



CHINA COTTON MARKET REPORT

July 2016

SUBJECT	KEY FINDINGS
Cotton Market	<p>a) Imports</p> <p>In June, China imported 332,884 bales (72,477 MT) of cotton, a decrease of 7.36 percent month-on-month (m/m), and a decrease of 55.2 percent year-on-year (y/y).</p> <p>The total value of cotton imports in June was USD 123.47 million, a decrease of 3.92 percent m/m and a decrease of 57.70 percent y/y.</p> <p>The U.S. was ranked as the largest cotton supplier to China in June. Australia was ranked as the second, Indian was ranked as the third:</p> <ul style="list-style-type: none">• U.S. Imports: 107,130 bales (23,325 MT), representing a decrease of 32.3 percent m/m, and a decrease of 72.24 percent y/y. U.S. cotton imports accounted for 32.18 percent of the total quantity imported to China in June.• Australian Imports: 95,750 bales (20,847 MT), representing an increase of 114 percent m/m and a decrease of 40.84 percent y/y. Australian cotton imports accounted for 28.76 percent of the total quantity imported to China in June.• Indian Imports: 26,538 (5,778 MT), representing an increase of 43.15 percent m/m and an increase of 0.19 percent y/y. Indian cotton imports accounted for 7.97 percent of the total quantity of imported cotton to China in June. <p>From January to June, 2016, Chinese cotton imports totaled 1,975,755 bales (430,170 MT), a decline of 53.94 percent y/y. U.S. cotton was ranked as the largest with a total quantity of 841,864 bales (117,977 MT), accounting for 27.43 percent of total imports. Uzbekistan was ranked as the second supplier with a total quantity of 397,209 bales (86,482 MT), accounting for 20.1 percent of total imports. India was ranked as the fourth with a total quantity of 243,115 bales (52,932 MT), accounting for 12.3 percent of total imports.</p> <p><i>(See the tables and charts below for a breakdown of cotton imports by country.)</i></p> <p>b) Cotton Growing 2016</p> <p>By the end of June, 2016, China National Cotton Exchange (CNCE) conducted a survey on the cotton growing area of 3,700 cotton growers from 15 inland provinces including Xinjiang.</p> <p>According to the survey, cotton grows normally in the Yellow River Basin and Northwest planting areas. However, waterlog appears in the Yangtze River Basin, which impacts on cotton growing and decreases the amount of cotton buds and bulls. The estimated total cotton production in 2016 is 2.223 trillion bales (4.839 MMT), representing a decrease of 7.2%, with an average production of 3.08 bales/acre (110.3 Kg/Mu), representing an increase of 8.3% y/y.</p>



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	<p>c) Auction of Reserved Cotton 2016</p> <p>According to China National Cotton Reserves Corporation, from May 3rd to July 22nd, 6,905,968 bales (1.5036 MMT) of reserved cotton were provided for sale through auction. 6,784,267 bales (1.4771 MMT) reserved cotton were actually sold which account for 98.24% of total released, including 1,360,895 bales (296,300 MT) of imported cotton, account for 20.06% and 5,423,372 bales (1.1808 MT) of domestic cotton, account for 79.94%. The average length of sold reserved cotton was 28.3 mm. The average transaction price of reserved cotton was RMB 12,899/MT (USD 1,964.45/MT, based on average exchange rate from May 3rd to July 22nd).</p> <p>d) Cotton Prices</p> <p><u>Imported Cotton:</u></p> <p>In June, the average price of imported cotton was USD 0.77 /Pounds, an increase of 3.71 percent from the previous month. Average prices for cotton from the United States of America, India and Uzbekistan were:</p> <ul style="list-style-type: none"> • U.S. cotton: USD 0.87 /Pounds, an increase of 9.07 percent m/m; • Indian cotton: USD 0.70 /Pounds, an increase of 5.61 percent m/m; • Uzbekistan cotton: USD 0.72 /Pounds, a decrease of 2.68 percent m/m. <p><u>Domestic Cotton:</u></p> <p>The June <i>CC index 2129B</i> average price was RMB 13,002/MT (USD 0.90/Pounds), an increase of 1.22 percent m/m.</p> <p><i>(*In June 2016, USD 1 = RMB 6.5874; from the State Administration of Foreign Exchange)</i></p> <p>The July <i>CC Index 2129B</i> price increased from RMB 13,522/MT (USD 0.92/Pounds) on July 1st to RMB 15,566/MT (USD 1.06/Pounds) on July 22nd.</p> <p><i>(*On July 22nd, 2016, USD 1 = RMB 6.6669; from the State Administration of Foreign Exchange)</i></p>
<p>Textile Industry</p>	<p>a) Synthetic Fiber Production</p> <p>According to the National Bureau of Statistics (NBS), synthetic fiber production for June reached 4.663 MMT, an increase of 13.9 percent y/y. By the end of June, Chinese synthetic fiber production totaled 24.518 MMT in 2016, an increase of 8.4 percent y/y.</p> <p>b) Textile and Apparel Exports</p> <p>According to the General Administration of Customs (GAC), China's textile and apparel exports for June totaled USD 24.014 billion, an increase of 2.12 percent m/m, and a decrease of 5.27 percent y/y. By the end of June, China's textile and apparel exports totaled USD 125.03 billion in 2016, a decrease of 2.62 percent y/y.</p> <p>In June, textiles accounted for USD 9.118 billion of total exports, representing a decrease of 10.65 percent m/m and a decrease of 3.7 percent y/y; apparel accounted for USD</p>



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	14.896 billion, an increase of 11.91 percent m/m, and a decrease of 6.21 percent y/y.
Policy Monitoring	<p>1. China Cotton Communiqué - Unexpected insufficient cotton supply results in price increase and production suspension</p> <p>At present, China's auction of reserved cotton has received positive a market reaction. The total close rate reached up to 97.69%. However, even with this strong market momentum, the cotton supply is far less than the production demands. Currently, as cotton reserves have become the main resource for the textile industry, the market has witnessed 1) higher prices both on the Spot Market and Futures Market; and 2) some textile enterprises have put productions on hold due to lack of materials, waiting to see how market goes next. This has drawn attention and concern of the National Development and Reform Commission (NDRC), China's key government agency on macro control of imports and domestic supply. On June 21st, NDRC has issued a notice request to the China National Cotton Reserve Corporation (CNCRC) to make substantial efforts to improve warehouse-outing rate to ensure a smooth implementation of cotton auction. However, the situation has not improved over the last 2 weeks. As of the week of June 27th, the highest price for closing the deal reached up to RMB 14,000/ton (USD 459.01/bale) while the average price was at RMB 12,358/ton (USD 409.84/bale). China market was still in high shortage of cotton. Our discussion with Ms. Li Lin, Vice Secretary General of the China Cotton Association, revealed that the NDRC was underprepared for the complexity of the market situation and lacked measures to cope with it. As NDRC's previous request on improving efficiency of implementation did not make much difference, it remains questionable if the government will be able to find a solution. At this stage, NDRC does not plan to issue any other alternative policies to address the challenge. We will keep a close eye on the situation.</p> <p><i>(For more details, please refer to the memo sent on July 8th.)</i></p>



Appendix:

Table 1: June 2016 China’s Cotton Imports by Country of Export

Country	Quantity (MT)	Value (Million \$ U.S.)	Value Per Unit (\$/MT)	Share of Total Quantity (%)	Share of Total Value (%)
United States	23,325	44.67	1,915.12	32.18%	36.18%
Australia	20,847	35.48	1,701.77	28.76%	28.73%
India	5,778	8.89	1,538.90	7.97%	7.20%
Brazil	5,440	8.10	1,488.90	7.51%	6.56%
Cameroon	4,441	6.66	1,500.03	6.13%	5.40%
Uzbekistan	4,080	6.52	1,596.97	5.63%	5.28%
Sudan	2,177	2.84	1,306.43	3.00%	2.30%
Benin	2,071	3.05	1,475.16	2.86%	2.47%
Burkina Faso	1,585	2.29	1,447.26	2.19%	1.86%
Zimbabwe	819	1.25	1,524.40	1.13%	1.01%
Others	1,913	3.71	1,937.90	2.64%	3.00%
Total	72,477	123.47	1,703.52	100.0%	100.0%

Chart 1: June 2016 China Cotton Imports by Country of Export (Quantity)

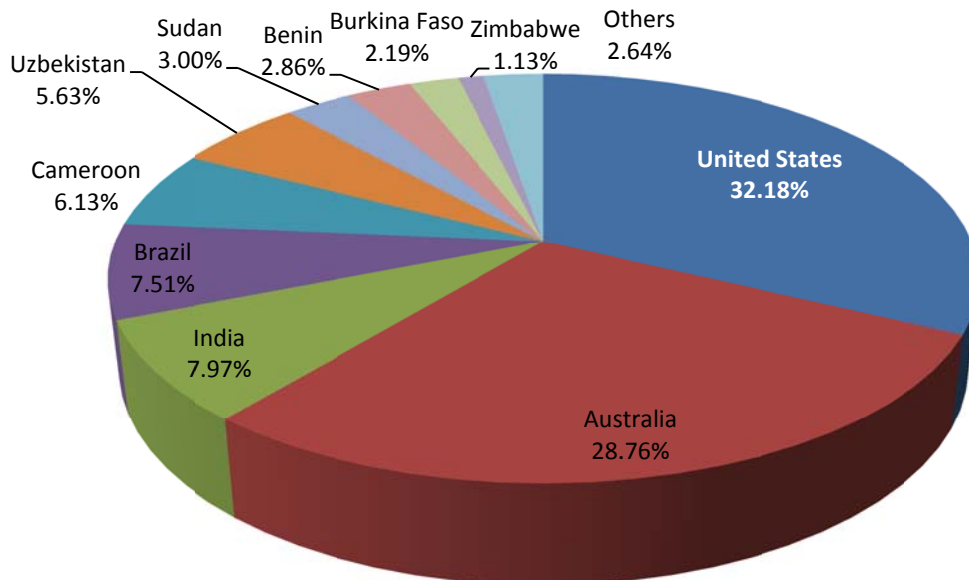




Table 2: China's Cotton Imports by Country of Export in 2016

	January	February	March	April	May	June	Total Quantity by Country (MT)	Share of Total Quantity (%)
United States	10,155	11,918	16,414	21,709	34,456	23,325	117,977	27.43%
Uzbekistan	31,763	21,105	8,091	11,785	9,658	4,080	86,482	20.10%
Australia	16,552	3,620	4,345	5,798	9,742	20,847	60,904	14.16%
India	18,452	5,500	11,114	8,052	4,036	5,778	52,932	12.30%
Brazil	12,302	10,463	7,962	5,983	5,168	5,440	47,318	11.00%
Others	6,356	3,626	9,956	16,437	15,175	13,007	64,557	15.01%
Total	95,581	56,231	57,882	69,764	78,235	72,477	430,170	100.00%

Chart 2: China Cotton Imports by Country (Quantity) in 2016

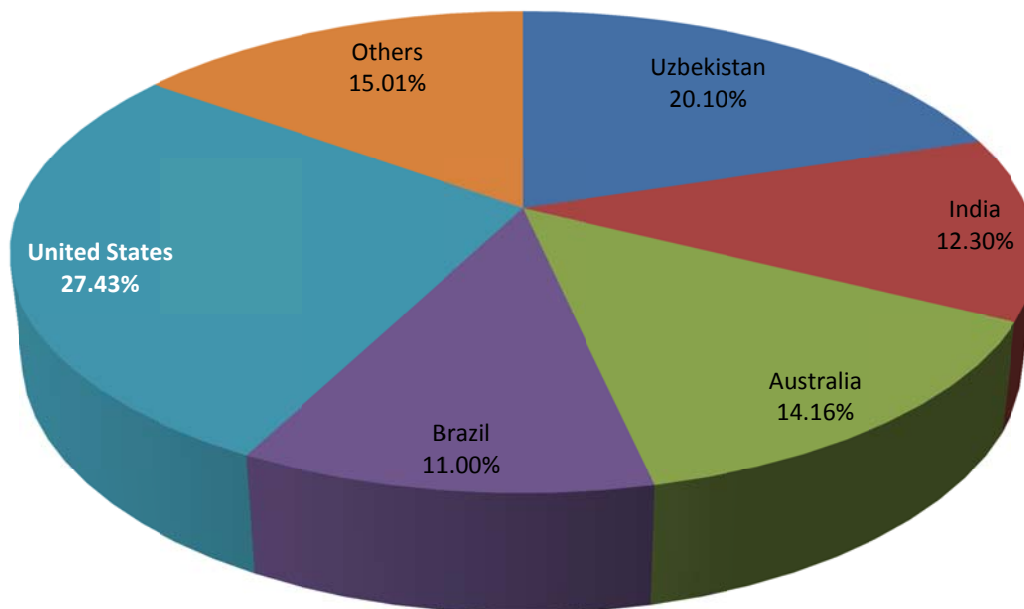




Chart 3: China Imports of U.S. Cotton vs. Indian Cotton June 2015–June 2016

