



# Forestry & Paper

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## Textile Fibre Insights

Analyst

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**Key message:** The viscose industry chain is set to benefit in 2023 from the lifting of strict COVID prevention and control measures in December. VSF inventory days drop to 20.5, while the average op. rate drops is now 57%. VSF theoretical profit is now almost at break-even. HW DP price averaged \$ 963/t in Q4 22A and \$ 908/t in December. Spot DP is now \$ 880/t.

- **Q4 22A key prices changes:** The imported hardwood (HW) DP price averaged \$963/t (\$: -18% q/q & +3% y/y; R: -15% q/q & +18% y/y). DP/pulp spread averaged \$ 110/t.
- **December 2022 key prices changes:** Imported HW DP price averaged \$ 908/t (\$: -5% m/m & +0% y/y; R: -6% m/m & +9% y/y).
- **Key w/w moves:** Cotton 0%; ICE cotton contract -4%; Polyester +1%; HW DP -1%; China-origin HW DP -1%, medium-grade VSF 0%; and high-end VSF 0% and Lyocell -1%. Cotton is trading at an 11% premium to VSF (2022 average premium: 28%) and a 103% premium to polyester (2022 average: 125%). The VSF premium to polyester is currently 82% (2022 average: 77%) and the lyocell premium to VSF is currently 18% (2022 average: 17%).
- **VSF producers almost break-even and VSF prices partially improved this week as downstream plants were still replenishing stocks:** VSF op. rate moderated this week to 57% (from 58%) as a unit in Shandong was shut for maintenance. VSF inventory days dropped to 20.5 (from 25.0). This was driven by downstream plants increasing the delivery of goods to get extra rebates from large-scale VSF plants. The theoretical VSF margin for Chinese producers improved but still in the red at -\$ 34/t on the back of lower DP prices and higher VSF prices. The VSF/DWP spread was up 2% w/w (+7% YTD).
- **The viscose industry chain is set to benefit in 2023 from the lifting of strict COVID prevention and control measures in December:** However, to date, shipment trends have remained weak as brand customers continue to destock. Additionally, with COVID cases surging post the relaxation of regulations, this has posed a headwind for offline retail. We highlight read-through from recent December revenue prints: Pou Cheng: -29% y/y; Yue Yuen: -14% y/y; Eclat: -37% y/y (Eclat expects sequential improvements from Q1 23E) and Feng Tay: +1% y/y.
- **Lyocell market under further pressure, with the price down 1% w/w:** The operating rate of the lyocell industry remains low at 49% (from 47%). Confidence of lyocell market remains weaker than that of VSF. Lyocell yarn mills will be mostly closed for holiday next week.
- **Hardwood DP prices under further pressure:** The spot hardwood price was down 1% w/w to \$ 880/t. On the back of this, downstream plants started to take offers and some suppliers reflected better trading volume than expected. The DWP/pulp spread is currently \$ 70/t (this level generally supports preference for paper pulp production over DP production). Despite this, according to CCF, there were rumours that producers were going to switch back to DP production. Domestic DP price was down 1% w/w to ¥ 7,100/t (\$ 1,033/t, a \$ 153/t premium to imports).

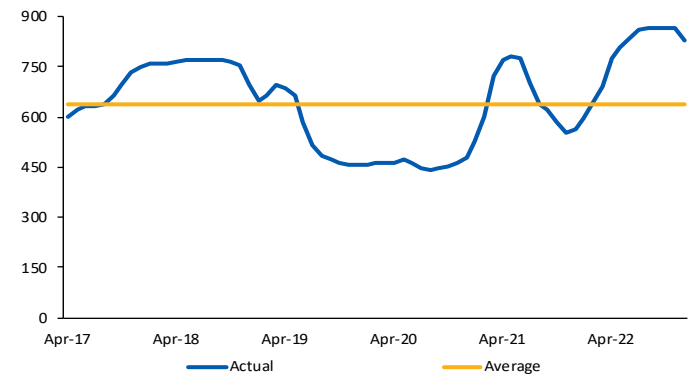
### China textiles - Key price and operating changes

Price details (CNY/t)	%bps w/w cig.	YTD %bps cig.
ZCE cotton contract	0%	1%
ICE cotton contract	-4%	0%
Polyester: PSF 1.4D *38mm	1%	-1%
Cottonseed	0%	1%
Cotton linter	2%	2%
High-quality cotton linter	2%	2%
Industry-grade refined cotton	0%	0%
Food-grade refined cotton	0%	0%
Hardwood DWP (USD)	-1%	-2%
China BHKP net (USD)	-2%	-2%
DWP/pulp spread (USD)	12%	-3%
Softwood DWP (USD)	0%	-3%
China-origin hardwood DWP	-1%	-1%
China-origin hardwood DWP (USD)	-1%	0%
Hardwood DWP spread: origin less import (USD)	-1%	15%
Medium-grade VSF	0%	1%
USD/t	0%	3%
Medium-grade VSF/HW DWP spread (USD/t)	2%	7%
High-end VSF	0%	1%
Lyocell fibre	-1%	-1%
<b>Competing fibre premiums</b>		
Cotton premium to polyester	(144)	434
Cotton premium/(discount) to VSF	(44)	10
Lyocell premium to VSF	(124)	(295)
VSF premium to polyester	(59)	374
<b>VSF plant operation</b>		
Operating rate (%)	(100)	-
Physical inventory days	-18%	-24%
VSF theoretical profit (USD/t)	-52%	-67%
VSF theoretical profit (yuan/t)	-52%	-67%
<b>Lyocell plant operation</b>		
Lyocell op. rate (%)	(1 001)	
<b>FX</b>		
USD/RMB	0%	-1%

Source: Chronux Research, CCF

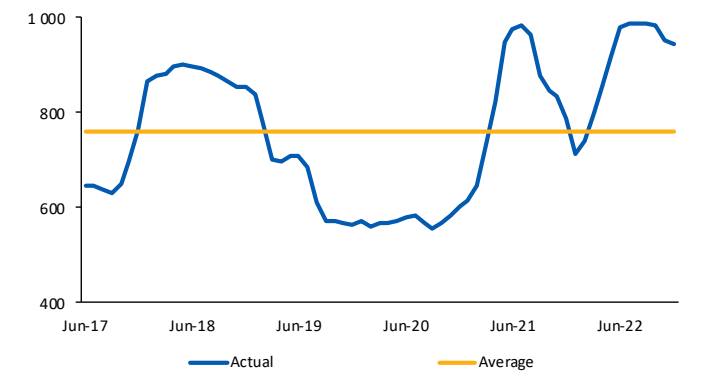
# Prices, Spreads, FX and Industry Stats: As at 31 December

**China hardwood pulp price (\$/t)**



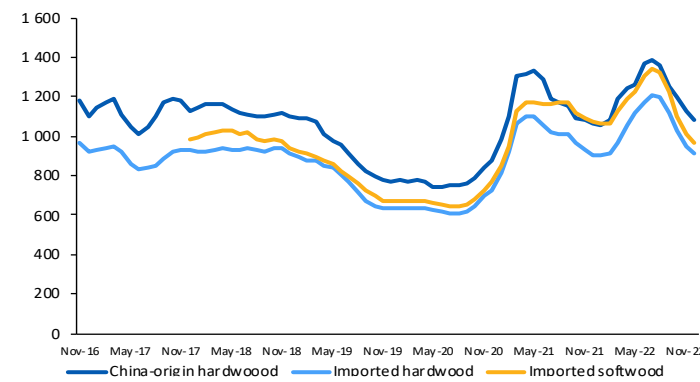
Source: Chronux Research, FOEX

**China softwood pulp price (\$/t)**



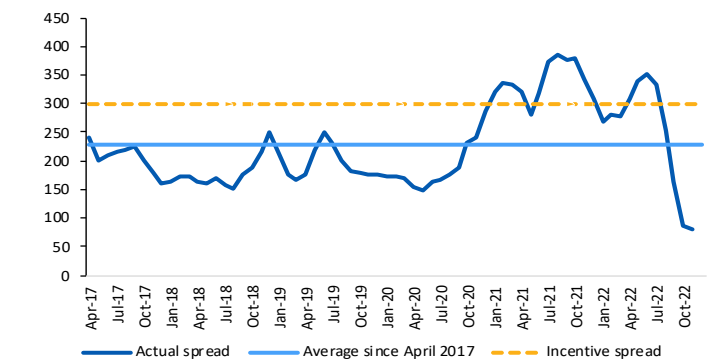
Source: Chronux Research, FOEX

**DWP prices (\$/t)**



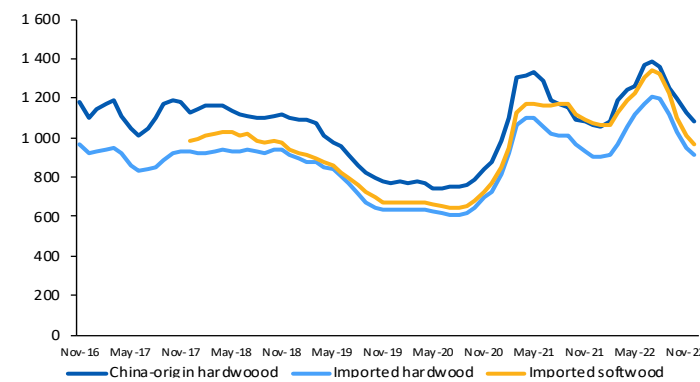
Source: CCF, Chronux Research

**DWP/hardwood pulp spread (\$/t)**



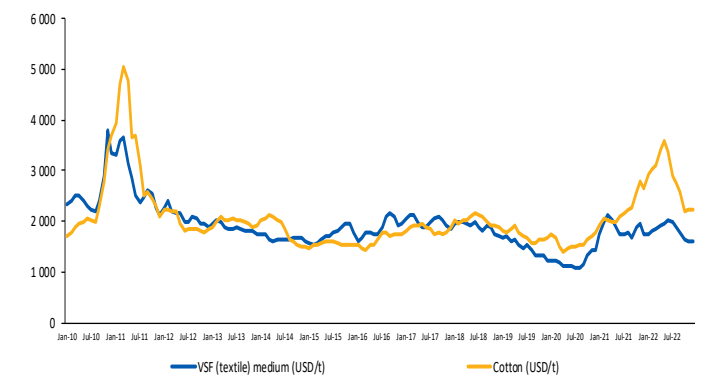
Source: CCF, Chronux Research, FOEX

**VSF prices (RMB/t)**



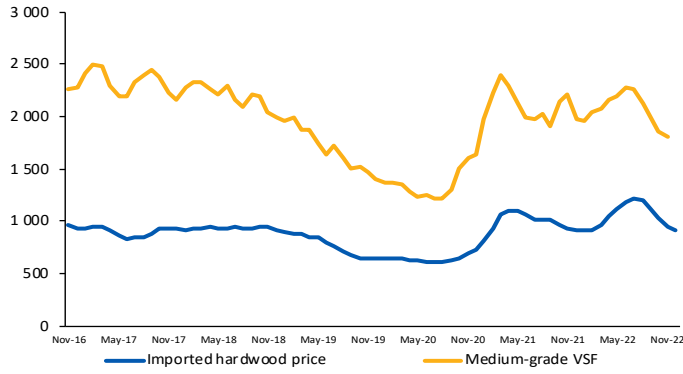
Source: CCF, Chronux Research

**Textile prices (CNY/t)**



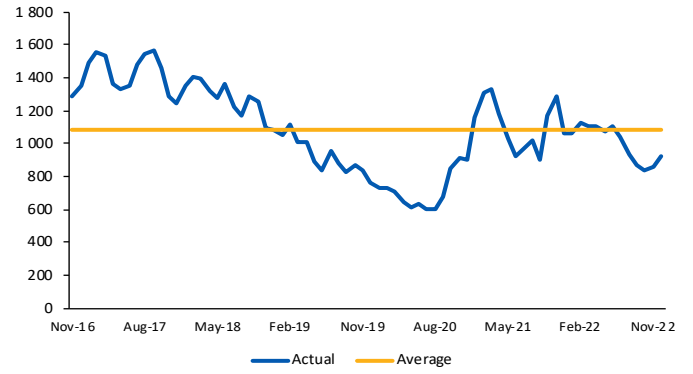
Source: CCF, Chronux Research

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



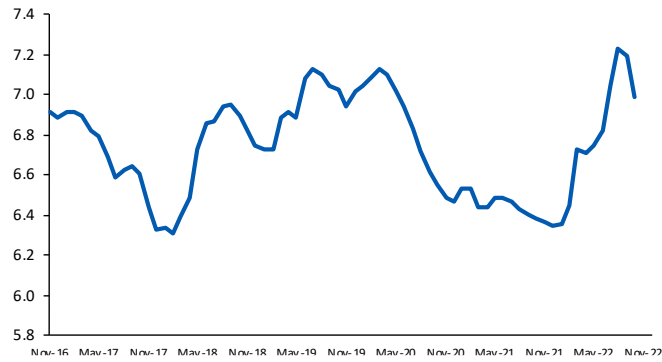
Source: CCF, Chronux Research

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



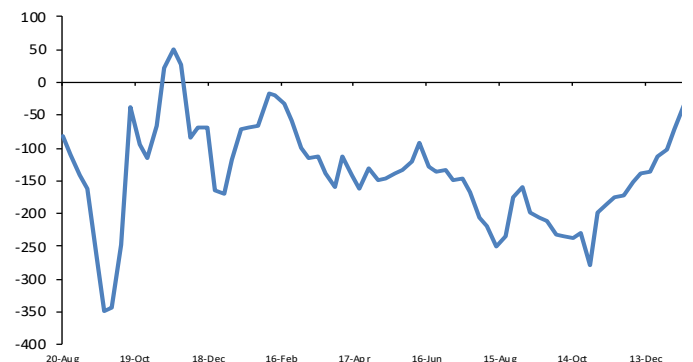
Source: CCF, Chronux Research

**USD/RMB exchange rate**



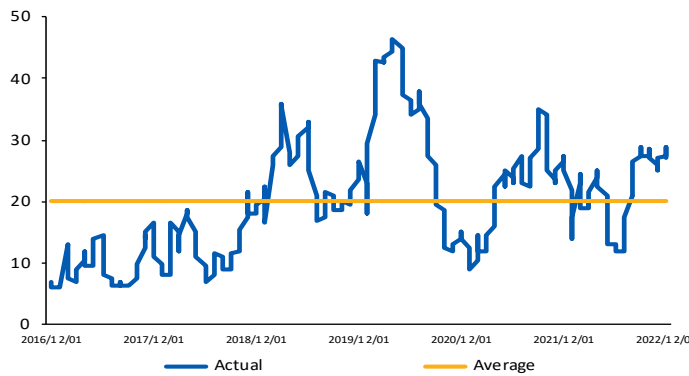
Source: CCF, Chronux Research

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



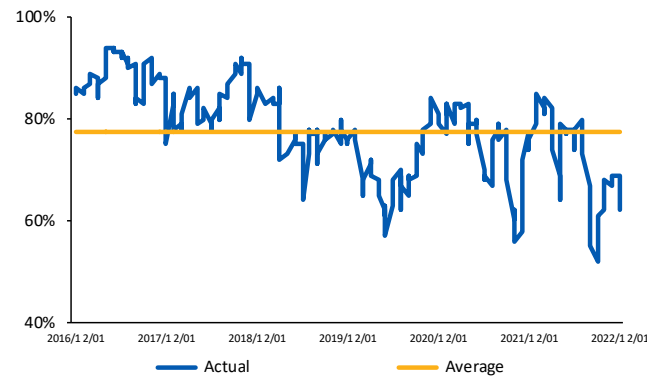
Source: CCF, Chronux Research

**China VSF inventory days (#)**



Source: CCF, Chronux Research

**China VSF operating rate (%)**



Source: CCF, Chronux Research

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