

Q3
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 and trends impacting global sourcing, such as economic conditions in sourcing countries, container shipping trends, currency exchange and commodity rates. We also cover hot topics ourselves and include insight from analysts and other experts.

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Purchasing Manager's Index (PMI)

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

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

Q3 2018 News & Analysis: Overall, conditions for global manufacturing were relatively strong with a few exceptions. China's PMI index dropped slightly late in Q2, indicating a moderation in manufacturing growth, but the momentum is still positive overall. Vietnam had an exceptional Q2, possibly picking up new orders because of the US/China trade dispute. The second half of 2018 is expected to remain steady with no signs of a slowdown.

Country	Apr 2018	May 2018	Jun 2018	Summary of Indicators
Brazil	52.3	50.7	49.8	A Trucker strike impacted the Brazilian manufacturing sector with fewer orders, job losses and blockages preventing delivery of inputs.
China	51.1	51.1	51.0	China saw sustained growth through Q2 and into Q3, with increases in output and new orders despite softer export demand and inflationary pressures.
Czech Republic	57.2	56.5	56.8	Czech manufacturing continued to improve into Q3 with expanding orders, output, employment and business confidence, despite input cost inflation.
Egypt	50.1	49.2	49.4	Egypt's private sector was relatively stable in late Q2 with slight contraction in new orders and employment and a reduction in output with rising input costs.
India	51.6	51.2	53.1	India's manufacturing sector grew through Q2 at the fastest pace since December 2017, reflecting growing demand, new orders and output growth.
Indonesia	51.6	51.7	50.3	Momentum across Indonesia's manufacturing sector slowed through Q2 with declines in new orders and output, despite weakening inflationary pressure.
Malaysia	48.6	47.6	49.5	Malaysian manufacturing deteriorated through Q2 on slower exports and reduced output, picking up slightly in June with an easing in inflation.
Mexico	51.6	51.0	52.1	Mexican manufacturing improved into Q3 on both internal and external demand leading to job creation and increased production, despite inflation.
Myanmar	55.5	52.6	50.0	Myanmar's manufacturing sector remained relatively flat into Q3, with some contraction in new orders and rising input costs, signaling slower demand.
Poland	53.9	53.3	54.2	Output, new orders and employment all showed stronger signs of growth through Q2, based on growth in domestic demand and new exports.
Russia	51.3	49.8	49.5	Conditions deteriorated in Russia through Q2 and into Q3 with a drop in demand, less new orders and output growth, alongside input price inflation.
South Africa	50.4	50.0	50.9	Business conditions in South Africa improved in June with growth in new orders and greater demand alongside price and input cost pressures
South Korea	48.4	48.9	49.8	South Korea's manufacturing sector continued to worsen at the end of Q2, despite growth in foreign demand. New orders and production saw declines.
Turkey	48.9	46.4	46.8	Turkish manufacturing continues to suffer through Q2 with a slowdown in new business and output alongside inflationary pressures and a weaker Lira.
Vietnam	52.7	53.9	55.7	Business conditions in Vietnam improved sharply in June with increases in output and new orders and general improvements in overseas demand.

Sources: IHS Markit Economics, Nikkei, Caixin

Low Cost Country Sourcing (LCCS) Highlights

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

Bangladesh – Bangladesh’s minimum wage board met recently to discuss a new minimum wage for employees in the \$28 billion garment sector. Unions are calling for tripling the current \$68/month wage.

Cambodia – Imports to the United States increased by 15% to US\$883 million in Q1, mostly due to duty free status of travel goods exports to the US. Trade has not been impacted by the controversial election.

India – Walmart, which acquired a 77% stake in Indian e-commerce giant, Flipkart for \$16 billion is looking to raise \$2 billion to accelerate the growth of the business in India, one of the top five ecommerce markets.

Indonesia – Indonesia is preparing for the United States to revoke its Generalized System of Preferences (GSP) due to a US trade deficit. Currently 124 Indonesian products are exempted from tariffs to the US.

Pakistan – Pakistan’s textile and garment exports increased by 9.8% yoy to reach US\$12.34 billion in the first 11 months of the current fiscal year (July 2017 – June 2018), according to the Pakistan Statistics Bureau.

Philippines – The Philippine will conduct negotiations on a free trade agreement with the United States in September with the aim of growing Philippine exports of garments, textiles, agricultural and other products.

Thailand – Chinese e-commerce giant Alibaba signed four MOU’s with Thai government agencies in April for an investment of 11 billion baht (US\$349 million) targeted at increasing e-commerce and trade with China.

Turkey – Global apparel buyers are planning to increase their sourcing from Turkey from \$17 billion currently to a predicted \$18 billion in 2018 and to \$25 billion in five years, partly due to depreciation of the Lira.

Vietnam – Vietnam’s economy expanded by 7.08% in the first half of 2018, the highest in 8 years, primarily due to growth in services and construction as well as due to exports (up 16%) and FDI (up 14.5%).

Exports (% yoy growth)	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018
Bangladesh	6.2	8.4	3.5	13.5	-1.4	7.1	9.0
Cambodia	24.3	29.3	74.1	68.2	-	-	-
India	30.6	12.4	9.1	4.5	-0.7	5.2	20.2
Indonesia	13.5	7.5	8.6	12.0	6.1	9.0	-
Pakistan	12.4	14.8	11.0	16.5	24.4	18.6	32.4
Philippines	2.7	2.3	3.5	-1.8	-8.2	-	-
Thailand	13.4	8.6	17.6	10.3	7.1	12.3	-
Turkey	11.0	8.3	10.6	8.8	7.5	7.7	5.3
Vietnam	21.5	21.2	41.6	26.1	24.8	19.2	-
Imports (% yoy growth)	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018
Bangladesh	13.9	14.1	20.1	26.7	8.6	25.9	-
Cambodia	26.9	-0.1	13.3	54.4	-	-	-
India	19.6	21.1	26.1	10.4	7.2	4.6	14.9
Indonesia	19.2	18.1	27.9	25.2	25.2	-	-
Pakistan	16.5	10.1	19.4	9.7	6.1	2.9	14.8
Philippines	20.1	20.0	11.4	18.6	0.1	-	-
Thailand	13.7	16.6	24.3	16.0	9.5	20.4	-
Turkey	21.3	25.4	38.0	19.7	12.7	15.6	5.5
Vietnam	21.2	20.8	53.1	20.5	13.3	9.5	-

Sources: News Reports, Fung Group, Various Statistical Bureaus

Global Competitiveness Index

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

Note: The below data is released annually by the World Economic Forum (WEF). For this report we have selected relevant countries and updated the chart as of current data released in 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
Overall competitiveness	99(↑7)	94(↓5)	27(↑1)	40(↓1)	36(↑5)	115(↑7)	56(↑1)	32(↑2)	53(↑2)	55(↑5)
Institutions	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)
Infrastructure	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)
Macroeconomic environment	56(↑9)	70(↓20)	17(↓9)	80(↓5)	26(↑4)	106(↑10)	22(↓2)	9(↑4)	50(↑4)	77(-)
Health & primary education	102(↑3)	101(↑2)	40(↑1)	91(↓6)	94(↑6)	129(↓1)	82(↓1)	90(↓4)	84(↓5)	67(↓2)
Higher education & training	117(↑1)	124(↑10)	47(↑7)	75(↑6)	64(↓1)	120(↑3)	55(↑3)	57(↑5)	48(↑2)	84(↓1)
Goods market efficiency	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)
Labor market efficiency	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)
Business sophistication	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

Q3 2018 News & Analysis:

At least three provinces and municipalities in China raised their minimum wage levels in Q3, including Shanghai, Yunnan and Shandong. Guangdong province raised their minimum wage levels as of July 1. Other regions such as Mongolia, were “encouraged” to raise their minimum wage levels by 7-10% for enterprises that are performing well.

Migrant workers, who number around 286.5 million, saw their income increase by 7.3% in Q1 this year, a trend expected to continue in coming years. These workers are getting older and tend to work closer to their home town.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of July 1, 2018. 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.

2018 Minimum Wage Updates (official) (District variances are averaged across province)			
City/Region/Province	Monthly Min Avg Wage (RMB)	Increase %	Official Update
Anhui	1,520	20.6%	Nov 1, 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	1,802	22.3%	Jul 1, 2018
Guizhou	1,680	5.0%	Jul 1, 2017
Hainan	1,430	12.6%	Feb 1, 2016
Heilongjiang	1,680	15.4%	Oct 1, 2017
Henan	1,570	8.2%	Oct 1, 2018
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,750	13.1%	Nov 1, 2017
Hunan	1,580	13.6%	Jul 1, 2017
Inner Mongolia	1,760	8.0%	Aug 1, 2017
Jiangsu	1,890	8.1%	Jul 1, 2017
Jiangxi	1,680	15.1%	Jan 1, 2018
Jilin	1,780	22.5%	Oct 1, 2017
Liaoning	1,620	7.6%	Jan 1, 2018
Ningxia	1,660	12.4%	Oct 1, 2017
Qinghai	1500	15.3%	May 1, 2017
Shaanxi	1,680	5.4%	Oct 1, 2017
Shandong	1,730	6.7%	Jun 1, 2018
Shanghai	2,420	5%	Apr 1, 2018
Shenzhen	2,200	4.9%	Jul 1, 2018
Sichuan	1,500	7.1%	Jul 1, 2015
Tianjin	2,050	5.1%	Jul 1, 2017
Tibet	1,650	17.8%	Jan 1, 2015
Xinjiang Uyghur	1,670	12.9%	Jul 1, 2015
Yunnan	1,507	10.6%	May 1, 2018
Zhejiang	2,010	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.

Q3 2018 News & Analysis: Minimum wages across most low-cost sourcing countries continued to face pressure to increase through the first half of 2018. Bangladesh, which has one of the lowest wages, is currently negotiating an increase to their minimum wage. Indonesia has proposed a regional minimum wage for the ASEAN region during a recent World Economic Forum event with Cambodia and Vietnam among others showing support.

Notes: Figures are provided in USD/month based on currency exchange as of July 1, 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 (Mar 2018)	\$172 (Jan 1/17)	\$35-\$4 (under review)
Bangladesh might see an increase to their minimum wage, with unions calling for a significant increase (triple) to the current minimum wage of \$68 which has been in place for 5 years.	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 wages formulas (with housing, food, overtime etc.) Wages continue to increase each year in most regions.	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.	Ethiopia is working on a system to determine a min. wage for the private sector (wage guidelines exist for govt. workers). Entry level wages in the textile sector range from \$35 -\$40.
INDIA	INDONESIA	LAO PDR	MALAYSIA	MYANMAR
\$40-\$130 (Jan 2018)	\$115-\$273 (Jan 1/18)	\$142 (Jan 2018)	\$233-\$253 (Jan 2018)	\$108 (Mar 2018)
Indian min. wages vary by region and skill level; however, the central Indian labor ministry is considering a significant increase for 2018, which could bring wages up to \$280 in some areas.	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 reviewed every 2 years. Malaysian officials announced a new minimum wage for 2018 to bridge the gap between Peninsular Malaysia and East Malaysia.	Myanmar revised its minimum wage from K,600 Kyat (\$2.70) per day to K4,800 (3.60) or K600 per hour for an eight-hour work day. This represents an increase of 33%, mostly impacting garment workers.
PHILLIPPINES	SRI LANKA	THAILAND	TURKEY	VIETNAM
\$110-220 (Jan 25/18)	\$67 (Mar 2016)	\$190-\$196 (Apr 1/18)	\$495 (Jan 2018)	\$122-176 (Jan 1/18)
Wages in the Philippines vary by region, skill level and wage classification. Negotiations are still underway, but Manila for example saw a 21 Peso (\$0.42) increase in their daily wage to 491 Pesos (\$9.82) in Q4 2017.	Sri Lanka adopted two laws on minimum wages as of early 2016, mandating a minimum wage of Rs 10,000 (+/- \$67) and an increase of Rs 2,500 (+/- \$17) for workers earning less than Rs 40,000 per month (+/- \$270)	Thailand increased minimum wages for the first time since 2013 by 2-5%, or around 5-22 Baht per day across the 69 provinces. Wages will range from 308 to 3330 THB (\$9.60-\$10.58) per day for unskilled workers.	Following negotiations in late 2017, Turkey raised its minimum wage by 14.2% in January 2018 to 1,603 Turkish Lira's per month (+/- \$400). Before deductions, the wage would be 2,029 Liras a month, +/- US \$500 (as of April 14, 2018).	Vietnam announced increases to their two types of minimum wages, for state and non-state enterprises. These rate increases of around 7%, are smaller than in previous years and vary by region and industry.

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

Container Freight Rates for Major Routes

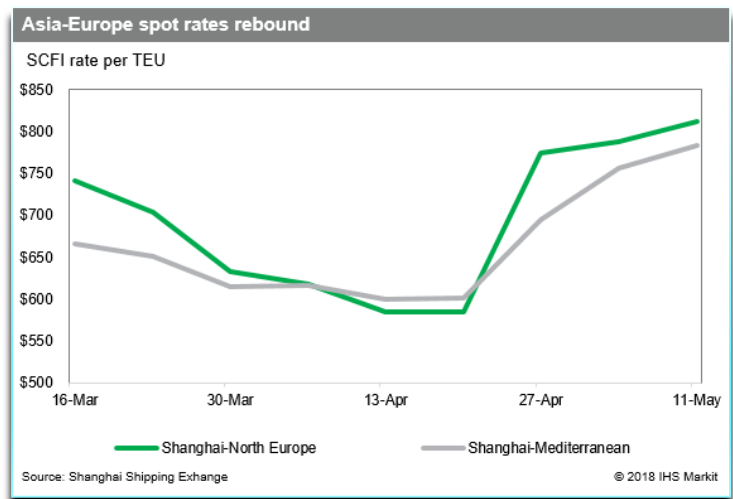
Q3 2018 News and Analysis: The big news impacting container traffic and prices in Q2/Q3 is the escalating tariff war between the US and China. Indicators show that certain products and commodities have seen higher purchasing to beat the coming tariffs. At the same time, the expectation is that trade volume should slow through the remainder of the year, with prices remaining steady.

General Rate Increases (GRI) along with increased fuel charges have pushed rates higher on most routes, while shipping capacity continues to outpace demand. Service issues at Asian ports have also been reported, partly due to megaships coming on board, bringing logistical challenges.

Asia - Europe Trade Lanes

Asia to Europe spot shipping rates improved strongly through Q2 based on growth in demand, despite significant capacity in shipping.

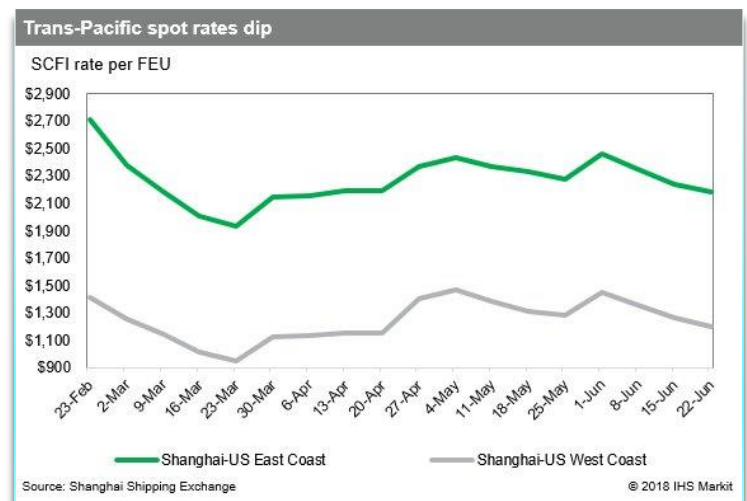
Rates have slowed into Q3 and are expected to remain flat given the ongoing tariff war between the US and China which is impacting exports globally. Some carriers such as Hapag Lloyd and the 2M Alliance have levied a peak season charge of \$55 per TEU for cargo coming out of Asia from June 1 to account for fuel price increases.



Asia – North America Trade Lanes

Asia-North America container shipping rates have fluctuated wildly in the past 6 months, with some increase in rates due to general rate increases and advanced shipping to beat the US/China tariffs..

Generally imports have slowed since 2017, with May imports down by 1.3 million TEU according to reports by PIERS statistics. Tariffs between China and the US could impact over 800,000 TEUs while additional tariffs could impact up to 8% of container shipping trade between the US and Asia.



Sources: IHS Markit, Joc.com Alphaliner, Sealintel

Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. While the world has been focused on the US/China trade and tariff skirmish, the USD has crept to its highest level of the year. Both emerging markets who have to buy commodities in dollars and US multinationals who generate revenue in other currency are getting squeezed. The ongoing US/China trade surplus is expected to continue fueling tariffs wars, which will impact currency rates.

EUR / USD (July 12, 2017 – July 12, 2018)



The USD reached yearly highs in Q3. This rally is expected to continue for the short term and will be fueled by political uncertainty in the Eurozone as well as trade talks with the US.

EUR/USD	Low	High
2 years	1.03	1.25
1 year	1.14	1.25
6 months	1.15	1.25
3 months	1.15	1.23
30 days	1.15	1.17

EUR / CNY (July 12, 2017 – July 12, 2018)



The Chinese currency is expected to remain in a broader range in the near term, while the European currency has borne the brunt of the USD rebound. Analysts are optimistic about European growth prospects.

EUR/CNY	Low	High
2 years	7.22	7.97
1 year	7.40	7.97
6 months	7.40	7.93
3 months	7.40	7.93

USD / CNY (July 12, 2017 – July 12, 2018)



The Chinese Yuan weakened through Q2/Q3 as the US/China trade war escalated, a trend which is expected to continue through 2018. It serves the Chinese to keep their currency weak to encourage trade.

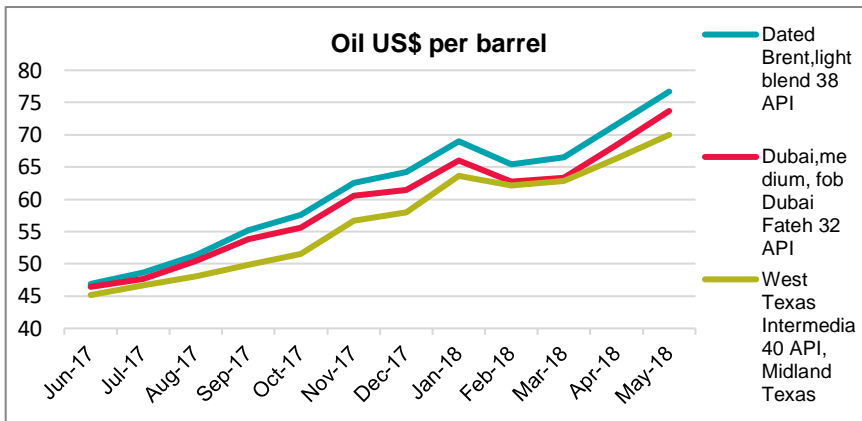
USD/CNY	Low	High
2 years	6.25	6.96
1 year	6.25	6.76
6 months	6.25	6.70
3 months	6.25	6.70
30 days	6.25	6.70

Sources: XE.com, News/Analyst Reports

Global Commodity Rates

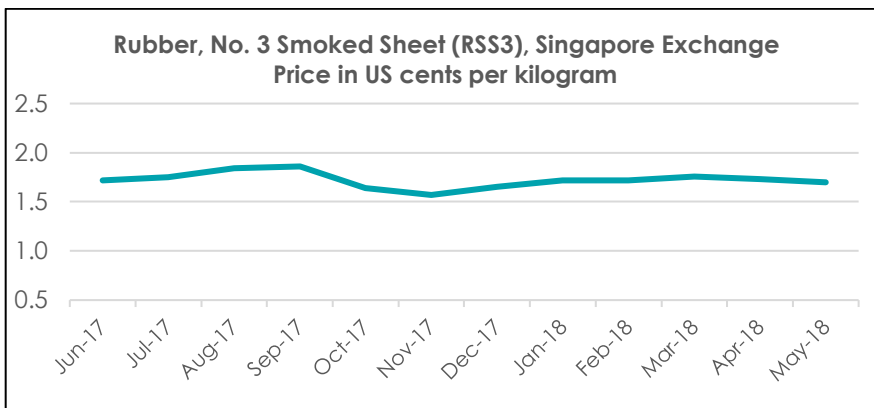
Q3 2018 News & Analysis: The ongoing trade dispute between the US and China has continue to impact prices of most commodities. Most recently, the US has threatened an additional \$200 billion in tariffs against China has put pressure on commodity buyers. One of the exceptions, oil prices hit a multi-year high in Q3 as capacity remains tight and new supply is not expected to offset further reductions in supply from Iran and Canada.

Crude Oil



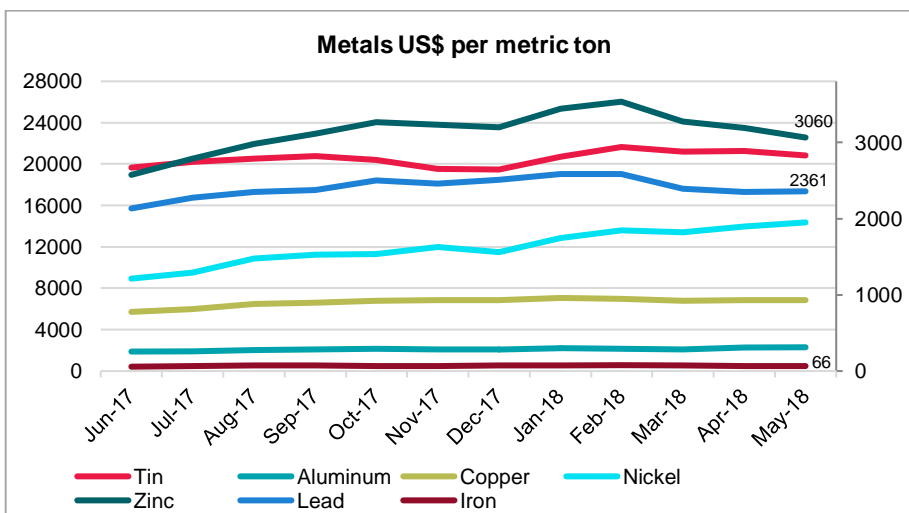
Oil prices rose to above \$70 a barrel in late Q2 and Q3. This price increase is a result of a sustained effort by OPEC producers to reduce supply. Despite the potential of new supply from Libya and attempt by Russia and Saudi Arabia to bring more supply online, prices are expected to hold steady. Sanctions against Iran and decreased production in Canada should offset new capacity coming onstream, keeping prices high.

Rubber



Rubber future prices fell due to the threat of increasing trade tariffs between the US and China, which could impact global economic growth. Concerns over a slowing global economy along with less demand from China and decreasing automotive sales, meaning reduced demand for tires continue to keep rubber prices flat.

Metals



Prices for most metals fell markedly over the past few months and are expected to remain depressed for 2018, due to increased US tariffs. Metals such as zinc, nickel (used in stainless steel and electric car batteries), copper (used in refrigerators and air conditioners) were impacted as much of the targeted Chinese exports have metal components. At the same time, commodity heavy sectors, infrastructure and property, showed signs of weakness.

Cotton

Cotton prices are expected to remain firm through the remainder of 2018. There is some uncertainty where prices will head depending on what happens with US/China tariffs. The latest round of tariffs on goods totaling \$200 billion that the US has threatened against China include various cotton products which would face an additional 10% duty. China in turn has imposed tariffs on US cotton related imports. China was already reducing its imports and the US has been increasing exports to other markets such as Vietnam and Bangladesh.

Recent Price Data

	Latest Value (Jul 12)	Latest Month (Jun)	Last 12 Months (Jul17-Jun18)
cents/lb			
NY Nearby	89.2	89.2	77.0
A Index	94.4	97.7	87.0
CC Index	110.4	115.8	110.8
Indian Spot	88.6	87.1	80.5
Pakistani Spot	84.2	77.2	75.9

World Cotton Production

million 480 lb. bales	2017/18	2018/19	
		Jun	Jul
India	29.0	28.5	28.7
China	27.5	26.5	26.5
United States	20.9	19.5	18.5
Brazil	9.2	9.0	9.5
Pakistan	8.2	8.5	8.5
Rest of World	28.9	28.4	28.4
World	123.7	120.4	120.1

World Cotton Imports

million 480 lb. bales	2017/18	2018/19	
		Jun	Jul
Bangladesh	7.6	7.9	8.0
Vietnam	6.9	7.7	7.7
China	5.4	7.0	7.0
Turkey	4.1	3.6	3.6
Indonesia	3.4	3.5	3.5
Rest of World	12.7	11.4	11.4
World	40.1	41.1	41.2

World Cotton Exports

million 480 lb. bales	2017/18	2018/19	
		Jun	Jul
United States	16.2	15.5	15.0
Brazil	4.2	4.9	5.4
Australia	4.0	4.4	4.4
India	5.0	4.3	4.3
Burkina	1.1	1.3	1.3
Rest of World	10.3	10.8	10.9
World	40.7	41.1	41.2

Sources: **National Cotton Council, Cotlook, Cotton Inc.**

Wool

Over the past year Eastern Market wool prices had a breakout year, increasing by 34% from 1533 to 2056 cents per /kg.

Most of this demand came from China, especially in the high-end Merino wool sector. Half of the Australian wool imported into China is consumed domestically, an amount valued at A\$2 billion per year. Demand is expected to grow as China's appetite for luxury products increases.

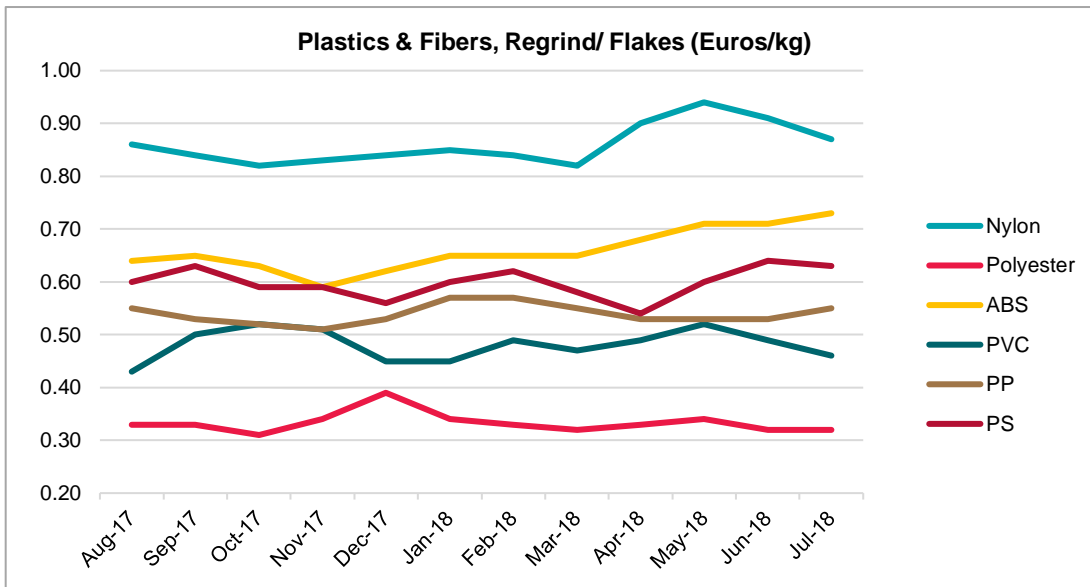


Source: **Australian Government Department of Agriculture**

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.

Q3 2018 Snapshot: Synthetic fibers are used more than natural fibers and an increasing variety of new fibers are being developed. ABS, PP and PET/Polyester fiber prices increased due to supply chain issues and also due to other industries entering the PET market. Once recent report noted that the global synthetic fiber market could reach \$90 billion by 2026, growing at an annual rate of 4%.

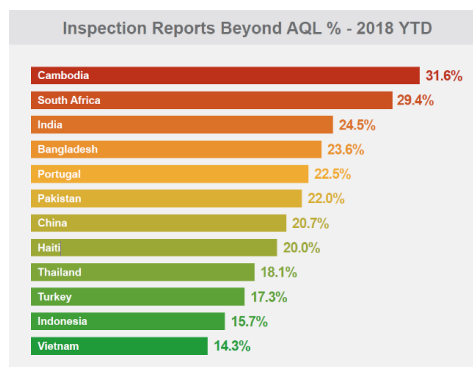
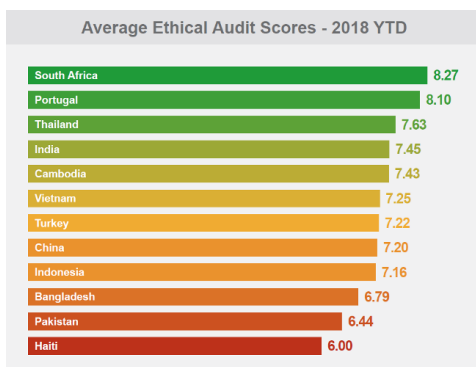


Sources: IMF data, Index Mundi Plasticker

Focus Topics

Quality Control Performance Indicators

This report frequently covers quality control and quality assurance issues. Audit and inspection data provide an indicator of activity in various sourcing regions. According to Asia Inspection (AI) data for 2018 so far, inspection volumes in China increased by 8.3% year-on-year, while the rest of Asia showed double digit growth in inspections in line with economic forecast for the region.



The World's Worst Countries for Workers?

The International Trade Union Confederation (ITUC) recently released its 2018 Global Rights Index, a report examining working conditions across the globe. Not surprisingly, some of the key low cost global sourcing countries made the list in a big way.

If this report is an indicator, global conditions for workers are mostly not good and multinational companies doing business around the world should probably pay attention. The top ten offenders included Algeria, Bangladesh, Cambodia, Colombia, Egypt, Guatemala, Kazakhstan, the Philippines, Saudi Arabia and Turkey. China, Indonesia and Brazil also made the list. Some of the factors considered were restrictions on basic rights and freedoms and limitations on the ability to organize, speak out.

Countries and Regions

According to the report, the worst regions in the world for workers were the Middle East and North Africa (MENA) where ongoing wars and conflicts in Libya, Syria and Yemen were impacting worker rights. Labor movements in Algeria and Egypt were crushed by authorities. Countries such as Saudi Arabia are notorious for ill treatment of migrant labor workers and are routinely exploited, left unpaid and even lashed and imprisoned.

In the Asian region, China, Indonesia, Korea, Myanmar, Cambodia, India and Bangladesh were all noted for worker intimidation, anti-union measures and exclusion from labor laws.

Africa and the South America were noted for extreme violence and repression, notably in Colombia, Guatemala and Brazil, where trade unionists are regularly murdered. Europe is mostly noted for the effects of austerity measures which have eroded collective bargaining agreements, workers right to strike were violated and workers were excluded from labor law.

Multinational Companies

Not all the companies and countries under the spotlight were in low income countries. Amazon was accused of having 'intolerable working conditions in low-paid, insecure jobs' in their warehouses in the UK and the USA. Worker strikes took place at Amazon logistics centers in Italy, Germany and Spain for better pay and working conditions. Samsung in South Korea was also noted for its anti-union practices. Also in South Korea, General Motors was singled out for hiring large numbers of "temporary" workers, who are paid 40-50% less than regular employees for the same work.

Global trends for 2018 that were identified in the report include: the rise of repressive regimes, continuation of armed conflict, the failure of democracy and the growth of corporate influence on worker rights and legislation. Model countries identified were New Zealand, Iceland and Canada.

Violations of Workers' Rights



87% of countries have violated the right to strike



Countries where workers are arrested and detained increased from 44 in 2017 to 59 countries in 2018



The number of countries where workers experienced violence increased from 59 in 2017 to 65 in 2018



Trade unionists murdered in 9 countries



The number of countries that deny or constrain freedom of speech increased from 50 in 2017 to 54 in 2018



The Tariff Wars Continued

The trade skirmish between the US and China which started earlier this year has continued to escalate and has become more of a trade war between the US and the rest of the world, let by President Trump.

According to the International Monetary Fund (IMF) this trade tension could cost the global economy \$430 billion in global growth, or 0.5% by 2020. While most of the world will suffer, the IMF predicts the US will suffer most as it becomes the focus of retaliation.



To date the US has picked tariff fights with China, the European Union, its NAFTA partners, including close ally, Canada, Japan and others. As a result, the IMF has revised and lowered growth forecasts for the Eurozone region and the UK but is still expecting overall global growth of 3.9%.

China and other countries and regions have retaliated with tariffs of their own, so the dispute continues. After Trump threatened a second round of tariffs of 10% on \$200 billion of Chinese goods, including tobacco, and pet food, which are set to take effect in September. The total amount of goods the US has threatened tariffs on is now up to \$500 billion.

What is Trump's agenda? Many believe he is playing to his constituency who elected him based on his rhetoric of bringing jobs back to the US and to challenge China on intellectual property protection.

The Backlash

China's imports from the US are only around \$130 billion, so it will be difficult to match these tariffs. Analysts expect China to hit back with delayed approvals to investment inflow, additional customs inspections and boycotts of American brands. Meantime China's trade surplus with the US expanded to \$29 billion in June from \$24.6 billion in May.

Trump has also threatened tariffs on \$350 billion of imported motor vehicles and parts, which would result in the EU and others retaliating with similar tariffs.

So far, the impact of the trade wars has not been widely felt. The US economy is doing well, manufacturing PMI continued to perform, and stock markets are doing okay. The American consumer is probably at the biggest risk. If the trade war escalates to the \$500 billion of goods that Trump has threatened, consumers everywhere will see higher prices and investment inflow will suffer. For now, it seems the markets and the people think that sanity will prevail, but time will tell.



Don't miss the 11th Edition of **CBX Global Sourcing Day** on November 30, 2018



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To pre-register for a complimentary seat (*qualified attendees only*):

Contact: Judy Mak at +852 2378 6300 or email judy.mak@cbxsoftware.com.

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