

Q1  
2017



# 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

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.

A reading below 50 indicates contraction from the previous month, while a reading above 50 indicates growth. Currently 22 countries and regions conduct the PMI survey and compilation, based on an internationally standardized methodology. 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).

### CBX Analysis:

Overall, December was a strong month for global manufacturing, with Q4 2016 showing the strongest growth since 2014. This growth was mostly led by the U.S. and Europe, but performance across Asia also improved, with strong growth seen especially in China and Vietnam (covered below) and also Japan, the Philippines and Thailand. Despite some continued weak spots in countries such as India, Indonesia, Malaysia and Myanmar, the overall tone for manufacturing heading into 2017 is positive.

Country	Oct 2016	Nov 2016	Dec 2016	Summary of Indicators
<b>Brazil</b>	46.3	46.2	45.2	Brazilian manufacturing continued to deteriorate through late Q4 as their recession continued, with a sharp drop in production and rising inflation.
<b>China</b>	51.2	50.9	51.9	At the end of 2016, Chinese manufacturing companies reported the strongest upturn in operating conditions since January 2013.
<b>Czech Republic</b>	53.3	52.2	53.8	Czech manufacturing saw a strong expansion heading into 2017, despite subdued growth in exports and inflationary pressure on goods production.
<b>Egypt</b>	42.0	41.8	42.8	Egypt saw declines in their manufacturing and overall economy into late 2016, partly due to ongoing inflation increases and high input prices.
<b>India</b>	54.4	52.3	49.6	Cash shortages in the Indian economy were blamed for lowered output and fewer new orders in late Q4. International export orders also declined.
<b>Indonesia</b>	48.7	49.7	49.0	Indonesian manufacturing declined by late 2016 based on a drop in export orders, a weak domestic market and an overall decline in new business.
<b>Malaysia</b>	47.2	47.1	47.1	Malaysian manufacturing deteriorated consistently through Q4, 2016, with declining production due to low international demand and high input costs.
<b>Mexico</b>	51.8	51.1	50.2	Growth in Mexican manufacturing slowed somewhat through Q4 on subdued demand in both the international and domestic market.
<b>Myanmar</b>	49.0	50.2	49.4	Myanmar manufacturing continued a 7 month decline in December with falls in output, new orders, employment and stocks of purchases.
<b>Poland</b>	50.2	51.9	54.3	Poland's manufacturing PMI remained above 50 for the twenty seventh consecutive month, based on growth in output and a rise in new orders.
<b>Russia</b>	52.4	53.6	53.7	Russia's manufacturing upturn continued into December, with strong increases in production and new orders, mostly based on domestic demand
<b>South Africa</b>	50.5	50.8	51.6	South African business conditions and exports recovered at a rate in-line with the recovery in manufacturing in China and the Eurozone.
<b>South Korea</b>	48.0	48.0	49.4	The South Korean downturn eased somewhat based on international demand, with only marginal declines in production and new orders.
<b>Turkey</b>	49.8	48.8	47.7	New exports in Turkey fell through Q4 and into 2017, with slowing purchasing activity and a drop in new export business in December.
<b>Vietnam</b>	51.7	54.0	52.4	Vietnamese manufacturing finished the year on a positive note with a record rise in new export business and strong new order growth.

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. Heading into 2017, overall operating conditions in key low cost sourcing hotspots look positive for the 1H 2017. Led by a Chinese manufacturing recovery through Q4, exports from Vietnam, Cambodia and Bangladesh grew at a relatively strong rate. Exceptions were India, Pakistan, Turkey and Indonesia, which continued to suffer with currency and inflation issues.

### Selected highlights:

**Bangladesh** – Bangladesh Labor Ministry to handle safety issues after Accord and Alliance cease in 2018.

**Cambodia** – GDP is projected to grow by 7.0% in 2016, while a new minimum wage law is upcoming.

**India** – Government mandated reduction in use of large currency bills impacts cash flow and production.

**Indonesia** – Despite manufacturing contraction, Indonesia recorded strong export growth in November.

**Pakistan** – Government introduces incentives to encourage textile and garment sector.

**Philippines** – While exports grew by above 3% in Q4, GDP expanded at the fastest rate since 2013.

**Thailand** – GDP grew moderately into Q4, while PMI deteriorated at a rapid rate.

**Turkey** – Turkish lira dips to all-time low against U.S. dollar following political uncertainty.

**Vietnam** – While FDI declined yoy, 2016 manufacturing closed on a strong note heading into 2017.

CPI (% yoy growth)	June 2016	July 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016
Bangladesh	5.5	5.4	5.4	5.5	5.6	-
Cambodia	3.3	3.0	2.9	2.8	-	-
India	5.8	6.1	5.1	4.4	4.2	-
Indonesia	3.5	3.2	2.8	3.1	3.3	3.6
Pakistan	3.2	4.1	3.6	3.9	4.2	-
Philippines	1.9	1.9	1.8	2.3	2.3	2.5
Thailand	0.4	0.1	0.3	0.4	0.3	0.6
Turkey	7.6	8.8	8.1	7.3	7.2	-
Vietnam	2.4	2.4	2.6	3.3	4.1	4.5
Exports (% yoy growth)	June 2016	July 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016
Bangladesh	16.7	-3.5	19.8	-5.6	14.4	-
Cambodia	15.2	10.2	4.3	14.1	-	-
India	1.3	-6.8	-0.4	4.6	9.6	-
Indonesia	-4.4	-17.0	-0.7	-0.6	5.1	21.3
Pakistan	-8.7	-6.9	-9.4	-10.3	2.0	-
Philippines	-11.4	-13.0	-4.4	5.1	3.7	-
Thailand	-0.1	-6.4	6.5	3.4	-4.2	-
Turkey	7.8	-11.7	7.4	-5.8	-3.0	-
Vietnam	5.7	5.4	6.4	7.0	7.0	7.8
Imports (% yoy growth)	June 2016	July 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016
Bangladesh	3.7	3.8	5.9	-	-	-
Cambodia	9.3	3.5	-3.1	0.4	-	-
India	-7.3	-19.0	-14.1	-2.5	8.1	-
Indonesia	-7.4	-11.6	-0.5	-2.3	3.6	9.9
Pakistan	2.3	-6.2	13.9	11.5	3.1	-
Philippines	15.4	-1.6	12.2	13.5	5.9	-
Thailand	-10.1	-7.2	-1.5	5.6	6.5	-
Turkey	7.0	-19.4	4.0	-0.7	0.5	-
Vietnam	-0.8	-1.2	0.3	0.9	2.2	3.5

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. As might be expected, countries which made significant gains in the index include Bangladesh, Indonesia, the Philippines and Vietnam, while China remained relatively flat.

**Note:** The below chart will be updated in our Q2 report, based on data released in January 2017.

### Global Competitiveness Index: Selected Indicators, 2015-16 (Ranking of 148 countries)

Rank/148	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
<b>Overall competitiveness</b>	109(↑1)	93(↓5)	28(↑1)	80(↓20)	49(↓13)	131(↑2)	66(↓7)	42(↓5)	57(↓13)	72(↓2)
<b>Institutions</b>	132(↓1)	111(↓20)	51(↓4)	60(↑12)	55(↑12)	119(↑4)	77(↑2)	82(↓4)	75(↓19)	85(↑13)
<i>Intellectual property protection</i>	135(↓5)	132(↓33)	63(↓10)	50(↑21)	48(↑7)	112(↓3)	71(↑7)	113(↓11)	82(↓8)	88(↑28)
<i>Burden of government regulation</i>	107(↓10)	69(↑1)	26(↓12)	27(↑77)	41(↓10)	86(↓4)	101(↓3)	81(↑9)	65(↑7)	90(↑16)
<i>Strength of investor protection</i>	42(↓17)	81(↓12)	110(↓26)	6(↑35)	42(↓1)	21(↑10)	121(↓14)	25(↓12)	13(↑44)	100(↑34)
<b>Infrastructure</b>	123(↑9)	101(-)	39(↑9)	81(↑4)	62(↓1)	117(↑4)	90(↑6)	44(↑3)	53(↓4)	76(↑6)
<i>Quality of roads</i>	113(↑5)	94(↓14)	42(↑12)	61(↑23)	80(↓2)	77(↓5)	97(↓10)	51(↓9)	36(↑8)	93(↑9)
<i>Quality of railroad</i>	75(↑3)	100(↓9)	16(↑4)	29(↓10)	43(↑1)	60(↑15)	84(↑5)	78(↓6)	53(↓1)	48(↑10)
<i>Quality of port</i>	93(↑11)	83(↓2)	50(↑9)	60(↑10)	82(↑7)	66(↓11)	103(↑13)	52(↑4)	53(↑10)	76(↑22)
<i>Quality of air transport</i>	121(↑4)	100(↓10)	51(↑14)	71(↓10)	66(↑2)	79(↑9)	98(↑15)	38(↓4)	33(-)	75(↑17)
<i>Quality of electricity supply</i>	120(↑13)	108(↑4)	53(↑14)	98(↑13)	86(↑3)	129(↑6)	89(↑4)	56(↑2)	80(↓3)	87(↑8)
<b>Macroeconomic environment</b>	49(↑30)	64(↑19)	8(↑2)	91(↑19)	33(↓7)	128(↑17)	24(↑16)	27(↑4)	68(↑8)	69(↑18)
<b>Health &amp; primary education</b>	101(↑3)	87(↑12)	44(↓4)	84(↑18)	80(↓8)	127(↑1)	86(↑10)	67(↑14)	73(↓14)	61(↑6)
<b>Higher education &amp; training</b>	122(↑5)	123(↓7)	68(↑2)	90(↑1)	65(↓1)	124(↑5)	63(↑4)	56(↑10)	55(↑10)	95(-)
<b>Goods market efficiency</b>	101(↓12)	93(↓38)	58(↑3)	91(↓6)	55(↓5)	116(↓13)	80(↑2)	30(↑4)	45(↓2)	83(↓9)
<i>Prevalence of trade barriers</i>	44(↑18)	83(↓3)	78(↓2)	82(↓21)	113(↓42)	106(↓14)	43(↑17)	73(↓23)	42(↑55)	100(↑4)
<i>Trade tariffs, %duty</i>	128(↑4)	97(↑8)	117(↑6)	124(↑4)	64(↑1)	137(↑5)	51(↓5)	91(↓8)	72(↓3)	86(↑6)
<i>Burden of customs procedures</i>	123(↓10)	128(↓27)	56(↑4)	54(↑34)	72(↑2)	111(↓20)	107(↑23)	85(↓5)	82(↑5)	90(↑9)
<b>Labor market efficiency</b>	121(↑3)	38(↓11)	37(↓3)	103(↓4)	115(↓12)	132(↑6)	82(↑18)	67(↓5)	127(↑3)	52(↑4)
<i>Cooperation in labor-employer relations</i>	102(↓6)	76(↓8)	62(↓2)	86(↓25)	49(-)	131(↓26)	26(↑8)	34(↑3)	112(↓30)	71(↓7)
<i>Flexibility of wage determination</i>	85(↑10)	107(↓36)	73(↑21)	120(↓70)	85(↑21)	114(↓17)	96(↑13)	111(-)	52(↓20)	67(↑2)
<i>Pay and productivity</i>	107(↓6)	57(↓25)	20(↓3)	47(↑11)	33(↓4)	95(↓9)	19(↑25)	53(↓22)	86(↓25)	45(↓30)
<b>Business sophistication</b>	117(↓5)	122(↓36)	38(↑7)	52(↓10)	36(↑1)	86(↓1)	42(↑7)	35(↑5)	58(↓15)	100(↓2)
<i>Local supplier quantity</i>	65(↑11)	131(↓20)	15(↑16)	54(↓52)	39(↑12)	53(↑25)	64(↓10)	34(↓11)	27(↓9)	70(↓40)
<i>Local supplier quality</i>	93(↑2)	128(↓15)	63(↑6)	66(↑10)	74(↓8)	98(↓6)	64(↑4)	59(↓17)	49(↑7)	105(↓16)
<i>State of cluster development</i>	62(↑4)	65(↓21)	24(-)	29(↓13)	28(↑1)	68(↓6)	45(↑10)	39(↓6)	52(↓22)	59(↑9)

Source: World Economic Forum (WEF)

## China Wage Trend Snapshot

**News:** According to International Human Resource Consultancy, ECA International, China's average wage will increase by 7% in 2017. Among first tier cities, Shenzhen will see the highest increase of 5.2% and Beijing the lowest, at 3.2%. While these increases are relatively lower than in China's peak boom period, China still ranks in third place in Asia and fourth place globally for year-on-year wage increases. While in real terms this is a drop of about 2% year-on-year, it is clear that China will continue to get more expensive for sourcing and manufacturing.

China's Five Year Plan, adopted in March, 2016, advocates for more reasonable wage increases, aimed at increasing competitiveness and creating stability for foreign investors who have downsized or located elsewhere. This means setting an upper/lower limit and a benchmark or recommended salary increase.

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

2015/2016 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	1,890	9.8%	Sep 1, 2016
Fujian	1,500	13.6%	Jul 1, 2015
Chongqing	1,450	n/a	Jan 1, 2015
Gansu	1,470	8.9%	Apr 1, 2015
Guangxi	1,400	16.7%	Jan 1, 2015
Guangdong	1,895	22.3%	May 1, 2015
Guizhou	1,600	28%	Oct 1, 2015
Hainan	1,430	12.6%	Feb 1, 2016
Heilongjiang	1,480	27.6%	Oct 1, 2015
Henan	1,600	14.3%	Jul 1, 2015
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,550	19.2%	Sep 1, 2015
Hunan	1,390	9.9%	Jan 1, 2015
Inner Mongolia	1,640	9.3%	Jul 1, 2015
Jiangxi	1,530	10.1%	Oct 1, 2015
Jilin	1,480	12.1%	Dec 1, 2015
Ningxia	1,480	34.5%	Nov 1, 2015
Shaanxi	1,470	11.7%	May1, 2016
Shandong	1,600	6.7%	Mar 1, 2015
Shanghai	2,190	8.4%	Apr 1, 2016
Shenzhen	2,030	12.3%	Mar 1, 2015
Sichuan	1,500	7.1%	Jul 1, 2015
Tianjin	1,950	5.4%	Jul 1, 2016
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 across the board. Currency fluctuations mean that these figures are approximate at the time of finalizing this report. *(Figures in USD/month as of Jan 1, 2017)*

**News:** Vietnamese wages are expected to rise by 5.4% in 2017, the highest relative increase in the region. Other countries with projected wage increases include Thailand (5.6%), Indonesia (4.9%) and India (4.8%). Myanmar is one Asian country expected to see a decrease in 'real' wages over 2017 due to high inflation.

**Note:** Consult **Fair Wage Guide** to calculate benchmarks for wages in particular countries on an hourly or piece rate basis and determine a fair wage in those regions.

BANGLADESH	CAMBODIA	CHINA	EGYPT	ETHIOPIA
\$68 (Dec 2014)	\$153/month ( 2017)	\$137-\$639 (2015 est.)	\$114 (Mar 2015 est.)	\$35-\$40 (Dec 2014)
Bangladesh raised the minimum wage for garment workers – up by 77%. To 5300 Taka (\$68) following a labor dispute that shut factories in the Ashulia industrial zone.	Finally yielding to union pressure and ongoing unrest, Cambodia will raise the minimum wage for textile, garment and footwear workers from US \$140 to \$153 as of January 2017, still lower than demanded.	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 +/-10% / year.	The basic min wage for the public sector rose from EGP246 to EGP870 in March 2015. Currently there is only one national minimum wage; there are no sectorial rates or occupation-based rates.	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	LAOS	MALAYSIA	MYANMAR
\$40 - \$130 (2015 est.)	\$92 - \$230 (2016 est.)	\$111 (April 1, 2015)	US\$ 233 - \$253 (July 1, 2016 )	\$67 (Sept 1, 2015 )
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 region and skill level. Unions are continually pushing for higher pay. Wages in Jakarta increased to 3.1 mln Rupiah (US\$228.8) per month on Jan 1, 2016.	Talks are underway in Laos 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.	Malaysian officials proposed an increase of the min. wage from RM900 (\$210) to RM 1,000 - (\$232) to offset rising costs. This excludes foreigners who make up 70%-80% of textile workers. Wages vary across the country.	Myanmar has set a minimum wage of 3,600 kyat (\$2.80) for an eight-hour work day, mostly impacting garment workers. The decision follows two years of debate between garment factory owners and labor unions,
PHILIPPINES	SRI LANKA	THAILAND	VIETNAM	
\$110-220 (2015 est.)	\$74 (May 2015 est.)	\$254 (2016)	\$107-156 (Jan 2016)	
Wages in the Philippines vary by region and skill level. Garment sector wages range from \$6-8 per day. In 2013 two tier min wage system was implemented. 1 <sup>st</sup> tier: Minimum floor wage for new hires/ low skilled. 2 <sup>nd</sup> tier: productivity based.	Sri Lanka's new government agreed to set a minimum wage in May for the first time. Private sector workers will receive an increase of 15-35% to US\$74 per month. Public sector workers will receive an increase of \$74, bringing their wage to \$223.	In November 2015, Thailand's National Wage Committee agreed to keep the current min wage of 300 Baht per day (about US\$8.5/day) until June 2016. This is the same rate that was implemented in January 2013.	As of Jan 2016, the monthly min. wage will be 2.4-3.5 million Vietnamese Dong (US\$107-156) depending on region. The prediction by experts is that Vietnamese wages will rise by 5.4% in 2017, the highest in the region.	

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

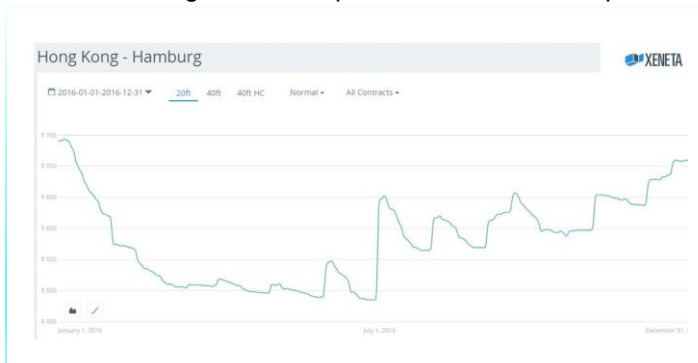


# Container Freight Rates for Major Routes

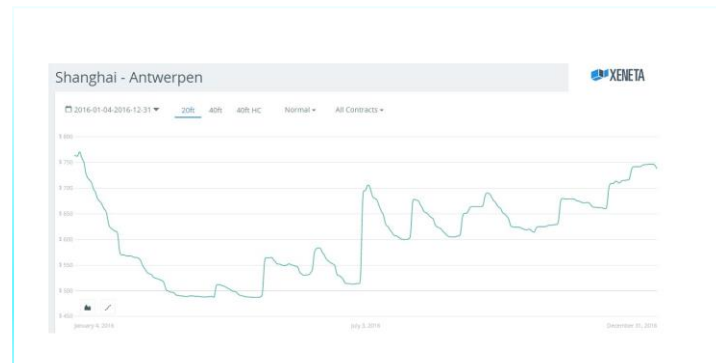
## CBX Analysis:

Rates on indicative **Asia-European trade lane** rates reached a low point in mid-2016 and steadily recovered to close near a year-on-year high by late 2016. **Asia-North America trade lane** rates followed a similar but more modest trend, falling short off the yearly high. This was partly due to the bankruptcy of Hanjin Shipping, which resulted in a supply shortage and resulting rate hikes. Another reason was the significant consolidation that occurred in the sector with CMA CGM/APL, COSCO Shipping and Hapag Lloyd/UASC. "This year, 2016 will go down as one of the most consequential ever for container shipping," noted Peter Tirschwell, Senior Director, Editorial Content at IHS Markit, Maritime and Trade.

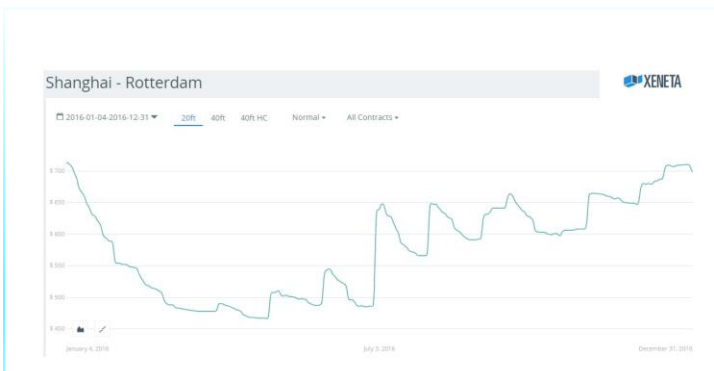
**Note:** All indices are reported in USD per Twenty Foot Container (TEU). CBX reports on historical and forward looking rates for representative Asia-Europe and Asia-U.S. routes.



**Hong Kong - Hamburg**  
Market Average (20' Container)  
**Jan 4, 2016 =US\$745**  
**Dec 31, 2016 = US\$700**



**Shanghai - Antwerp**  
Market Average (20' Container)  
**Jan 4, 2016 =US\$755**  
**Dec 31, 2016 = US\$748**



**Shanghai - Rotterdam**  
Market Average (20' Container)  
**Jan 4, 2016 =US\$710**  
**Dec 31, 2016 = US\$700**



**Shanghai - Los Angeles**  
Market Average (20' Container)  
**Jan 4, 2016 =US\$1,430**  
**Dec 31, 2016 = US\$1,300**

The charts above are supplied by [Xeneta](#), the leading global benchmarking and market intelligence platform for containerized ocean freight. Data in the platform consists of 17+MN contracted rates for 60,000 port-port pairs, provided by global shippers and freight forwarders from SMBs to large enterprises across industries.

## Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. Currency markets are expected to remain vulnerable across the Americas, Europe and the Asia Pacific region based on policy uncertainty with the new U.S. administration, national elections in the Eurozone, the focus on the UK's Brexit process, along with currency and policy developments in China, especially in relation to the United States. Currency volatility in the major markets is expected to continue into Q1 2017, as the new President takes office. While the EUR experienced weakening against both the USD and RMB, the USD had a strong finish to the year based on a solid Q4 in the U.S. economy. China's recent announcement of controls on foreign direct investment is aimed at alleviating RMB depreciation.

### EUR / USD (Jan 2016 – Jan 2017)



With modest fluctuation through 2016, the EUR ended the year with some depreciation against the USD, especially in the last quarter, bringing the two currencies closer to par.

EUR/USD - Rate	
<b>2 years</b>	1.19
<b>1 year</b>	1.07
<b>6 months</b>	1.11
<b>3 months</b>	1.12
<b>30 days</b>	1.06

### EUR / RMB (Jan 2016 – Jan 2017)



The EUR/RMB relationship fluctuated especially through 1H 2016, but the EUR ended the year with modest appreciation against the RMB. Despite political uncertainty in the Eurozone, the European economic outlook is relatively positive.

EUR/RMB - Rate	
<b>2 years</b>	7.33
<b>1 year</b>	7.04
<b>6 months</b>	7.42
<b>3 months</b>	7.47
<b>30 days</b>	7.43

### USD / RMB (Jan 2016 – Jan 2017)



The USD appreciated considerably against the RMB, especially through the last quarter. Q1 of 2017 should bring more fluctuation between the two currencies as more is revealed about U.S. economic policy.

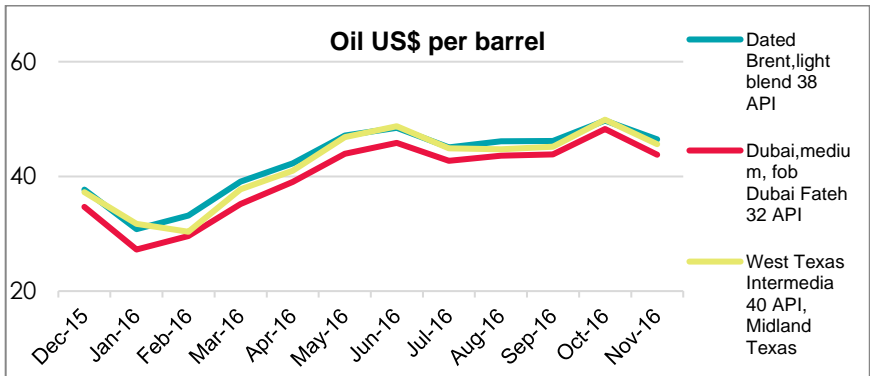
USD/RMB - Rate	
<b>2 years</b>	6.14
<b>1 year</b>	6.52
<b>6 months</b>	6.46
<b>3 months</b>	6.67
<b>30 days</b>	6.98

Sources: [Oanda.com](http://Oanda.com), [XE.com](http://XE.com), News/Analyst Reports

# Global Commodity Rates

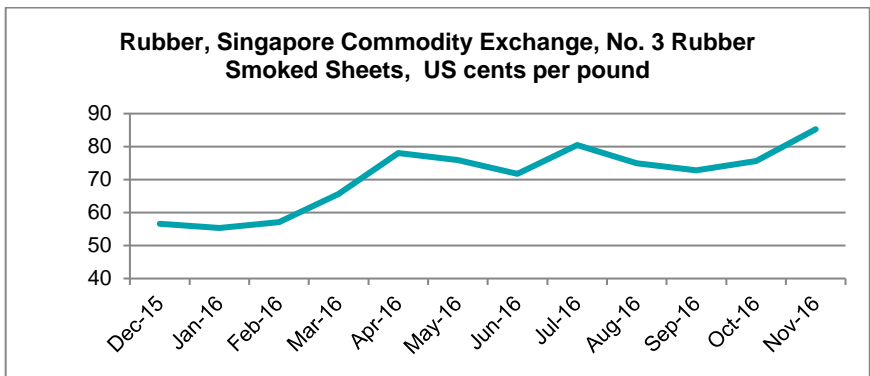
**CBX Analysis:** Key factors that are impacting commodity prices in 2017 include OPEC’s actions on oil supply, Donald Trump’s policies, Chinese demand and the global political climate. As an example, copper prices were up in late Q4 based on speculation that the Trump administration will invest in infrastructure. Most pundits agree that global economies could go either way, depending on how political momentum shifts in the Eurozone and which direction the Trump administration moves, despite pre-election rhetoric.

## Crude Oil



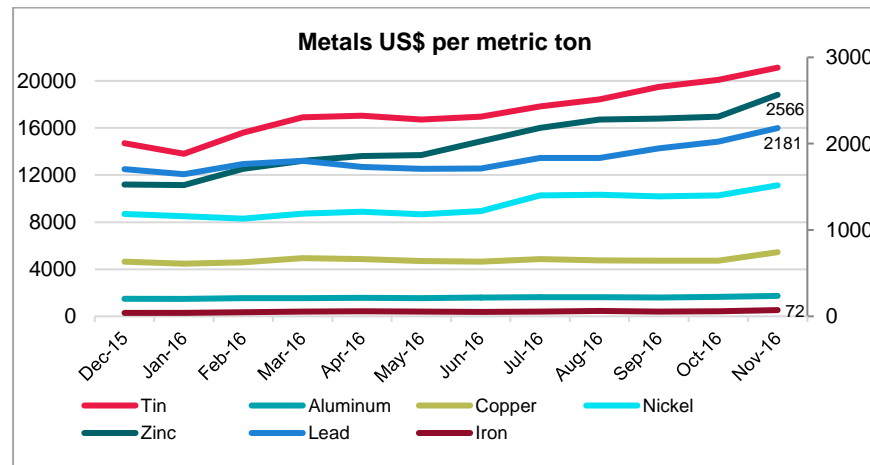
As of Q4, 2016, OPEC countries tentatively agreed to reduce oil supply by 2 million barrels per day in an effort to raise prices. Some pundits are skeptical as to whether this will have the desired effect, since oil producing countries such as Iraq, Iran and Saudi Arabia, for varying reasons, may not hold to the plan.

## Rubber



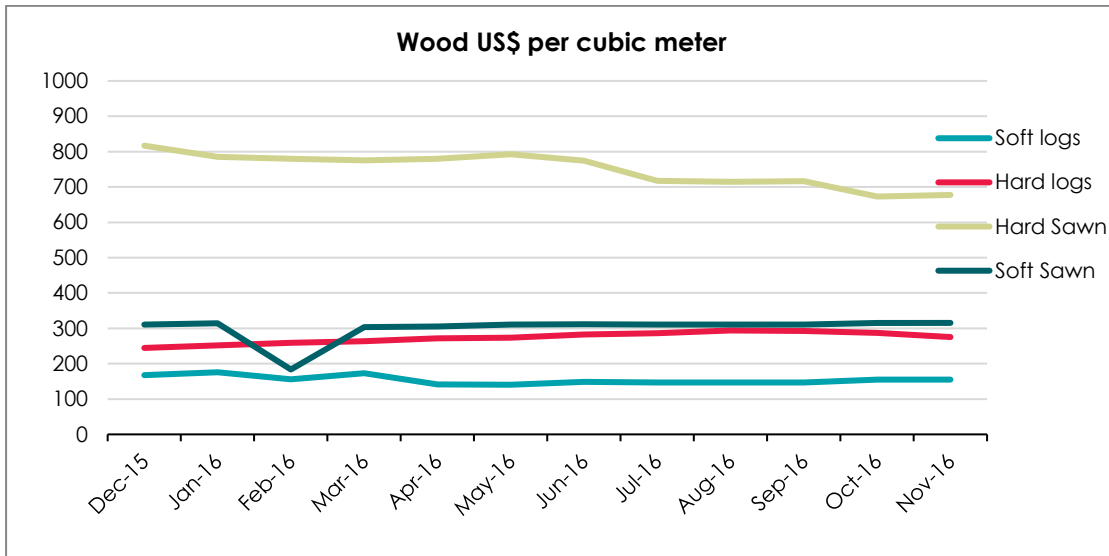
Global rubber prices surged by close to 50% late in Q4, based on higher crude oil prices, bringing prices to US \$2,200 per ton, almost double that of a year ago. This increase is prompting manufacturers to raise prices on both synthetic and natural rubber products, a trend which should continue into 1H 2017.

## Metals



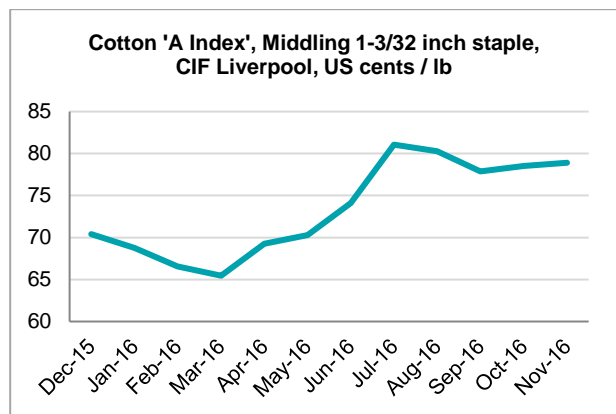
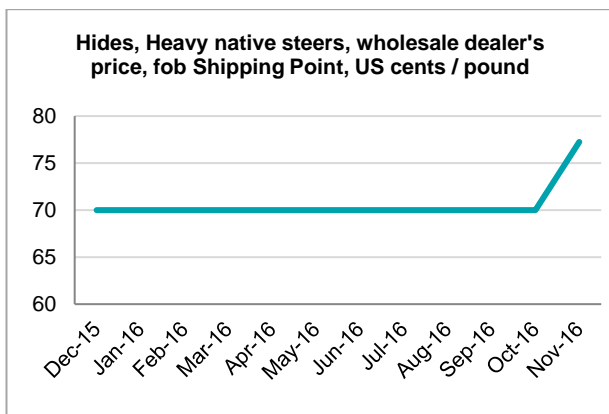
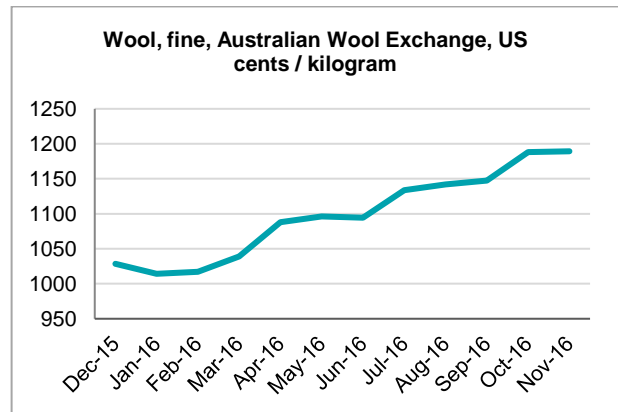
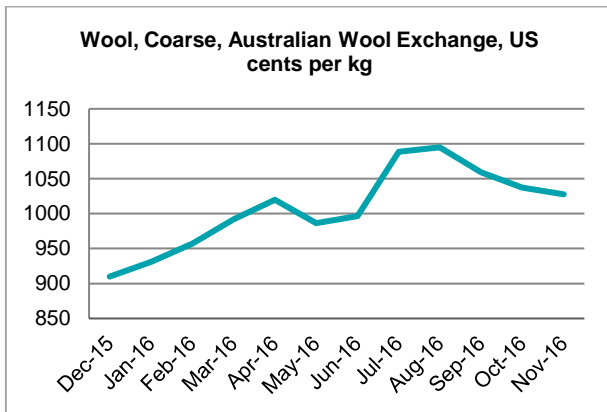
Metal prices rallied through Q4 and into 2017 based on a firm U.S. dollar and optimistic economic outlook. While the overall sentiment is bullish, volatility is expected into Q1 with uncertainty about U.S. economic policy, as the new administration takes over in January.

## Wood



## Wool, Hides, Cotton

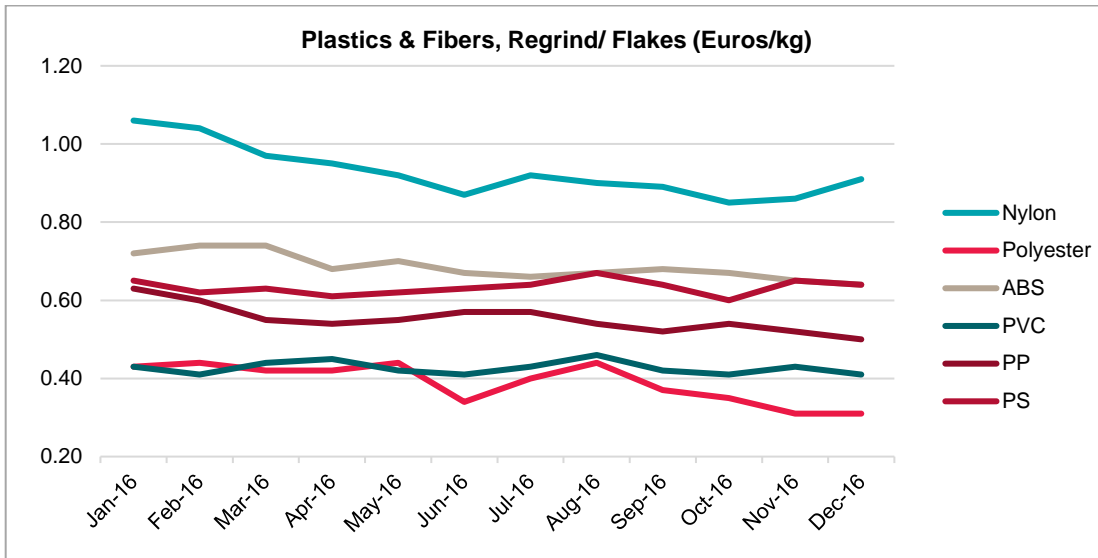
World cotton production in 2016 is expected to rise by 8% to 22.8 million tons (mt), which may put pressure on prices in 2H 2017, the Cotton Advisory Committee reported. While global consumption is expected to remain stable at 24.1 mt, cotton stockpiles are expected to fall by 7% to 18 mt, except in the important China market where they are expected to grow by 6%. Cotton prices rose steadily through Q4 and into 2017. Wool prices ended 2016, with a 28% surge, a trend expected to continue through 2017. Hide prices trended sharply up in late Q4 on the back of strong demand.



## Plastics and Fibers

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

**Analysis:** Polyester, a competing fiber for cotton, is still priced well-below international cotton prices. Prices for most plastic fibers, trended down through 2016 based on weaker demand. The exception was nylon which saw a surge in Q4 due to higher raw material costs, making it likely that producers may cut production.

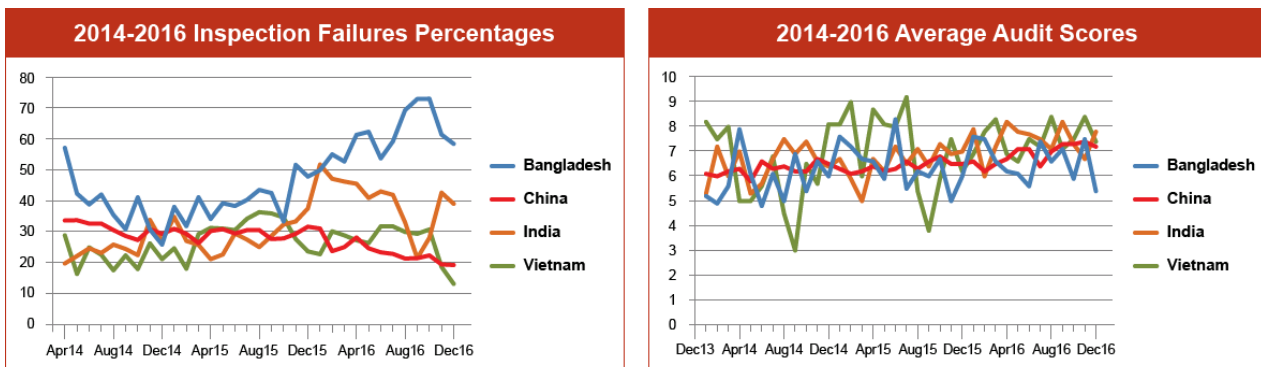


Sources of above commodity charts: IMF data, Index Mundi, Plastics

## 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 such, the resurgence in manufacturing activity in China in Q4, 2016, saw a corresponding increase in inspections and an increase in failures. According to [Asia Inspection](#) (AI) data, 2016 was not a good year for quality of consumer products worldwide, with product inspections in factories increasing by 8.8% in 2016 versus 2015 and with 35.8% of all inspections returning “beyond acceptable levels of defects.”

## Key Quality KPIs



Source: AsiaInspection data

## Special Focus Topic

### Global Sourcing Outlook for 2017

As 2017 gets underway, it's clearly going to be an interesting year for global product sourcing. For this issue, we combed through analyst, consulting and news reports, combined with opinions of experts within the global product sourcing community to get a snapshot of some of the key issues and topics that are trending in relation to global trade and sourcing.

Some of these themes are ongoing, such as fluctuation in the global manufacturing and sourcing climate, rising labor costs, volatile oil and commodity prices, e-commerce and omnichannel development and technological advancements in the supply chain. Other trends are more recent, such as massive consolidation in the container shipping industry, the geopolitical effect of the recent Brexit vote and the rise of 'populist' movements in the Eurozone and elsewhere. Lastly, almost everyone is thinking about the potential impact of a Donald Trump administration on global trade.

#### The Global Economy

"Declining openness in the global economy is harming competitiveness and making it harder for leaders to drive sustainable, inclusive growth." -- *Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum commented in a preface to the World Economic Forum's 2016-2017 [Global Competitiveness Report](#).*

#### Container Shipping

"This year, 2016 will go down as one of the most consequential ever for container shipping." -- *Peter Tirschwell, Senior Director, Editorial Content at [IHS Markit, Maritime and Trade](#) commented in relation to the dramatic consolidation that occurred across the global container shipping industry with multiple mergers and the failure of Hanjin Shipping.*

#### Commodities

"We assess several black swan threats to the supply, demand and transit of commodities that could potentially move markets in 2017. Political populism and trade protectionist policies are key risks to the commodity supply chain this year." -- *Michael Cohen, a Barclays' Bank analyst, in a report discussing "black swan" threats to the global commodity supply chains, titled, [The black swans of 2017](#), covered by [CNBC](#).*

#### Currency

"Elections in France and Germany in 2017, where populist parties have grown in strength, are seen as key risks to the euro. The ongoing economic woes of Italy and Greece could also cause a rupture in the currency. There is also the Netherlands and possible snap elections in Italy and Greece. It looks like European politics is set to be the big story for 2017." -- *Fiona Cincotta, market analyst at City Index*

"Exchange rates are determined by the interaction of a diverse range of political and economic factors, including interest rates, inflation and growth, all of which are up for grabs in 2017, which is likely to make for lively currency markets in the coming year." -- *Chris Saint, currency analyst at Hargreaves Lansdown.*

#### Quality

"Supplier awareness and cooperation is crucial for progress. We have created training and workshop programs to educate both clients and suppliers about ethical, structural and environmental compliance, and are expecting an increase in demand for similar programs throughout 2017." -- *Sebastien Breteau, AsiaInspection's Founder & CEO, commented in their [Q1, 2017 Barometer Report](#).*

## The Trump Effect

To be fair to Donald Trump, there are opinions for and against the impact his administration might have on global trade, depending on which direction his policies take.

“For today’s saving-short, deficit-prone US economy, it will take far more than China-bashing to make America great again. Turning trade into a weapon of mass economic destruction could be a policy blunder of epic proportions.” -- *Stephen S Roach, a faculty member at Yale University and former Chairman of Morgan Stanley Asia, commented in an article in The Gulf Times titled, [Trump’s Policies Could Start Global Trade War](#).*

“The policies of the Trump administration are likely to lead to a strong dollar and a widening U.S. current account deficit. Some—exporters to the U.S. (Canada, the Eurozone, China, Korea), oil and commodity exporters—will benefit to a greater or lesser degree.” -- *Gabriel Stein, a developed-market analyst at Roubini Global Economics LLC, commented in a report in late December, as reported in [Bloomberg Markets](#).*

## Apparel Sourcing

The issues facing apparel sourcing are similar to other product sourcing categories with perhaps more focus on speed to market, cost of labor and cost pressures due to the nature of fast fashion. The below comments first appeared in an article produced by Tara Donaldson for the apparel and fashion sourcing focused online publication, [Sourcing Journal](#).

“Speed and the pace of change will continue to put pressure on the industry. Ongoing geopolitical uncertainty, changing demographics, rapid technological advances, a continual promotional environment, the rise of e-commerce and changes within retail itself, where demand-driven companies such as Amazon and Zara are winning, are all challenging sourcing strategies.” -- *Marc Compagnon, executive director of Li & Fung*.

“Retailers are under pressure and we will see more store closures in 2017. Consumer spending has shown a recent uptick, but remains a key challenge. As a result, orders are smaller and we will see some suppliers consolidating or refusing non-profitable orders. -- *William E. Connor II, CEO of the Connor Group*.

“Sourcing will become much more complex and uncertain. At the same time there is an increasing push for shorter lead times and lower prices. Multiple sourcing shifts are anticipated due to change or abolishment of trade agreements (TPP, NAFTA), geopolitical risks (Turkey, Ethiopia), security situation (Pakistan, Bangladesh, Turkey), transfer of technologies (computer flat knit machines now available in Bangladesh), lack of workers (China), volatile currencies (e.g. Brazil, Mexico, Turkey) and increasing corporate social responsibility demands.” -- *Guido Schlossman, President and CEO of Synergies Worldwide*.

“The specific sourcing-related uncertainties caused by rising populist movements in the West; the economic uncertainties triggered merely by fear of those movements; signs of renewed rising costs in energy and freight; with the Bangladesh Accord and Alliance due to expire in mid-2018, the activist community is going to keep far more pressure on retailers and brands than the Bangladeshi government will be happy with.” – *Mike Flanagan, CEO of Clothesource*.

## In Summary

No matter where one stands, it is shaping up to be a year of both uncertainty and yet possibility for global trade and sourcing. On behalf of CBX Software, we wish our global customers and the greater sourcing community, a successful year.



## About CBX Software



CBX Software has simplified the business of global sourcing; transforming traditional methodologies into fast, friction free supply chains through our real-time cloud based Total Sourcing Management Platform (TSM). We help retailers, brands and manufacturers manage and empower the supply chain from plan to pay - one intelligent collaboration solution for an enterprise to plan, spec, source, assure quality, order, make, inspect, ship and pay. Over 20,000 users in more than 30 countries rely on CBX, including: Target, Safeway, Kmart, Charming Shoppes and others.

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