



# Forestry & Paper

Date: 06 September 2022

## Textile Fibre Insights

Analyst

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**Key message:** DP price -1% m/m & +19% y/y in August, with the July-August average of USD 1,204/t up 8% q/q. Cotton down 6% w/w, while VSF is flat. Cotton is now trading at a 1% discount to VSF. Spot DP is USD 1,125/t. VSF inventory days tick up to 27.5, while the average op. rate declines further to a new low of 52%. VSF theoretical profit improves but still in the red at -USD 159/t (VSF/DWP spread -3% YTD).

- August 2022 key prices changes:** The imported hardwood DP price averaged USD 1,197/t in August (USD: -1% m/m & +19% y/y; ZAR: -2% m/m & +34% y/y). The average for July-August 2022 is USD 1,204/t (USD: +19% y/y & +8% q/q; ZAR: +36% y/y & +16% q/q) vs. medium-grade VSF +11% y/y and -1% q/q. The DP/pulp spread averaged USD 332/t in August, while the average for July-August was USD 342/t.
- Key w/w moves:** Cotton -6%; Polyester -2%; HW DWP -1%; China-origin DWP -3%, medium-grade VSF 0%; and high-end VSF 0% and Lyocell 0%. Cotton is now trading at a 1% discount to VSF (2021 average premium: 30%) and a 90% premium to polyester (2021 average: 150%). The VSF premium to polyester is currently 92% (2021 average: 94%) and the lyocell premium to VSF is currently 16%.
- VSF market was rangebound amid weakness and trades were done sporadically this week:** The VSF operating rate dipped further to a new low of 52% (from 55%) as some Jiangsu and Xinjiang-based VSF units were shut for maintenance, while other lines did not come back on stream from maintenance as scheduled. VSF inventory days ticked up further to 27.5 (from 26.5). The theoretical VSF margin for Chinese producers remains in the red but improves to -USD 159/t (however may get worse as higher cost DP arrives at the ports) and the VSF/DWP spread was stable w/w (-3% YTD).
- Lyocell market under further pressure:** Some lyocell yarn mills saw growing inventory and they were already cutting production. Despite this, the operating rate of lyocell industry was stable at 48%.
- Despite tight DP supply, prices under further pressure:** The DP market was relatively quiet, with limited demand from VSF plants. The spot hardwood price is USD 1,125/t (although some FSC-certified pulp was traded higher at USD 1,150/t) and the DWP/pulp spread is currently USD 262/t (this level generally supports preference for paper pulp production over DP production). No DP was produced by Chinese pulp mills this week when major plants were producing paper pulp, but there were still some DP stocks available for sale.

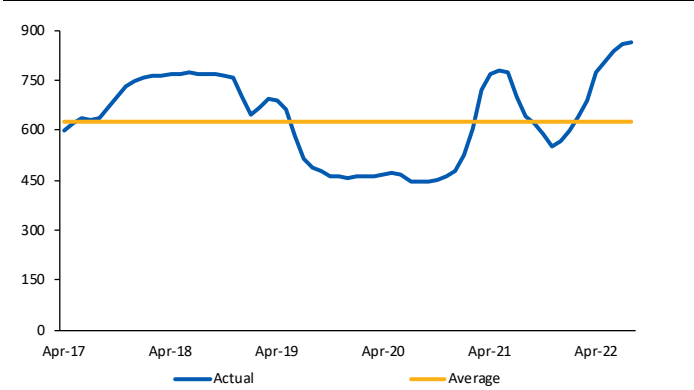
### China textiles - Key price and operating changes

Price details (CNY/t)	%bps w/w cig.	YTD %bps cig.
ZCE cotton contract	-6.0%	-35.0%
ICE nearby contract	-12.3%	-8.3%
Polyester: PSF 1,4D *38mm	-1.8%	6.4%
Cottonseed	0.6%	6.5%
Cotton linter	1.6%	-24.4%
High-quality cotton linter	2.8%	-30.9%
Industry-grade refined cotton	-0.5%	-14.8%
Food-grade refined cotton	-0.4%	-14.2%
Hardwood DWP (USD)	-1.3%	24.3%
China BHKP net (USD)	-0.3%	51.3%
DWP/pulp spread (USD)	-4.6%	-21.7%
Softwood DWP (USD)	0.0%	20.2%
China-origin hardwood DWP	-3.2%	31.6%
China-origin hardwood DWP (USD)	-3.8%	21.3%
Hardwood DWP spread: origin less import (USD)	-17.7%	4.7%
<b>Medium-grade VSF</b>	<b>-0.3%</b>	<b>19.7%</b>
USD/t	-0.9%	10.3%
Medium-grade VSF/HW DWP spread (USD/t)	-0.3%	-2.6%
High-end VSF	-0.5%	21.3%
Lyocell fibre	-0.2%	14.4%
<b>Competing fibre premiums</b>		
Cotton premium to polyester	(847)	(12 103)
Cotton premium/discount to VSF	(599)	(8 313)
Lyocell premium to VSF	4	(540)
VSF premium to polyester	288	2 130
<b>VSF plant operation</b>		
Operating rate (%)	(300)	(2 400)
Physical inventory days	3.8%	10.0%
VSF theoretical profit (USD/t)	-9.0%	13.7%
VSF theoretical profit (yuan/t)	-8.4%	8.5%
<b>FX</b>		
USD/RMB	0.6%	2.9%

Source: Chronux Research, CCF

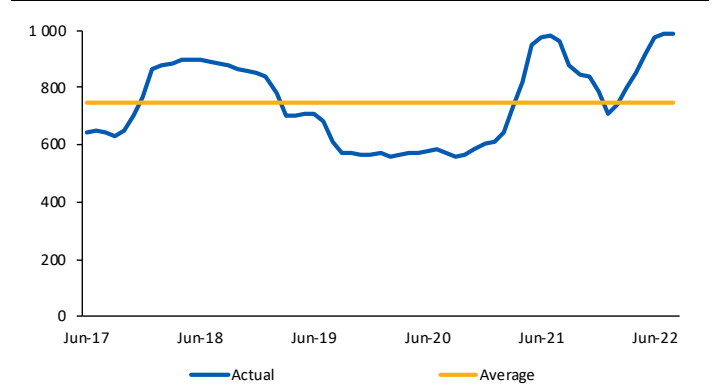
# Prices, Spreads, FX and Industry Stats: As at 31 August 2022

**China hardwood pulp price (USD/t)**



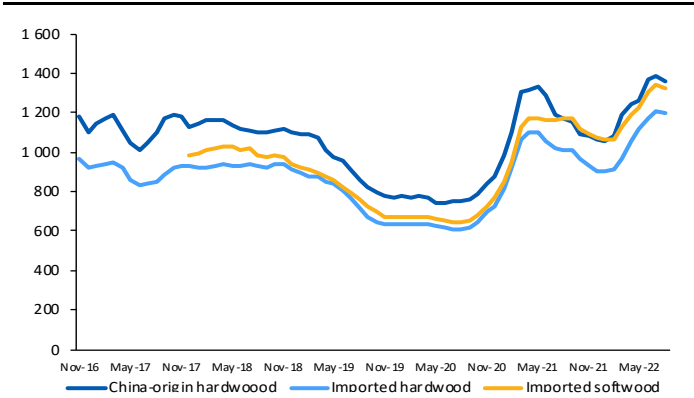
Source: Chronux Research, FOEX

**China softwood pulp price (USD/t)**



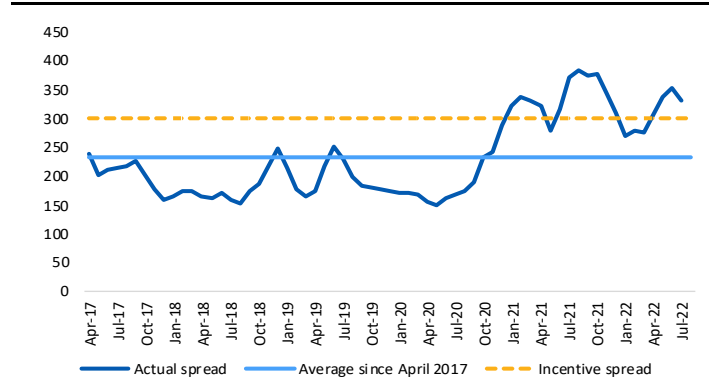
Source: Chronux Research, FOEX

**DWP prices (USD/t)**



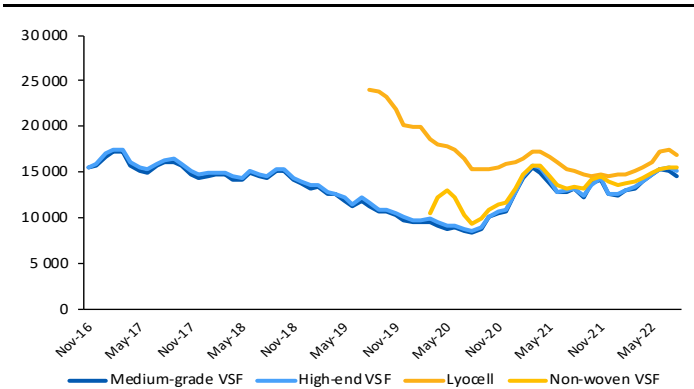
Source: CCF, Chronux Research

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



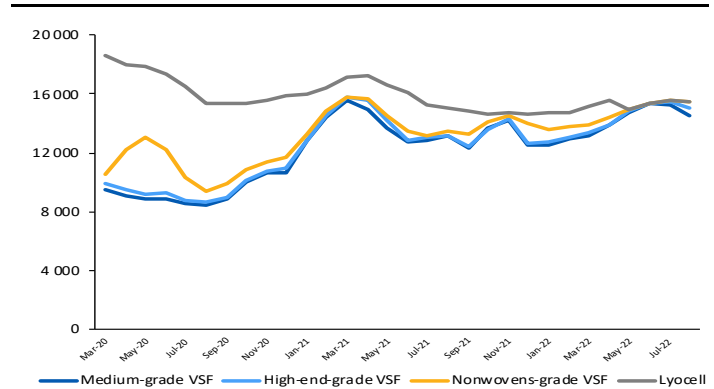
Source: CCF, Chronux Research, FOEX

**VSF prices (RMB/t)**



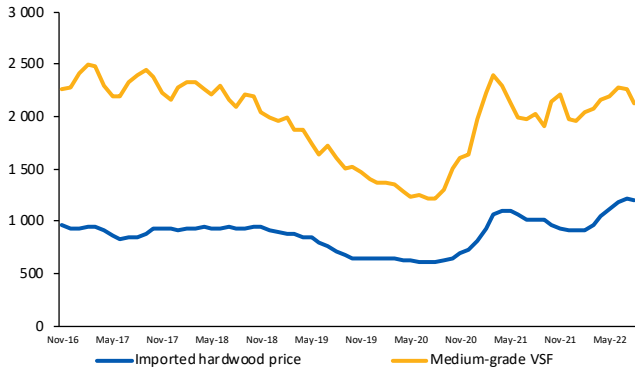
Source: CCF, Chronux Research

**Textile prices (CNY/t)**



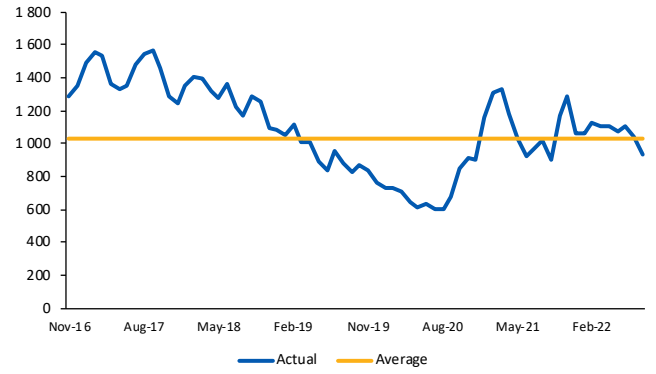
Source: CCF, Chronux Research

**VSF and DWP prices (USD/t)**



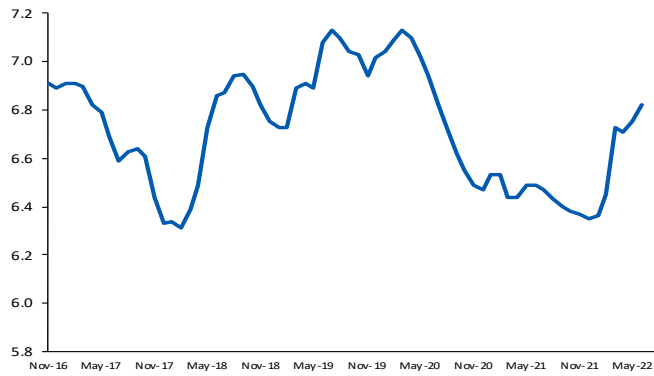
Source: CCF, Chronux Research

**VSF/DWP spread (USD/t)**



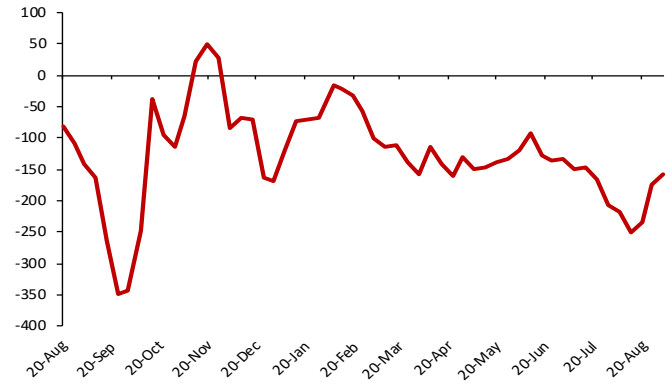
Source: CCF, Chronux Research

**USD/RMB exchange rate**



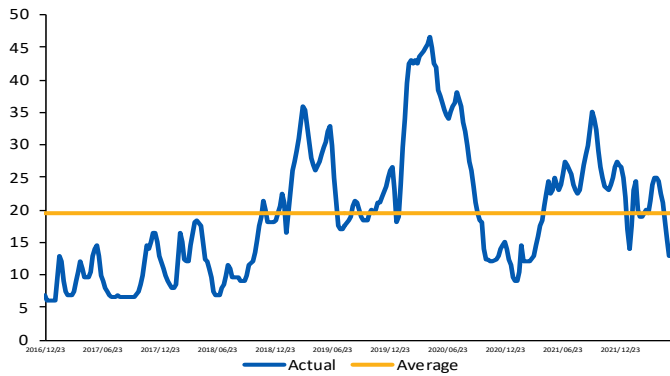
Source: CCF, Chronux Research

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



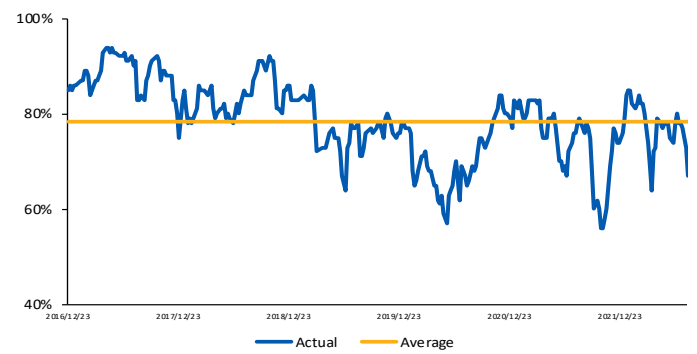
Source: CCF, Chronux Research

**China VSF inventory days (#)**



Source: CCF, Chronux Research

**China VSF operating rate (%)**



Source: CCF, Chronux Research

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