Q4
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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Content

Purchasing Manager's Index (PMI)

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

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

Q4 2018 News & Analysis:
PMI indicators are showing a general slowdown in manufacturing, with a soft Q3 for China and a general slowdown in Eastern Europe, Turkey and elsewhere. Driving this slowdown are escalating tariff wars and inflation on input costs, alongside low levels of business confidence with the ongoing trade friction.

Country	Jul 2018	Aug 2018	Sep 2018	Summary of Indicators
Brazil	50.5	51.1	50.9	Manufacturing conditions remained mostly flat through Q3 in Brazil, with slight improvements in output alongside input price pressure from a strong USD.
China	50.0	50.6	50.0	Chinese manufacturing had a weak Q3 with falling exports, reduction in headcount and weak demand leading to cautious buying and low inventories.
Columbia	53.5	53.3	52.8	Operating conditions in Columbia's manufacturing sector improved through Q3 with growth in new orders, with expansion in purchasing and employment.
Czech Republic	55.4	54.9	53.4	Czech manufacturing slowed through Q3, following a peak early in the year as orders declined to a 2-year low and cost pressures and competition increased.
Egypt	50.3	50.5	48.7	Egypt's non-oil private sector contracted modestly through late Q3 on weak demand. Input costs continued to increase and were passed on to buyers.
India	53.1	51.7	52.2	India's manufacturing showed modest growth through Q3 with stronger domestic and foreign demand, despite both input and output cost increases.
Indonesia	50.5	51.9	50.7	Indonesia lost some growth momentum in late Q3 and into Q4 with declines in output new orders and employment. A strong USD also impacted input costs.
Malaysia	49.7	51.2	51.5	Manufacturing activity in Malaysia strengthened late in Q3 and early Q4 with growth in output, new orders and job creation despite inflationary pressure.
Mexico	52.1	50.7	51.7	Conditions improved in Mexico through Q3 and into Q4, with increased production, job creation, new business growth and solid customer demand.
Myanmar	47.9	46.4	47.5	A downturn in Myanmar's manufacturing activity continue through Q3, with price increases fueling declines in new orders, output and employment.
Poland	52.9	51.4	50.5	Business conditions slowed in Poland on declining new orders, weak output and employment growth, with cost pressures and a weak forecast for Q4.
Russia	48.1	48.9	50.0	Output in Russia increased for the first time since June on new export orders, while capacity issues and input cost pressure signaled ongoing challenges.
South Africa	49.3	47.2	48.0	Operating conditions in South Africa's private sector deteriorated through Q3 on weaker exports and cut backs on purchasing and input stocks.
South Korea	48.3	49.9	51.3	South Korea's manufacturing sector saw modest growth through Q3 with output growth, stronger order volumes, input buying and employment growth.
Turkey	49.0	46.4	42.7	Turkey continued to experience challenging business conditions through Q3 with declines in new orders and output and record input and output costs.
Vietnam	54.9	53.7	51.5	Vietnam saw a further slowdown in growth late in Q3 with weaker output, new orders and employment and inflation, yet confidence remained high for Q4.

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 announced a new minimum wage in September, an increase of 51% to BT8000 (US$95). The new wage is less than BT16000 that unions were calling for as a living wage.

Cambodia – In October, Cambodia's Labor Ministry announced a new minimum wage for garment and footwear workers of US$182 per month as of January 1, 2019, a 7.1% increase from the current $170.

India – The Indian government intends to double import tariffs on almost 400 textile products, aimed at providing relief to the domestic textile industry against imports from other ASEAN countries.

Indonesia – The Indonesia Rupiah recently depreciated to its lowest point since the 1998 Asian Financial Crisis, closing at 15,183 against the US Dollar, mainly due to the global tariff wars and rising oil prices.

Pakistan – Pakistan's economy slowed to a projected growth of 5.2% in 2018, the first slowdown in six years, due to lower outputs in agriculture and manufacturing, prompting stimulus action by the government.

Philippines – The Philippine Peso fell to the lowest level in 13 years against the US Dollar, due to the growing current account deficit, infrastructure spending and uncertainty over the US/China trade war.

Thailand – A study by the Commerce Ministry concluded that US tariffs on Chinese goods should benefit certain Thai exports the US, including fruits, rubber, auto parts, chemicals seasonings and more.

Turkey – Turkey's weak currency, which has depreciated by 40% against the USD this year, has made exports more attractive, with growth seen in garment and knitwear exports in the range of 7%.

Vietnam – Vietnamese exports grew by 13.9% yoy to US$64.73 billion in Q3, led by exports of phones and parts, textiles, garments, computers, electronics. GDP growth in 2018 should be the strongest since 2011.

Exports (% yoy growth)	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	July 2018
Bangladesh	3.5	13.5	-1.4	7.1	9.0	-3.1	19.9
Cambodia	74.1	68.2	11.7	3.4	29.1	8.1	-
India	9.1	4.5	-0.7	5.2	20.2	17.6	14.3
Indonesia	8.6	12.0	5.9	9.6	13.1	11.5	19.7
Pakistan	11.0	16.5	24.4	18.6	32.4	-1.0	1.2
Philippines	-4.0	-5.5	-6.8	-4.9	-1.8	2.8	0.3
Thailand	17.6	10.5	7.0	12.4	11.4	8.2	8.3
Turkey	10.6	8.8	7.5	7.7	5.0	-1.4	11.6
Vietnam	41.6	26.1	24.8	19.2	17.3	16.3	16.0
Imports (% yoy growth)	**Jan 2018**	**Feb 2018**	**Mar 2018**	**Apr 2018**	**May 2018**	**Jun 2018**	**July 2018**
Bangladesh	20.1	26.7	11.9	25.9	37.8	16.5	-
Cambodia	13.3	54.4	7.5	28.5	35.8	30.9	-
India	26.1	10.4	7.2	4.6	14.9	21.3	28.8
Indonesia	27.9	24.9	8.9	35.2	28.2	12.8	31.7
Pakistan	19.4	9.7	6.1	2.9	14.8	26.2	0.6
Philippines	7.7	13.7	0.3	23.1	12.6	24.2	31.6
Thailand	24.5	16.7	10.5	21.3	11.7	10.8	10.5
Turkey	38.0	19.7	12.7	15.6	5.4	-3.8	-6.7
Vietnam	53.1	20.5	13.3	9.5	10.5	9.6	11.1

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)
Intellectual property protection	124(↑5)	130(-)	49(↑13)	52(↓10)	46(↑4)	97(↑12)	71(↑3)	106(↑15)	94(↑1)	99(↓7)
Burden of government regulation	78(↑15)	68(↓3)	18(↑3)	20(↑3)	27(↑10)	64(↑11)	111(↑6)	58(↑3)	67(↑4)	76(↑12)
Strength of investor protection	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(-)
Quality of roads	105(↑8)	99(↓6)	42(↓3)	55(↓4)	64(↑11)	76(↑1)	104(↑2)	59(↑1)	30(↓2)	92(↓3)
Quality of railroad	60(↑12)	94((↑4)	17(↓3)	28(↓5)	30(↑9)	52(↑1)	91(↓2)	72(↑5)	57(↓2)	59(↓7)
Quality of port	85(↑4)	81(↓5)	49(↓6)	47(↑1)	72(↑3)	73(↑11)	114(↓1)	63(↑2)	54(↓2)	82(↓5)
Quality of air transport	115(-)	106(↓7)	45(↑4)	61(↑2)	51(↑11)	91(-)	124(↓8)	39(↑3)	31(↓2)	103(↓17)
Quality of electricity supply	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)
Prevalence of trade barriers	35(↑21)	93(↓7)	58(↑20)	54(↓7)	79(↑12)	106(↑6)	64(↓4)	67(↑8)	45(↓1)	109(↓1)
Trade tariffs, %duty	126(↓1)	96(-)	118(-)	124(↓1)	67(↓5)	135(↓1)	58(↓9)	89(↓4)	75(↑1)	91(-)
Burden of customs procedures	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)
Cooperation in labor-employer relations	76(↑15)	67(↑3)	50(↓3)	56(↑11)	41(↑4)	125(↑9)	33(↓6)	36(-)	118(↑1)	85(↓6)
Flexibility of wage determination	58(↑11)	100(↑4)	89(↓7)	104(↑8)	99(↑10)	122(↓2)	86(↑11)	103(↑4)	51(↑11)	81(↑3)
Pay and productivity	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)
Local supplier quantity	62(↓15)	127(↓2)	52(↓36)	53(↓17)	42(↓2)	107(↓5)	49(↑11)	59(-)	44(↓3)	105(↓19)
Local supplier quality	78(-)	122(↑3)	56(↑1)	69(↓10)	54(↑16)	108(↑3)	73(↑1)	74(↑3)	52(↓4)	116(↓7)
State of cluster development	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

Q4 2018 News & Analysis:
Most recently, the Chinese government is facing increasing pressure to address the country's growing wealth disparity where 1% of the population owns one third of the country's wealth. As a result the government has tasked the All China Federation of Trade Unions (ACFTU) with advocating for better wages and working conditions for the labor force they represent.

Wage increase continue to take effect across most provinces and regions, with increases announced in Q2 and Q3 for Beijing, Guangxi, Henan, Shandong Xinjiang and Yunnan. Provinces are mandated to increase minimum wages at least every two years.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of October 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	2,120	5.8%	Sep 1, 2018
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	1,680	16.7%	Feb 1, 2018
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	1,900	8.2%	Oct 1, 2018
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,750	13.1%	Nov 1, 2017
Hunan	1,580	13.6%	Jul 1, 2017
Inner Mongolia	1,760	8.0%	Aug 1, 2017
Jiangsu	2,020	8.1%	Aug 1, 2018
Jiangxi	1,680	15.1%	Jan 1, 2018
Jilin	1,780	22.5%	Oct 1, 2017
Liaoning	1,620	7.6%	Jan 1, 2018
Ningxia	1,660	12.4%	Oct 1, 2017
Qinghai	1,500	15.3%	May 1, 2017
Shaanxi	1,680	5.4%	Oct 1, 2017
Shandong	1,910	6.7%	Jun 1, 2018
Shanghai	2,420	5%	Apr 1, 2018
Shenzhen	2,200	4.9%	Jul 1, 2018
Sichuan	1,780	7.1%	Jul 1, 2018
Tianjin	2,050	5.1%	Jul 1, 2017
Tibet	1,650	17.8%	Jan 1, 2015
Xinjiang Uyghur	1,820	12.9%	Jan 1, 2018
Yunnan	1,670	10.6%	May 1, 2018
Zhejiang	2,010	8.4%	Dec 1, 2017

Global Low-Cost Country Sourcing Wage Snapshot

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

Q4 2018 News & Analysis: Several low-cost sourcing countries announced wage increase wages which will take effect in early 2019. Most notably, Bangladesh authorities agreed to raise their minimum wage for the first time in 5 years. Cambodia, Laos, certain regions in Indonesia and India also saw wage increases in recent months.

Notes: Figures are provided in USD/month based on currency exchange as of October 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
$95 (Jan 2019)	$182 (Jan 2019)	$137-$639 (Sept 2018)	$172 (Jan 2017)	$35-$4 (under review)
Bangladesh announced a wage increase to BT8000 (US&95) a 51% increase from the previous minimum wage which had been in place since 2013. Unions were calling for a BT16000 minimum wage.	Cambodia increased the minimum wage for the second consecutive year, to US$182, a 7.1% increase, which will take effect from January 1, 2019. Labor tension and strikes have calmed down.	Minimum wages in China are set by local governments and vary widely by region wages formulas (with housing, food, overtime etc.) Wages continue to increase each year in most regions.	Egypt'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 (May 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.	In October 2018, Indonesia's manpower minister proposed an 8.13% minimum wage increase for 2019 and urged the provinces to accept. Indonesia wages vary by their 34 provinces and regions.	The Lao Government approved an increase in minimum wage from Kip 900,000 (US$107) to Kip 1,100,000 (US$142)**)** in key provinces for 2018. This raise took effect in May 2018.	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 (+/-f$17) for workers earning less than Rs 40,000 per month (+/- $270)	Thailand increased minimum wages for the first time since 2013 by 2-5%, or around 5-22 Baht per day across the 69 provinces. Wages will range from 308 to 3330 THB ($9.60-$10.58) per day for unskilled workers.	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**

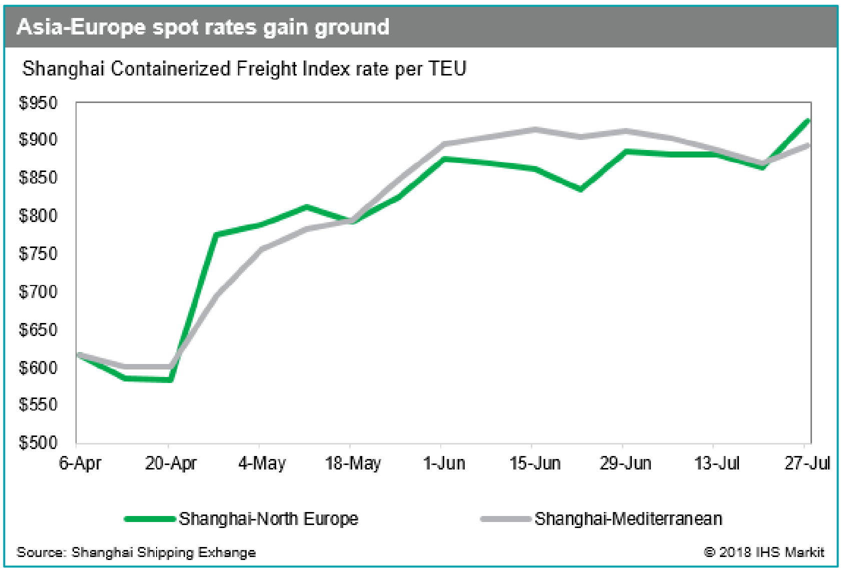
Container Freight Rates for Major Routes

Q4 2018 News and Analysis: Spot Container rates on both Asia-Europe and Asia-North America are still up for 2018 versus 2017, but rates have softened in Q3/Q4, especially to Europe. Transpacific rates remained strong as importers stocked up to beat coming tariffs of 25%, but also slowed down into Q4. Carriers have responded by cutting capacity to Europe at least until the pre-Chinese New Year season. They have also increased rates to account for fuel price increases.

Asia - Europe Trade Lanes

Asia to Europe spot shipping prices fell to a 5 month low-point as carriers prepared for a slowdown in demand and withdrew capacity as bunker prices increased and profits dipped further.

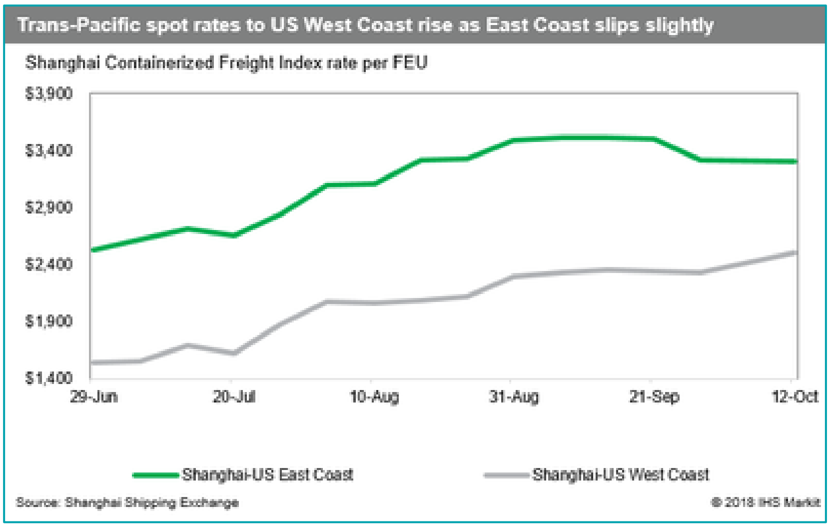
Spot rates for the Shanghai-North Europe trade lane fell to $727 per TEU in October after hitting a 12-month high in August. Carriers are planning on increasing rates as well as reducing capacity for the fourth quarter. 2M Alliance members will pull 11 mega-ships of 18,000-20,600 TEU from the Asia-Europe trade lane in Q4.



Asia – North America Trade Lanes

The Transpacific trade lanes had a strong year which softened in Q3 and into Q4 so far. Shanghai-West coast rates increased by 3.4% to $2,587 fer FEU and Shanghai-East Coast rates was flar at $3,304 in October.

Pricing levels are still well above 2017 though, as merchants stocked up for the holiday season and also increased inventory ahead of impending 25% tariff increases on Chinese goods. The trade war has actually beein good for container shipping to North America, with imports to the US increasing in the range of 9% yoy for 2018 so far.



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

Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. The US/China trade war continued to impact major trading currencies through Q3 and into Q4, with the USD making moderate gains and resulting in depreciation of the Chinese Yuan and other currencies. Analysts point to fundamental issues with the USD gains that are unsustainable in the longer term. The US mid-term elections are expecting to be a turning point for the US currency.

EUR / USD (Oct 2017 – Sep 2018)

The EUR remained stable against the USD in Q3 and into Q4. EUR resiliency is partly due to structural challenges with the USD and the EUR should recover ground in the coming year.

EUR/USD	Low	High
2 years	1.04	1.25
1 year	1.13	1.25
6 months	1.13	1.23
3 months	1.13	1.17
30 days	1.14	1.17

EUR / CNY (Oct 2017 – Sep 2018)

The Chinese Yuan depreciated modestly against the EUR through Q3 and into Q4. The RMB has faced depreciation due to ongoing trade friction with the US, which is impacting global currencies.

EUR/CNY	Low	High
2 years	7.22	8.09
1 year	7.40	8.09
6 months	7.40	8.09
3 months	7.80	8.09
30 days	7.98	8.09

USD / CNY (Oct 2017 – Sep 2018)

The Chinese Yuan continued to depreciate against the USD through Q3 and into Q4, approaching a 2-year low. The US/China trade war is expected to continue pressure on the RMB through Q4 an into 2019.

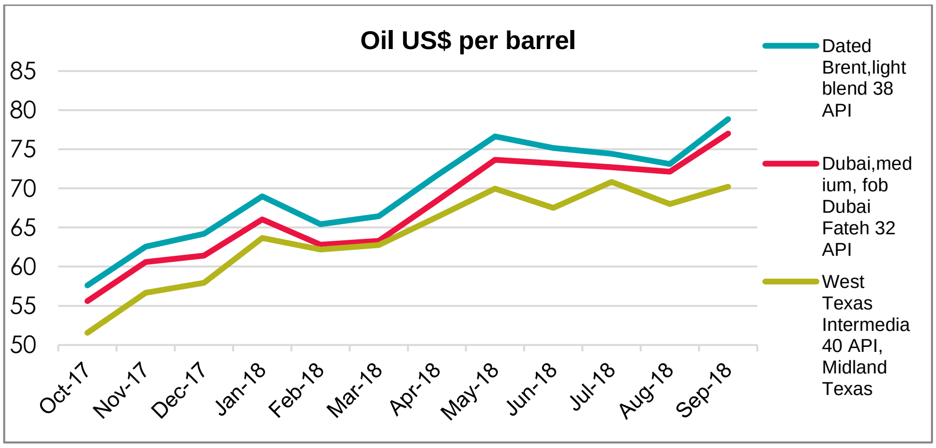
USD/CNY	Low	High
2 years	6.26	6.96
1 year	6.26	6.94
6 months	6.27	6.94
3 months	6.70	6.94
30 days	6.83	6.94

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

Global Commodity Rates

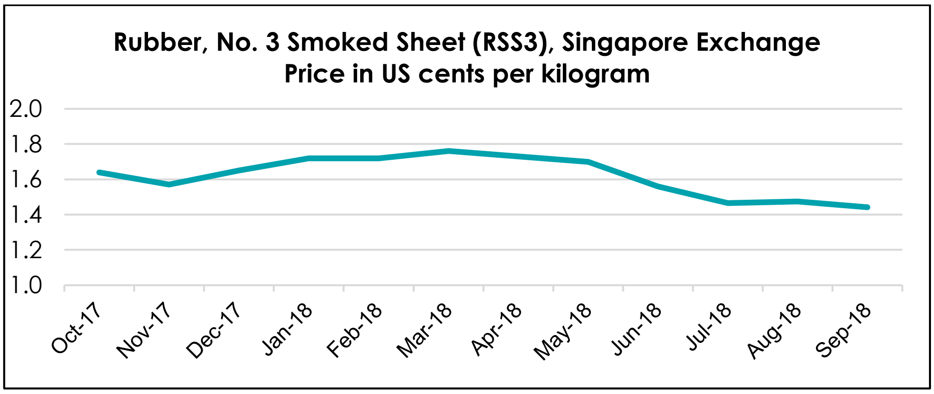
Q4 2018 News & Analysis: The ongoing trade dispute between the US and China has continued to impact prices of most commodities. Most recently, the US has threatened an additional $200 billion in tariffs against China which has put pressure on commodity buyers. One of the exceptions, oil prices hit a 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



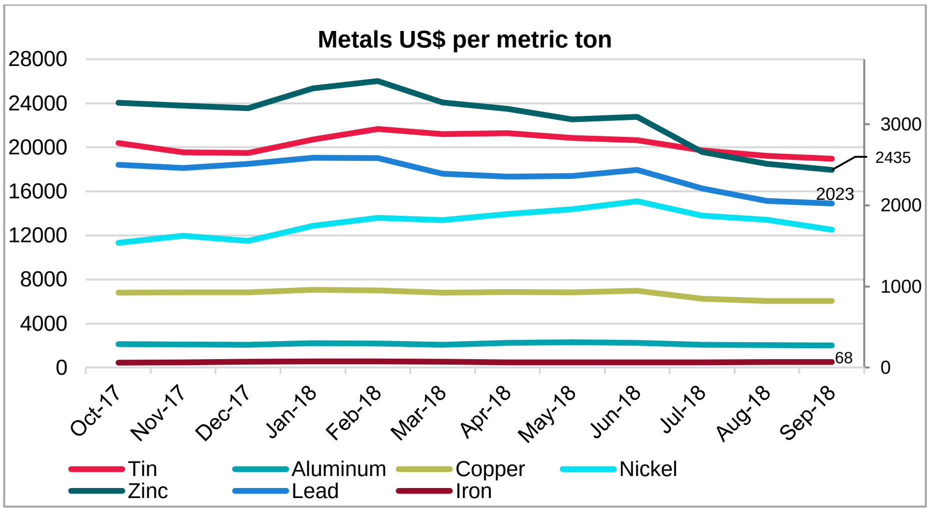
Oil prices are predicted to average US$74 a barrel in 2018 and $75 a barrel in 2019 according to the US Energy administration. Prices hit a four year high of $81.10 in September as OPEC agreed to keep supply steady against possible shortages due to US sanctions against Iran and outages in Venezuela. The biggest factor in oil price fluctuations is the volatility in supply and the strong USD.

Rubber



Rubber prices have remained volatile through Q3 but ae expected to pick up in November. Crude oil and synthetic rubber price fluctuations, along with the US and China trade crisis have impacted prices of natural rubber. As the largest global consumer of natural rubber, China will be hardest hit by these rubber price fluctuations.

Metals



Metal prices were pushed down over Q3 and into Q4 due to softer demand from China and slower output predicted through the Winter season. Prices have held up due to strong supply of inventories but could be impacted by the US/China trade war. While year-to-date averages remain above 2017 levels, concerns over global economic growth is expected to drive continued volatility in metals into 2019.

Cotton

Cotton prices were impacted on the one hand by supply side issues in the US and by the US China tariff war. Prices, output and production remained relatively stable despite the trade friction, but the full impact may yet come to bear in 2019 as tariffs are fully implemented. Chinese mills have adopted a “wait and see” approach regarding tariffs and the risk is that China may turn to other sources of supply which could create more complexity in cotton supply chains.

Recent Price Data

cents/lb	Latest Value (Oct 11)	Latest Month (Sep)	Last 12 Months (Oct17-Sep
NY Nearby	76.8	80.8	80.6
A Index	86.2	90.4	90.1
CC Index	105.2	108.3	110.9
Indian Spot	80.2	83.6	81.4
Pakistani Spot	78.4	80.0	78.9

World Cotton Production

million 480 lb. bales		2018/19	
	2017/18	Sep	Oct
India	29.0	28.7	28.7
China	27.5	27.5	27.5
United States	20.9	19.7	19.8
Brazil	9.2	10.0	10.0
Pakistan	8.2	8.5	8.5
Rest of World	28.7	27.6	27.2
World	123.5	122.0	121.7

World Cotton Exports

million 480 lb. bales		2018/19	
	2017/18	Sep	Oct
United States	15.8	15.7	15.5
Brazil	4.2	5.5	5.4
India	5.2	4.4	4.4
Australia	3.9	3.9	3.6
Burkina	1.3	1.4	1.4
Rest of World	10.4	10.9	11.2
World	40.7	41.8	41.5

World Cotton Imports

million 480 lb. bales		2018/19	
	2017/18	Sep	Oct
Bangladesh	7.6	8.1	8.1
Vietnam	6.9	7.7	7.7
China	5.7	7.0	7.0
Indonesia	3.5	3.8	3.8
Turkey	4.0	3.5	3.1
Rest of World	13.3	11.7	11.8
World	41.0	41.8	41.4

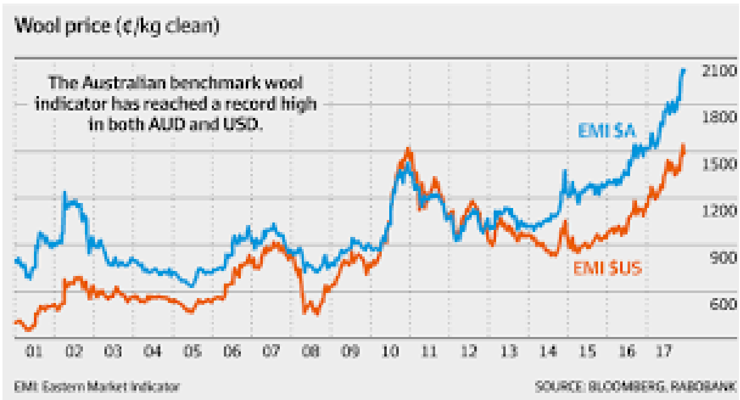
Sources: **Cotton Inc. and National Cotton Council**

Wool

Demand for wool continues to increase, with China as a key driver, absorbing over half of the world’s supply, increasingly for use in luxury and Athletic wool products.

Australia, as the largest producer is the main determiner for prices. Prices fell slightly into Q4, despite lower levels of supply due to drought conditions in Australia, but also due to lower seasonal demand.

Major export destinations for wool include China (majority), the Czech Republic, Italy and India.

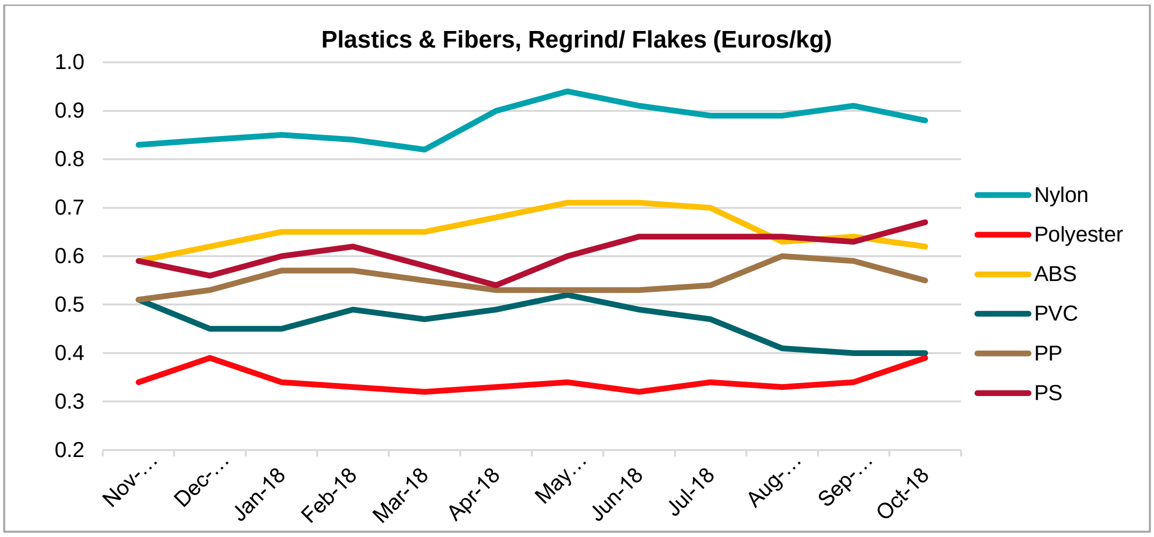


Source: **Wool.com, News Reports**

Plastics and Fibers

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

Q4 2018 Snapshot: Synthetic fibers continued to climb overall on strong consumer demand and tighter raw material supply. Prices are up in the range of 10% so far this year, following a 13% price increase in 2017. Concern over the US/China trade war has helped stimulate demand for synthetic fibers, fabrics and finished soft goods. Stronger oil prices have also supported price increases by synthetic fiber suppliers.

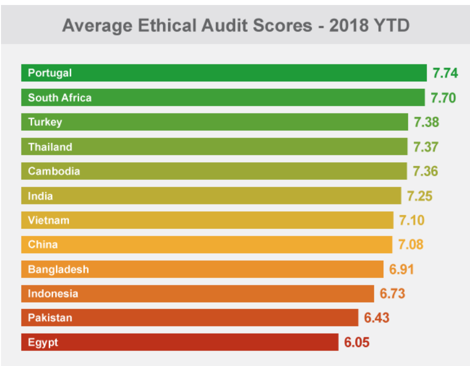


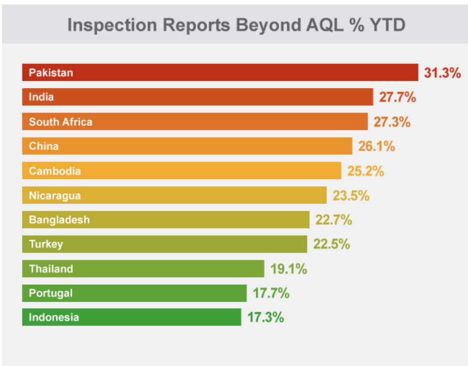
Sources: **IMF data, Index Mundi Plasticker**

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, inspection volumes are increasing as importers prepare for the holiday season. China's demand for inspections increased by 7.5% year-to-date in 2018. Indicators also show that worker safety and ethical compliance continue to be an issue as companies show signs of complacency.





From Flat World to Bubble World

It was only 2005 when Thomas Friedman wrote the "The World is Flat" which described a global economy, enabled by technology, outsourcing and global supply chains, to transcend international borders and flatten the market for emerging economies to play on the same field as industrialized nations.

For a while it looked like this world was taking shape as innovation, production, raw material sourcing and customer support could be spread around the globe in a win-win for all. Now, as two great industrialized countries, the United States and the United Kingdom feel the threat of those emerging economies, it looks like this flat world is reverting to the isolationist world of a 100 years ago.

Isolationism: Trump and Brexit

Two signs of this shift to a world that looks more like a bubble are Trump-led isolationism and the UK's Brexit movement. Both policies are outwardly driven by a nationalistic desire to protect their country's economic, social and political interests, but the inward motivation seems to be fear of the emerging economies that stand to benefit from a flat world.

American isolationism was strong in the 1920's where following WWI the US decided to focus internally, avoiding trade agreements and conflicts and focus on their own interests. At the same time, the UK was trying to hold on to an Empire that ironically was established through colonization, a less subtle form of global trade. Ultimately both the US and the UK were pulled into a global conflict that reshaped the global order. The British saw their empire disintegrate and the United States took on the role of global leader.

Since taking office, Trump has exited the US from key international trade agreements such as the Transpacific Trade Agreement and the North American Free Trade Agreement and used tariffs as a bargaining tool to create new agreements that favor the US. This strategy has put the US at odds with key trading partners such as Canada, China and the EU.

Similar forces that led to a Trump presidency, fear of emerging economies, immigration and a flatter world, drove the UK's Brexit initiative. After a referendum that divided the UK, Brexit is set to take place officially on March 29, 2019. So far, the process is not going smoothly as the complexity of leaving a single market brings on all kinds of logistical issues, including having to renegotiate numerous trade agreements.

In the short term it looks like the US is benefitting as stock markets make gains, oil prices climb, the dollar is king, and the American economy roars along. But many observers see a less rosy long-term outlook for the US with more red tape, more negotiations, more walls. How the UK's Brexit will fair is still up in the air.

A New World Order

Bubbles look good until they pop. Ultimately global trade helps emerging economies grow into industrialized nations and as a recent Mckinsey Global Report observed, this is happening at an accelerated pace. The isolationist policies of the US and the UK are not going to stop this momentum and in the long term are more likely to shift the global trade balance in China's favor.

Mckinsey estimates that trade between China and other emerging economies has risen 11-fold since 1995, while trade among other emerging economies has risen 6-fold. As China developed, it has given up share of labor-intensive manufacturing to other emerging economies such as Vietnam, Bangladesh and others, making them key trading partners. These factors, along with massive Chinese investment through the *One Belt, One Road* Initiative are putting China at the center of a new global trade order that threaten to leave the US and the UK further behind.

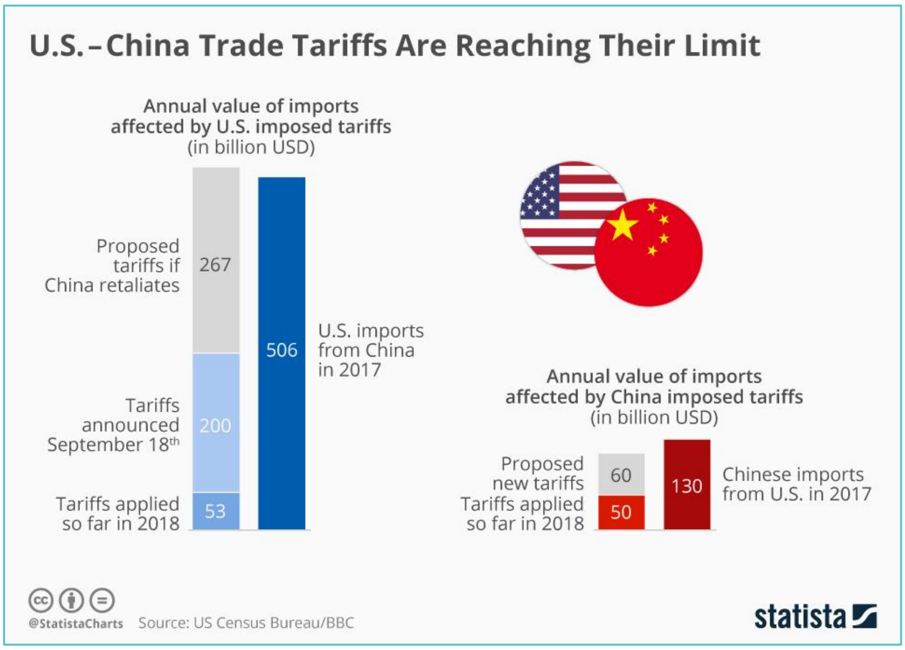
US/China Tariff War Update

The US/China tariff war, which shows no sign of cooling off, is an ongoing issue impacting global trade flows, commodity prices and ultimately the price of consumer goods. President Trump continues to use the threat of tariffs as a negotiating tool with trade partners relatively successfully. Recently he used tariff threats to renegotiate the NAFTA agreement with Canada and Mexico into a new deal which he believes is more favorable to the US. He is using the same tactics with China, but so far it has only escalated tension.

The Impact

The latest round of tariffs of $200 billion on Chinese goods, announced in September pressured China to responds with their own additional tariffs on another $60 billion of US goods. Some pundits suggest that China is already feeling the impact in their fourth quarter. China reported slowing economic growth of 6.5% in their third quarter, lower than the expected 6.7%. However some of this slowdown is due to domestic factors and may be more of a managed slowdown after a long run of manufacturing led growth.

Other countries such as India are working to fill the void, offering 180 products, which could replace $10 billion of Chinese imports to the US. At the same time, Trump warned India that they will also need to lower or eliminate threatened tariffs on US imports.



American importers may receive an exemption for tariffs on imported steel and aluminum but will not be able to avoid tariffs on food seasonings, hats, furniture, electronics and machine parts. This leaves US importers unhappy since most of their supply comes from China.

American Business groups report that Chinese regulators are also disrupting their operations by slowing customs clearance and adding inspections on imported goods. Small and medium size American businesses are particularly vulnerable to rate increases of 25%.

Trump has now threatened to add $267 billion of Chinese imports onto the tariff list, covering everything China sells to the US. Additional tariffs will impact consumer electronic goods such as Apple products made in China as well as the automotive sector, which will certainly be felt by the American consumer. China could also face millions of job losses because of a sudden impact to their manufacturing sector.

Resolution?

China has offered to narrow their trade surplus with the US by purchasing more US imports such as natural gas but are not willing to alter state-led development plans concerning technology which the US sees as a threat to American security and intellectual property. The US also would like more direct access to the Chinese market which it protects under its status as a developing country. Trump is betting on China making concessions, which is has until January to do, but so far this strategy looks like a high stakes gamble for the United States.

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

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