



China Cotton Policy and Market Report

December 2019

SUBJECT	KEY FINDINGS
<p>Cotton Market</p>	<p>a) Imports</p> <p>In November China imported 482,818 bales (105,121MT) of cotton, an increase of 43.99 percent month-on-month (m/m), and a decrease of 20.39 percent year-on-year (y/y). The total value of cotton imports in November was USD 182.75 million, an increase of 36.81 percent m/m and a decrease of 31.50 percent y/y.</p> <p>Brazil was ranked as the largest cotton supplier to China in November, while Australia ranked second, U.S. the third, and Tajikistan the fourth.</p> <ul style="list-style-type: none"> • Brazil Imports: 267,022 bales (58,137 MT), representing an increase of 101 percent m/m. Brazil cotton imports accounted for 55.30 percent of the total quantity imported to China in November. • Australia Imports: 93,910 bales (20,446 MT), representing a decrease of 22.10 percent m/m. Australia cotton imports accounted for 19.45 percent of the total quantity imported to China in November. • U.S. Imports: 62,675 bales (13,645 MT), representing an increase of 29.96 percent m/m, and a decrease of 12.13 percent y/y. U.S. cotton imports accounted for 12.98 percent of the total quantity imported to China in November. <p>In 2019, Chinese cotton imports totaled 7,787,825 bales (1,695,599 MT), an increase of 25 percent y/y. Brazil cotton was ranked as largest supplier with a total 1,938,693 bales (422,101 MT), accounting for 24.89 percent of total imports. Australia cotton was ranked as the second largest with a total quantity of 1,721,330 bales (374,775 MT), accounting for 22.10 percent of total imports. U.S. and India were the third and fourth largest supplier, marking 19.66 percent and 11.78 percent, respectively.</p> <p><i>(See the tables and charts below for a breakdown of cotton imports by country.)</i></p> <p>b) The Plantation and Growing Situation in China in November</p> <p>According to the China Cotton Association (CCA)'s latest survey, the estimated total output of cotton in 2019 is 27.12 million bales (5.91 million MT), with a decrease of 3.35% y/y. In Xinjiang, the estimated cotton output is 23.15 million bales (5.04 million MT) with a decrease of 1.9% with last year. As for the Yellow river and Yangtze river area, the production will see decrease of 9.84% and 11.34% y/y respectively.</p> <p>c) Cotton Prices</p> <p><u>Imported Cotton:</u></p> <p>In November the average price of imported cotton was USD 78.86 Cents /Pound, a decrease of 4.98 percent from the previous month. Average prices for cotton from the United States of America, India and Brazil were:</p>



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	<ul style="list-style-type: none"> • U.S. cotton: USD 73.25 Cents /Pound, a decrease of 8.7 percent m/m. • India cotton: USD 72.27 Cents /Pound, a decrease of 9.2 percent m/m. • Brazil cotton: USD 76.90 Cents/Pound, a decrease of 3.5 percent m/m. <p>Domestic Cotton:</p> <p>The November CC index 2129B average price was USD 86 Cents/Pound (RMB 13, 384/MT), an increase of 2.4% m/m.</p> <p><i>(*In November, USD 1 = RMB 7.02; from the State Administration of Foreign Exchange)</i></p> <p>Local price of CC Index 2129B increased from RMB 13,298 /MT on November 1st to RMB 13,435 /MT on November 29th, price in US dollar increased from USD 85.44 Cents/ Pound on November 1st to USD 86.69 Cents/ Pound on November 29th.</p> <p><i>(*On November 1st, USD 1 = RMB 7.04; on November 29th, USD 1 = RMB 7.03; from the State Administration of Foreign Exchange)</i></p>
<p>Textile Industry</p>	<p>a) Man-made Fiber Production</p> <p>According to the National Bureau of Statistics (NBS), man-made fiber production for November reached 5.46 MMT, an increase of 16.3 percent y/y and an increase of 0.91 percent m/m. By the end of November, total production reached 54.93 MMT in 2019, with an increase of 13.5 percent y/y.</p> <p>b) Textile and Apparel Exports</p> <p>According to the General Administration of Customs of China (GACC), China’s textile and apparel exports for November totaled USD 22.07 billion, a decrease of 3.56 percent y/y, and a decrease of 3.50 percent m/m. The textile accounted for USD 9.95 billion, with a decrease of 3.08 percent y/y and a decrease of 2.07 percent m/m; the apparel accounted for USD 12.12 billion, with a decrease of 3.96 percent y/y and a decrease of 4.6 percent m/m. China’s textile and apparel exports totaled for first eleven months of 2019 reached USD 246.88 billion, a decrease of 2.65 percent y/y.</p>
<p>Policy Updates</p>	<ul style="list-style-type: none"> • U.S.-China announce “Phase One” trade without sharing details until it is signed <p>U.S. and China have agreed to the yet-to-be-made-public and officially signed content of a “phase-one” trade agreement. As part of the deal the U.S. agreed not to proceed with scheduled additional tariffs on Dec. 15, and reduced existing tariffs on USD 120 billion of Chinese exports from 15% to 7.5%. China has not confirmed any detailed measures it will take in response to the reduction in tariffs, but has instead only outlined the general terms of the agreement in public. On December 19th, China’s Ministry of Finance (MOF) announced the second batch of tariff exemption list in the first round of application and no agricultural products were included. The rest of application in this round could be seen as rejected (cotton included) unfortunately. According to our discussion with CCA, they believe that tariff exemption is reserved for products that enjoy very high irreplaceability,</p>



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	<p>and cotton could be resorted to the SOEs purchase if both countries could reach consensus on that.</p> <p>There has been no confirmation by Chinese authorities of additional agricultural or other product purchases, but the Chinese government indeed granted two new genetically modified (GM) events (soybean and papaya) for import on December 30th that could boost agricultural purchases from the United States, while renewing permits for 10 others, including soybeans, corn, cotton, and canola. The specific content of the phase one agreement will be made public after it is signed, which is expected to happen in early January, 2020.</p> <ul style="list-style-type: none">• China's cotton tariffs remain the same after recent tariff reduction <p>In line with China's long efforts to further opening-up and pursue quality trade, and also to address the supply and demand gap of commodities at home such as pork, on December 23rd, 2019, China's Ministry of Finance (MOF) published a list of 859 types of products that will enjoy tariffs lower than the standard rates in 2020. Tariffs for cotton remain the same under the TRQ and STRQ. As for cotton yarn, besides the zero tariff for most of the Pakistan yarns due to the updated free trade agreement from December 1st, 2019, the yarns from South Korea, Georgia, and Australia will also enjoy lower tariffs. However, due to the price disadvantages and strong competition from Vietnam yarn, the Pakistan yarn will not see major expansion in China in the near future. The imports from the other three countries are also limited so the tariff reduction will not impact China's yarn markets as well as China demand for cotton imports.</p> <ul style="list-style-type: none">• China expects stable cotton industry policies in the coming years <p>In the past years, Chinese cotton industry has experienced the years-long national reserve take-in as well as the auction afterwards. Xinjiang's target price subsidy reform has been advancing exploration. At present, the reserve destocking program is completed, and Xinjiang production is also stabilized at around 5 MMT. During the CCA council meeting on December 18th in Beijing, government stakeholders including Mr. CHEN Da, the Deputy Director General of National Development and Reform Commission (NDRC) and the new elected Vice President of CCA, Mr. WANG Jianhong expressed that China expects stable cotton industry policies in the coming years in the below four aspects.</p> <ol style="list-style-type: none">a) Xinjiang cotton production will continue receive subsidy support. In 2020, China will continue the target price subsidy program after the current 2017-2019 one completes at the end of 2019. Farmers will continue to get the subsidy from government, which is crucial to stable and develop the cotton production in Xinjiang. The Chinese government agencies are working on the details of the next program to confirm that the program will continue, which will benefit the industry's plantation plans in 2020.



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	<p>b) China to save inland cotton production from dying. Compared with the rising development of Xinjiang area which is evidenced by its growing market share from 70% in 2014 to 90% in 2019, the inland cotton production is diving with some 10% decrease y/y. To balance the domestic cotton production with the aim to protect the cotton supply security, this month several ministries jointly announced to reinforce the inland cotton market regulation in nine provinces, which are Hebei, Shandong, Gansu, Henan, Hubei, Hunan, Jiangxi, Jiangsu, Anhui, especially during the process of government-run quality test and warehousing. The official statistics from the test will support the farmers to get the government subsidy and benefit the inland cotton trade. It's expected to see the recovery of the inland cotton industry development in the near future. At present, China is experiencing cotton over-supply instead of the long short-of-supply due to the reduced demand and high stock. However, under normal situation and in the long run, due to China's some 2 MMT supply and demand gap of cotton, and the limited space for inland cotton production to expand, it will not majorly change the situation that China needs the imports to fill the gap in terms of quantity and quality.</p> <p>c) National reserve will be regularly rotated. The reserve rotation from 2019 will be regularly implemented to contribute to the market stabilization.</p> <p>d) Import quota management will continue to be more open and fair. Information sharing in terms of cotton import quota in 2020 between the distributor NDRC and import watch-dog GACC (General Administration of Customs) is under discussion for the government to monitor the usage of the quota. More efforts will continue to be seen for the market-oriented quota management reform in 2020.</p>



Appendix:

Table 1: November 2019 China's Cotton Imports by Country of Export

Country	Quantity (Metric Tons)	Value (Million \$ U.S.)	Value Per Unit (\$/MT)	Share of Total Quantity (%)	Share of Total Value (%)
Brazil	58137.22	98.57	1,695.41	55.30%	53.94%
Australia	20446.47	40.21	1,966.37	19.45%	22.00%
US	13645.90	22.04	1,614.95	12.98%	12.06%
Tajikistan	2570.50	4.65	2,325.56	2.45%	2.54%
Cameroon	1999.09	3.72	1,446.37	1.90%	2.03%
Sudan	1657.79	2.38	1,437.09	1.58%	1.30%
Greece	1495.04	2.56	2,296.79	1.42%	1.40%
Myanmar	1114.51	1.50	1,000.24	1.06%	0.82%
India	1090.84	1.74	1,593.36	1.04%	0.95%
Kazakhstan	635.63	0.83	1,313.50	0.60%	0.46%
Others	2,328	4.56	1,960.19	2.21%	2.50%
Total	105,121	182.75	1,738.47	100.0%	100.0%

Chart 1: November 2019 China Cotton Imports by Country of Export (Quantity)

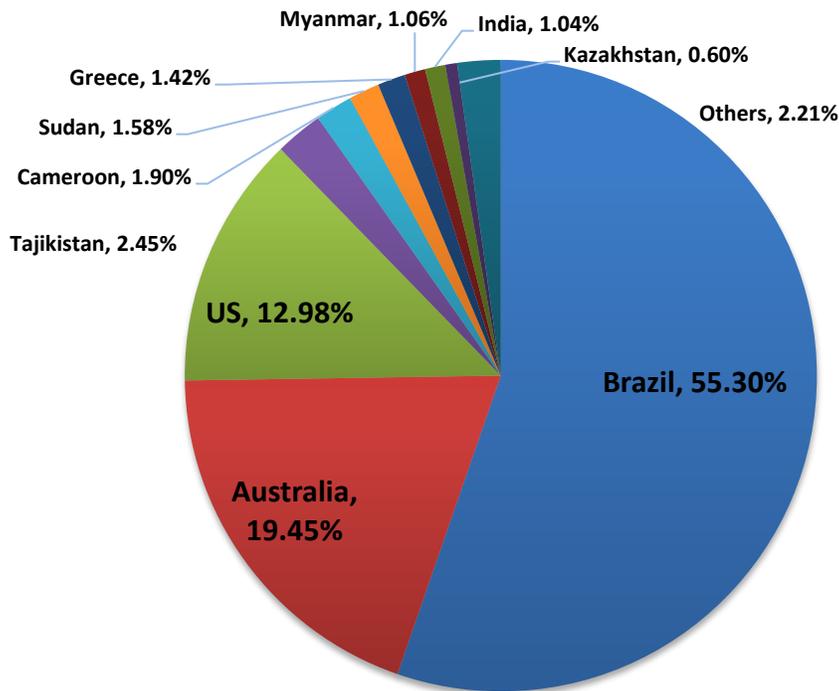




Table 2: China's Cotton Imports by Country (Quantity) in 2019

Country	January	February	March	April	May	June
Brazil	136,473	62,567	24,278	25,311	27,067	21,005
Australia	38,999	61,700	36,832	22,147	15,928	23,916
United States	26,889	18,607	41,428	35,525	63,510	57,150
India	48,366	37,126	26,703	68,376	13,668	2,834
Uzbekistan	1,970	23,333	3,741	3,745	11,251	17,044
Others	27,188	26,236	19,260	24,679	48,373	35,559
Total	279,884	229,568	152,242	179,783	179,796	157,508
July	August	September	October	November	Total (MT)	Share (%)
24,508	7,388	6,477	28,889	58,137	422,101	24.89%
53,518	34,047	40,996	26,248	20,446	374,775	22.10%
35,394	15,955	14,805	10,500	13,646	333,409	19.66%
486	482	499	99	1,091	199,729	11.78%
12,765	2,836	683	0	0	77,369	4.56%
36,878	31,150	19,822	7,271	11,801	288,216	17.00%
163,549	91,858	83,282	73,007	105,121	1,695,599	100.00%

Chart 2: China Cotton Imports by Country (Quantity) in 2019

