to growth in services and agriculture.
Thailand – Thai exports grew by 10.5% yoy to US$18.85 bln in July, the fifth month with sustained growth.
Turkey – The Turkish economy grew by 5.1% yoy in Q2 2017, the third fastest among G20 countries.
Vietnam – Vietnamese exports grew to US$135.5 bln in the first 8 months of 2017, a 17.9% yoy growth.

CPI (% yoy growth)	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017
Bangladesh	5.4	5.5	5.8	5.9	-	-
Cambodia	4.2	3.2	2.7	2.3	-	-
India	3.9	3.0	2.2	1.5	-	-
Indonesia	3.6	4.2	4.3	4.4	3.9	3.8
Pakistan	4.9	4.8	5.0	3.9	-	-
Philippines	3.4	3.4	3.1	2.7	2.8	3.1
Thailand	0.8	0.4	0.0	-0.1	0.2	0.3
Turkey	11.3	11.9	11.7	10.9	-	-
Vietnam	4.7	4.3	3.2	2.5	2.5	3.4
Exports (% yoy growth)	**Mar 2017**	**Apr 2017**	**May 2017**	**Jun 2017**	**Jul 2017**	**Aug 2017**
Bangladesh	9.8	3.5	1.4	-14.9	-	-
Cambodia	48.6	20.3	19.7	37.7	-	-
India	27.6	19.8	8.3	4.4	-	-
Indonesia	24.3	13.6	24.1	-11.8	41.1	-
Pakistan	3.6	5.2	-11.0	16.2	-	-
Philippines	18.1	19.1	14.0	0.8	-	-
Thailand	9.0	8.0	12.7	11.7	10.5	-
Turkey	13.5	7.7	12.4	2.3	-	-
Vietnam	15.1	16.8	18.4	18.8	18.8	19.3
Imports (% yoy growth)	**Mar 2017**	**Apr 2017**	**May 2017**	**Jun 2017**	**Jul 2017**	**Aug 2017**
Bangladesh	18.2	18.4	7.1	-	-	-
Cambodia	8.7	2.6	1.1	8.2	-	-
India	45.3	49.1	33.1	19.0	-	-
Indonesia	17.5	10.5	24.0	-17.2	54.0	-
Pakistan	41.2	30.8	27.9	2.2	-	-
Philippines	18.0	-0.1	16.6	-2.5	-	-
Thailand	19.2	13.3	18.3	13.7	18.5	-
Turkey	7.0	9.9	21.7	-1.5	-	-
Vietnam	24.9	24.0	24.7	24.1	23.6	22.5

Sources: **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 sourcing locations. Most of these countries are increasing in their competitiveness on various measures every year, while China remains ahead, but with few relative gains.

Note: The below chart was updated based on data released in January 2017

Global Competitiveness Index: Selected Indicators, 2016-2017 (Ranking of 138 countries)

Rank/138	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
Overall competitiveness	106(↑3)	89(↑4)	28(-)	39(↑41)	41(↑8)	122(↑9)	57(↑9)	34(↑8)	55(↑2)	60(↑12)
Institutions	125(↑7)	104(↑7)	45(↑6)	42(↑18)	56(↓1)	111(↑8)	91(↓14)	84(↓2)	74(↑1)	82(↑3)
Intellectual property protection	129((↑6)	130(↑2)	62(↑1)	42(↑8)	50(↓2)	109(↑3)	74(↓3)	121(↓8)	95(↓13)	92(↓4)
Burden of government regulation	93(↑14)	65(↑4)	21(↑5)	23(↑4)	37(↑4)	75(↑11)	117(↓16)	61(↑20)	71(↓6)	88(↑2)
Strength of investor protection	79(↓37)	94(↓13)	108(↑2)	8(↓2)	79(↓37)	25(↓4)	120(↑1)	36(↓11)	20(↓7)	101(↓1)
Infrastructure	114(↑9)	106(↓5)	42(↓3)	68(↑13)	60(↑2)	116(↑1)	95(↓5)	49(↓5)	48(↑5)	79(↓3)
Quality of roads	113(-)	93(↑1)	39(↑3)	51(↑10)	75(↑5)	77(-)	106(↓9)	60(↓9)	28(↑8)	89(↑4)
Quality of railroad	72(↑3)	98(↑2)	14(↑2)	23(↑6)	39(↑4)	53(↑7)	89(↓5)	77(↑1)	55(↓2)	52(↓4)
Quality of port	89(↑4)	76(↑7)	43(↑7)	48(↑12)	75(↑7)	84(↓18)	113(↓10)	65(↓13)	52(↑1)	77(↓1)
Quality of air transport	115(↑6)	99(↑1)	49(↑2)	63(↑8)	62(↑4)	91(↓12)	116(↓18)	42(↓4)	29(↑4)	86(↓11)
Quality of electricity supply	110(↑10)	106(↑2)	56(↓3)	88(↑10)	89(↓3)	121(↑8)	94(↓5)	61(↓5)	84(↓4)	85(↑2)
Macroeconomic environment	65(↓16)	50(↑14)	8(-)	75(↑16)	30(↑3)	116(↑12)	20(↑4)	13(↑14)	54(↑14)	77(↓8)
Health & primary education	105(↓4)	103(↓16)	41(↑3)	85(↓1)	100(↓20)	128(↓1)	81(↑5)	86(↓19)	79(↓6)	65(↓4)
Higher education & training	118(↑4)	134(↓11)	54(↑14)	81(↑9)	63(↑2)	123(↑1)	58(↑5)	62(↓6)	50(↑5)	83(↑12)
Goods market efficiency	96(↑5)	76(↑17)	56(↑2)	60(↑31)	58(↓3)	117(↓1)	99(↓19)	37(↓7)	52(↓7)	81(↑2)
Prevalence of trade barriers	56(↓12)	86(↓3)	78(-)	47(↑35)	91(↑22)	112(↓6)	60(↓17)	75(↓2)	44(↓2)	108(↓8)
Trade tariffs, %duty	125(↑3)	96(↑1)	118(↓1)	123(↑1)	62(↑2)	134(↑3)	49(↑2)	85(↑6)	76(↓4)	91(↓5)
Burden of customs procedures	116(↑7)	127(↑1)	55(↑1)	37(↑17)	73(↓1)	113(↓2)	121(↓14)	82(↑3)	74(↑8)	103(↓13)
Labor market efficiency	120(↑1)	58(↓20)	39(↓2)	84(↑19)	108(↑7)	129(↑3)	86(↓4)	71(↓4)	126(↑1)	63(↓11)
Cooperation in labor-employer relations	91(↑11)	70(↑6)	47(↑15)	67(↑19)	45(↑4)	134(↓3)	27(↓1)	36(↓2)	119(↓7)	79(↓8)
Flexibility of wage determination	69(↑16)	104(↑3)	82(↓9)	112(↑8)	109(↓24)	120(↓6)	97(↓1)	107(↑4)	62(↓10)	84(↓17)
Pay and productivity	83(↑24)	63(↓6)	27(↓7)	33(↑14)	29(↑4)	97(↓2)	37(↓18)	52(↑1)	94(↓8)	62(↓17)
Business sophistication	107(↑10)	114(↑8)	34(↑4)	35(↑17)	39(↓3)	95(↓9)	52(↓10)	43(↓8)	65(↓7)	96(↑4)
Local supplier quantity	47(↑18)	125(↑6)	16(↓1)	36(↑18)	40(↓1)	102(↓49)	60(↑4)	59(↓25)	41(↓14)	86(↓16)
Local supplier quality	78(↑15)	125(↑3)	57(↑6)	59(↑7)	70(↑4)	111(↓13)	74(↓10)	77(↓18)	48(↑1)	109(↓4)
State of cluster development	77(↓15)	46(↑19)	21(↑3)	27(↑2)	29(↓1)	76(↓8)	66(↓21)	62(↓23)	57(↓5)	53(↑6)

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

China Wage Trend Snapshot

Q4 News & Analysis:
At least seven of China's provinces and regions raised their minimum wage levels through Q3 2017, with Jilin and Henan making increases in October. These provinces which increased wages by between 5% and 18% include: Fujian, Hunan, Guizhou, Tianjin, Inner Mongolia, Beijing, Jilin and Henan.

In addition, 13 provinces and regions through China issued new guidelines on salary increases through Q3. These guidelines, which are influential for worker's expectations, suggest higher increases for operations with higher performance and even freezing or reducing wages at enterprises with operating difficulties or poor performance. However, guideline state that wages should not go lower than minimum levels.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of October 1, 2017. As such these numbers serve as an indicator. Actual wages may include benefits, food, housing and other costs. Minimum wage is typically 40-60% of average total wage.

2015/2017 Minimum Wage Updates (official) Asterisk (*) Shows Variance By District			
City/Region/Province	**Monthly Min Avg Wage (RMB)**	**Increase %**	**Effective Date**
Anhui	1,520	20.6%	Nov 1, 2015
Beijing	**2,000**	**5.8%**	**Sep 1, 2017**
Fujian	**1,700**	**13.3%**	**Jul 1, 2017**
Chongqing	1,500	n/a	Jan 1, 2015
Gansu	**1,620**	**10.2%**	**Jun 1, 2017**
Guangxi	1,400	16.7%	Jan 1, 2015
Guangdong	1,895	22.3%	May 1, 2015
Guizhou	**1,680**	**5.0%**	**Jul 1, 2017**
Hainan	1,430	12.6%	Feb 1, 2016
Heilongjiang	1,480	27.6%	Oct 1, 2015
Henan	**1,570**	**8.2%**	**Oct 1, 2017**
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,550	19.2%	Sep 1, 2015
Hunan	**1,580**	**13.6%**	**Jul 1, 2017**
Inner Mongolia	**1,610**	**8.0%**	**Aug 1, 2017**
Jiangsu	**1,710**	**8.1%**	**Jul 1, 2017**
Jiangxi	1,530	10.1%	Oct 1, 2015
Jilin	**1,630**	**18.1%**	**Oct 1, 2017**
Ningxia	1,480	34.5%	Nov 1, 2015
Shaanxi	**1,680**	**11.7%**	**May 1, 2017**
Shandong	**1,810**	**6.7%**	**Jun 1, 2017**
Shanghai	**2,300**	**5%**	**Apr 1, 2017**
Shenzhen	**2,130**	**4.9%**	**Jun 1, 2017**
Sichuan	1,500	7.1%	Jul 1, 2015
Tianjin	**2,050**	**5.1%**	**Jul 1, 2017**
Tibet	1,400	16.7%	Jan 1, 2015
Xinjiang Uyghur	1,670	12.9%	Jul 1, 2015
Yunnan	1,570	10.6%	Sep 1, 2015
Zhejiang	1,860	12.7%	Nov 1, 2015

Global Low Cost Sourcing Country Wage Snapshot

Below is a snapshot of minimum wages in selected Asian sourcing locations, with the addition of Egypt and Ethiopia. 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. With greater visibility into social conditions in low cost countries, currency fluctuations, increasing unrest and union pressure, wages in traditional low cost sourcing countries are on the rise. Currency fluctuations mean that these figures are approximate at the time of finalizing this report.

Q4 News & Analysis: Countries which have announced minimum wage increases recently include: Cambodia (11% increase effective January 2018), Malaysia, expected for 2018. Multiple regions and provinces in China have also announced increases for Q3/Q4. Other countries such as India, Myanmar and Vietnam are still in the process of revising their minimum wage laws.

Notes: Figures are provided in USD/month based on currency exchange as of October 1, 2017. 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.

BANGLADESH	CAMBODIA	CHINA	EGYPT	ETHIOPIA
$68 (Jan 2017)	**$170 (Jan 2018)**	$137-$639 (Jan 2017)	$172 (Jan 2017)	$20-$40 (Jan 2017)
Bangladesh raised the minimum wage for garment workers – up by 77%. To 5,300 Taka ($68) following a labor dispute that shut factories in the Ashulia industrial zone.	Ahead of new elections, Cambodian workers will receive an 11% increase in min. wages effective early 2018. Monthly wages will increase to $170 from $153, of which $5 will be paid by the government.	Minimum wages in China are set by local governments and vary widely by region and how wages are calculated (with housing, food, overtime etc.) Wages continue to increase each year.	Egypt's official minimum wage (for public workers) was raised to 1,200 EGP/month as of Jan 2017 according to CAPMAS. Actual wages for non-public workers are mostly below this amount.	Many government institutions and public enterprises set their own minimum wages which accounts for variations. Public sector employees are on the low end ($23) while the private sector is higher (+/-$40)
INDIA	INDONESIA	LAO PDR	MALAYSIA	MYANMAR
$40-$130 (Jan 2017)	$106-$252 (Jan 2017)	$111 (Jan 2017)	**$233-$253 (Jan 2017)**	$80 (Jan 2017)
Indian min. wages vary by region and skill level; however, the central Indian labor ministry has proposed fixing minimum wages at 15k Rupees/month ($242) as of late 2014 - a big gap between actual rates.	Indonesia wages vary widely by their 34 provinces and regions and skill levels. The provinces suggest an increase for 2017 based on inflation of 3.07% and economic growth of 5.18%, which means a raise of 8.25% for 2017.	Talks are still underway to increase the min. wage, based on rising living costs from a 2011 min. of 626,000 Lao kip ($78) per month to a proposal by labor unions to raise wages to 900,000 Lao kip ($99) in key provinces.	Wages vary by region and are supposed to be review every 2 years. Malaysian officials announced that a new minimum wage for 2018 to bridge the gap between Peninsular Malaysia and East Malaysia.	Myanmar set a minimum wage of 3,600 kyat ($2.80) for an eight-hour work day, in 2015, mostly impacting garment workers. As of 2017, a committee is evaluating a new wage increase.
PHILLIPPINES	**SRI LANKA**	**THAILAND**	**VIETNAM**	
$110-220 (Jan 2017)	$67 (Jan 2017)	$190-$196 (Jan 2017)	$113-165 (Jan 2017)	
Wages in the Philippines vary by region skills level and wage classification. Wage agreements are constantly being renegotiated in the different regions. We provide an estimate of factory workers across the country.	Sri Lanka's 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 implemented a new minimum wage policy as of January 2017, under which min. wages will vary across the 69 provinces. This is the first adjustment since 2013. Wages range from 300 to 310 THB ($8.50-$9) per day for unskilled workers.	Vietnam announced a 7.3% wage increase for 2017, where workers must be compensated between VND 2.58 million ($113) and VND 3,75 million ($165). This is a compromise on worker's demands for an 11% increase.	

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

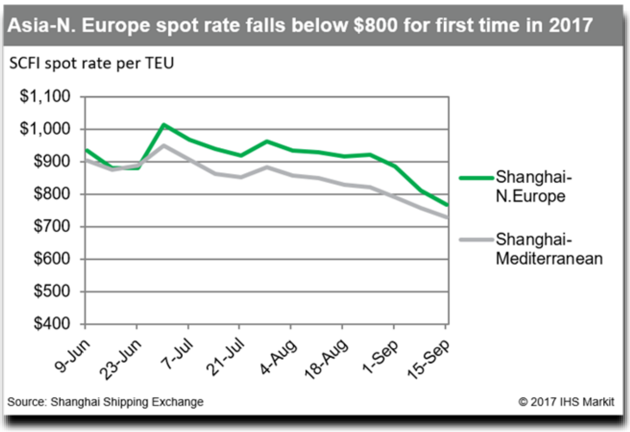
Container Freight Rates for Major Routes

This was a good year for global container shipping which saw container port handling increase by 6% in the first half of 2017. Shipping consultants, Drewry, reported that the industry should make an operating profit of around US$6 billion in 2017.

The shipping container was somewhat of a surprise given the political and economic climate with Brexit and populist movements, a Trump presidency and terrorism. The fourth quarter which is typically the busiest season of the year, should be strong, but expectations are that rates should back off in the new year.

Asia - Europe Trade Lanes

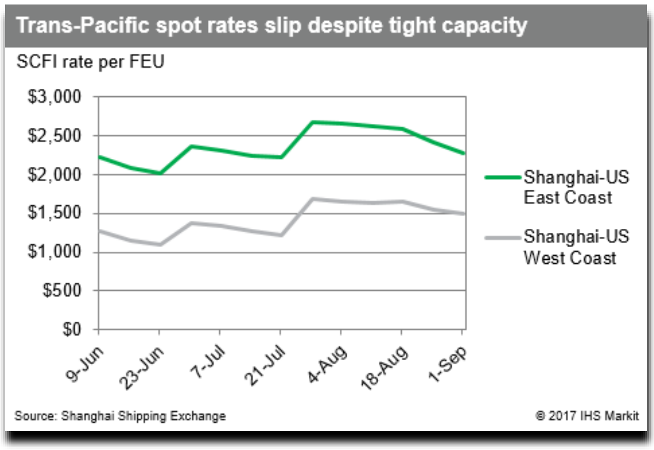
2017 spot rate levels on the Asia-Europe market have been stable for 2017 compared to the volatility of 2011-2016 which saw bankruptcies, consolidation, rate wars and volatility. This has meant increasing freight rates but also greater predictability and stability for major trade lanes. Supply and demand levels have come closer, with a reduction in capacity, along with increased utilization of the backhaul.



While rates dipped somewhat in Q3, predictions are that rates should increase by 3-5% annually in the near term. According to Shanghai Shipping Exchange data, rates from Shanghai to Rotterdam dropped to $769 per TEU in September, following a 2 month declining trend.

Asia – North America Trade Lanes

Asia-North America trade lanes followed a similar trend to Asia-Europe through 2017, with a rebound and stabilization followed by a gradual decline into Q4. According to the World Liner Supply Report from BlueWater Reporting, weekly capacity from Asia the West coast of North America remained relatively unchanged from Q2 to Q3, at 286,227 TEUs versus 286,448 TEUs. Capacity from Asia to East Coast increased by 2.7% from 133,217 TEUs in Q2 to 134,879 TEUs in Q3.



Maersk CEO Soren Skou predicted a 3% increase in container volume on Asia-Europe lanes for 2017, which corresponded with rate increases through Q3 of 13% for a 40 foot container, from USD 1,430 to USD 1,611.

The prediction for Asia-North America trade lane rates is more optimistic than for Asia-Europe trade lanes, given the combination of Brexit fears and falling confidence in key European economies. The upcoming Christmas/Peak season is expected to be stronger for the U.S. than for Europe which should drive increases in container shipping rates.

Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. The US dollar had a rough year, depreciating more than 8% so far, the biggest slump since 2009, however it is expected to make a comeback in 2018.

EUR to USD (October 1, 2016 – October 1, 2017)

Despite a pick-up in US economic activity, the dollar still depreciated by more than 10% in 2017 against the Euro. The Eurozone economy has performed well, with GDP expected to grow by 2% in 2017.

EUR/USD - Rate	
2 years	1.12
1 year	1.12
6 months	1.06
3 months	1.14
30 days	1.18

EUR to CNY (October 1, 2016 – October 1, 2017)

The EUR is expected to continue an appreciation trend which should continue in 2018. Political risks in the region still linger, but overall the EUR should remain strong against the Chinese Yuan into 2018, especially if the EUR remains strong against the USD.

EUR/CNY - Rate	
2 years	7.11
1 year	7.48
6 months	7.34
3 months	7.74
30 days	7.78

USD / CNY (October 1, 2016 – October 1, 2017)

The USD continued to lose ground against the Chinese Yuan through Q3 and into Q4, a trend which should continue through the remainder of 2017. China has focused on maintaining stability of their currency ahead of the five-year Communist Party Congress.

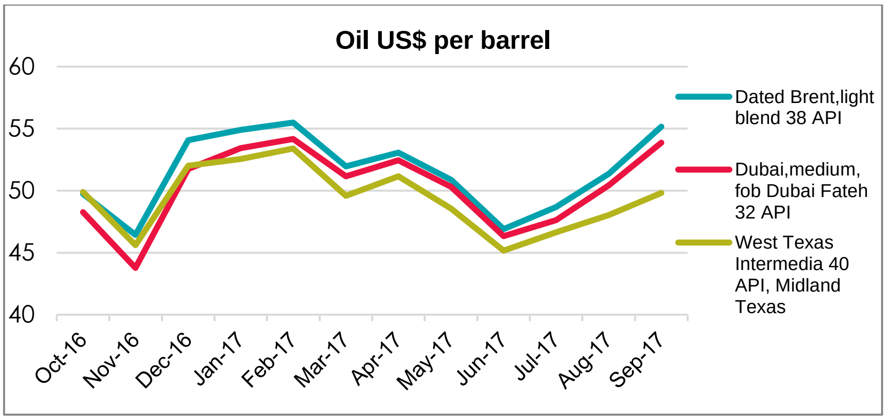
USD/CNY - Rate	
2 years	6.34
1 year	6.65
6 months	6.89
3 months	6.78
30 days	6.58

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

Global Commodity Rates

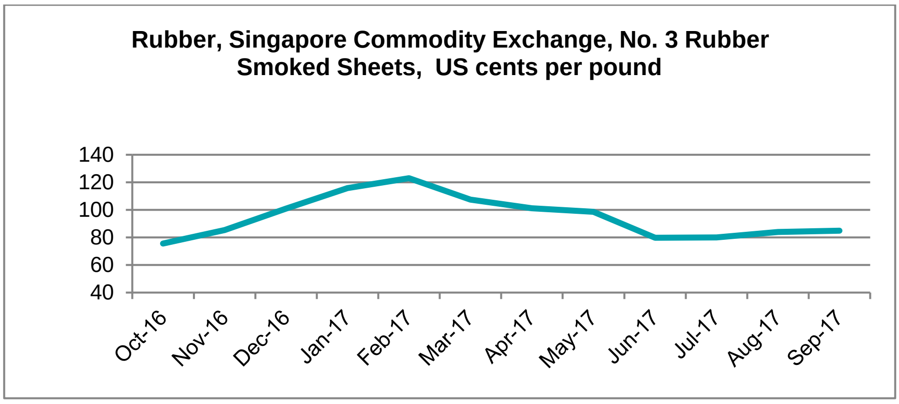
Q2 News & Analysis: Oil and metal prices have increased through to Q4 due in part to strong demand from China, which saw an 18.7% yoy growth in September imports. Iron ore shipments to China rose by more than 10% yoy in September to a record 102.8 mln tons, while crude oil imports reached 9 mln barrels per day, compared to the daily average of 8.5 mln per day from January to September. According to some analysts though, strong commodity prices in metals have been sustained by speculation versus demand as investors look to place money in alternatives to property and infrastructure focused investments.

Crude Oil



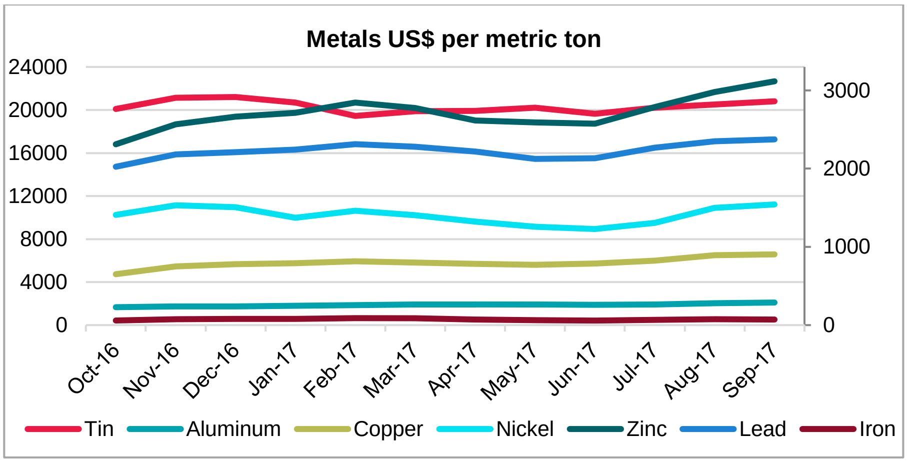
Oil prices gained momentum in Q3/Q4 on strong Chinese imports and instability in the Middle East which is still attempting to curb output. Analysts predict that prices are not likely to reach higher than $60 a barrel in 2018, given improvements in efficiency and technology, along with decreased demand from China, the world's biggest importer. Oil prices hovered around $50 in early October.

Rubber



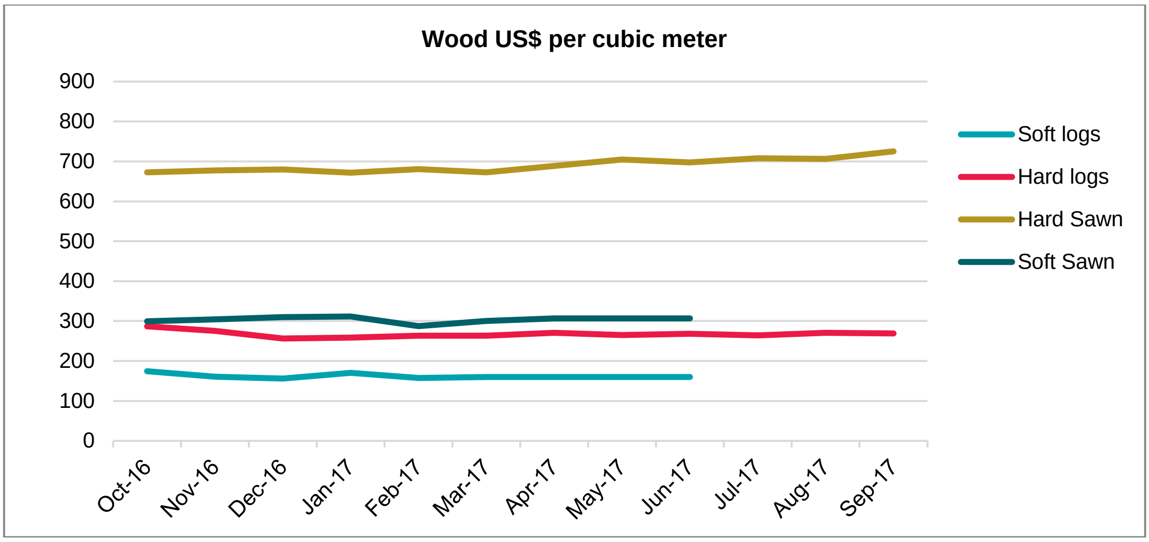
Natural rubber prices rallied into Q4 based on supply shortages, growth in crude oil prices and rising demand from China. Global prices hovered above 80 cents per pound in September, at least 10 cents higher yoy. Key supplier countries, including Indonesia, Malaysia and Thailand are proposing an output cut which should also impact prices.

Metals



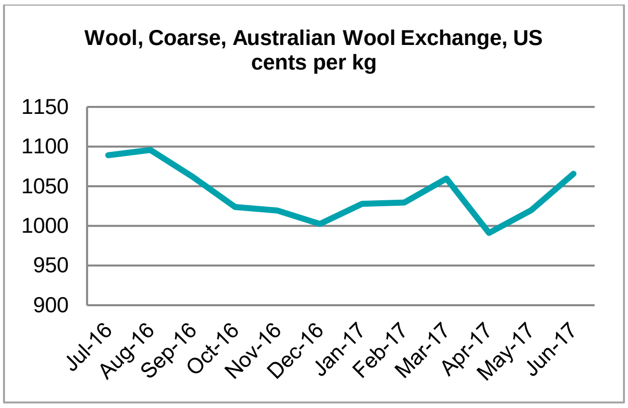
Metal prices have followed the trend of other commodities in higher prices based on growth in demand from China, and a weak USD. According to some analysts, a key driver in the rally in base metal prices is Chinese speculation versus a real change in fundamentals. Another issue is excess capacity in some metals such as steel, which could impact prices in 2018.

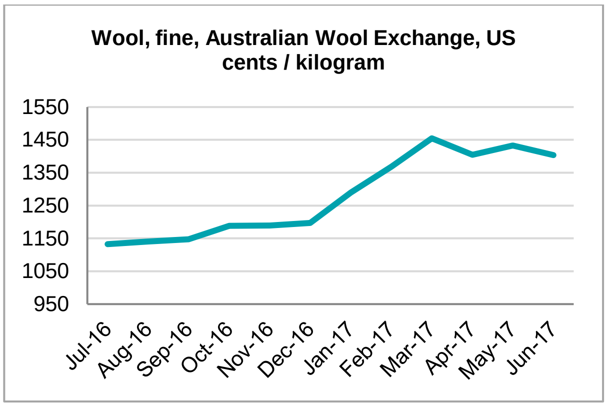
Wood

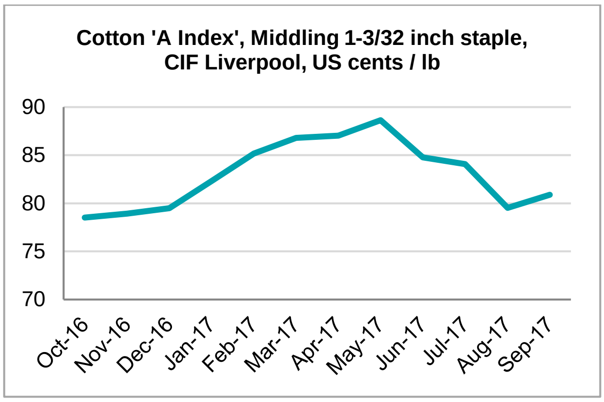


Wool, Hides, Cotton

Global cotton output is expected to increase by 10% to 25.4 mln tons in 2017-2018 based on growth in production in India and the US, according to the International Cotton Advisory Committee (ICAC). Global consumption is expected to increase by 2.7% this year, while cotton trade is expected to remain stable at 8 mln tons in 2017-2018. The US should be the highest exporter while Bangladesh will be the biggest cotton importer. India, Pakistan, Turkey and Brazil are expected to pick up demand in the coming year. Wool prices pushed higher on demand from emerging markets in Asia and Eastern Europe and a weak USD.



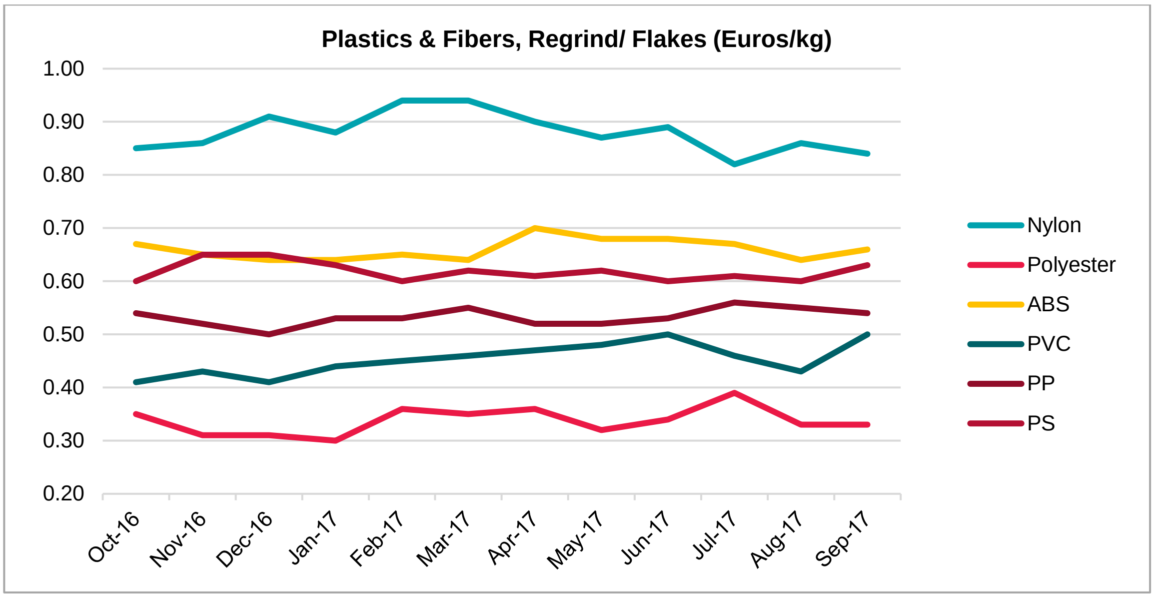




Plastics and Fibers

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

Analysis: Natural disasters such as Hurricane Harvey led to shortages in some plastics in Q3/Q4, including polyethylene and polypropylene, used in package of both commercial and consumer products. Prices also increased and are expected to continue rising until the end of the year.

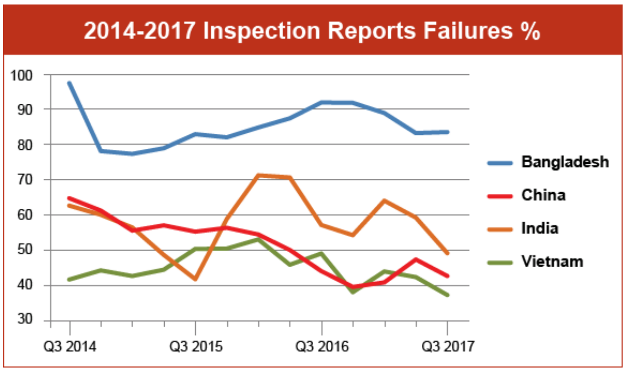


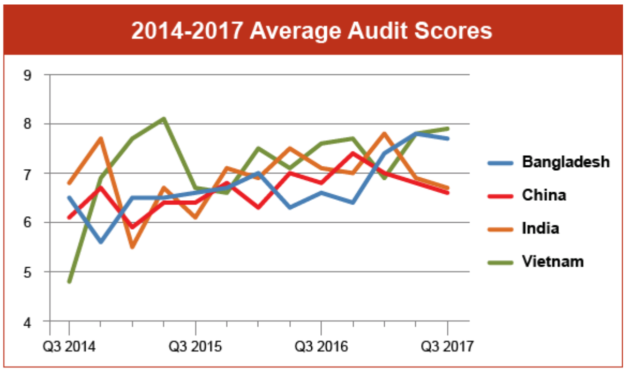
Sources of above commodity charts: **IMF data, Index Mundi, Plasticker**

Quality Focus

This report frequently covers quality control and quality assurance issues. Audit and inspection data provide an indicator of activity in various sourcing regions. As we head into the final quarter, inspection and quality audit demands are reflect the growth in the region. According to [Asia Inspection](#) (AI) data, notably for Q3, inspection and audit volumes rose by 22.7% in Cambodia, 18.7% in Pakistan and 65% for Latin America. Data shows that manufacturers are still struggling with compliance on working hours and wages, especially in the textiles and apparel industry.

Key Quality KPIs





Source: AsiaInspection data

Special Focus Topics

China's Belt and Road Initiative

China's plan to create and connect vast sea and land routes across over 60 countries and three continents, known as the Belt and Road Initiative (BRI), has received considerable attention following a diplomatic forum in Beijing in May attended by leaders from 28 countries.

Formerly known as One Belt, One Road (OBOR), the BRI consists of two components: an overland Silk Road Economic Belt connecting China with Central Asia and an ocean based Maritime Silk Road to China's South. The plans include improving both infrastructure and creating trade agreements with various countries. The China led plan pushed by President Xi Jinping, involves around 65 countries in Asia, Europe, the Middle East and Africa, which make up over 70% of global population and is forecasted to cost around US$4 trillion.

On the plus side

China probably stands to benefit most from the initiative, given that it will create jobs and expand markets and access to natural resources for China as well as building extensive influence in regional and global affairs. It will also help to integrate and improve infrastructure and conditions for remote regions of China. Many developing countries have responded well to the deal, given it will provide necessary infrastructure to develop their own economies. An example is a China funded railroad in Kenya, connecting Mombasa to Nairobi, which will eventually integrate African countries such as Uganda, Rwanda and South Sudan.

On the other hand

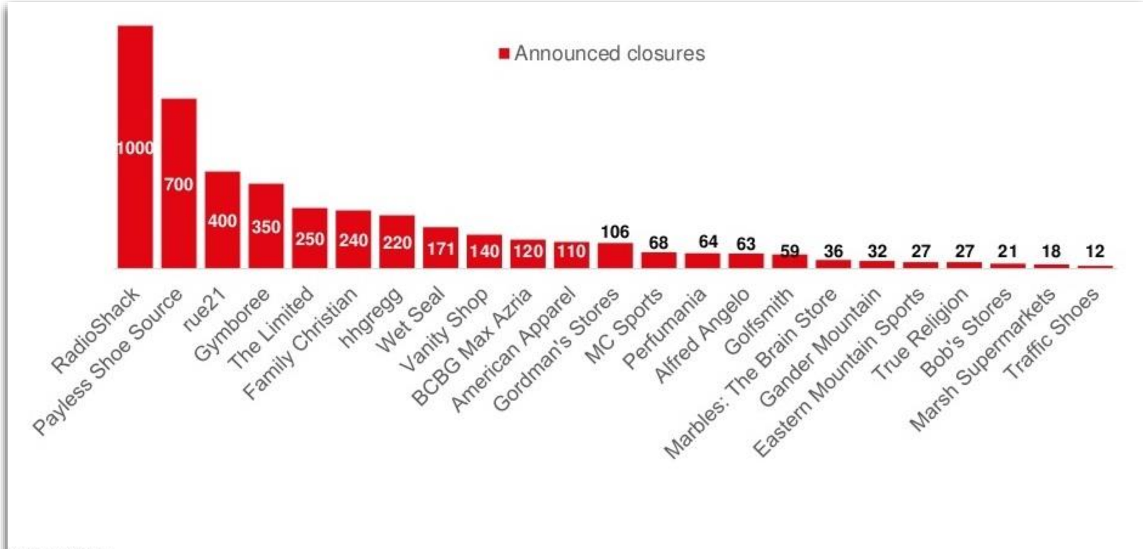
Some countries and organizations are concerned about the environmental, social and financial risks of the BRI. Other countries, including Japan, Russia and India are concerned about the geopolitical power and influence that China will have in the long term if the initiative is realized. So far China has pledged over US$100 bln to finance project such as the China-Pakistan corridor and a high-speed railway project connecting China and Singapore. China has also extended around US$900 bln in credit to countries such as Ethiopia, Kenya and Sri Lanka which is unlikely to ever be repaid.

The United States is also clearly concerned about how this initiative will impact their own strategic and economic interests and do not want China dominating the Eurasian region. President Trump was noticeably not present at the Beijing forum and has expressed clear intentions to push in favor of US versus global interests in all existing and proposed international agreements. The US is still the number one largest economy, but they recognize the threat from China in what many now call the Asian Century.

Retail Store Closures

If you are thinking about giving a retail gift card this Christmas, you should consider carefully where you buy it. This year was a tough one for bricks and mortar retailers in the US, with the recent retail bankruptcy announcements of Toys R Us, Perfumania and Sears. Reasons for the closures include changing business models, shifting tastes, growth in e-commerce, consolidation and bankruptcies.

The apparel and electronics sectors saw the largest number of planned and actual closures. Some 2,336 apparel store closures were announced to date, including well-known brands such as The Limited, Wet Seal, BCB Max Azria and American Apparel, while electronics retailers announced 928 store closures, including retailers such as hhgregg and Radioshack. Department stores also struggled with Sears/Kmart closing 358 stores, JC Penney, 138 stores and Macy's 68 stores.



Source: PNC,JLL

Who is doing well?

While the number of store closures might be scary, it does not mean that bricks and mortar retail dying. In fact, according to IHL Group, various banners will open 4,162 retail stores in 2017. Retail sectors that are expanding in the US include wireless retailers such as T-Mobile and Sprint, discount stores such as Dollar Tree and Dollar General, convenience stores such as 7-Eleven and Couche-Tard (Circle K), along with European grocery retailers such as Lidl and Aldi.

- German retailer and grocery giant, Lidl is expanding in the US, opening 37 locations in the Eastern seaboard, with plans to open another 100 in 2017.
- Aldi, another European grocery retailer announced a $3.4 billion investment in the US, with plans to grow to 2,500 stores by the end of 2022. This would make Aldi America's third largest grocery retailer after Wal-Mart and Kroger.
- Walmart plans to grow its stores by 280 in each of 2018 and 2019, most of which will happen in China and Mexico.
- Apple stores ranked number one in sales per square foot, generating $1,560 per square foot, a trend which is expected to continue.

The challenge for retailers today is to move quickly, satisfy challenging customer demands and effectively manage inventory and supply chains. It also helps if they can see the future.

Don't miss the 10th Edition of CBX Global Sourcing Day on December 8, 2017

This exclusive event brings together over 100 sourcing executives at leading retailers and brands to learn and exchange ideas on the most pressing issues in retail global sourcing today.

Topics Include: Strategies for Optimizing your Sourcing Operations, Private Label Sourcing Done Right, Effective Quality Control, Leveraging Technology for Global Sourcing and more.

Past Attendees Include: Alliance Boots, Berghaus, Dollar General, El Corte Ingles, Marks & Spencer, MGB Metro, Pets at Home, Poundland, Target, Tchibo – and many more.

To pre-register for a complimentary seat *(qualified attendees only):*
Contact: Judy Mak at +852 2378 6300 or email judy.mak@cbxsoftware.com.

About CBX Software

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