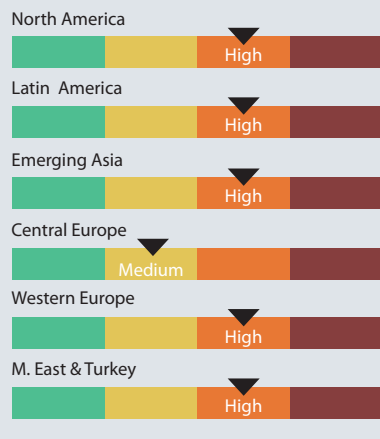


TEXTILE-CLOTHING

COFACE REGIONAL SECTOR RISK ASSESSMENT



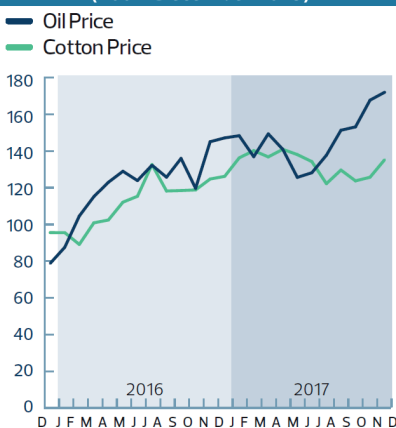
+ STRENGTHS

- Growth of the middle class in emerging countries
- Improving global growth prospects

- WEAKNESSES

- Substantial cotton stocks in China the clearance of which constrained demand on the world market
- Product with high elasticity of demand

TRENDS IN OIL AND COTTON PRICES (100 = December 2015)



Sources: EIA, Thomson Reuters

RISK ASSESSMENT

World demand for cotton in 2017/2018 will remain marked by China's cotton import restriction policy implemented to reduce its domestic stocks. However, the low quality of Chinese cotton is likely to push local textile producers to rely on imports for high quality cotton, pushing up Chinese demand for cotton.

The textile sector will continue to be characterised by an ever-smaller share of cotton in the face of the increasing use of synthetic fibres in industry. Cotton accounted for only 43% of textile imports in the United States in 2016/2017 compared to 47% in 2011/2012 (USDA). Cheaper, easy to mix with other fibres, and having a limited impact on the environment compared to cotton, synthetic fibres concentrate the sector's technical advances. The sharp increase in cotton prices in 2016 (+42% in January and December) accentuated the greater competitiveness of synthetic fibres compared to cotton.

Global textile demand will be marked by improved growth prospects in the largest consumer markets (1.9% growth in the EU-15 zone in 2018 and 2.4% in the United States according to Coface estimates), pulling up household consumption. Finally, world textile supply will be characterised by the dynamism of South-East Asian economies (Bangladesh, Vietnam, Sri Lanka).

DEMAND

World cotton consumption is expected to increase by 4% in 2017/2018 (season beginning August 1st 2017) to 25 million tonnes/year. The continuance of China's cotton import quota policy implemented to liquidate its domestic stocks is weighing on world demand for cotton. However, the low quality of Chinese cotton is expected to lead local textile producers to use higher quality imported cotton thereby increasing Chinese demand. The cotton trade is expected to be particularly dynamic while the countries with the strongest demand are non-producing countries (Bangladesh, Vietnam). US exports, for which Vietnam is the leading destination, should increase by 3.9% in 2017/2018.

World textile consumption is expected to increase in a context of global macroeconomic recovery. After several years of more than disappointing growth, the EU and the United States have returned to greater growth path with respectively 1.9% and 2.4% growth in 2018 (Coface estimates). In particular, this recovery is reflected by a declining unemployment rate in Europe which previously slowed textile consumption with 8.8% of unemployment in October 2017 against 9.8% a year earlier. In particular, the unemployment rate among young people, who allocate more resources to textiles, is also decreasing, although still high, and was 16.5% for the under 25s in October 2017 against 18.3% in 2016.

Demand for textiles is also marked by a craze for "fast fashion" (phenomenon of production and sales of constantly renewed and generally cheap collections) on the Asian market. Responding to the demand of a growing middle class, key fast fashion brands (such as Uniqlo, Zara, and H&M) are entering these markets on the mid-range segment. The sector is expected to grow strongly, at around 9.5% average growth per year, over the next five years. Population growth in the region should reinforce this trend over the longer term.

SUPPLY

After two consecutive years of contraction, land under cotton is expected to rebound in 2017/2018 (11% growth to reach 32.5 million hectares) according to the International Cotton Advisory Committee. This increase in land under cotton in key producing countries is favoured by record prices (69.75 US cents/lb in May 2017), especially at the time of sowing. World cotton production should therefore experience a strong increase in 2017/2018 (+12% to 25.7 million tonnes) if good weather conditions continue. This dynamism in production, with more growth than demand, coupled with the clearance of Chinese cotton stocks, should put downward pressure on the price per pound of cotton. Prices should therefore decrease in 2018.

Textile supply will be characterised by the dynamism of South-East Asian countries in the face of a relative slowdown in Chinese exports (4.6% growth in 2018 compared to 5.4% in 2017). The relative rise in labour costs in China as well as the sustainable development policies implemented have prompted many global textile manufacturers to move their production centres to other countries in the region; in particular Bangladesh, Vietnam, and Cambodia. Second largest supplier on the European market, Bangladesh experienced very strong growth in its textile and clothing exports in 2016/2017 (+14% in July-August 2017 compared to 2016) and is likely to overtake China on the European market by 2020. Similarly, Vietnam, which is the USA's second largest supplier, has experienced a strong growth in its textile exports to the US (+6.5% over the first nine months of 2017) while total US textile and clothing imports fell over the same period (-1.4%). Cambodia's exports (fifth largest supplier to the European Union) continue to grow but are subject to the risk of a possible revocation of its preferential status by the European Union after a European Parliament resolution in December in response to the political events of the fall.

Finally, recovery in demand is enabling textile companies positioned on the mid-range segment to relax a little after some particularly difficult years. An example of this is the company Vivarte (la Halle, Naf Naf, Kookai, etc.) which, after several restructurings, finally seems to be afloat again around a smaller base of brands.