Q1
2020

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 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.

Q1 2020 News & Analysis:

Global manufacturing remained weak at the end of 2019, signaling a tougher 2020. Growth in production was marginal, with some exceptions such as India, Vietnam and Myanmar. The PMI indicators suggest waning business confidence and consumer spending which led to cutbacks in purchasing of input materials, reductions in inventory and weaker employment. The US manufacturing economy was one exception, growing despite concern over geopolitical tension. While China continued to suffer the effects of the trade war, it had a solid Q4, perhaps due to the pre-Chinese New Year peak period.

Country	Oct 2019	Nov 2019	Dec 2019	Summary of Indicators
Brazil	52.2	52.9	50.2	Brazil's manufacturing economy contracted in late 2019 remaining in growth mode as exports fell and input costs increased even as confidence remained high,
China	51.7	51.8	51.5	China had a strong close in their 2019 manufacturing with increases in new orders and business outlook for 2020 as some of the US/China trade tension eased.
Columbia	51.1	52.9	52.4	Columbia saw softer increases in production through late 2019 due to national strikes and a general slowing in demand and cost pressures and inflation.
Czech Republic	45.0	43.5	43.6	Czech manufacturing continued to deteriorate through Q4 2019 for the 13th straight month with production falling on weak domestic and foreign demand.
India	50.6	51.2	52.7	India saw a strong close to their manufacturing sector in December as export demand grew driving production expansion despite concerns over market conditions in 2020.
Indonesia	47.7	48.2	49.5	Indonesian manufacturing declined marginally through Q4 with production and purchasing recovering on improved business confidence and muted inflation.
Malaysia	49.3	49.5	50.0	Malaysian manufacturing expanded through Q4 as GDP expanded supported by strong demand despite concerns over global economic conditions.
Mexico	50.4	48.0	48.0	Mexico experienced its worst manufacturing quarter in survey history based on weak demand and a resulting drop in production, with business confidence falling.
Myanmar	53.0	52.7	52.0	Myanmar's manufacturing economy remained in positive territory through Q4 2019 and into 2020 on expanding production and new orders driven by export demand.
Poland	45.6	46.7	48.0	Poland's manufacturing sector continued a year-long decline as both new orders and output fell, exports remained weak and manufacturers continue to cut staff.
Russia	47.2	45.6	47.5	Russian manufacturing declined marginally through Q4 on modest demand with the forecast for 2020 remaining muted due to uncertain economic conditions.
South Africa	49.4	48.6	--	South African manufacturing contracted further through Q4 as firms cut output on declines in demand, however sentiment for the coming year remained positive.
South Korea	48.4	49.4	50.1	South Korea had a strong Q4 based on improved demand from Asia and beyond leading to the strongest increase in output and production in a year.
Turkey	49.0	49.5	49.5	While Turkey's PMI remained below 50 in December, signs pointed to a general improvement in manufacturing with increased production and new orders.
Vietnam	50.0	51.0	50.8	Business conditions in Vietnam remained strong through Q4 and into the new year on the strength of new business, with increased input costs passed on to customers.

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 exports dropped by 3% to US$9.65 bln in the first quarter of the 2019-2020 fiscal year, down 11% from export targets due to a slowdown in major economies and fears of recession.

Cambodia – Cambodia's exports to the US grew by 37.6% yoy to US$3.94 bln in the first nine months of 2019 mostly due to growth in knitwear and travel goods which enjoyed had duty free access to the US.

India – India and the US are getting closer to signing a trade deal in 2020. Trump hopes to reduce India's US$31 bln trade surplus with the US by allowing certain US goods to enter India duty free

Indonesia – Indonesia and South Korea concluded negotiations on their IK-CEPA trade agreement which eliminates most tariffs on Indonesian and South Korean imports to each country which should spur trade.

Pakistan – The second phase of the Pakistan-China free trade deal (CPFTA) took effect on January 1, eliminating tariffs on hundreds of products for both countries including textiles, seafood and raw materials.

Philippines – China became the Philippines top trading partner in 2019 with close to $50 bln in trade, including $500 mln in bananas in the first three quarters of the year. China is also investing in infrastructure.

Thailand – The Thai Baht reached a 6 year high against the USD in Q4 2019, making it Asia's second-best performing currency after the Russian Ruble, largely due to a current account surplus of US$ 26.4 billion.

Turkey – The US lifted trade and economic sanctions on Turkey following a ceasefire with the Kurds along the Syrian border. The US aims to increase bilateral trade with Turkey to US $100 billion per year.

Vietnam – Vietnam's exports for the first 10 months of 2019 totaled US$217.05 billion, up 7.4% yoy with growth in spare parts, electronics, apparel and machinery, with the US as the primary export market.

Exports (% yoy growth)	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019
Bangladesh	9.4	2.7	14.8	-5.3	8.6	-11.5	-7.3	-
Cambodia	12.8	19.8	20.4	4.3	-	-	-	-
India	11.0	0.2	3.2	-8.0	2.2	-6.1	-6.6	-
Indonesia	-9.0	-9.5	-8.5	-8.9	-5.1	-10.0	-5.7	-6.1
Pakistan	-11.1	-1.6	-1.7	-8.8	15.7	-7.7	2.7	
Philippines	-1.8	1.0	1.0	3.3	3.5	0.8	-2.6	-
Thailand	-5.3	-2.8	-6.2	-2.1	4.3	-4.0	-1.4	-4.5
Turkey	-0.6	4.4	11.8	-14.4	7.8	1.6	-	-
Vietnam	5.3	6.5	7.1	7.1	7.8	8.1	8.4	8.3
Imports (% yoy growth)	**Mar 2019**	**Apr 2019**	**May 2019**	**Jun 2019**	**Jul 2019**	**Aug 2019**	**Sep 2019**	**Oct 2019**
Bangladesh	11.0	4.8	-8.4	2.4	-0.7	-2.0	-	-
Cambodia	40.6	36.3	29.4	23.4	-	-	-	-
India	1.4	3.8	3.5	-10.0	-10.4	-13.5	-13.9	-
Indonesia	-7.0	-4.7	-17.3	2.0	-15.2	-15.7	-2.4	-16.4
Pakistan	-20.9	-6.4	-12.8	-22.8	-16.4	-26.3	-13.9	-
Philippines	7.8	-1.9	-5.2	-10.4	-4.2	-8.8	-10.5	-
Thailand	-7.6	-0.7	-0.7	-9.4	1.7	-14.6	-4.2	-7.6
Turkey	-17.8	-15.1	-19.2	-22.7	-8.5	1.5	-	-
Vietnam	8.0	10.9	10.4	8.7	8.6	8.0	8.4	7.7

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 August 2019.

Global Competitiveness Index: Selected Indicators, 2018-2019 (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

Q1 2020 News & Analysis:
Provinces and regions which raised their minimum monthly and hourly wage in 2019 included Chongqing, Shaanxi, Shanghai, Beijing, Hebei, Fujian and Qinghai. Hunan, Gansu, Guizhou, Tianjin and Zhejiang are also expected to raise their minimum wage in 2020. Given the US/China trade war and challenges in the Chinese economy, further increases are not expected.

China's per capita GDP reached US$10,000 in 2019, which is strong sign of growing prosperity indicating rising levels of consumption due to higher levels of personal income. The trade war has put a dent in spending though as economic concerns push Chinese consumers to save rather than spend.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of January 1, 2020. 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	1,550	20.6%	Nov 1, 2019
Beijing	2,200	3.8%	Jul 1, 2019
Fujian	1,610	7.4%	Jan 1, 2020
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.

Q1 2020 News & Analysis: Key Asian economies such as Vietnam looked to minimize wage hikes in 2020 to counter to impact of trade wars and maintain a competitive advantage against China. Vietnam has seen wages increase by an average of 10% annually but this has made its garment exports more expensive. For 2020, Vietnam's minimum wage is expected to increase by around 7%. Both Malaysia and Indonesia will see minimum wages increase by 8-10% in 2020 which means wages are edging closer to China. Eastern European countries, including Poland, Lithuania, Hungary and Romania, facing labor shortages, are also aggressively increasing wages.

Note: Figures are provided in USD/month based on currency exchange as of January 1, 2020. 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

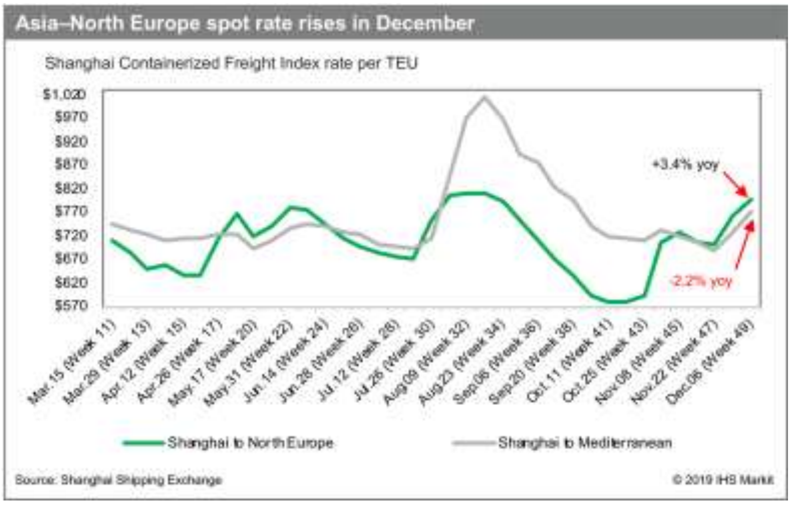
Q1 2020 News and Analysis:

Rates on Asia-US versus Asia-Europe continued to tell a different story as we enter a new year. Prices to transport Eastbound containers through the Pacific to the US continued to slump while prices on Westbound routes from Asia to Europe via the Indian Ocean continued to rise. While prices on the China-North-Europe routes were up 30% year-on-year, prices on China to US West Coast routes were down by 20%. Part of the rate disparity can be explained by the fact that shippers pushed cargo to ship prior to tariff introductions.

Asia - Europe Trade Lanes

Container rates on North-Europe routes continued to increase through 2019 as carriers managed capacity carefully. Major European economies such as Germany the UK and Italy flirted with recession, feeling the impact of Brexit and slower demand. Spot prices increased as carriers took capacity offline to clean out fuel tanks or fit them with scrubbers to meet IMO low-sulfur fuel requirements.

Demand is expected to remain muted through 2020 which should put downward pressure on rates. Carriers such as Maersk lowered their growth forecasts to 1-2% for the coming year. Carriers also expect a significant increase in operating expenses due to mandated low sulfur fuel compliance requirements.

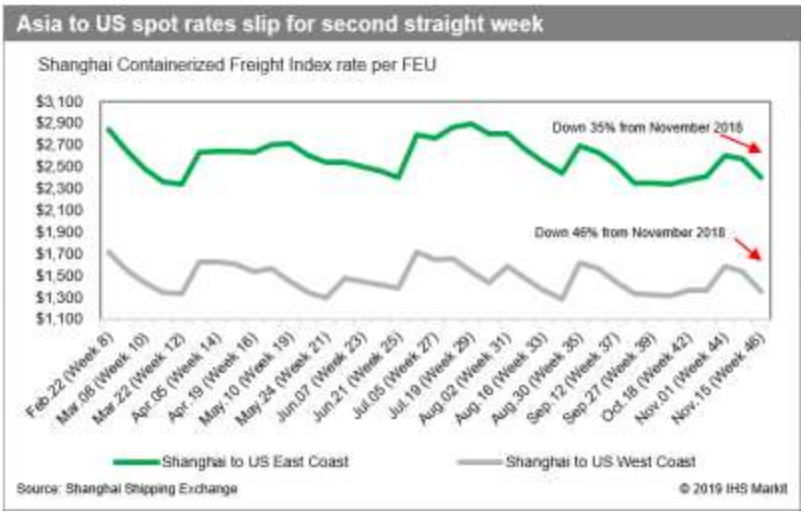


Asia – North America Trade Lanes

Shippers are still figuring out how to deal with the easing in the US-China trade tension which resulted in the suspension of certain tariffs in late 2019. Demand for shipping is reported as weaker than expected for the pre-Chinese New Year shipping season.

For both the the US West and East coasts, rates were down in December with a substantial number of blank sailings expected for after the Chinese New Year.

On the plus side, container freight rates are at the highest level in five years partly due to bunker surcharges, tighter capacity, a pick-up in demand ahead of CNY and also an easing in global trade tension.



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. Most analysts agree that the USD will see a decline in 2020 as global growth concerns and geopolitical tension ease. If the US Federal Reserve maintains or cuts interest rates this could also weaken the USD. The EUR is expected to make gains against the USD and trade in the range of $1.16 from the current $1.10. If the troubled EU economy picks up, this should also push weakness in the USD. The easing of tension between the US and China has brought stability to the Chinese currency, which has made gains against the USD and the EUR, despite Chinese government policy aimed at limiting RMB appreciation.

EUR / USD (Jan 2019 – Jan 2020)

The EUR gained marginally on the USD in the last few months. The forecast for the EUR hinges on the outcome of threatened US tariffs on EU goods and on how Brexit plays out. If the EU economy continues to stagnate the EU will likely bring in stimulus measures.

EUR/USD	Low	High
2 year	1.08	1.25
1 year	1.08	1.15
1 month	1.10	1.12

EUR / CNY (Jan 2019 – Jan 2020)

The CNY appreciated marginally against the EUR in the past quarter, with indicators suggesting the Chinese currency will continue to strengthen through 2020 despite government policy aimed at keeping the CNY undervalued.

EUR/CNY	Low	High
2 year	7.40	8.07
1 year	7.49	7.98
1 month	7.74	7.84

USD / CNY (Jan 2019 – Jan 2020)

The Chinese Yuan appreciated moderately against the USD in Q4 and into Q1 2020. Indicators suggest that with trade tension between China and the US easing, the Chinese Yuan will continue to appreciate through 2020 as the USD gives back gains it has made in recent years.

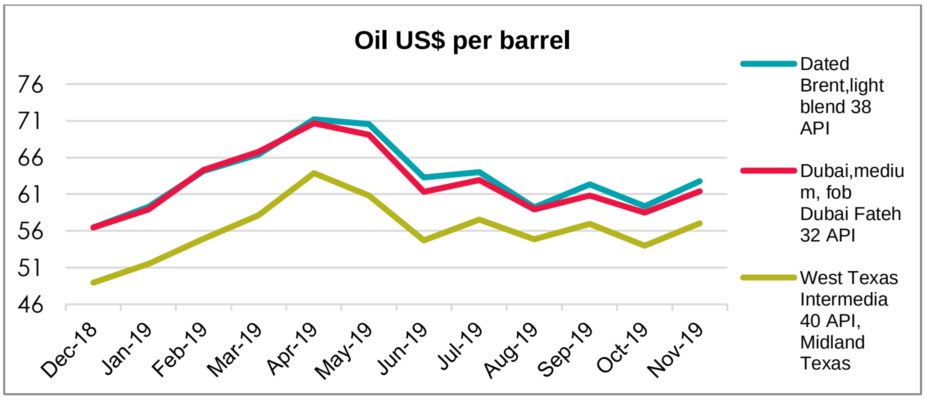
USD/CNY	Low	High
2 year	6.26	7.17
1 year	6.68	7.17
1 month	6.95	7.04

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

Global Commodity Rates

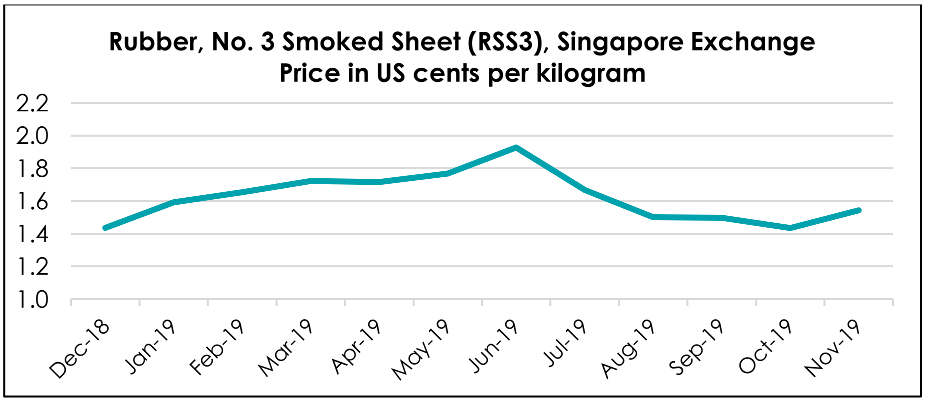
Q1 2020 News & Analysis: The US/China trade war continued to impact production inputs with commodity prices including oil, rubber and metals falling through Q3 and into Q4. China, as the biggest purchaser of most global commodities, especially industrial commodities such as metals and oil, is buying and producing less, 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



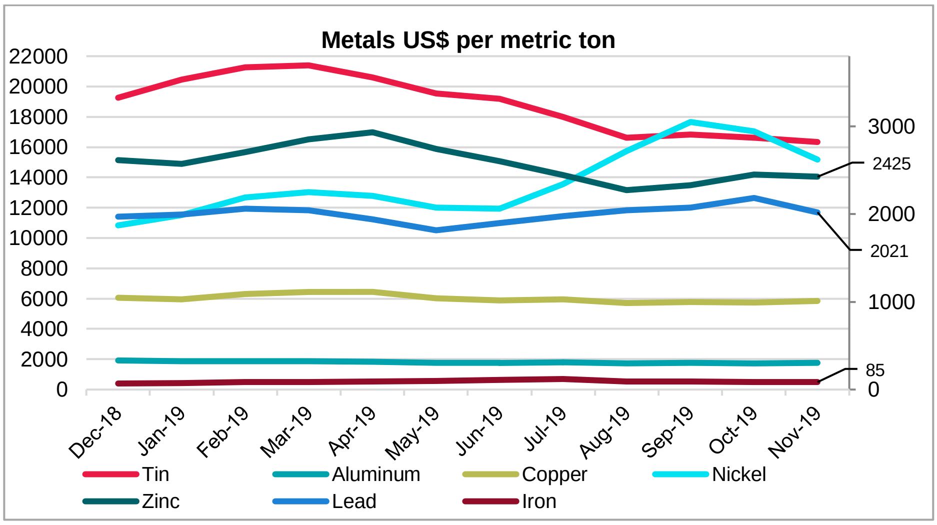
Oil prices have been trending higher since a US air strike in Baghdad sparked supply concerns if tensions escalate. US production has been strong with oil prices near the $70 mark in early January. While OPEC successfully tightened supply, pushing prices up, they may have to reverse this strategy if tensions escalate between Iran and the US.

Rubber



Global demand for natural rubber is expected to pick up in 2020 according to some analysts. World natural rubber demand increased by 4.1% in 2019 to 13.76 million tons and is expected to decline to 1.9% for 2020. Given the price slump in 2019, production costs have eaten into margins. China and Vietnam also reduced their buying due to the trade war, but now that trade tensions have eased, the outlook is better.

Metals



Metals prices are expected to perform well through 2020 given the easing of tensions in the China/US trade war. With the US economy humming along strongly there is also strong demand for metals in infrastructure projects. The potential for Trump to be reelected should also boost prices. China also continues to expand infrastructure projects as part of it's Belt and Road initiative which will drive continued demand for metals.

Cotton

Easing of the US/China trade dispute has alleviated some of the downward pressure on cotton prices. Apparel shipments to the US from China were down 30% year on year. China's demand for cotton fiber also declined through Q4, partly explained by weaker domestic demand, but also due to a slowdown in export demand because of tariffs and a weaker global economy. Domestic fiber prices were also more attractive than imported cotton fiber. As global cotton stocks decreased by 2% to 18.3 million tons, with more stock held outside of China for the first time in years, 2020 might see more volatility in cotton prices.

Recent Price Data

cents/lb	Latest Value (Dec 10)	Latest Month (Nov)	Last 12 Months (Dec18-Nov19)
NY Nearby	65.9	64.1	68.2
A Index	74.8	74.8	74.8
CC Index	84.6	84.6	95.3
Indian Spot	71.7	72.2	78.6
Pakistani Spot	69.2	71.6	71.2

World Cotton Production

million 480 lb. bales		2019/20	
	2018/19	Nov	Dec
India	25.8	30.0	29.5
China	27.8	27.3	27.3
United States	18.4	20.8	20.2
Brazil	12.5	11.6	12.5
Pakistan	7.6	7.0	6.2
Rest of World	26.1	25.3	25.5
World	118.1	121.9	121.1

World Cotton Exports

million 480 lb. bales		2019/20	
	2018/19	Nov	Dec
United States	14.8	16.5	16.5
Brazil	6.0	8.6	8.8
India	3.5	4.1	4.0
Australia	3.6	1.7	1.5
Greece	1.4	1.5	1.6
Rest of World	12.1	11.7	12.0
World	41.3	44.0	44.4

World Cotton Imports

million 480 lb. bales		2019/20	
	2018/19	Nov	Dec
China	9.6	9.5	9.0
Vietnam	6.9	7.5	7.2
Bangladesh	7.2	7.3	7.3
Turkey	3.5	3.8	4.0
Pakistan	2.9	3.6	4.2
Rest of World	12.4	12.3	12.7
World	42.5	44.0	44.4

Source: **Cotton Inc, News Reports**

Wool

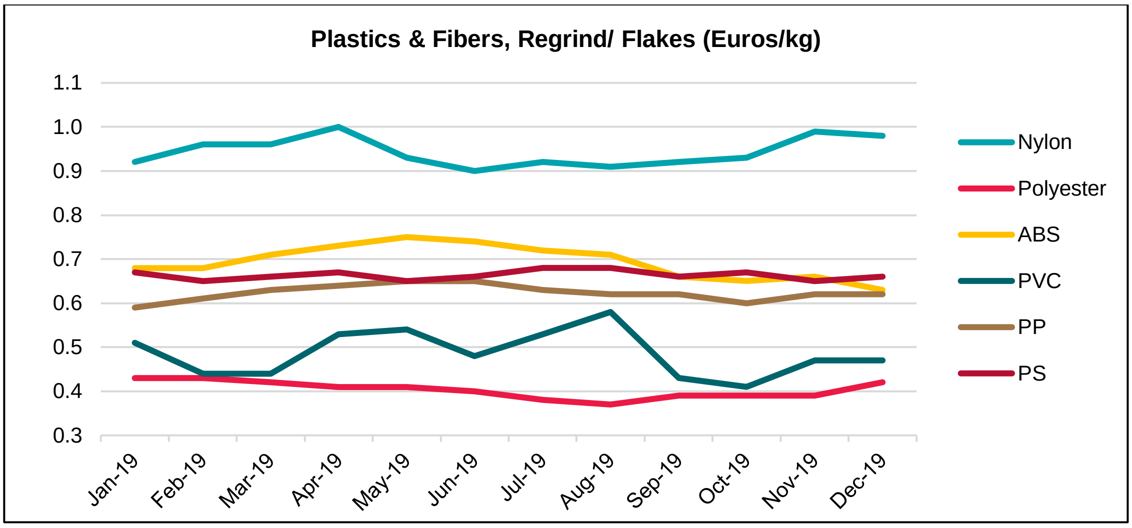
Wool prices rallied through late Q4 and into 2020, though still down significantly year-on-year. Wool prices are still impacted by limits in production due to marginal increases in flock numbers. Dry conditions in Australia, the largest producer, have not helped.

Wool consumption, driven significantly by China is under pressure as Chinese consumers have slowed down on purchasing as they feel less confident about the near-term economic outlook.

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.

Q1 2020 Snapshot: Polyester fibers are still the most consumed synthetic fiber, followed by cotton. Most of the synthetic fibers are produced in China, followed by India which is growing quickly. Around 95% of synthetic fiber production and consumption comes from Asia. The prediction for the coming years is that a softer Chinese economy will slow demand of both natural and synthetic fibers.



Sources: **IMF data, Plasticker, YarnsandFibers.com**

Focus Topics

Sourcing Trends in 2020: What to Expect

Shifting Production

We will continue to see shifts in production away from China, a trend that was happening before the heightened tension with China, especially for apparel and textiles. Asian countries such as Vietnam, Bangladesh, Cambodia and Myanmar will continue to absorb apparel and increasingly electronics production. Latin American countries including Brazil, Columbia and Mexico which are closer to North American markets will also continue to pick up production moving out of China. Certainly this shift brings risk and uncertainty as there are costs in shifting production and establishing new efficient supply chains and building manufacturing capacity.

Manufacturing Disruption

Rising labor costs, shifts in production, labor shortages and digital supply chains are set to further disrupt manufacturing through 2020. Artificial intelligence, cloud computing, advanced analytics, automation, robotics and additive manufacturing will all continue to impact global manufacturing through 2020, providing manufacturers with greater insight, flexibility and transparency but also with some uncertainty. These innovations allow manufacturers to shift production more easily, maintain lower levels of inventory, have more flexible fulfillment options and forecast more effectively. Businesses that are not keeping pace with innovation will struggle to remain competitive in this new landscape where visibility and automation will become the norm.

Retail Evolution

As ecommerce continues to grow the retail landscape continues to change with long-established brands disappearing and new brands appearing overnight. Adoption of technology in the form of supply chain insight and visibility, forecasting, analytics and customer insights will determine competitiveness in the retail landscape. Businesses that have not adapted to this environment risk becoming obsolete. Another shift we are seeing, especially in China, is a slowdown in consumerism, with younger Chinese consumers saving rather than spending as they face economic uncertainty and fewer job prospects for the first time. With many European countries bordering on recession and the US at risk of a slowdown, retailers will need to adapt to a more competitive environment.

Global Trade Tension

The US and China are set to sign an initial trade deal on January 15 at the White House, with a second phase deal to be signed later. Although the deal leaves most tariffs in place, it does provide some relief for businesses impacted by rising tariffs and more importantly reestablishes some stability for the global business environment. While an easing in the China/US trade war and a tentative deal is good news, we can expect to see more tension and volatility. US PMI data highlighted contraction in the US economy for December with manufacturing expected to remain soft in the first Quarter. Coupled with a strong dollar, US exports are expensive, and Trump's promise of reviving American manufacturing is not looking good. Trade tensions also extend beyond China and the US to the US and Europe, where Trump has threatened tariffs.

Geopolitical Risk

Following a US drone strike in early January which killed prominent Iranian general, Qasem Soleimani, tensions have heated between the US and Iran, with Iran threatening reprisals. This action brings the risk of major escalation with Iran, which has already opted out of its agreement to limit nuclear weapons development. Politically it has pushed hardliners in both Iran and Iraq as well as other Middle East countries closer and economically it puts pressure on oil supply and prices which had enjoyed a balance after OPEC had successfully reduced supply to stabilize prices. Short of engaging in all-out war, the likelihood is that Iran will disrupt oil supply, engage in cyberwar and support terror organizations such as Hezbollah and others in targeting the US.

European Instability

The Brexit has caused a lot of tension which now appears to be settling as Boris Johnson has consolidated his hold in the UK. The outcome and impact of the Brexit is still unclear though. The new deadline for the UK to leave the EU is January 31, pending approval by Parliament. Most likely the UK will receive an extension to the transition period which will give it time to work out trade relationships and other details with the EU. This means that the UK will face ongoing volatility through 2020 until a trade deal can be finalized. The reality is also that trade deals can take years to negotiate and this will mean that businesses will be cautious about investing and hiring. Boris Johnson has said he is looking for a trade deal like the one the EU signed with Canada, which could see significant trade barriers between the two.

Global Trade 2020: The Trump Era

The past couple of years have been characterized by a shakeup in global trading relationships, led by the Trump administration in the US and Boris Johnson in the UK. The result is a messy mix of trade deals and lots of uncertainty. We can expect more of the same in 2020 as the Brexit story evolves and Trump moves beyond China to tackle trading relationships with the European Union, the UK and other countries and regional interests such as Vietnam, Japan, India, Brazil, Africa and others. So far though, US policies have led to a drop in trade with most of the world, except with ASEAN.

Vietnam

Vietnam benefited hugely in 2019 by picking up trade flow because of the US/China trade war. Many manufacturers beyond apparel, footwear and furniture have set up there including high tech companies such as Apple, Siemens, Alphabet (Google), Samsung and Intel. Their GDP has grown at an average of 7% for over decade and while wages are still cheaper than China, things are changing quickly. While so far Vietnam has slipped under Trump's radar, White House trade advisor, Peter Navarro has indicated that Vietnam will be a target for trade talks in 2020 which could put a dent in Vietnam's ongoing growth.

Japan

Japan is another significant economy to watch. While the US recently signed off on a trade agreement covering agriculture and digital trade with Japan, it by no means matches the potential of the TPP which Trump pulled out of. By all accounts, Japan and the US will have to work on a phase 2 deal soon. Japan also recently signed a trade deal with the EU which takes effect January 1 and is still going ahead with the Regional Comprehensive Economic Partnership which enables free trade with Pacific rim countries.

India

While the US and India are close to finalizing a trade deal, the rising US trade deficit with India is most likely to result in more tariffs on India. The US has already removed India from the Generalized System of Preferences program and is expected to push harder on India. India also recently pulled out of the Regional Comprehensive Economic Partnership deal over concerns that China will have free access to the Indian market. Japan was pushing for India to be part of the deal and India's withdrawal was a strategic loss.

Brazil

Brazil and the US have both expressed interest in negotiating a free trade agreement, however it might be complicated by the fact that Brazil is part of the Mercosur trade bloc with Argentina and Paraguay. In early December, Trump threatened out of the blue to reimpose steel and aluminum tariffs on Brazilian and Argentinian imports, despite a supposed good relationship with his right leaning Brazilian counterpart. Most likely the US will reach trade agreements with both Brazil and Argentina, who face challenging economic conditions with growing inflation and unemployment at home.

The EU

The US and the EU have had a long running trade dispute over the EU's support for Airbus whereby the US won the right to impose 100 percent duties on $7.5 bln of EU goods. Most likely the US will impose further duties on EU imports. This would result in retaliatory tariffs by the EU on US imports. Some clarity on the US/EU trading relationship should happen when the EU trade commissioner, Phil Hogan and his US counterpart, Robert Lighthizer meet for discussions in mid-January.

Africa

Several years ago, the US expressed interest in negotiating a trade agreement with Kenya and Ethiopia that could be replicated across African countries but not much has developed. In the meantime, the US has removed trade benefits for South Africa under the Generalized System of Preferences program and the African Growth and Opportunity Act. These discussions are expected to continue through 2020. In the meantime China has grown into Africa's largest trading partner for 10 consecutive years.

About CBX Software

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