

Q1  
2018



# Retail Sourcing Report

Facts & Insight



## 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.

**Q1 2018 News & Analysis:** Most global manufacturing economies experienced a strong year of expansion with growth in new orders, increased output and growing export demand despite input cost pressures, inflation and political uncertainty in some countries. The Eurozone economy had the strongest close to 2017 in 7 years with a revival in business confidence for 2018 and less political uncertainty over populist movements. Despite some uncertainty over cost inflation, the US economy also reported a positive close to 2017 favoring manufacturing over services, signaling optimism for 2018. Overall, the trends point towards another positive year in 2018 for manufacturing and global economic expansion.

Country	Sep 2017	Oct 2017	Nov 2017	Summary of Indicators
<b>Brazil</b>	50.9	51.2	53.5	Brazilian manufacturing expanded in Q4 alongside the country's economic recovery, with new orders and increased output, despite higher input costs.
<b>China</b>	51.0	51.0	50.8	Chinese manufacturing slowed down late in Q4 2017, albeit with the economy showing healthy GDP growth and exports supported by govt. policy changes.
<b>Czech Republic</b>	56.6	58.5	58.7	Czech manufacturing continued a strong run into late 2017 with growth in new orders and stronger domestic and foreign demand despite capacity pressures.
<b>Egypt</b>	47.4	48.4	50.7	Egypt's non-oil private sector reported a positive result in November for the first time in two years, partly as a result of IMF sponsored economic reforms.
<b>India</b>	51.2	50.3	52.6	India's manufacturing recorded the strongest improvement in manufacturing conditions in Nov. since Oct. 2016, on strong foreign and domestic demand.
<b>Indonesia</b>	50.4	50.1	50.4	Indonesia's manufacturing economy picked up in late Q4 with an acceleration in new orders and output despite inflation pressure and input cost inflation.
<b>Malaysia</b>	49.9	48.6	52.0	Despite inflation pressure, Malaysia's manufacturing index hit a 43-month high in November, supported by growth in both domestic and foreign demand.
<b>Mexico</b>	52.8	49.2	52.4	Mexico's manufacturing picked up in Nov. for a 6 <sup>th</sup> consecutive month, suggesting economic pick-up after disruptions by hurricanes and earthquakes.
<b>Myanmar</b>	49.4	51.1	51.6	Myanmar manufacturing conditions continued to improve into late Q4, with stronger foreign demand and optimism for 2018, despite input cost pressures.
<b>Poland</b>	53.7	53.4	54.2	Polish manufacturing PMI reached a 9-month high in November, marking a 14% yoy annual increase, supported by strong new order and output growth.
<b>Russia</b>	51.9	51.1	51.5	Manufacturing in Russia ended the year on a positive note, with strong business confidence and new orders despite export contraction and inflation.
<b>South Africa</b>	48.5	49.6	48.8	South Africa's private sector manufacturing continued to contract for a 4 <sup>th</sup> consecutive month in November, due to soft demand and political concerns.
<b>South Korea</b>	50.6	50.2	51.2	South Korean manufacturing had the strongest month in November since 2013 with strong export demand despite inflation and input cost pressures.
<b>Turkey</b>	53.5	52.8	52.9	Turkey closed out 2017 on 9 continuous months of manufacturing expansion, with strong demand and expanding employment despite inflationary pressure.
<b>Vietnam</b>	53.3	51.6	51.4	While still in growth mode, Vietnam experienced some weakening in their manufacturing economy in late Q4 2017, on slower expansion in new orders.

Sources: IHS Markit Economics, Nikkei, Caixin

## Low Cost Country Sourcing (LCCS) Highlights

This section looks at selected issues impacting sourcing from key LCCS destinations, alongside official import/export numbers highlighting global sourcing trends. Heading into 2018, the overall climate for global sourcing is positive with new trade agreements such as the TPP and BTIA moving forward and with some exceptions, a general trend of incentives for foreign direct investment into manufacturing related sectors.

**Bangladesh** – In 2018 it will be easier for Bangladesh factory workers to form trade unions. Following international and labor rights pressure, the government will ease labor laws governing trade unions.

**Cambodia** – EU and US officials have warned that Cambodian trade relations may suffer following their Supreme Court's undemocratic decision in Nov. 2017 to dissolve the official opposition party (the CNRP).

**India** – India and the EU continued discussions in late 2017 on a proposed free trade agreement, the Broad-based Trade and Investment Agreement (BTIA), which launched in 2011 and stalled in 2013.

**Indonesia** – For 2018, the Indonesian government is offering manufacturing tax incentives including allowances and incentives for labor intensive and other industries to spur economic growth.

**Pakistan** – Pakistan reported their best fiscal year in 2016/17 in 10 years, with GDP increasing from 4.5% to 5.3% yoy, on strong foreign direct investment, domestic consumption growth and a stable political climate.

**Philippines** – Philippines' President Rodrigo Duterte endorsed a memorandum to the National Economic Development Authority Board calling for the easing of restrictions in foreign investment in 8 priority areas.

**Thailand** – Thailand will raise their daily minimum wage by 5% from January 2018, an increase of 15 Baht per day, to between 300-310 per day. Minimum wages vary by province and will be adjusted accordingly.

**Turkey** – Amid strained political relations between the US and Turkey due to a failed coup attempt, the Turkish Lira fell to an all-time low of below 4 Lira against the USD, inflating costs, especially for imports.

**Vietnam** – Vietnam was one of 11 countries to agree on a revised Trans Pacific Partnership (TPP) trade agreement expected to be signed in February 2018, following a Donald Trump led US exit from the TPP.

Exports (% yoy growth)	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017
<b>Bangladesh</b>	1.4	-14.9	17.9	10.7	-9.8	6.4	-
<b>Cambodia</b>	19.7	37.7	7.5	51.7	43.2	43.2	43.2
<b>India</b>	8.3	4.4	3.9	10.3	25.7	-1.1	-
<b>Indonesia</b>	24.1	-11.7	41.1	19.4	15.7	19.6	13.2
<b>Pakistan</b>	-11.0	16.2	10.6	12.9	8.9	7.9	-
<b>Philippines</b>	14.0	5.8	11.0	9.6	4.9	6.6	-
<b>Thailand</b>	12.7	11.7	10.5	13.2	12.2	13.1	-
<b>Turkey</b>	12.3	2.1	28.1	12.1	8.7	-	-
<b>Vietnam</b>	18.4	18.7	18.8	19.3	20.0	21.3	21.5
Imports (% yoy growth)	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017
<b>Bangladesh</b>	7.1	-7.2	29.6	17.4	21.0	-	-
<b>Cambodia</b>	1.1	8.2	1.7	10.5	38.9	38.9	38.9
<b>India</b>	33.1	19.0	15.4	21.0	18.1	7.6	-
<b>Indonesia</b>	24.0	-17.4	54.0	9.1	13.1	23.8	19.6
<b>Pakistan</b>	27.9	2.2	36.7	15.1	16.7	23.6	-
<b>Philippines</b>	16.6	-1.3	-3.2	10.4	4.4	13.1	-
<b>Thailand</b>	18.3	13.7	18.5	14.9	9.7	13.5	-
<b>Turkey</b>	21.7	-1.5	46.3	15.3	30.6	-	-
<b>Vietnam</b>	24.7	23.9	23.6	22.5	22.7	21.6	21.2

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 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 December 2017.

### Global Competitiveness Index: Selected Indicators, 2017-2018 (Ranking of 137 countries)

Rank/137	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
<b>Overall competitiveness</b>	99(↑7)	94(↓5)	27(↑1)	40(↓1)	36(↑5)	115(↑7)	56(↑1)	32(↑2)	53(↑2)	55(↑5)
<b>Institutions</b>	107(↑18)	106(↓2)	41(↑4)	39(↑3)	47(↑9)	90(↑21)	94(↓3)	78(↑6)	71(↑3)	79(↑3)
<i>Intellectual property protection</i>	124(↑5)	130(-)	49(↑13)	52(↓10)	46(↑4)	97(↑12)	71(↑3)	106(↑15)	94(↑1)	99(↓7)
<i>Burden of government regulation</i>	78(↑15)	68(↓3)	18(↑3)	20(↑3)	27(↑10)	64(↑11)	111(↑6)	58(↑3)	67(↑4)	76(↑12)
<i>Strength of investor protection</i>	66(↑13)	95(↓1)	102(↑6)	13(↓5)	66(↑13)	26(↓1)	111(↑9)	26(↑10)	21(↓1)	79(↑22)
<b>Infrastructure</b>	111(↑3)	106(-)	46(↓4)	66(↑2)	52(↑8)	110(↑6)	97(↓2)	43(↑6)	53(↓5)	79(-)
<i>Quality of roads</i>	105(↑8)	99(↓6)	42(↓3)	55(↓4)	64(↑11)	76(↑1)	104(↑2)	59(↑1)	30(↓2)	92(↓3)
<i>Quality of railroad</i>	60(↑12)	94(↑4)	17(↓3)	28(↓5)	30(↑9)	52(↑1)	91(↓2)	72(↑5)	57(↓2)	59(↓7)
<i>Quality of port</i>	85(↑4)	81(↓5)	49(↓6)	47(↑1)	72(↑3)	73(↑11)	114(↓1)	63(↑2)	54(↓2)	82(↓5)
<i>Quality of air transport</i>	115(-)	106(↓7)	45(↑4)	61(↑2)	51(↑11)	91(-)	124(↓8)	39(↑3)	31(↓2)	103(↓17)
<i>Quality of electricity supply</i>	101(↑9)	106(-)	65(↓9)	80(↑8)	86(↑3)	115(↑6)	92(↑2)	57(↑4)	88(↓4)	90(↓5)
<b>Macroeconomic environment</b>	56(↑9)	70(↓20)	17(↓9)	80(↓5)	26(↑4)	106(↑10)	22(↓2)	9(↑4)	50(↑4)	77(-)
<b>Health &amp; primary education</b>	102(↑3)	101(↑2)	40(↑1)	91(↓6)	94(↑6)	129(↓1)	82(↓1)	90(↓4)	84(↓5)	67(↓2)
<b>Higher education &amp; training</b>	117(↑1)	124(↑10)	47(↑7)	75(↑6)	64(↓1)	120(↑3)	55(↑3)	57(↑5)	48(↑2)	84(↓1)
<b>Goods market efficiency</b>	94(↑2)	85(↓9)	46(↑10)	56(↑4)	43(↑15)	107(↑10)	103(↓4)	33(↑4)	53(↓1)	91(↓10)
<i>Prevalence of trade barriers</i>	35(↑21)	93(↓7)	58(↑20)	54(↓7)	79(↑12)	106(↑6)	64(↓4)	67(↑8)	45(↓1)	109(↓1)
<i>Trade tariffs, %duty</i>	126(↓1)	96(-)	118(-)	124(↓1)	67(↓5)	135(↓1)	58(↓9)	89(↓4)	75(↑1)	91(-)
<i>Burden of customs procedures</i>	98(↑18)	127(-)	44(↑11)	47(↓10)	63(↑10)	93(↑20)	125(↓4)	78(↑4)	80(↓6)	95(↑8)
<b>Labor market efficiency</b>	118(↑2)	48(↑10)	38(↑1)	75(↑9)	96(↑12)	128(↑1)	84(↑2)	65(↑6)	127(↓1)	57(↑6)
<i>Cooperation in labor-employer relations</i>	76(↑15)	67(↑3)	50(↓3)	56(↑11)	41(↑4)	125(↑9)	33(↓6)	36(-)	118(↑1)	85(↓6)
<i>Flexibility of wage determination</i>	58(↑11)	100(↑4)	89(↓7)	104(↑8)	99(↑10)	122(↓2)	86(↑11)	103(↑4)	51(↑11)	81(↑3)
<i>Pay and productivity</i>	80(↑3)	64(↓1)	26(↑1)	33(-)	22(↑7)	85(↑15)	43(↓6)	47(↑5)	91(↑3)	66(↓4)
<b>Business sophistication</b>	91(↑16)	106(↑8)	33(↑1)	39(↓4)	32(↑7)	81(↑14)	58(↓6)	42(↑1)	67(↓2)	100(↓4)
<i>Local supplier quantity</i>	62(↓15)	127(↓2)	52(↓36)	53(↓17)	42(↓2)	107(↓5)	49(↑11)	59(-)	44(↓3)	105(↓19)
<i>Local supplier quality</i>	78(-)	122(↑3)	56(↑1)	69(↓10)	54(↑16)	108(↑3)	73(↑1)	74(↑3)	52(↓4)	116(↓7)
<i>State of cluster development</i>	65(↑12)	48(↓2)	27(↓6)	31(↓4)	26(↑3)	55(↑21)	62(↑4)	67(↓5)	59(↓2)	68(↓15)

Source: World Economic Forum (WEF)

## China Wage Trend Snapshot

### Q1 2018 News & Analysis:

In the final quarter of 2017, local governments in nine provinces or autonomous regions announced official minimum wage increases (see highlights below). An additional four provinces (Hunan, Hebei, Guizhou and Hubei) issued “recommendations” on wage increases. Recommended increases are not mandatory, but take into account business health and are a good reference for directionality of wages.

Another trend noted by China’s National Bureau of Statistics is the increasing wages of China’s large migrant workforce (up by roughly 7% in 2017 to 3,459 yuan per month). This workforce is also getting older, with an average age of 39 and these migrant workers are moving closer to their hometown origins. These trends in low skilled, migrant labor will continue to impact manufacturers in coming years.

**Note:** These are official wage guidelines mandated by each province or region based on information publicly available as of December 30, 2017. 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.

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	1,466	15.4%	Oct 1, 2017
Henan	1,570	8.2%	Oct 1, 2017
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,470	13.1%	Nov 1, 2017
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	1,577	15.1%	Jan 1, 2018
Jilin	1,630	22.5%	Oct 1, 2017
Liaoning	1,365	7.6%	Jan 1, 2018
Ningxia	1,566	12.4%	Oct 1, 2017
Shaanxi	1,550	5.4%	Oct 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	1,743	8.4%	Dec 1, 2017

## Global Low-Cost Sourcing Country 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.

**Q1 2018 News & Analysis:** The overall trend of rising wages in key low-cost sourcing destinations will continue through 2018. Countries implementing minimum wage increases for 2018 include: Cambodia (11%, effective Jan. 2018), Thailand (5%, effective Jan. 2018), Myanmar (10-30%, depending on region), Vietnam (6.5%, effective Jan. 2018) and Malaysia (increase not specified) among others. Multiple regions in China have also announced increases for 2018 of between 5-20%. These increases will have a marginal impact on global sourcing decisions in 2018 given the continuing trend of increased wages against inflation.

**Notes:** Figures are provided in USD/month based on currency exchange as of Dec. 30, 2018. 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
\$68 (Jan 2018)	\$170 (Jan 2018)	\$137-\$639 (Jan 2018)	\$172 (Jan 2018)	\$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 2018)	\$115-\$273 (Jan 2018)	\$142 (Jan 2018)	\$233-\$253 (Jan 2018)	\$80 (Jan 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.	Local governments agreed to raise minimum wages by 8.71% effective Jan. 1, 2018 based on a new formula accounting for GDP growth and inflation. Indonesia wages vary by their 34 provinces and regions.	Talks are still ongoing to increase monthly wages in Laos. A tentative agreement has been made to increase wages from Kip 900,000 (US\$107) to Kip 1,200,000 (US\$142) in key provinces for 2018.	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 2017/18, a committee is evaluating a new wage increase.
PHILIPPINES	SRI LANKA	THAILAND	TURKEY	VIETNAM
\$110-220 (Jan 2018)	\$67 (Jan 2018)	\$190-\$196 (Jan 2018)	\$471 (Jan 2018)	\$120-173 (Jan 2018)
Wages in the Philippines vary by region, skill level and wage classification. Negotiations are still underway, but Manila for example saw a 21 Piso (\$0.42) increase in their daily wage to 491 Pisos (\$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 (+/- \$17) for workers earning less than Rs 40,000 per month (+/- \$270)	Thailand implemented a new minimum wage policy as of January 2018, under which min. wages will increase by 5% across the 69 provinces. Wages will range from 300 to 310 THB (\$8.50-\$9) per day for unskilled workers.	Turkey's official minimum wage, last adjusted in Jan 2017, is 1,777.50 Lira (+/- \$471) per month. This places Turkey in the top 14% of all countries. The 2017 adjustment of 130.5 Liras represented an 8% yoy increase.	Vietnam announced a 6.5% wage increase for 2017, lower than the previous yoy increase of 7.3%. Wages varies by province and skill level; as such the quoted rates are indicative of wage trends across Vietnam.

Sources: [WageIndicator.org](#), [SAFSA](#), [Wikipedia](#), [Local News Reports](#)



## Container Freight Rates for Major Routes

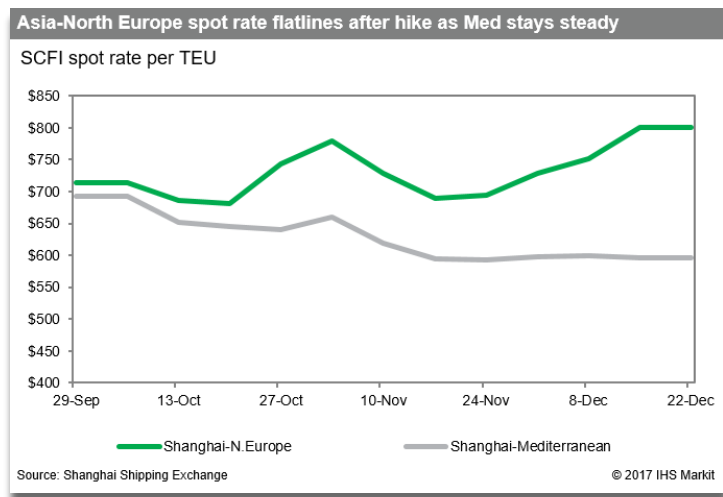
**Q1 2018 News and Analysis:** 2017 was a year of flux for the global container shipping industry, but good for retailers and brands who benefited from low rates. Following many mergers, acquisitions and bankruptcies, only seven global carriers will remain in 2018 - half the number of a decade ago. This market concentration is a red flag for the container market going forward.

Another continuing trend is the increasing number of megaships and the need for port facilities to adapt to the different logistical needs of such large ships. While rates did recover heading into Chinese New Year, the concern for 2018 is that with high capacity levels and further consolidation, rates will remain under pressure and the remaining shipping consortiums might use their combined power to drive rates higher.

### Asia - Europe Trade Lanes

Despite reports of carrier profitability for 2017, rates on China-Europe/Mediterranean routes dipped at year-end following growth in November. While rates on the China-North Europe routes were around \$800 per TEU in late December, they hovered around \$600 per TEU on the Asia-Mediterranean routes, a 38% yoy decline.

A concern is that rates remain low despite increases in cargo volume. Asia-Europe volumes were up 6% in Q3 versus Q3 2016 and are expected to be up by 4.5% yoy. One reason for the rate pressure is new capacity with the influx of megaships, which analysts expect to continue to 2020. IHS Markit predicts that 1.2 million TEU's of extra megaship capacity will hit the market in 2018, expanding capacity by 5.6%.

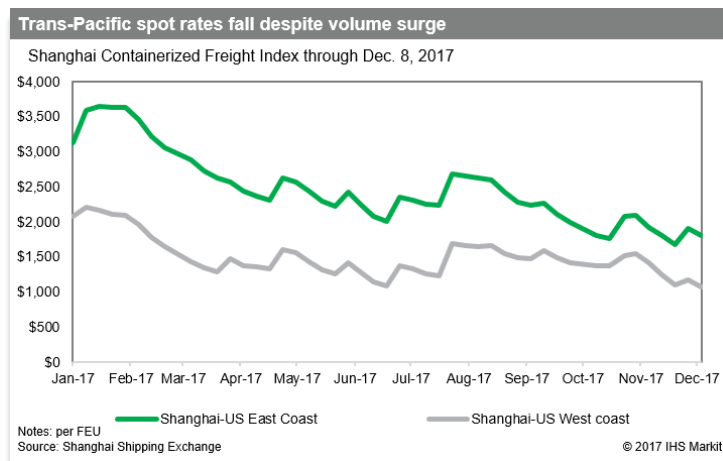


### Asia – North America Trade Lanes

Transpacific rates fell to 12 month lows in December as excess capacity came on board with more megaships entering the market. While carriers did return to profitability, freight rates are still down yoy by 22% on the Asia-West Coast routes and by 23% on the East Coast routes. This is despite a 3.3% growth in US container trade yoy, with imports increasing by 5% to 16.9 million TEUs.

Shipping consultancy, Alphaliner, predicts that rates could fall below critical levels of \$1,000 per Forty Foot Container Equivalent (FEU) to the West Coast and \$1,600 per FEU on the East Coast.

Attempts to implement General Rate Increases (GRIs) have been unsuccessful, leading Maersk to follow other carriers in leaving the Transpacific Stabilization Agreement (TSA) in December. So far, 2018 is shaping up to be another year of volatility for container shipping rates.



Sources: IHS Markit, Alphaliner, Sealintel

## Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. Overall, the USD depreciated against both the Euro and the Chinese Yuan (RMB). With rising global interest rates, analysts predict a tough 2018 for the USD and gradual decline in the US currency. The Euro is expected to perform well into 2018 on strong economic momentum and decreasing political risk in the Eurozone, while the RMB is expected to appreciate in 2018 alongside economic reform policy.

### EUR to USD (Dec 29, 2016 – Dec 29, 2017)

29 Dec 2016 00:00 UTC - 29 Dec 2017 20:04 UTC EUR/USD close:1.20083 low:1.04111 high:1.20371



The Euro continued a one-year trend of appreciation against the USD, reaching a high of 1.19 in late December. Interest rate hikes in the US and a resilient Eurozone should maintain strength in the Euro in the near term.

EUR/USD	Low	High
<b>2 years</b>	1.04	1.19
<b>1 year</b>	1.04	1.19
<b>6 months</b>	1.11	1.19
<b>3 months</b>	1.15	1.19
<b>30 days</b>	1.17	1.19

### EUR to CNY (Dec 29, 2016 – Dec 29, 2017)

29 Dec 2016 00:00 UTC - 29 Dec 2017 20:44 UTC EUR/CNY close:7.80436 low:7.24016 high:7.97858



The Euro strengthened against the Chinese Yuan through 2017, closing the year near at 7.80. Positive fundamentals are expected to drive gains in the Euro against both the USD and CNY through 2018.

EUR/CNY	Low	High
<b>2 years</b>	7.06	7.98
<b>1 year</b>	7.26	7.98
<b>6 months</b>	7.69	7.98
<b>3 months</b>	7.68	7.88
<b>30 days</b>	7.76	7.87

### USD / CNY (Dec 29, 2016 – Dec 29, 2017)

29 Dec 2016 00:00 UTC - 29 Dec 2017 20:47 UTC USD/CNY close:6.50417 low:6.47866 high:6.96060



The USD continued to lose ground against the Chinese Yuan through 2017, hitting 6.53 against the Yuan in late December. The Chinese RMB is expected to appreciate based on planned China central government reforms, which will direct access to the domestic financial sector.

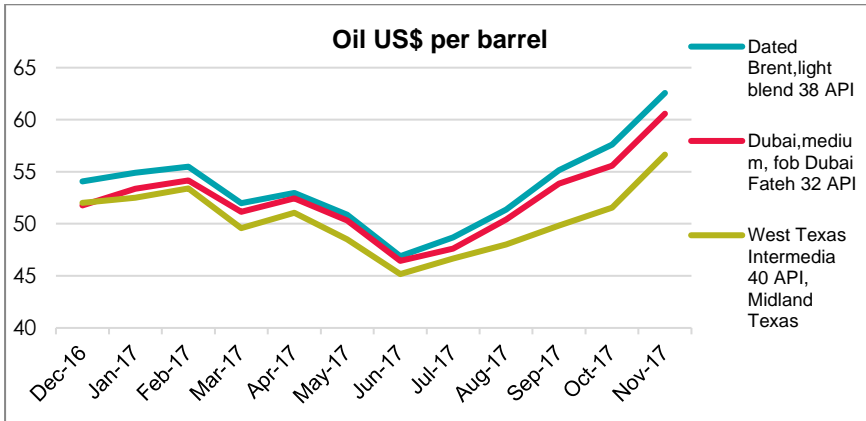
USD/CNY	Low	High
<b>2 years</b>	6.44	6.95
<b>1 year</b>	6.47	6.94
<b>6 months</b>	6.47	6.80
<b>3 months</b>	6.53	6.65
<b>30 days</b>	6.53	6.62

Sources: XE.com, News/Analyst Reports

# Global Commodity Rates

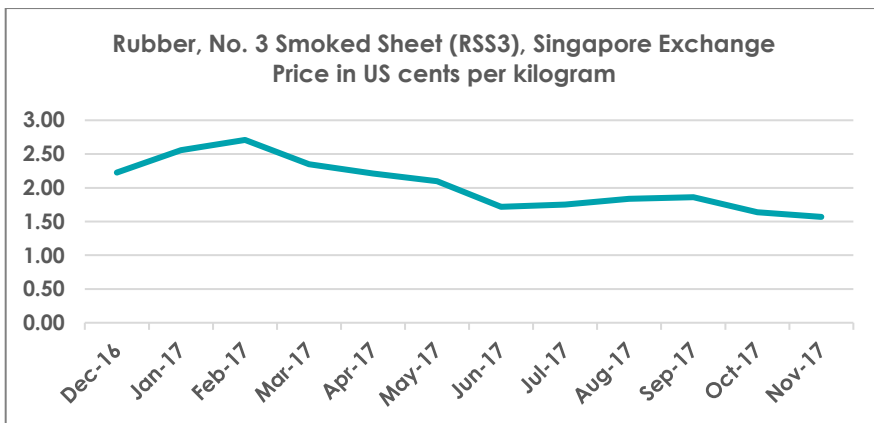
**Q1 2018 News & Analysis:** Overall, commodity prices are expected to increase in 2018 as global demand for raw material increases and a sustained period of low oil prices shifts. Analysts predict stronger demand for energy commodities, base metals and timber - the raw materials of manufacturing and construction. One uncertainty is China, with talks of a debt crisis and central government policy reforms which could dampen demand for raw materials. However, the Eurozone, the US and other developing countries are expected to all have positive economic growth, which should somewhat offset any potential contraction in China.

## Crude Oil



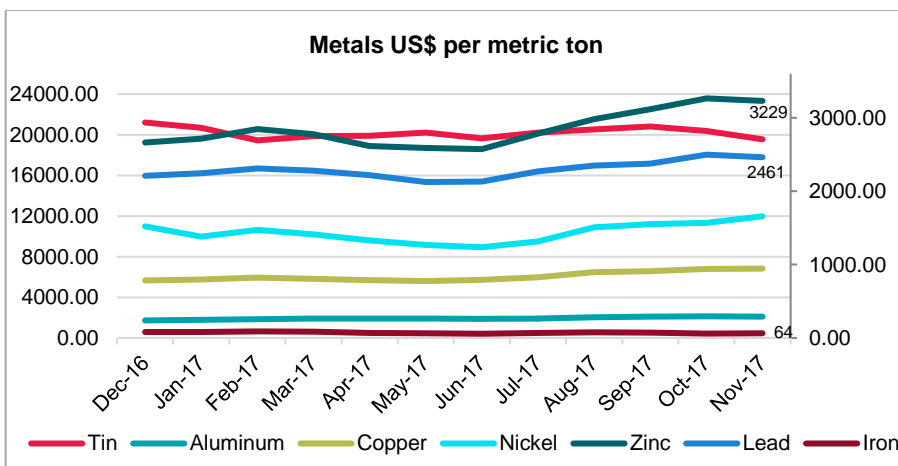
Oil prices which reached a low of \$45 per barrel in mid-2017, closed the year on a strong note in the \$60 range. The price gain is attributed to stronger global demand and declining inventories due to cuts in production from key OPEC nations. Predictions are that supply cuts will continue and be balanced by increased US oil exports. Prices are expected to remain near \$60/barrel in 2018.

## Rubber



Natural rubber prices remained flat through the end of 2017, despite rising crude oil prices and supply issues due to crop damage from Typhoons in Thailand and Vietnam. 2017 was not a good year for rubber as prices hovered near record lows. At around \$1,400/ton, prices are down from a 10-year average of \$2,500/ton. Suppliers are expected to cut production to reduce supply.

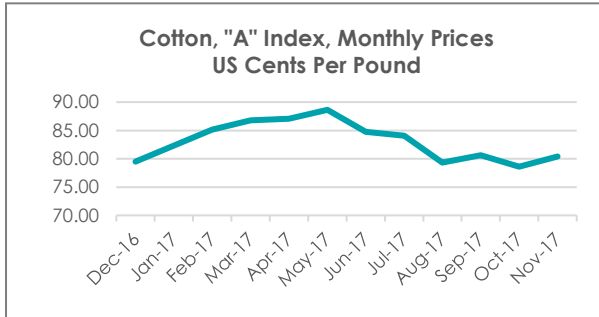
## Metals



Metal prices made solid overall gains towards the end of 2017 and look strong heading into 2018. Chinese government reforms have driven optimism towards future demand levels for metals. Plans for US infrastructure development also suggest strong demand. Lower inventories on the supply side and global economic growth are also driving price increases, suggesting ongoing strength for metal commodities.

## Cotton

Cotton prices rallied towards the end of 2017, closing in the \$US 80 cents per pound mark on the “A” Index, an average of world cotton spot prices. Prices were up from lows well below 70 cents in 2016, making cotton one of the strong crops of the year. Prices were partly influenced by crop issues in Pakistan and India, two of the world’s biggest growers, while US production fared well with US exports expected to be 30% higher for the 2017-18 season. Prices have increased despite large cotton reserves. Global supply outside of China, which places quotas on cotton stocks, are expected to increase by around 25%. While the indicators are that cotton, prices will rise in 2018, large supplies could turn things around.



million 480 lb. bales	2016/17	2017/18	
		Nov	Dec
United States	14.9	14.5	14.8
Australia	3.7	4.1	4.3
India	4.6	4.6	4.3
Brazil	2.8	3.8	4.0
Burkina	1.1	1.3	1.2
Rest of World	10.2	9.8	9.9
World	37.2	38.0	38.5

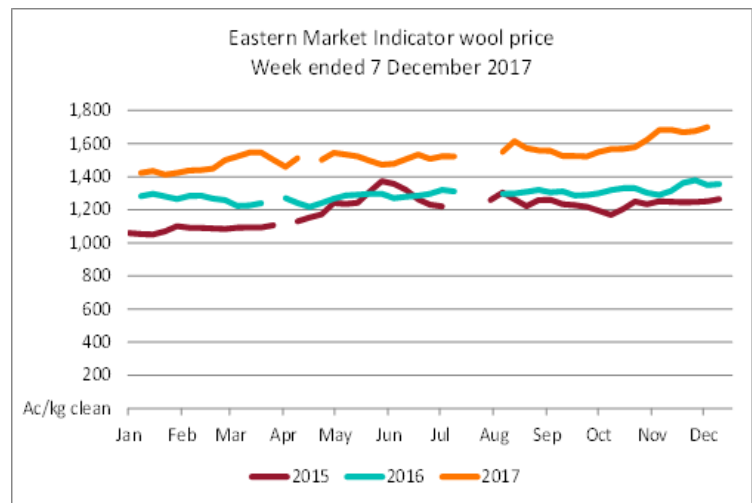
million 480 lb. bales	2016/17	2017/18	
		Nov	Dec
Bangladesh	6.7	7.3	7.3
Vietnam	5.5	6.5	6.5
China	5.0	5.3	5.3
Turkey	3.7	3.4	3.5
Indonesia	3.4	3.4	3.5
Rest of World	13.3	12.2	12.5
World	37.6	38.0	38.5

million 480 lb. bales	2016/17	2017/18	
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Rest of World	10.2	9.8	9.9
World	37.2	38.0	38.5

Sources: National Cotton Council, Cotlook, News Reports

## Wool

International wool prices reached new highs in 2017 at \$US 1,765 cents per kilo for fine wool, partly due to strong demand from China. Australia is the largest wool exporter and predicts that wool exports could increase by 13% in 2017-18. China buys approximately 70% of Australia’s wool stocks. Whereas a few years ago China was producing wool products mostly for export, today they are focused on a growing consumer market.

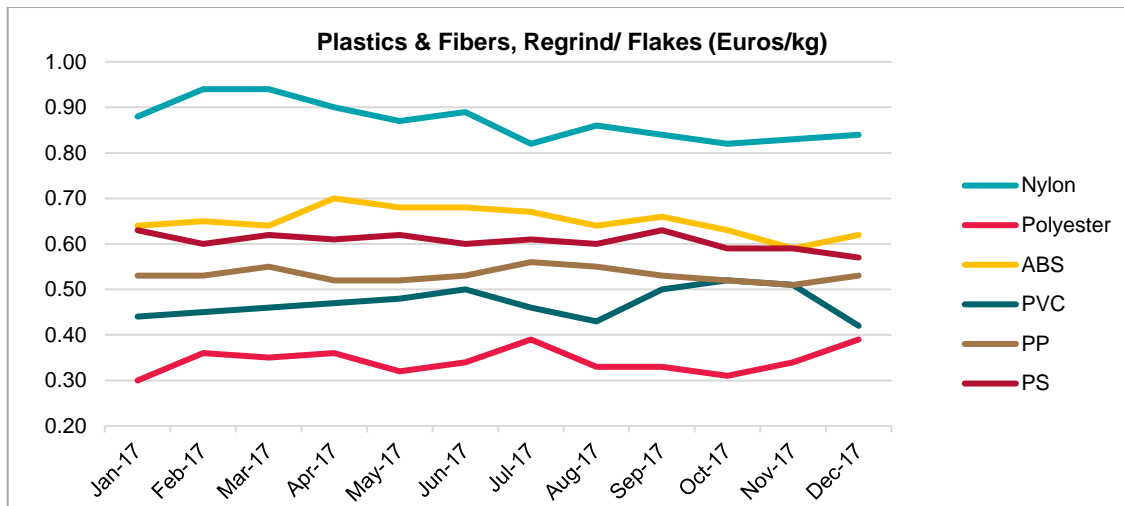


Sources: Australian Government Department of Agriculture

## 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.

**Q1 2018 Forecast:** Prices for most global synthetic fibers rallied in the final quarter of 2017, rising by almost 13%, according to the PCI Fiber Index. With a wide range of applications in textiles, apparel, home furnishing, automotive and other uses, demand for synthetic fibers is expected to remain strong and prices should stay on this trend, given rising oil prices, demand from China and economic growth in the Eurozone and US.



Sources: IMF data, Index Mundi Plasticker

## Special Focus Topic

### Global Trade and Retail in 2018

The start of a new year is an appropriate time for annual reviews, predictions and forecasts. We sifted through some of these to get a sense of what 2018 will bring for the retail sector, global trade and supply chains. Most economists and analysts are predicting average global trade growth of 3.5% per year from 2018-2020 with the continued integration of global supply chains. At the same time the coming year has a shadow of political fragmentation and social tension with the threat of trade wars and political uncertainty in the US, China and the Eurozone.

From a sourcing pointing of view we will likely see similar trends to recent years as retailers and brands continue to drive efficiency in their supply chains by reducing inventory, enabling smaller orders and cutting product development times. We will also see companies working more closely with their partners and vendors to improve visibility, speed and accuracy in the end-to-end supply chain with the goal of delivering greater value to the consumer.

Adding to the global sourcing indicators we have covered in the rest of the report such as currency, wages, shipping rates and commodity prices Below are some highlights covering 2018, looking at macroeconomic indicators for key global regions and an outlook for the retail landscape.



## The United States

Economic indicators for the US are healthy with GDP expected to grow in the 2-3% range, inflation predicted at 1.9% and unemployment at 3.9%. While the dollar is expected to weaken further, oil prices are expected to be in the \$60 per barrel range and US manufacturing should perform well, especially given President Trump's promise to create more jobs at home. On the flip side, many analysts are predicting at least a mild recession in 2020 and there is uncertainty over the impact that Trump led American protectionist policies will have on global trade. Political tension between North Korea, Russia and China are also a concern.

## China and Asia

The predictions are that China's GDP growth, led by a strong central government will slow to 5.8% in 2018, with Beijing making efforts to improve things at home by limiting debt levels and implementing policy reforms in areas such as domestic banking. This slower economic growth from China's policy makers will impact the rest of Asia who rely on China for buying their exports, but will also benefit countries with lower labor costs such as Bangladesh and Myanmar who will see manufacturing growth. Overall, China is entering the new year in a strong position, as President Xi Jinping has solidified his power and is focusing on improving domestic conditions. At the same time China is growing its geopolitical and economic influence through the "Belt and Road" initiative, creating a global trade corridor with China at the center.



With China focusing less on GDP growth and more internally, India is expected to be the next fast-growing economy over 2018-22, with an 8% annual growth forecast. ASEAN countries and other emerging markets are expected to pick up their growth pace, both in manufacturing/exports and on the consumer demand side.

## The Eurozone

The consensus is that the Eurozone is entering the new year in solid shape, with a stronger currency, less political disorder from the rise of populist movements and healthy growth prospects. While the UK's Brexit is still impacting the British economy, the Eurozone is in recovery mode, with GDP growth in 2017 of 2.2%, the highest in 10 years and faster growth expected for 2018. Unlike the US, the Eurozone is also working on free trade deals with countries such as India and others, while threats of a Eurozone breakup have subsided.

## Retail Highlights

As in previous years, the winners in retail are those that are staying ahead by investing beyond products into the retail experience, technology and their supply chain. General trends we expect to continue through 2018 include continued double-digit growth in e-commerce, bricks and mortar store consolidation, acquisition of e-commerce start-ups and technology by established retailers, along with private label growth.

Some highlights of indicative retail trends:

- Walmart acquired Jet.com in late 2016 for \$3.3 billion and hired founder Marc Lore to head their e-commerce unit. Since then they have acquired various digital brands such as Modcloth, Moosejaw, Bonobos and Shoes.com. They are also investing in emerging technology to compete with Amazon and stay relevant in the digital age.
- Target acquired three-year-old Shipt, a crowd sourcing delivery technology offering, in late 2017 for \$550 million with a strategy of growing their delivery business. Earlier, they also purchased same day logistics technology company, Grand Junction to support their customers with online fulfillment and same day delivery. Target also invested heavily in direct-to-consumer mattress retailer, Casper, another retail disruptor.

- Amazon's acquisition of grocery retailer Whole Foods for \$13.7 billion in late 2017, allowed the online retailer to enter the grocery market as well as opening another sales channel and in-store pick-up location to support its customer base.

## Mobile Commerce

Mobile retail is expected to see robust growth in 2018, accounting for almost 30% in e-commerce retail sales according to a report from Business Insider, growing to 45% of e-commerce sales by 2021. Expect to see retailers also investing more on the design and technology side to make the consumer's shopping experience more mobile friendly and synchronous with their web and in store offerings. Mobile payments are another area ripe for growth, with much of the world lagging China which has already shifted heavily from cash, checks and credit cards to mobile online payments.

## Private Label

Private label has grown steadily over the past decade or more as retailers and brands recognize the significant margin gains in adding a private label brand to their assortment mix. The added value for the consumer is savings in the range of 30-40% over buying a similar branded product. For 2018, we can expect to see retailers looking to promote and expand their private label offerings more aggressively and private label will continue eating into the market share of manufacturers with long established brands. Below are just a few examples of retailers and start-ups that are innovating and winning in the private label space.

- Amazon is aggressively growing their private label offering and had 41 private label brands by late 2017, with almost \$450 million in sales – still a small part of their \$157 billion revenue.
- Target also made a stronger push into private label, with 12 new private label brands, including leisure and home décor. Other retailers such as Kroger, Costco, Aldi and Lidl are also ramping up their offerings.
- Brandless, a new online player formed in 2015 is another winner and disruptor in the private label space. Offering over 110 products at \$3 each with simple packaging and responsibly sourced, quality ingredients, Brandless launched with 110 initial products, growing to over 200 products by year end. It positions itself on savings for consumers by eliminating the “brand tax” of the traditional manufacturer-retailer-consumer model.



## Logistics

While the retail sector is undergoing a massive shift, so is the supply chain which supports it. One interesting innovation, promising lower environmental impact of delivery is the new Tesla-Semi all-electric truck, unveiled in November 2017, with plans for production starting in 2019. The base truck will have a range of 300 miles, for a starting price of \$150,000, while a longer-range version will get 500 miles at a cost of \$180,000. Many transport companies and retailers have already placed orders, including J.B. Hunt, UPS, Pepsico, Meijer, Walmart and Loblaw's.



While no-one has a perfect crystal ball, it's clear that in 2018 we will see innovation, disappointments and some surprises. The global economy and the retail sector will only get more competitive as the big players get bigger and more disruptors turn traditional markets upside down.



## About CBX Software



CBX Software is the world's leading Total Sourcing Management solution provider, from concept, to delivery – combining people, process and solutions. CBX helps retailers and brands streamline product development and sourcing, all the way through order & production. CBX empowers the supply chain network by driving collaboration to over 15,000 retail & supplier partners and 30,000 users in more than 50 countries. For more information, visit [www.cbxsoftware.com](http://www.cbxsoftware.com).

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