Forestry & Paper

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Textile Fibre Insights

***Key message:** Cotton and polyester in the red, while VSF and DWP prices gain further traction. VSF inventory days tighten further to 12.0, while the average op. rate is down to 74%. VSF theoretical profit further in the red at -USD 128/t (VSF/DWP spread +13% YTD). Spot DP is stable at USD 1,190/t.*

- **Key w/w moves:** Cotton -4%; Polyester -4%; HW DP +4%; China-origin DP +1%, medium-grade VSF +0%; and high-end VSF +1% and Lyocell +2%. Cotton's premium to VSF is 27% (2021 average: 30%) and a 119% premium to polyester (2021 average: 150%). The VSF premium to polyester is currently 73% (2021 average: 94%) and the lyocell premium to VSF is currently 13%.
- **VSF offers kept rising with modest sales this week (prices up 0.4-1.2%):** The operating rate of some VSF plants in North China was slightly volatile and the unit located in West China resumed operation without fibres being produced yet. Accordingly, the VSF operating rate dropped slightly to 74% (from 75%). VSF inventory days tighten further to 12.0 days (from 12.5) as spinners held more VSF stocks. The theoretical VSF margin for Chinese producers weakened further to -USD 128/t on the back of higher DP prices and the VSF/DWP spread dropped 4% w/w (+13% YTD).
- **The Lyocell price was up 2% w/w:** The operating rate improved from 50% to 52% as Jiangsu Kinyongta restarted production.
- **DP prices gain further traction:** The spot hardwood price is stable at USD 1,190/t and the DP/pulp spread is currently USD 355/t (this level generally supports preference for DWP production over paper pulp production). Chinese DP production for June has been sold out. The operating rate of Chinese DP mills improved as Hunan Juntai resumed DP production and Sun Paper maintained DP production. In the import market, more offers were released for hardwood DP. Two European pulp mills offered at USD 1,200/t and Thailand-origin pulp was subsequently offered at the same level.
- **The Uyghur Forced Labour Prevention Act (UFLPA) becomes effective on 21 June 2022:** The act allows US customs to detain imported goods that are made with forced labour. With importers now bearing the burden to produce proof of compliance, the US government is expected to release policy guidance related to textiles using cotton sourced from Xinjiang. As a reminder, Xinjiang accounts for c.20% of global cotton supply (c.80-85% of China's production) and the US imports c.15% of its cotton apparel from China.
- **China May macro update:** Consumer good sales dropped 6.7% y/y; Industrial added value increased 0.7% y/y; Fixed asset investment rose 6.2% y/y; real estate development investment dropped 4% y/y for Jan-May; Commercial residential house sales declined 31.5% y/y for Jan-May; Social electric power consumption rose 2.5% y/y for Jan-May.

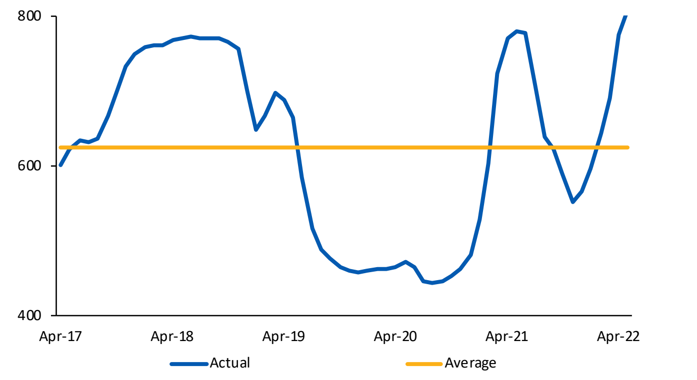
China textiles - Key price and operating changes

Price details (CNY/t)	%/bps w/w chg.	YTD %/bps chg.
ZCE cotton contract	-4.0%	-10.7%
ICE nearby contract	-1.1%	27.4%
Polyester: PSF 1.4D *38mm	-4.2%	26.9%
Cottonseed	-2.0%	25.5%
Cotton linter	-1.0%	10.9%
High-quality cotton linter	-2.2%	11.1%
Industry-grade refined cotton	-0.2%	0.6%
Food-grade refined cotton	892.9%	900.5%
Hardwood DWP (USD)	4.4%	31.5%
China BHKP net (USD)	2.7%	46.3%
DWP/pulp spread (USD)	8.7%	6.1%
Softwood DWP (USD)	0.0%	21.1%
China-origin hardwood DWP	0.5%	36.0%
China-origin hardwood DWP (USD)	0.5%	29.3%
Hardwood DWP spread: origin less import (USD)	-18.4%	17.2%
Medium-grade VSF	0.4%	28.2%
USD/t	0.4%	21.9%
Medium-grade VSF/HW DWP spread (USD/t)	-3.6%	12.9%
High-end VSF	1.2%	27.9%
Lyocell fibre	1.9%	18.7%
Competing fibre premiums		
Cotton premium to polyester	52	(9 211)
Cotton premium/(discount) to VSF	(576)	(5 520)
Lyocell premium to VSF	170	(902)
VSF premium to polyester	788	177
VSF plant operation		
Operating rate (%)	(100)	(200)
Physical inventory days	-4.0%	-52.0%
VSF theoretical profit (USD/t)	-39.9%	24.8%
VSF theoretical profit (yuan/t)	-39.9%	20.9%
FX		
USD/RMB	0.0%	5.2%

Source: Chronux Research, CCF

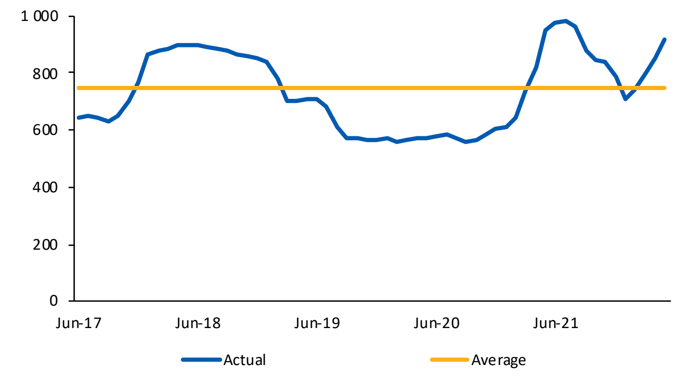
Prices, Spreads, FX and Industry Stats: As at 31 May 2022

China *hardwood pulp* price (USD/t)



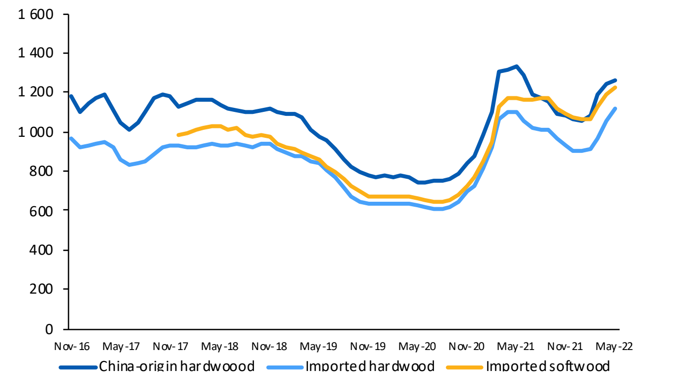
Source: Chronux Research, FOEX

China *softwood pulp* price (USD/t)



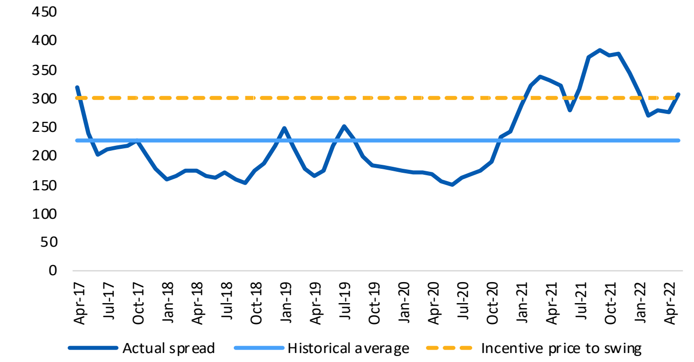
Source: Chronux Research, FOEX

DWP prices (USD/t)



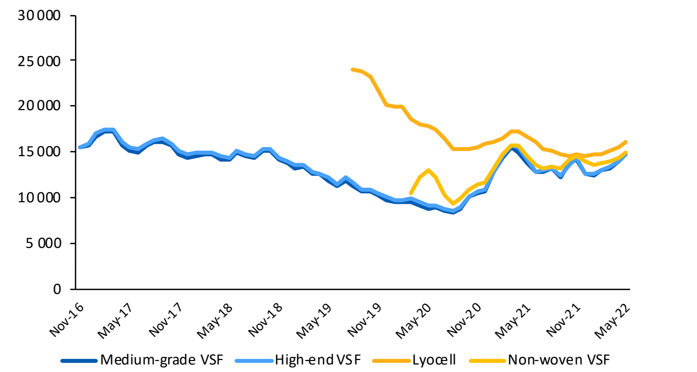
Source: CCF, Chronux Research. FOEX

DWP/hardwood pulp spread (USD/t)



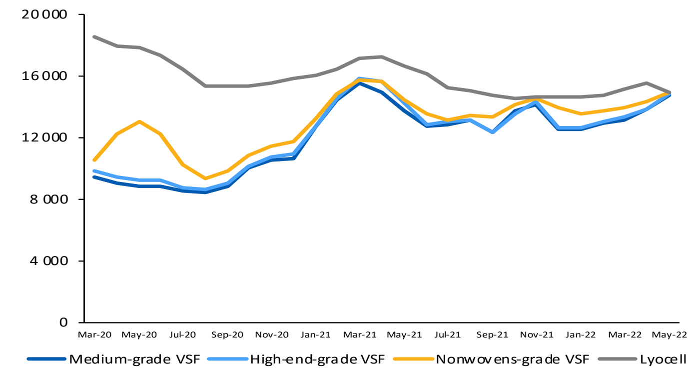
Source: CCF, Chronux Research. FOEX

VSF prices (RMB/t)



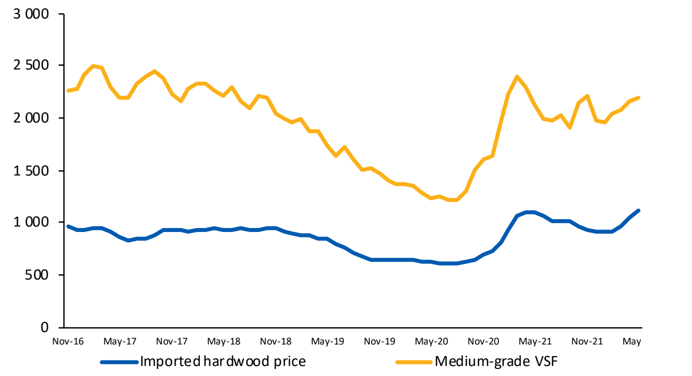
Source: CCF, Chronux Research

Textile prices (CNY/t)



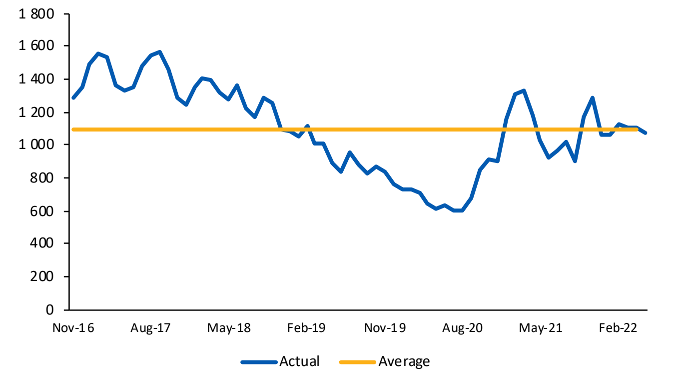
Source: CCF, Chronux Research

VSF and DWP prices (USD/t)



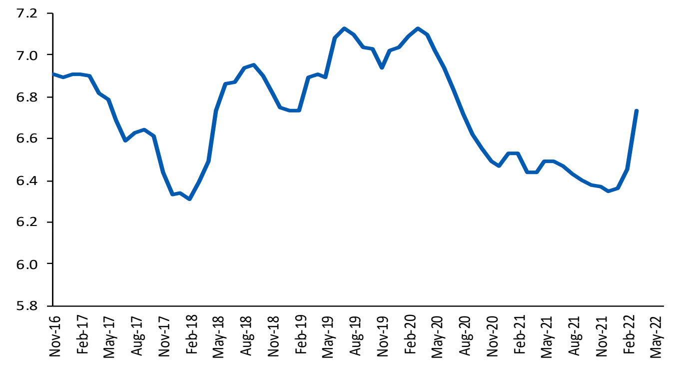
Source: CCF, Chronux Research

VSF/DWP spread (USD/t)



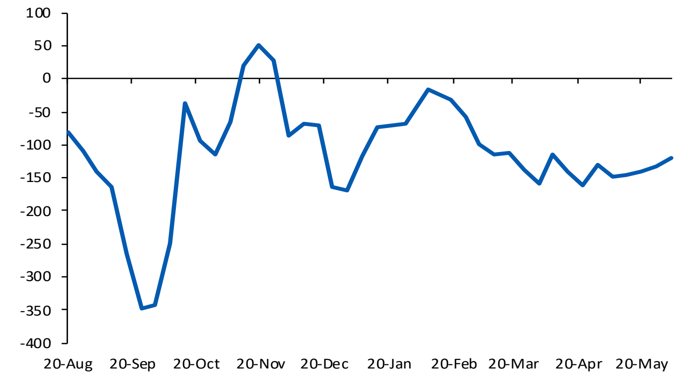
Source: CCF, Chronux Research

USD/RMB exchange rate



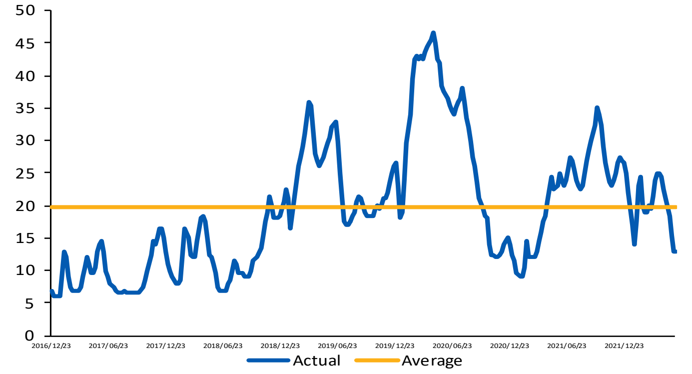
Source: CCF, Chronux Research

China VSF theoretical profit (USD/t)



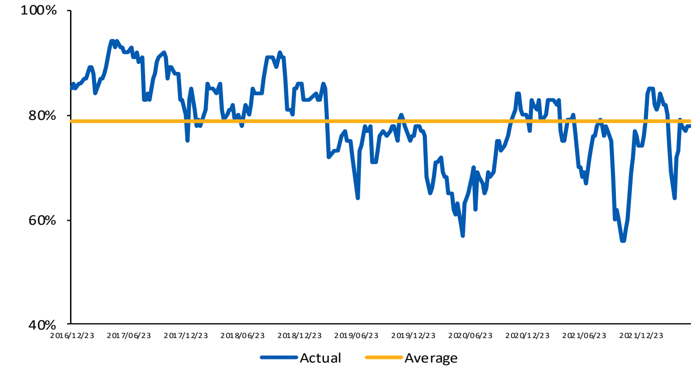
Source: CCF, Chronux Research

China VSF inventory days (#)



Source: CCF, Chronux Research

China VSF operating rate (%)



Source: CCF, Chronux Research

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