



Forestry & Paper

Textile Fibre Insights

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Analyst

Sean Ungerer CA (SA), CFA
+27 82 319 3373

sean.ungerer@chronux.co.za

Key message: DP price -7% m/m (+11% y/y) in September, with the Q3 22A average of USD 1,175/t down 7% q/q. (+11% y/y). Cotton and VSF were down 3% w/w. Cotton is now trading at a 1% discount to VSF. Spot DP is now USD 1,048/t. VSF inventory days stable at 27.5, while the average op. rate improves further to 61%. VSF theoretical profit further in the red at -USD 231/t.

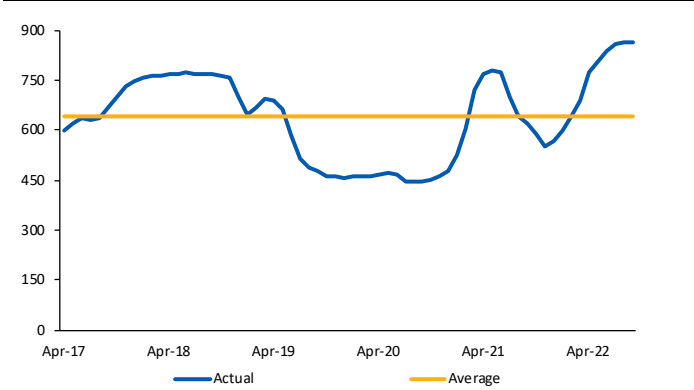
- Q3 22A key prices changes:** The imported hardwood (HW)DP price averaged USD 1,175/t (USD: -7% q/q & +11% y/y; ZAR: +15% q/q & +35% y/y). DP/pulp spread averaged USD 312/t September 2022 key prices changes: Imported (HW) DP price averaged USD 1,116/t (USD: -7% m/m & +11% y/y; ZAR: -2% m/m & +34% y/y).
- Key w/w moves:** Cotton -3%; ICE cotton contract -8%; Polyester -1%; HW DWP -7%; China-origin -1%, medium-grade VSF -3%; and high-end VSF -3% and Lyocell 0%. Cotton is now trading at a 1% discount to VSF (2021 average premium: 30%) and a 74% premium to polyester (2021 average: 150%). The VSF premium to polyester is currently 75% (2021 average: 94%) and the lyocell premium to VSF is currently 23%.
- VSF prices down 3% w/w:** VSF op. rate improved to 61% (from 58%) as there was minor growth in Xinjiang, Sateri (Jiangsu) shut two lines for maintenance and there was volatility in other plants of East China. VSF inventory days stable at 27.5 (from 27.5). The theoretical VSF margin for Chinese producers is deeper in the red at -USD 231/t driven by a weaker renminbi and rising chemical materials. The VSF/DWP spread was up 3% w/w (-13% YTD). Market is recovering mildly but Oct. outlook is not optimistic with the end of traditional peak season.
- Lyocell market remains depressed:** The Lyocell market was relatively depressed this week as trades were partially thin. Lyocell yarn mills showed less enthusiasm for spinning 100% lyocell yarn due to higher inventory at present, while large-sized lyocell plants still maintained higher operating rates. The operating rate of lyocell industry was came under pressure reaching 51% (from 56%) driven by falling run rates of largescale plants. Sateri (Changzhou) was under commissioning and had not been included till now.
- DP prices under pressure:** The spot hardwood price was down 7% w/w to USD 1,048/t and the DWP/pulp spread is currently USD 184/t (this level generally supports preference for paper pulp production over DP production). Domestic DP price was down 1% w/w to RMB 8,750/t (USD 1,231/t, a USD 183/t premium to imports). DP offers generally dropped without clear trades this week. In the Chinese market, DP output returned to zero after Hunan Juntai converted to paper pulp production. Two major suppliers still had stocks available for sale. Market is still expected to be generally weak with supply increasing, while demand is weak.
- Key insights from Nike's Q1 23A results:** Revenue growth up 10% y/y (currency neutral), driven by double-digit growth in North America (+13%), EMEA (+17%), and APLA (+16%), and partially offset by declines in Greater China (-13%). Footwear grew 12% y/y, while apparel grew by 7% y/y. Gross margin was down 220bps y/y to 44.3%, driven by higher markdowns to clear inventory in North America through Nike Direct and wholesale channels. Management is maintaining its expectation for low double-digit currency neutral revenue growth for FY 23E, with GP margin by declining 200–250bps (vs. flat to a 50bps y/y decline previously) on higher markdowns, elevated logistic costs, and FX headwinds. Within Greater China, apparel revenue declined by 18% y/y (Q4 22A: -40% y/y). EBIT declined by 23% y/y (Q4 22A: -55% y/y). Inventory was down 3% y/y, and management is increasingly confident it will see inventory normalise by the end Q2 23E. China inventory is on track to turn healthier by the end of the November quarter.
- Key insights from H&M Q3 22A update:** Net sales +3% y/y. EBIT down 52% y/y (26% driven by exit from Russia), with an EBIT margin of 5.2% (Q3 21A: 11.3%). The autumn collections have been well received, with sales +7% y/y in local currencies for the period 1 – 27 September 2022.

China textiles - Key price and operating changes		
Price details (CNY/t)	%/bps w/w cig.	YTD %/bps cig.
ZCE cotton contract	-3%	-39%
ICE cotton contract	-8%	-24%
Polyester: PSF 1.4D *38mm	-1%	10%
Cottonseed	6%	28%
Cotton linter	-5%	-27%
High-quality cotton linter	-5%	-31%
Industry-grade refined cotton	-1%	-20%
Food-grade refined cotton	-1%	-19%
Hardwood DWP (USD)	-7%	16%
China BHKP net (USD)	0%	51%
DWP/pulp spread (USD)	-29%	-45%
Softwood DWP (USD)	-10%	4%
China-origin hardwood DWP	-1%	29%
China-origin hardwood DWP (USD)	0%	15%
Hardwood DWP spread: origin less import (USD)	67%	14%
Medium-grade VSF	-3%	13%
USD/t	-3%	1%
Medium-grade VSF/HW DWP spread (USD/t)	3%	-13%
High-end VSF	-3%	12%
Lyocell fibre	0%	14%
Competing fibre premiums		
Cotton premium to polyester	(205)	(13 753)
Cotton premium/(discount) to VSF	26	(8 268)
Lyocell premium to VSF	353	113
VSF premium to polyester	(255)	382
VSF plant operation		
Operating rate (%)	300	(1 500)
Physical inventory days	0%	10%
VSF theoretical profit (USD/t)	-9%	-36%
VSF theoretical profit (yuan/t)	-8%	-51%
FX		
USD/RMB	0%	4%

Source: Chronux Research, CCF

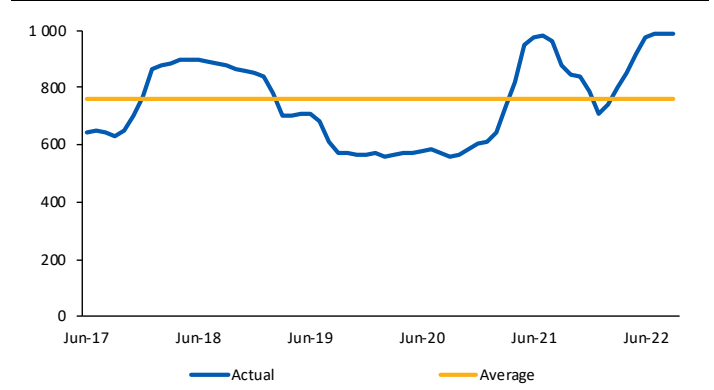
Prices, Spreads, FX and Industry Stats: As at 30 September

China hardwood pulp price (USD/t)



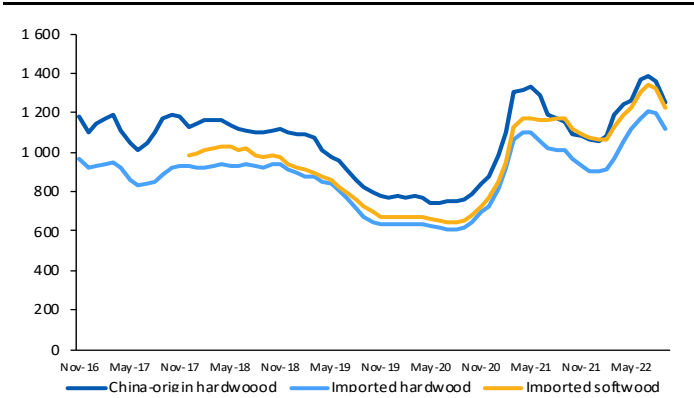
Source: Chronux Research, FOEX

China softwood pulp price (USD/t)



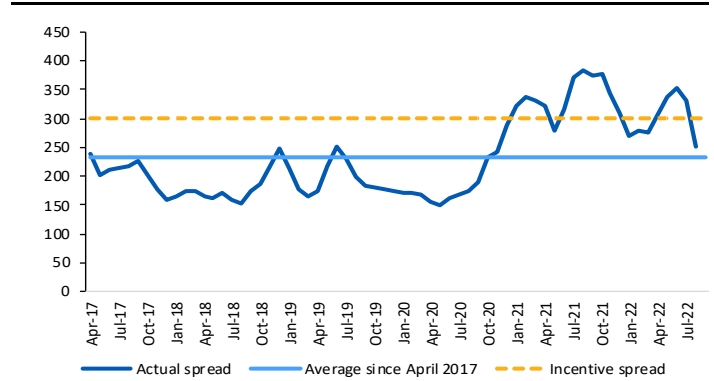
Source: Chronux Research, FOEX

DWP prices (USD/t)



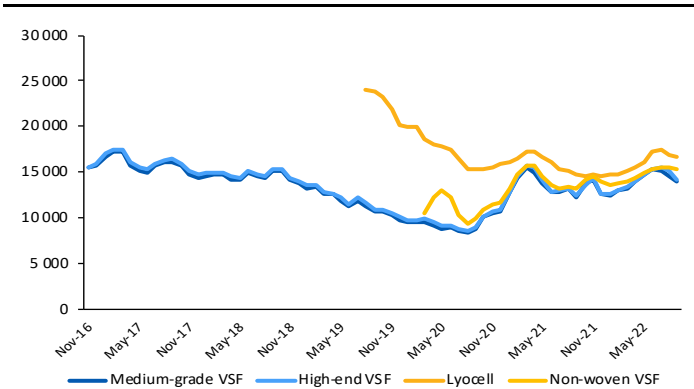
Source: CCF, Chronux Research

DWP/hardwood pulp spread (USD/t)



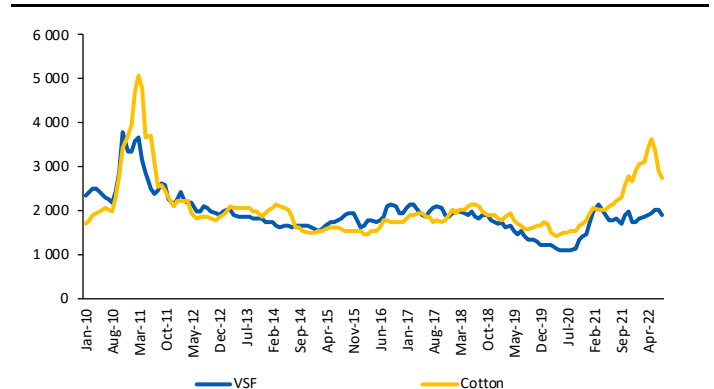
Source: CCF, Chronux Research, FOEX

VSF prices (RMB/t)



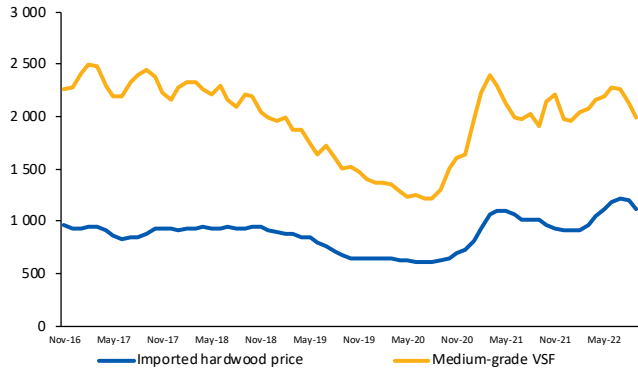
Source: CCF, Chronux Research

Textile prices (CNY/t)



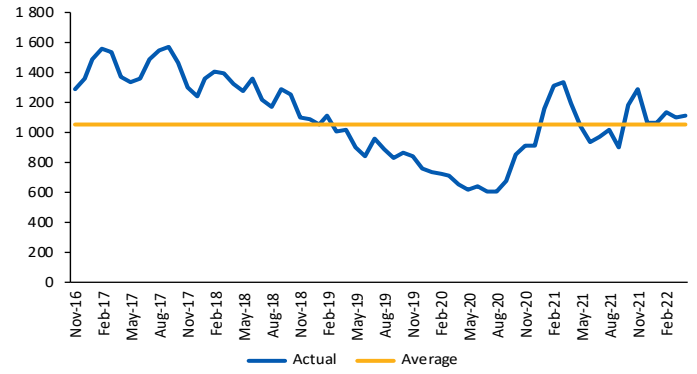
Source: CCF, Chronux Research

VSF and DWP prices (USD/t)



Source: CCF, Chronux Research

VSF/DWP spread (USD/t)



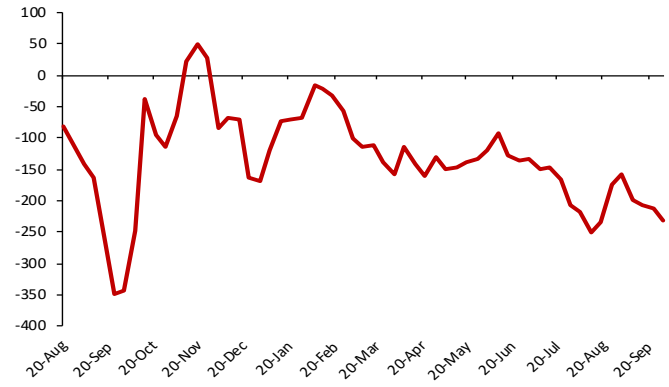
Source: CCF, Chronux Research

USD/RMB exchange rate



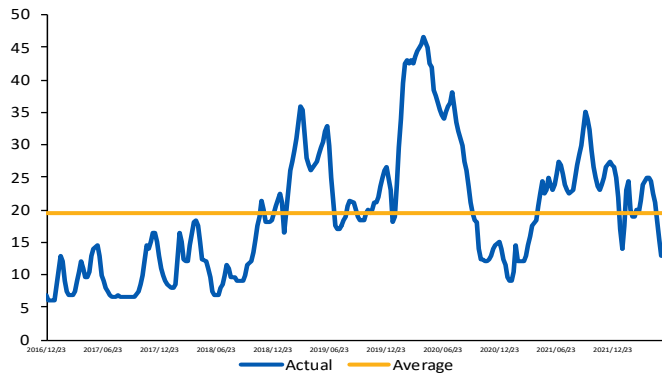
Source: CCF, Chronux Research

China VSF theoretical profit (USD/t)



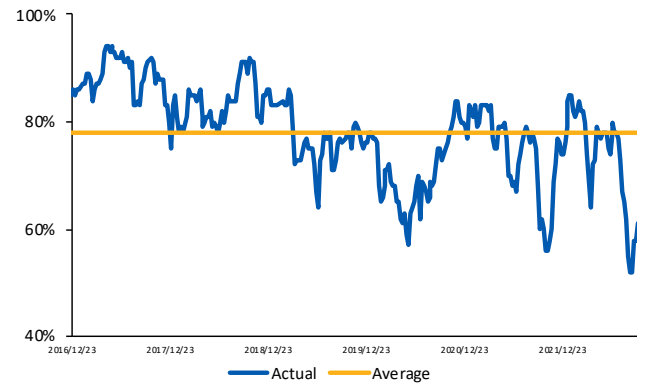
Source: CCF, Chronux Research

China VSF inventory days (#)



Source: CCF, Chronux Research

China VSF operating rate (%)



Source: CCF, Chronux Research

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