

## Forestry & Paper

### Textiles Fibre Insights

Date: 18 January 2022

**Key message:** Cotton, polyester & VSF all in the green. VSF inventory days down again to 17 & average op. rate improves further to 84%. VSF theoretical profit improved but still in the red at -USD 72/t (VSF/DWP spread +10% YTD). Spot DWP remains at USD 905/t.

- **Key w/w moves:** Cotton +4%; Polyester +3%; HW DWP flat; China-origin DWP -1%; medium-grade VSF +3%; high-end VSF +3% and Lyocell +3%. Cotton's premium to VSF is currently 76% (2021 average: 30%) and a 198% premium to polyester (2021 average: 150%). The VSF premium to polyester is currently 69% (2021 average: 94%)
- **VSF prices rise further this week as large producers lead the way:** The VSF operating rate improved from 79% to 84% some VSF plants further raised operating rates and the Yancheng-based VSF line restarted production. Spinners took delivery of VSF with faster speed and VSF plants focused on fulfilling contracts, so VSF inventory days reduced further from 22 days to 17. The theoretical VSF margin for Chinese producers improved but firmly in the red at -USD 72/t. VSF/DWP spread +5% w/w (+10% YTD).
- **Imported hardwood DWP prices steady:** The average imported hardwood price during Oct-Dec 21 was USD 933/t (July-Sept 21: USD 1,012/t). The spot hardwood price is still USD 905/t and the DWP/pulp spread is currently USD 143/t (this level generally supports preference for paper pulp production over DWP production). VSF plants have maintained normal procurement before the Chinese Lunar New Year. Based on current dynamics (increasing domestic DWP supply and demand as well as rising VSF operating rates, coupled with rising pulp prices), DWP price stability is likely.

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#### China Textiles – Key price and operating w/w changes

Price details (CNY/t)	%/bps w/w chg.	YTD %/bps chg.
ZCE cotton contract	0.6%	1.7%
ICE nearby contract	4.0%	6.3%
Polyester: PSF 1.4D *38mm	2.5%	6.1%
Cottonseed	2.6%	3.2%
Cotton linter	0.0%	0.0%
High-quality cotton linter	3.3%	4.2%
Industry-grade refined cotton	-2.0%	-3.6%
Food-grade refined cotton	-2.0%	-3.5%
Hardwood DWP (USD)	0.0%	0.0%
China BHKP net (USD)	0.9%	0.6%
DWP/pulp spread (USD)	-4.7%	-2.9%
Softwood DWP (USD)	0.0%	0.0%
China-origin hardwood DWP	-0.9%	-1.5%
China-origin hardwood DWP (USD)	-0.4%	-1.2%
Hardwood DWP spread: origin less import (USD)	-2.9%	-7.7%
Medium-grade VSF	2.3%	5.0%
USD/t	2.8%	5.3%
Medium-grade VSF/HW DWP spread (USD/t)	5.2%	10.3%
High-end VSF	2.9%	5.6%
Lyocell fibre	3.1%	0.5%

#### Competing fibre premiums

Cotton premium to polyester	(573)	(1 300)
Cotton premium/(discount) to VSF	(291)	(573)
VSF premium to polyester	(46)	(181)

#### VSF plant operation

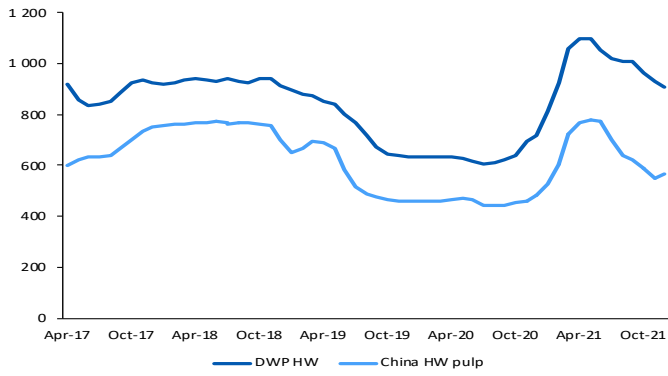
Operating rate (%)	499	800
Physical inventory days	-22.7%	-32.0%
VSF theoretical profit (USD/t)	38.9%	57.5%
VSF theoretical profit (yuan/t)	39.2%	57.6%

#### FX

USD/RMB	-0.5%	-0.3%
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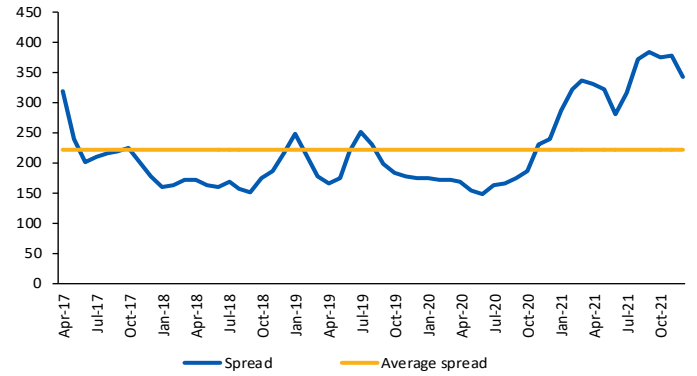
Source: CCF Group, Chronux Research

**Hardwood pulp and DWP price (USD/t)**



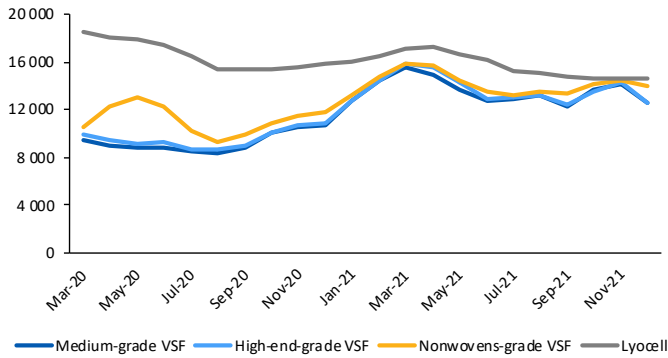
Source: CCF, Chronux Research. FOEX

**DWP/hardwood pulp spread (USD/t)**



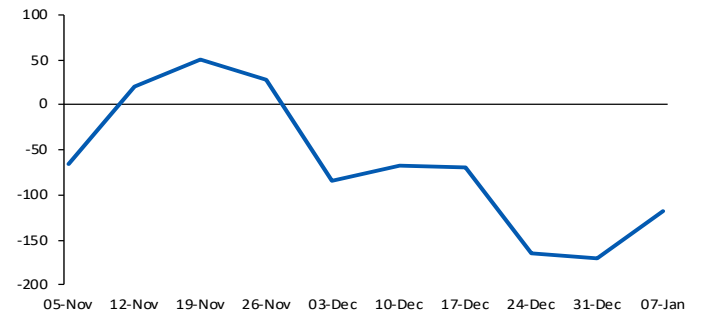
Source: CCF, Chronux Research. FOEX

**Textile prices (CNY/t)**



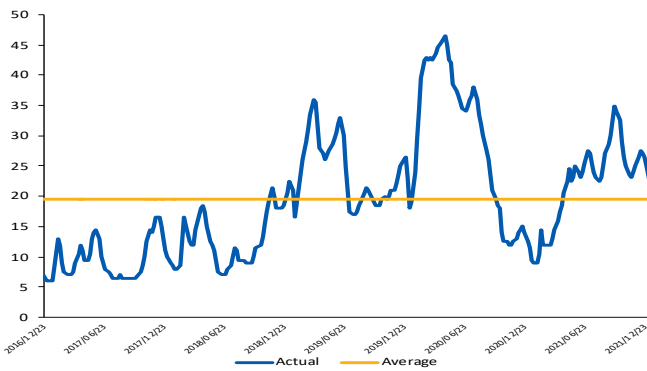
Source: CCF, Chronux Research

**China VSF theoretical profit (USD/t)**



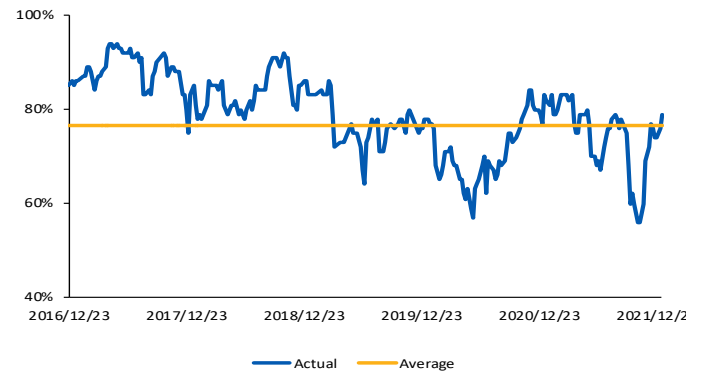
Source: CCF, Chronux Research

**China VSF inventory days (#)**



Source: CCF, Chronux Research

**China VSF operating rate (%)**



Source: CCF, Chronux Research

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