Forestry & Paper

Textiles Fibre Update

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Key message: *VSF, cotton & polyester all in the green. VSF vitals improving with op. rate up to 72% & inventory days down to 27. DWP price weakness starts to finally play catch-up to VSF pricing.*

- **Key YTD moves:** Polyester +21%; HW DWP +38%; China-origin DWP +30%; medium-grade VSF +11% and high-end VSF +13%. In contrast, Lyocell is down 5%.
- **VSF trading mood finally shows signs of improving after weeks of sustained pricing pressure:** Sateri and Tanshan Sanyou were both quoting in excess of RMB 13-13.2k/t for medium-grade VSF. The VSF operating rate jumped from 67% to 72% as some VSF plants in East China came back from maintenance. VSF inventory days dropped slightly to 27 as spinners increased the pace of accepting new deliveries. The VSF/DWP spread improved by 5% w/w but is down 7% YTD. The theoretical VSF loss for Chinese producers narrowed to -RMB 442/t (+43% w/w). With August usually being the peak season for VSF demand, the outlook for VSF pricing is bullish and likely to increase.
- **Imported hardwood DWP prices finally see some pressure, tracking VSF weakness in the past few weeks:** In China, operating rates at DWP mills dropped further as Sun Paper (Zoucheng) was producing paper pulp, while Hunan Juntai was selling down DWP stocks. Based on current dynamics, hardwood supply is sufficient, and with lower paper pulp prices, further weakness is expected.

China Textiles – Key price and operating w/w changes

Price details (CNY/t)	31-Dec	02-Jul	09-Jul	YTD average	%/bps w/w chg.	YTD %/bps chg.
ZCE cotton contract	15 200	16 285	16 355	15 590	0.4%	7.6%
Polyester: PSF 1.4D *38mm	5 885	7 000	7 100	6 853	1.4%	20.6%
Cottonseed	2 800	3 600	3 600	3 271	0.0%	28.6%
Cotton linter	2 670	4 250	4 600	3 514	8.2%	72.3%
High-quality cotton linter	3 790	5 800	6 300	4 845	8.6%	66.2%
Industry-grade refined cotton	7 890	10 400	11 100	9 281	6.7%	40.7%
Food-grade refined cotton	8 790	11 350	11 800	10 192	4.0%	34.2%
Hardwood DWP (USD)	730	1 050	1 010	1 018	-3.8%	38.4%
China BHKP net (USD)	499	773	759	693	-1.7%	52.2%
DWP/pulp spread (USD)	231	277	251	326	-9.6%	8.5%
Softwood DWP (USD)	780	1 160	1 160	1 087	0.0%	48.7%
China-origin hardwood DWP	6 000	7 980	7 800	7 969	-2.3%	30.0%
China-origin hardwood DWP (USD)	917	1 230	1 200	1 229	-2.4%	30.9%
Hardwood DWP spread: origin less import (USD)	187	180	190	211	5.8%	1.6%
Medium-grade VSF	11 500	12 680	12 750	14 015	0.6%	10.9%
USD/t	1 758	1 954	1 962	2 161	0.4%	11.6%
Medium-grade VSF/HW DWP spread (USD/t)	1 028	904	952	1 142	5.3%	-7.4%
High-end VSF	11 380	12 800	12 900	14 258	0.8%	13.4%
Lyocell fibre	15 920	15 650	15 200	16 255	-2.9%	-4.5%
Bright filament yarn	35 400	34 500	34 300	35 694	-0.6%	-3.1%
Dull filament yarn	35 800	36 200	34 800	37 254	-3.9%	-2.8%
Bright filament yarn	25 400	25 000	24 750	25 948	-1.0%	-2.6%
Rayon yarn: Ring-spun R30S	15 300	16 200	17 150	17 752	5.9%	12.1%
Rayon yarn: OER10S	12 300	13 300	13 600	14 646	2.3%	10.6%
Rayon yarn: MVSR40S	17 200	17 150	18 000	19 047	5.0%	4.7%
VSF plant operation						
Operating rate (%)	77%	67%	72%	78%	500	(500)
Physical inventory days	13.0	27.5	27.0	17.6	-1.8%	107.7%
VFY plant operation						
Operating rate (%)	85%	73%	73%	82%	-	(1 200)
Inventory days	110.5	106.0	107.0	102.5	0.9%	-3.2%
FX						
USD/RMB	6.54	6.49	6.50	6.48	0.2%	-0.7%

Source: CCF Group, Chronux Research

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