



## MEMORANDUM

**DATE:** June 3, 2010

**TO:** Bill May

**FROM:** Zhang Jing

**SUBJECT:** Cotton Market and Textile Industry Update

Below is an unofficial translation of a report by CNCotton regarding current China cotton market and textile industry. The price of cotton has steadily increased and yarn mills are somewhat unaffected due to large amounts of orders with also increasing prices while fabric mills have been negatively impacted. Textiles compared with other manufacturing industries and apparels compared with other industrial goods are growing at slower rates. At the same time costs for raw materials are increasing. Exports have rebounded but analysts caution that due to a low base effect data appears inflated. Growth will not be as strong in the second half of the year; global economic recovery, unemployment in developed countries, and domestic demand are some of the factors that will affect the future growth of China textile industry.

### **Cotton Prices Cause Pressure on Grey Fabric and Apparel**

By May 26, the China Cotton Index had risen 35 percent year-on-year (y/y) and price of raw materials such as cotton and yarn have dramatically jumped. Currently, the national average price of standard cotton is over U.S. \$2,489/MT (RMB 17,000/MT) and peaked at U.S. \$2,562/MT (RMB 17,500/MT), the highest since 2004. At the beginning of 2009 and 2010, the price was U.S. \$1,610/MT (RMB 11,000/MT) and U.S. \$2,122/MT (RMB 14,500/MT), respectively.

Cotton, as one major source of materials in the textile industry, affects many enterprises when price fluctuates. Continual increases and current high prices of cotton have created very different results in each part of the industry supply chain. Yarn mills are optimistic while fabric mills are anxious.

During the spring of 2010, numerous yarn mills had favorable conditions as orders increased and many were cash deliveries. The general operational rate for spinning equipment was over 85 percent. Since March, the Shandong Guanxing Group has raised yarn prices nine times and as a result, the average price per ton of yarn increased by U.S. \$292 (RMB 2,000).

At the same time, cotton fabric mills have suffered under price and other pressures. According statistical data reported by CCA, as of April 30, China Cotton Index increased by eight percent, the price of 32S carded cotton yarn increased by 12 percent, but the price of cotton grey fabric only increased by 5.7 percent. A survey from CNTAC indicates that since March, some small size and less financed cotton fabric companies have stopped receiving orders, many looms stopped running, operational rates declined, and some textile enterprises made a profit on cotton yarn but lost on grey fabric.

### **Textile Growth Slow Compared with Other Manufacturing Industries**



According to the National Bureau of Statistics, in April, CPI increased 2.8 percent y/y, PPI increased 6.8 percent, and above-scale industrial added value increased 17.8 percent y/y. From January to April, total industrial added value increased 19.1 percent, including an 11.2 percent textile increase, which was lower than other manufacturing industries. Although the price of industrial goods increased 6.8 percent, apparels only increased 1.6 percent, with the price of raw materials having increased 13.6 percent, cost pressure to the textile industry swelled.

#### **Domestic Textile Market is Steady; However Strong Export Growth will Slow**

In April, the total textile and apparel exports were U.S. \$14.5 billion, an increase of 16 percent y/y. Also, textile exports increased 24.8 percent and apparel exports increased 10.6 percent. From January to April, accumulative textile and apparel exports increased 15.5 percent, including an increase of 26.2 and 9.4 percent, for textile exports and apparel exports, respectively.

Experts account these large y/y increases as a result of a low base effect; the speed of textile export growth in China is expected to slow in later half of the year. Other concerns remain including high unemployment in developed countries, slow recovery, and low foreign market demand. The U.S. unemployment rate in April increased from 9.7 percent to 9.9 percent. In March unemployment rates in the EU and Japan also increased from February. There are still many uncertainties that could arise later in the year. While the Chinese Yuan (RMB) exchange rate was steady in the past four months, appreciation is certain. The question lies with when and how much. If the RMB appreciates beyond 3 - 5 percent, it will result in even greater pressure for textile and apparel industry exports.

“The chart of 2010 China textile and apparel export trends would show first an increase and then a decline.” WANG Qianjin, a textile senior analyst said. “In the next half year, the domestic market of textile and apparel will have a steady increase of 15 percent. However, exports growth rate could drop to 10 percent from 15 percent” he continued. With the weakening Euro, increases in China textile and apparel exports may slow in the next half of the year. If the European economy declines further, global textile and apparel exports may decline to single digits.

Meanwhile, profits for textile export enterprises are shrinking. As the global economy, especially in Europe, is not yet stabilized, merchandisers are more cautious in the procurement of high-end products. If Chinese textile companies raise quoted prices, oversea merchandisers could cut the purchase amounts or procure from other countries. Currently, the cost of textile and apparel exports shows an increasing trend but confidence on both supply and demand sides is still low and only small orders are placed as buyers and sellers attempt to manage risk.

In spite of this, domestic textile and apparel market has recovered to the same level of 2007; consumption potential of second and third tiers of cities is greater than tier one cities with strong domestic demand growth.