Retail Sourcing Report

Facts & Insight

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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 and supply chain 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.

Q3 2019 News & Analysis:

The rate of global economic expansion fell in September alongside a downturn in international trade which is expected to continue into the new year despite the approaching pre-Christmas and Chinese New Year season. Manufacturing productivity in Europe declined with German contracting for the first time since 2013, due to decreased demand and a decline in export orders – also uncertainty over global manufacturing and the Brexit resolution. Brazil was one of the few exceptions to see robust growth through Q3, most likely due to domestic and near sourcing demand. China and Vietnam saw growth well below historical levels.

Country	Jul 2019	Aug 2019	Sep 2019	Summary of Indicators
Brazil	49.9	52.5	53.4	Brazilian manufacturing continued a strong run through Q3 with growth in new orders and output, as factories ramped up production with continued confidence.
China	49.9	50.4	51.4	Chinese manufacturing saw modest growth in September on stronger domestic demand, with expansion in new orders and production despite weaker exports.
Columbia	51.5	50.3	50.9	Conditions in Columbia's manufacturing sector improved from Q2 to Q3 on new orders and stronger business confidence, signaling overall growth for 2019.
Czech Republic	43.1	44.9	44.9	Operating conditions continued to soften in the Czech Republic through Q3 with reductions in new business and exports causing a contraction in production.
India	52.5	51.4	51.4	While Indian manufacturing grew overall through Q3, forward looking indicators suggest a lack of confidence for the remainder of 2019 and in the coming year.
Indonesia	49.6	49.0	49.1	Indonesian manufacturing closed Q3 on a weak note as weak domestic and foreign demand slowed production, leading to reductions in purchasing and staffing.
Malaysia	47.6	47.4	47.9	Despite a mood of confidence, Malaysian manufacturing faced ongoing challenges through Q3 as trade wars and a global economic slowdown impacted activity.
Mexico	49.8	49.0	49.1	Facing challenging economic conditions, manufacturing in Mexico continued to weaken through Q3 with companies scaling down output and reducing headcount.
Myanmar	52.9	52.0	52.0	Manufacturers in Myanmar saw modest growth through Q3 as prices eased and output and new orders grew, despite fears over the impact of a global slowdown.
Poland	47.4	48.8	47.8	New orders in Poland's manufacturing sector fell at the fastest rate in 10 years, continuing a period of downturn led by weak domestic and foreign demand.
Russia	49.3	49.1	46.3	Russia saw strong decline in their manufacturing sector through Q3 with declines in new business and export weakness fueling low business confidence for Q4.
South Africa	48.4	49.7	49.2	South Africa's private sector saw a further deterioration in September with declines in output and new orders, especially for exports, leading to declines in output prices.
South Korea	47.3	49.0	48.0	A subdued outlook and weaker domestic and foreign demand continued to impact South Korea's manufacturing economy, with ongoing challenges forecasted.
Turkey	46.7	48.0	50.0	Turkey experienced a modest increase in new orders in late Q3, mostly from domestic demand, fueling business confidence for the remainder of 2019.
Vietnam	52.6	51.4	50.5	Vietnamese manufacturing continued to slow own in late Q3 with fewer new orders and reduced production and hiring attributed to a global economic slowdown.

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 saw an increase in apparel production orders from US retailers as companies look to avoid higher tariffs on Chinese goods. Despite recent wage increases, wages are still unsustainable.

Cambodia – P.M. Hun Sen cracked down harder on his main rival, the National Rescue Party (CNRP), an advocate for workers, after the CNRP's leader-in-exile, Sam Rainsy planned his return in November.

India – India formed closer ties to Indonesia, targeting to double trade to $50 billion by 2025 after political relations with Malaysia deteriorated, leading to tariffs on Malaysia Palm oil exports of US $2 billion/year.

Indonesia – Indonesia and South Korea have reached a preliminary agreement, eliminating tariffs on over 90% of products, which is expected to boost trade between the two by 50% by 2020, from $20 billion in 2018.

Pakistan – Following a trade deal with Egypt, China agreed to implement the second phase of a Free Trade agreement with Pakistan which would see the two cooperate more closely both economically and politically.

Philippines – The World Bank reported that the Philippines GDP will likely hit 5.8% in 2019, lower than the 7% target, due to weaker global and domestic demand as US-China tensions led to declines in exports.

Thailand – Seeking to diversify its reliance on China, Thailand resumed free trade talks with the EU, which had stalled in 2013 under a previous government. The ASEAN region is the EU's third largest trading partner.

Turkey – After giving permission for Turkey to move troops into Syria, President Trump then raised tariffs on Turkish steel imports by 50% and halted trade negotiations, threatening to "obliterate" Turkey's economy.

Vietnam – Vietnam's GDP is expected to grow by 6.4% to 6.8% in 2019, the high end of growth targets, partly due to businesses shifting sourcing and supply chains from China to counter higher tariffs.

Exports (% yoy growth)	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019
Bangladesh	2.2	8.0	10.1	9.4	2.7	14.8	-
Cambodia	-2.4	-10.6	-	-	-	-	-
India	0.3	3.7	2.4	11.0	0.5	3.9	-
Indonesia	-3.9	-4.4	-11.2	-9.0	-9.5	-8.5	-9.0
Pakistan	5.5	4.0	-0.4	-11.1	-1.6	-1.7	-
Philippines	-12.2	-6.7	-0.1	-1.8	1.0	1.0	-
Thailand	-1.7	-5.9	5.4	-5.3	-2.8	-6.2	-2.1
Turkey	-0.1	6.0	3.2	-0.6	4.5	12.1	-
Vietnam	13.3	8.9	4.2	5.3	6.5	7.1	7.2
Imports (% yoy growth)	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019
Bangladesh	9.2	9.7	-5.8	11.0	4.8	-	-
Cambodia	47.1	45.5	-	-	-	-	-
India	-2.4	0.0	-5.4	1.4	3.6	4.3	-
Indonesia	1.7	-2.1	-13.8	-7.0	-4.7	-17.3	2.8
Pakistan	-8.9	-19.1	-12.3	-20.9	-6.4	-12.8	
Philippines	-4.9	3.6	2.6	7.8	-1.9	-5.4	-
Thailand	-8.1	14.0	-10.0	-7.6	-0.7	-0.7	-9.4
Turkey	-28.3	-27.2	-16.9	-17.8	-15.1	-19.3	
Vietnam	11.2	5.4	5.8	8.0	10.9	10.6	8.9

Sources: **News Reports**, **Fung Group, Various Statistical Bureaus**

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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 August 2019.

Global Competitiveness Index: Selected Indicators, 2018-2018 (Ranking of 140 countries)

Rank/141	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
Overall competitiveness	105(↓2)	106(↑4)	28(-)	68(↓10)	50(↓5)	110(↓3)	64(↓8)	40(↓2)	61(-)	67(↑10)
Institutions	109(↓1)	123 (↑3)	58(↑7)	59(↓12)	51(↓3)	107(↑2)	87(↑14)	67(↓7)	71(-)	89(↑5)
Intellectual property protection	125(↓6)	112(↑11)	53(↓4)	57(↓12)	51(↓7)	78(↑5)	55(↓3)	99(-)	87(↑7)	105(-)
Burden of government regulation	84(↓15)	66(↓5)	19(↓1)	26(↓10)	29(↓3)	46(-)	103(↓12)	50(↑8)	60(↑14)	79(↑17)
Infrastructure	114(↓5)	106(↑6)	36(↓7)	70(↓7)	72(↓1)	105(↓12)	96(↓4)	71(↓11)	49(↑1)	77(↓2)
Quality of roads	108(↑3)	97(↑3)	45(↓3)	48(↑3)	60(↑15)	67(↑2)	88(-)	55(-)	31(↑2)	103(↑6)
Quality of railroad	40(-)	78(-)	61(↓3)	39(↓1)	85(↓3)	54(↓2)	91(↓4)	55(↓1)	52(↓1)	58(↓1)
Quality of port	92(↑1)	91(↓5)	52(↓4)	49(↓9)	61(-)	70(↓1)	88(↓4)	73(↓5)	44(↑6)	83(↓5)
Quality of air transport	109(-)	113(↑1)	66(↓3)	59(↓6)	56(↓7)	93(↓4)	96(↓4)	48(-)	31(↑4)	103(↓2)
Macroeconomic environment	95(↓7)	75(↓1)	39(-)	43(↑6)	54(↓3)	116(↓13)	55(↓12)	43(↑5)	129(↓13)	64(-)
Health & primary education	93(↑3)	105(↓1)	40(↑4)	110(↓2)	96(↓1)	115(↓6)	102(↓1)	38(↑4)	42(↑6)	71(↓3)
Higher education & training	117(↓1)	120(↑1)	64(↓1)	107(↓11)	65(↓3)	125(-)	67(-)	73(↓7)	78(↓1)	93(↑4)
Goods market efficiency	119(↑4)	113(↑1)	54(↑1)	101(↑9)	49(↑2)	126(↓4)	52(↑8)	84(↑8)	78(↓2)	79(↑23)
Prevalence of trade barriers	75(↓39)	73(↑11)	60(↓3)	66(↓13)	80(↓7)	115(↓5)	51(↓9)	71(↓10)	79(↓17)	121(↑3)
Trade tariffs, %duty	130(↓2)	100(↓2)	123(↑1)	134(↓1)	73(↑4)	139(↓1)	52(↑3)	92(-)	75(↓3)	96(↓3)
Labor market efficiency	121(↓6)	65(-)	72(↓3)	103(↓28)	85(↓3)	120(↑1)	39(↓3)	46(↓2)	109(↑2)	83(↑7)
Cooperation in labor-employer relations	99(↓12)	80(↓20)	55(↓3)	65(↓20)	67(↓17)	103(↑5)	15(↑9)	37(↓2)	118(↓5)	82(↑10)
Flexibility of wage determination	89(↓8)	114(↓5)	100(↓2)	88(↑7)	81(↓10)	122(↑1)	51(↓6)	116(↓5)	46(↓11)	74(↑15)
Pay and productivity	80(↓2)	55(-)	27(-)	64(↓41)	28(↓10)	63(↓2)	13(↓3)	30(↑6)	96(↓1)	56(↑10)
State of cluster development	84(↓21)	64(↓19)	26(↑3)	38(↓12)	27(↑1)	57(↓3)	63(↓14)	47(↑8)	67(↑13)	44(↑33)

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

China Wage Trend Snapshot

Q4 2019 News & Analysis:
The trade war with the US continues to impact the broader Chinese economy and wages specifically. According to survey reports many companies have kept wages flat and are avoiding overtime and holiday work which are important pay supplements. One survey reported that over 40% of companies in and around Shanghai are cutting back on hiring while others are reducing their work week from 6 to 5 days. Certain provinces and regions, mostly in Western China or poorer regions, which have not raised wages in several years, made official changes for Q4, including Guizhou (+6.6%) and Hebei (+14.8%).

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of October 1, 2019. 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.

2019 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, 2018
Beijing	2,200	3.8%	Jul 1, 2019
Fujian	1,700	13.3%	Jul 1, 2017
Chongqing	1,700	20.0%	Jan 1, 2019
Gansu	1,620	10.2%	Jun 1, 2017
Guangxi	1,680	16.7%	Feb 1, 2018
Guangdong	2,100	12.3%	Jul 1, 2018
Guizhou	1,680	6.6%	Dec 1, 2019
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	1,740	14.8%	Nov 1, 2019
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	1,800	7.0%	May 1, 2019
Shandong	1,910	6.7%	Jun 1, 2018
Shanghai	2,480	2.5%	Apr 1, 2019
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 2019 News & Analysis: Low-Cost Sourcing countries which announced minimum wage increases in Q4 include Cambodia which saw a modest +4.4% increase and India which saw a mandatory 178 rupee ($2.50/day minimum) designed to improve compliance in a country where 700 rupees/day is considered a living wage. Ethiopia still has the lowest paid workers in the garment industry at $26/month in a country where the monthly living cost is estimated to be $110. Chinese manufacturers and brands including H&M, GAP and PVH have set up shop in Ethiopia to take advantage of low wages.

Note: Figures are provided in USD/month based on currency exchange as of October 1, 2019. 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)	$190 (Jan 1, 2020)	$137-$639 (April 2018)	$116 (April 2019)	$26 (Jan 2015)
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 announced and increase to their minimum from US$182, to $190 a 4.4% increase, which will take effect from January 1, 2020. Political and labour tension continues as opposition push for more rights and pay.	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 raised the country's minimum age to 2000 Egyptian pounds ($116) from 1200 pounds, applying to all workers, with higher increases going to private sector workers. This increase came ahead of a June 30 target date.	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. The base min wage is officially $18.

INDIA	INDONESIA	LAO PDR	MALAYSIA	MYANMAR
$40-$208 (Oct 2019)	$115-$273 (Jan 2019)	$108 (May 2018)	$263 (Jan 2019)	$108 (Mar 2018)
Indian min. wages vary by region and skill level. The Indian labor ministry announced a mandatory 178 Rupee/day wage and made changes to cover wages for "gig" economy workers	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.	Malaysia implemented a nationwide minimum wage of RM 1,100 as of January 2019. Wages vary by region and are supposed to be reviewed every 2 years. The new directive is being enforced widely.	Myanmar revised its minimum wage from K600 ($2.70) per day to K4,800 (3.60) or K600/ hour for an eight-hour workday. This is 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)	$381 (Jan 2019)	$125-180 (Jan 1/19)
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 is in the process of updating their minimum wage from a current minimum of 308 – 330 Baht per day to a proposed 400 Baht per day. Most businesses are opposed to this higher wage as being too high.	Turkey announced a minimum wage increase of 26% for 2019 to 2,020 Lira per month. The hike was due to high inflation which has caused havoc on the Turkish economy in the past year. The economy grew by only 1.6% yoy in 2018.	Vietnam announced they will increase their minimum wage by 5.3% in 2019. This increase was relatively lower than the 2018 increase of 6.5%. Wages range from $125-$180 / month across 4 key regions in Vietnam.

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

Container Freight Rates for Major Routes

Q3 2019 News and Analysis:

Container shipping rates on key Asia to Europe and Asia to North America trade lanes continued to feel the impact of the ongoing US/China trade war, the looming BREXIT issue and slowing global economy. Carriers face cost pressures from the switch to low sulfur fuel which adds almost $100 more per container Capacity reductions on all routes have kept prices relatively stable. The holiday season and pre-Chinese New Year shipment push is expected to boost prices and tighten capacity through Q4 and into Q1 2019. Despite trade weakness, carriers are still investing in mega-container ships. For example Mediterranean Shipping recently agreed to purchase five giant ships form Korean shipbuilder Daewoo at a cost of $762 million. When fully loaded, these larger ships use a quarter the amount of fuel per container than smaller vessels.

Asia - Europe Trade Lanes

Carriers on Asia-North Europe trade lanes saw spot rates hit year-on-year lows despite capacity cuts. At the same time they prepared for increased costs from a switch to low sulfur fuel. According to Drewry, a maritime consultant, shipping volumes grew by close to 6% year-on-year in the first 3 quarters of 2019 and utilization of ships increase from the around 60 to 80%, but rates remained low.

The outlook for global demand remains weak through Q4 and into 2020. With added cost pressures the near future does not bode well for profitability on Asia-North Europe lanes. Carriers will have to increase rates though to account for the almost double price of low-sulfur fuel.

Asia – North America Trade Lanes

Spot rates on Asia-North America trade lanes increased slightly in early Q4 following China's Golden Week factory closures and tighter capacity. Further increases are not expected as demand for US imports is expected to remain flat in the near term compared to other years when last minute orders put pressure on capacity.

Container imports from China for September dropped significantly by 9.3% relatively to September 2018. US imports from China were down by 5% for the January to September period according to PIERS data.

The US/China trade war continues to impact China's exports negatively. It is expected that volumes will increase in November as shippers try beat the December 15th round of tariffs.
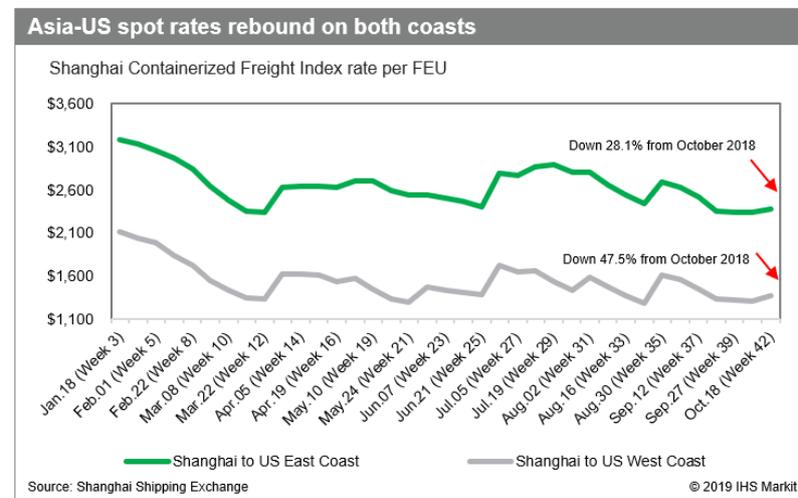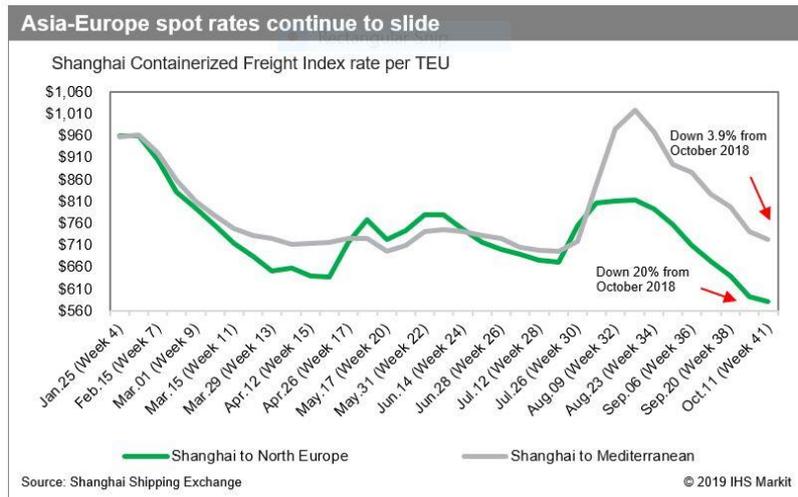
Sources: **IHS Markit, Joc.com Alphaliner, SeaIntel**

Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. Key trading and reserve currencies, the USD, the Euro and the Chinese Yuan continued along the same trend into Q4 as the rest of 2019, with the USD holding strong, the Chinese currency depreciating and the Euro depreciating moderately against the USD. Concerns are that the US is headed towards a slowdown similar to Europe and China. While the EU is concerned that gains in the EUR will hurt European exports, the Chinese believe their currency is at an appropriate level based on market forces and is likely to trade in the same range (7:1) into 2020.

EUR / USD (Sep 2018 – Oct 2019)

The EUR continued to slide against the USD through Q3, reaching a 2-year low, bring the two currencies close to par. The European economy continues to falter with the threat of a US tariff war likely to impact the Euro even further.

EUR/USD	Low	High
2 year	1.08	1.25
1 year	1.08	1.15
1 month	1.08	1.11

EUR / CNY (Sep 2018 – Oct 2019)

The EUR made some gains against the CNY as the Chinese currency depreciated further against the USD. Further gains in the dollar will the Euro currency become more expensive, potentially hurting European exports and putting more pressure on the European economy.

EUR/CNY	Low	High
2 year	7.40	8.07
1 year	7.49	7.98
1 month	7.77	7.91

USD / CNY (Sep 2018 – Oct 2019)

The Chinese Yuan depreciated further against the USD through Q3, going beyond the 7 yuan point for the first time in a while. Beijing is unlikely to allow much further depreciation given the impact this will have on their trading relationships, pushing the US and the EU to join forces.
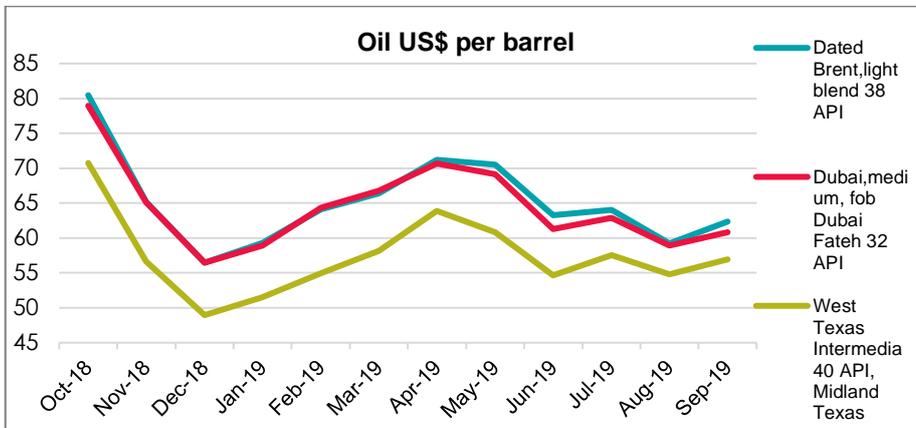
USD/CNY	Low	High
2 year	6.26	7.17
1 year	6.68	7.17
1 month	7.05	7.15

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

Global Commodity Rates

Q4 2019 News & Analysis: The US/China trade war continued to impact production inputs with commodity prices including oil, rubber and metals falling through Q3 and into Q4. China, as the biggest purchaser of most global commodities, especially industrial commodities such as metals and oil, is buying and producing les, which is being felt across commodity markets. Some optimism is apparent in the market as the US and China seemed closer to a tentative deal, however political turmoil in the US is impeding a swift resolution. Commodity markets should see ongoing fluctuations through 2020 as geopolitical issues play out.

Crude Oil

Oil US$ per barrel

Legend: Dated Brent, light blend 38 API; Dubai, medium, fob Dubai Fateh 32 API; West Texas Intermedia 40 API, Midland Texas

Oil prices fluctuated through Q3, entering Q4 with some gains on the hope that the US and China will resolve some of their trade issues. Concerns over global economic growth continue to depress oil prices though. News that OPEC and allied producers will continue to curb supplies also led to some optimism for prices gaining in Q4. Geopolitical and trade war issues will continue to drive unpredictability in oil prices into 2020.

Rubber

Rubber, No. 3 Smoked Sheet (RSS3), Singapore Exchange Price in US cents per kilogram
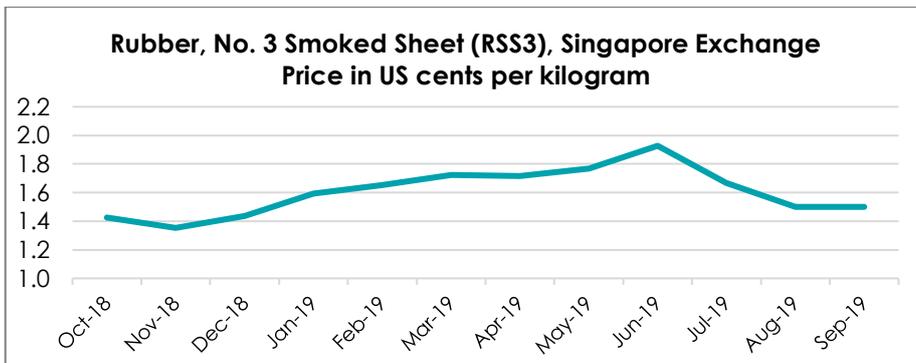
Rubber prices which have been on the decline since Q2 due to falling demand, fell further in Q3 and Q4 after China's largest rubber trader ceased trading. Thailand, which produces 40% of the world's natural rubber, was hit by a rubber fungal disease which will impact output. The potential shortage of output should keep prices from sliding further in Q4.

Metals

Metals US$ per metric ton

Legend: Tin, Aluminum, Copper, Nickel, Zinc, Lead, Iron
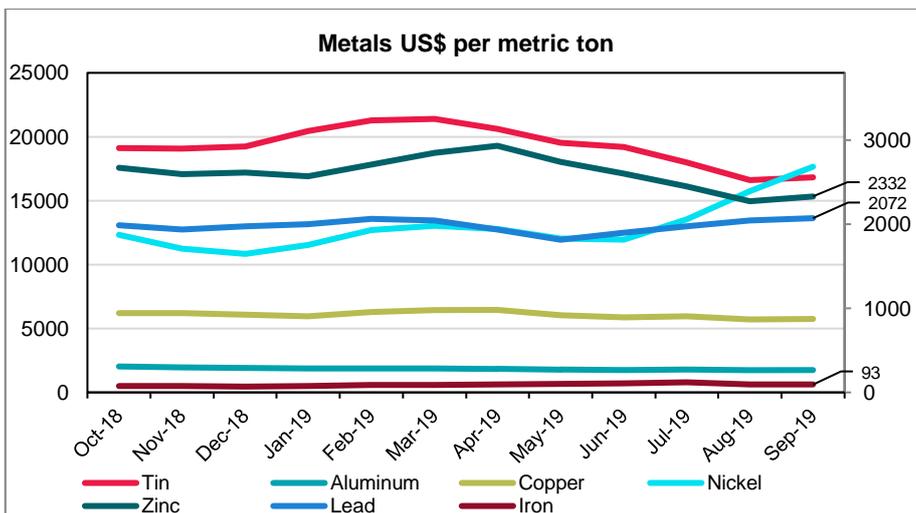
Despite the escalation of the ongoing trade wars, base metals increased marginally through Q3, by around 2%. Iron, aluminum, tin and zinc also trended down through Q3. Nickel prices were an exception, increasing by 36% over Q3 due to an export ban in Indonesia limiting supply. A glimpse of hope appeared for Q4 as China and the US appeared ready for a partial agreement, but overall the sentiment is the global economy will continue to slow.

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Cotton

On the plus side for cotton prices and demand, the Chinese reached their goal of reducing reserves by one million bales which in theory should mean that China will be importing larger quantities of cotton. There is still uncertainty though as to how much China will be importing. Production levels are expected to be high which could mean a supply glut. Overall the forecast is for lower cotton demand into 2020 and increased competition which should keep prices lower. The US/China trade has not impact apparel exports from China significantly so far.

Recent Price Data

cents/lb	Latest Value (Oct 10)	Latest Month (Sep)	Last 12 Months (Oct18-Sep19)
NY Nearby	61.4	59.6	70.5
A Index	72.5	71.3	80.8
CC Index	80.6	82.9	98.8
Indian Spot	74.8	74.9	79.9
Pakistani Spot	68.3	65.0	72.6

World Cotton Production

million 480 lb. bales	2018/19	2019/20 Sep	2019/20 Oct
India	26.5	29.5	30.5
China	27.8	27.8	27.8
United States	18.4	21.9	21.7
Brazil	12.8	12.0	11.6
Pakistan	7.6	8.0	7.6
Rest of World	26.0	25.8	25.6
World	119.0	124.9	124.8

World Cotton Exports

million 480 lb. bales	2018/19	2019/20 Sep	2019/20 Oct
United States	14.8	16.5	16.5
Brazil	6.0	8.5	8.3
India	3.5	4.0	4.0
Australia	3.6	1.9	1.7
Greece	1.4	1.3	1.4
Rest of World	12.0	11.1	11.1
World	41.2	43.3	42.9

World Cotton Imports

million 480 lb. bales	2018/19	2019/20 Sep	2019/20 Oct
China	9.6	10.0	9.5
Vietnam	6.9	7.6	7.5
Bangladesh	7.2	7.3	7.3
Indonesia	3.1	3.3	3.3
Turkey	3.5	3.1	3.2
Rest of World	12.1	12.0	12.1
World	42.4	43.3	42.9

Source: **Cotton Inc, News Reports**

Wool

Figure 1. EMI and WMI

Source: AWEX

mecardo

Wool prices, which are currently in a downcycle, entered Q4 slightly higher as the US/China trade war and the Brexit issue appeared closer to some form of resolution.

Despite lower prices, which is the case for all apparel fibers, retail sales in China, one of the biggest wool buyers and consumers, were positive.

Plastics and Synthetic 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 2019 Snapshot: Consistent with most apparel fibers, synthetic fibers such as polyester are trading in the bottom range of a five-year period, close to price lows seen in November 2015. Demand for polyester, acrylic, nylon, viscose and other synthetic fibers was down through Q2 and Q3, presumably due to uncertainty over trade conflicts and a slowing global economy.
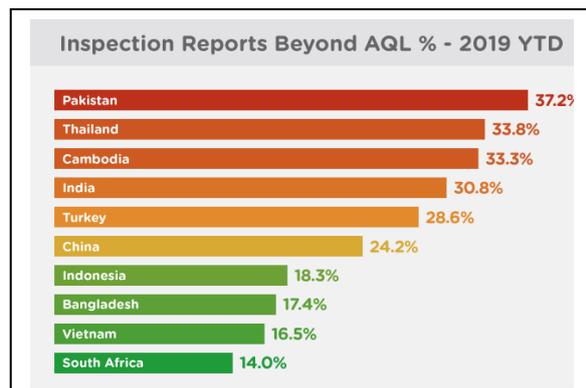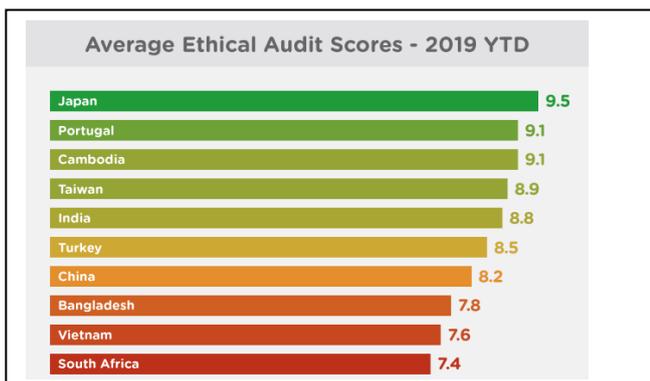

Plastics & Fibers, Regrind/ Flakes (Euros/kg)
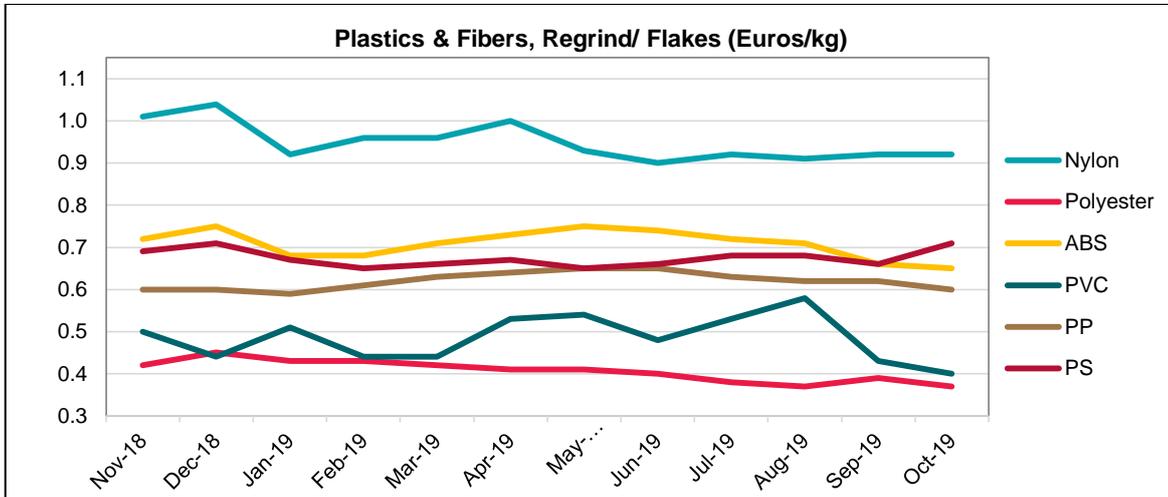
Sources: **IMF data, Plasticker, YarnsandFibers.com**

Focus Topics

Quality Control Indicators

This report frequently covers quality control and quality assurance issues. Audit and inspection data provide an indicator of activity and trends in various sourcing regions. According to data from Quality Inspection provider QIMA, demand for inspections indicates that for the US and Europe there is a shift away from China to countries closer to home (for the US) such as Mexico, Guatemala, Haiti and other Latin American countries which saw double digit growth in inspections. US and EU buyers are also looking to North Africa and the Middle East including Turkey, Egypt and Jordan which saw sharp increases in inspection demand. At the same time, Asian, Middle Eastern and Latin American companies are increasing their sourcing from China.

Average Ethical Audit Scores - 2019 YTD

Country	Score
Japan	9.5
Portugal	9.1
Cambodia	9.1
Taiwan	8.9
India	8.8
Turkey	8.5
China	8.2
Bangladesh	7.8
Vietnam	7.6
South Africa	7.4

Inspection Reports Beyond AQL % - 2019 YTD

Country	Percentage
Pakistan	37.2%
Thailand	33.8%
Cambodia	33.3%
India	30.8%
Turkey	28.6%
China	24.2%
Indonesia	18.3%
Bangladesh	17.4%
Vietnam	16.5%
South Africa	14.0%

US/EU Tariffs: War on Two Fronts?

The Trump administration will begin charging punitive tariffs of 10% - 25% on $7.5 billion of European goods, a move supported by the World Trade Organization in retaliation for illegal subsidies received by European plan manufacturer Airbus.

Tariffs will be applied to a range of European products including agricultural products, apparel, whiskey and aircraft. Most of the items are imports from France, Germany, Spain and the UK. At the same, The EU is seeking WTO approval to impose tariffs on $20 billion of US exports to Europe.

The ruling by the WTO follows 15 years of litigation arguing that Airbus received unfair subsidies which hurt the American aircraft industry. These tariffs are separate to those imposed by the Trump administration in 2018 on European steel and aluminum, followed by retaliations on US imports of whiskey, motorcycles and orange juice to the EU.

US/China Trade War: Truce or Ruse?

China and the US reached a preliminary deal on certain contentious points in their ongoing trade dispute. Under this deal, to be signed in mid-November, China will spend $50 billion on US farm commodities over the next 12 months and provide full access to their financial services industry, which would allow Visa and MasterCard to enter the Chinese market.

The proposed deal would end the forced technology transfer of foreign companies entering China which has helped China make fast progress in developing their technology. Trump also agreed not to go ahead with increasing tariffs to 30% on around $150 billion of Chinese consumer goods.

The concern is that the Chinese will not stick to the terms of this agreement and will instead wait to see how the pending US election pans out. The Chinese have now called for the lifting of all tariffs, which is unlikely. In the meantime, Chinese exports are down by around 25%, with GDP slowing to 6%, the lowest figure since the 1980's. In the US, retail sales are starting to slow, and the US consumer is feeling the pinch of higher prices.

BREXIT: Is It a Go or No?

BREXIT was supposed to happen in March, then April and now with the new deadline for the UK to leave the EU on October 31, the exit is still up in the air. Prime Minister Boris Johnson's Conservatives hold only 288 of the 650 seats in the UK House of Commons, which means he will face a lot of opposition in pushing his deal through.

With concerns over the chaos a no-deal BREXIT might bring, British lawmakers passed a law forcing the government to request a 3-month deadline if no deal was reached by the October 31 deadline. It's likely that EU members will grant an extension given they also do not want the chaos of a no-deal exit.

Many people are concerned over the impact the BREXIT deal will have on the British economy, with one projection saying the Boris Johnson led deal will cost the UK 6.7% of its GDP or 130 billion pounds by 2034. The UK will also have a limited free trade deal with the EU

Global Free Trade in Flux

While the world has been focused on the US/China Trade War, BREXIT and now US/Europe tensions, several important Trade Deals have been negotiated and concluded around the globe in 2019 and for 2020. These agreements represent a jockeying for position and partnership. Below are some highlights.

Regional Comprehensive Economic Partnership (RCEP) – 2019 pending

We talked about the RCEP in the last issue of the Sourcing Report and the deal continues to progress with China taking the lead, despite human rights and environmental obstacles. The RCEP would see16 Asia-Pacific Countries, comprising a third of global GDP and 3.4 Billion people agree on favorable trade terms.

India-US Trade Deal – 2019 pending

Trump was expected to announce a trade deal with India after meeting with his counterpart, Prime Minister Modi in New York in October, but the two were not able to iron out a deal. The deal, which would see India lowering tariffs on certain goods and the US restoring preferential treatment on Indian Exports, is important for the US, given that India is getting closer to siding with China through the RCEP.

US-Japan Trade Agreement - 2019

The US and Japan signed a partial trade agreement which will take effect on January 1, 2020, covering agriculture and digital services and opening the market for US exports of pork and other agricultural products. The deal is important to the US, which was hit by tariffs on agricultural exports to China. Trump scrapped the CPTPP deal which would have covered Japan, so this deal is a win for him.

EU-Vietnam Trade Agreement - 2019

The European Union has been busy negotiating trade agreements with several countries and regions around the world, including Vietnam. This deal will eliminate 99% of all tariffs, reduce regulatory barrier and open services and public procurement markets. The agreement extends trade preferences granted by the EU to Vietnam, giving free future access to the EU for several products.

EU-Mercosur Free Trade Agreement – 2019

The EU recently signed a trade pact with Argentina, Brazil, Paraguay and Uruguay, covering 780 million people and saving potentially 4 billion Euros of duties between the two. The agreement encourages trade and opens new markets for products on both sides by eliminating prohibitive tariffs.

Don't miss the 12th Annual CBX Global Sourcing Day
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