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China Policy and Market Update

Provided by:

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SUBJECT	KEY FINDINGS
Cotton Market	a) **China's Cotton Imports** In August, China imported 651,522 bales (141,852 MT) of cotton, representing a decrease of 4.32 percent month-on-month (m/m), and an increase of 54.43 percent year-on-year (y/y). The total value was USD 214.75 million, representing a decrease of 4.68 percent m/m, an increase of 21.42 percent y/y. U.S. ranked as the largest cotton supplier to China, Brazil the second, and India the third. • U.S. Imports: 470,857 bales (102,517 MT), representing an increase of 4.57 percent m/m, and an increase of 542.53 percent y/y. U.S. cotton imports accounted for 72.27 percent of the total. • Brazil Imports: 47,422 bales (10,325 MT), representing an increase of 3.16 percent m/m, and an increase of 39.75 percent y/y. Brazil cotton imports accounted for 7.28 percent of the total. • India Imports: 37,538 bales (8,173 MT), representing a decrease of 50.24 percent m/m, and an increase of 1595.74 percent y/y. India cotton imports accounted for 5.76 percent of the total. In 2020, Chinese cotton imports totaled 5,458,448 bales (1,188,437 MT), a decrease of 17.14 percent y/y. U.S. cotton was ranked as largest supplier with a total 2,266,329 bales (493,435 MT), accounting for 41.52 percent of total imports. Brazil cotton was ranked as the second largest with a total quantity of 1,798,104 bales (391,491 MT), accounting for 32.94 percent of total imports. India and Australia were the third and fourth largest supplier, marking 10.91 percent and 5.63 percent, respectively. *(See the tables and charts below for a breakdown of cotton imports by country.)*

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	b) **The Plantation and Growing Situation in China in August** According to the China Cotton Association (CCA)'s latest survey, the estimated total output of cotton in 2020 is 27.24 million bales (5.93 million MT), with an increase of 0.44 percent y/y. In Xinjiang, the overall cotton growth is better than last year benefit from the favorable weathers. The estimated production is 24.07 million bales (5.24 million MT), with an increase of 4.10 percent y/y. As for the Yellow river and Yangtze river area, the estimated production is 1.82 and 1.18 million bales (0.40 and 0.26 million MT) respectively, which will see significant decrease due to declining area and unfavorable weathers. c) **Auction of Reserved Cotton in 2020** According to China National Cotton Reserves Corporation, from July 1st to September 30th, 2,314,900 bales (504,010 MT) of reserve cotton were provided for sale through auction, and the transaction rate is 99.87%. The average transaction price of reserved cotton was RMB 11,843/MT (USD 77.72 Cents / Pound, based on the average exchange rate from July 1st to September 30th). d) **Cotton Price** **<u>Imported cotton</u>** In August, the average price of imported cotton was USD 68.67 Cents/Pound, representing a decrease of 0.38 percent m/m, and a decrease of 21.37 percent y/y. Average prices for cotton from U.S., Brazil and India were: • U.S. cotton: USD 68.52 Cents/Pound, representing a decrease of 0.71 percent m/m, and a decrease of 20.29 percent y/y. • Brazil cotton: USD 72.44 Cents/Pound, representing an increase of 2.74 percent m/m, and a decrease of 9.28 percent y/y. • India cotton: USD 57.89 Cents/Pound, representing a decrease of 3.59 percent m/m, and a decrease of 22.82 percent y/y. **<u>Domestic Cotton</u>** The CC Index 2129B average price in August was USD 84.45 Cents/Pound (RMB 12,896 /MT), representing an increase of 3.98 percent m/m, and a decrease of 5.91 percent y/y. It increased from USD 82.73 Cents/ Pound (RMB 12,732/MT) on August 3rd to USD 86.79 Cents/ Pound (RMB 13,101/MT) on August 31st. *(In August, USD 1 = RMB 6.93; from the State Administration of Foreign Exchange)*
Textile Industry	a) **Man-made Fiber Production** According to the National Bureau of Statistics (NBS), man-made fiber production for August was 5.25 MMT, which is the same as last month, and an increase of

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	2.64 percent y/y. As of August, total production of man-made fiber in 2020 reached 38.27 MMT, with a decrease of 2.36 percent y/y. b) **Textile and Apparel Exports** According to the General Administration of Customs of China (GACC), China's textile and apparel exports in August totaled USD 30.90 billion, representing a decrease of 1.18 percent m/m, and an increase of 20.26 percent y/y. The textile accounted for USD 14.72 billion, representing a decrease of 7.88 percent m/m, and an increase of 46.96 percent y/y; the apparel accounted for USD 16.21 billion, representing an increase of 5.08 percent m/m, and an increase of 3.23 percent y/y. China's textile and apparel exports totaled for first eight months of 2020 reached USD 187.41 billion, an increase of 8.0 percent y/y.
Policy Updates	● **U.S.-China Cotton Trade Went Smoothly Amid Political Chaos** This month, Chinese textile industries experienced minor increase of their orders amid the traditional peak seasons. They have paid much attention on the sanction against Xinjiang. Though it may seem eased when the U.S. government issued five Withhold Release Orders (WRO) on September 14th instead of full block of Xinjiang cotton, the domestic industry is worrying about the actual damage as more and more brands and retailers from U.S. and even EU and Japan are therefore has begun and/or planned to source non-Xinjiang cotton for their orders. China, on the other hand, reemphasized the nature of Xinjiang issue is counterterrorism and national security rather than human rights. The annual Xinjiang Cotton Industry Development Forum was a success and had received great attention among the industries. The forum reinforced the understanding that considering the high stock and low demand of cotton in China, the Phase One Agreement provides strong push for U.S. cotton's entering into Chinese market. Against this background, in order to protect the current trade, it would be critical for U.S. cotton industry to avoid being involved in political topics especially the Xinjiang, Hong Kong and Taiwan issues. As for the cotton market, after China issued additional 400,000 MT of STRQ for processing trade for 2020, the government announced the routine issuance of 894,000 MT of TRQ (with 1% tariff) for 2021. The U.S.-China cotton trade went smoothly with U.S. taking back the market position as the largest cotton suppliers since April along with the ongoing implementation of Phase One Trade Agreement.

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	• **U.S.-China Tensions Likely to Escalate and Result in Increased Commercial Sanctions on Both Sides** In September, the U.S.-China relationship saw further decline after the Trump administration continued with aggressive diplomatic actions and sanctions against China over commercial safety, national security, and the forced labor issue in Xinjiang. Since the signing of the phase one trade agreement in January the relationship has witnessed a precipitous decline with the economies of both countries suffering from the fallout of the COVID-19 pandemic. So far, the U.S. and China have only completed 1/3 of the intended ag product purchased detailed in the agreement. The ban on imports from China's Xinjiang Uygur Autonomous Region because of alleged use of state-sponsored forced labor there will further hinder the possibility of advancing the purchase targets. China is suspected to have responded by publishing the Provisions on the Unreliable Entity List as a countermeasure to U.S. moves. The Chinese government interprets the objective of the list is to level the playfield and protect the Chinese market. Although China has not revealed which specific companies are on the list, it could in theory target media outlets, NGOs, individuals, and companies. Entities in the ag and food sectors are unlikely to be included if compared with the high-tech sector. • **China Grasps Consumption to Drive the "Dual-Circulation" Economy Growth Model** China announced it will hold the fifth plenary session of the 19th Central Committee of the Communist Party of China (CPC) from October 26th to 29th, for which one of the major discussion topics will be the 14th Five-Year Plan. As indicated by the State Council's guidelines, consumption is expected to continue to carry out a vital role in economic growth, and the government vowed to further intensify the integration of online and offline sales, improve the modern business circulation system, and fundamentally increase the online retail sales of physical goods. For international trade, more efforts have been seen this month including China's President Xi's videoconference with the EU to strengthen the confidence in the partnership and address disagreements via negotiation, especially when the data showed that China has surpassed the U.S. and become the EU's No.1 trade partner. For the rest of 2020, a couple of high-level events are expected to further boost the international trade partnership, including the online Canton Fair in October, the third China International Import Expo (CIIE) in Shanghai, and the China-ASEAN Expo in Guangxi in November.

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- **China Corn Supply Increased with New Crop and More Imports**

  This month, according to the latest estimation of Ministry of Agriculture and Rural Affairs, China's imports of corn will reach 7 MMT in 2020/21, which is 2 MMT higher than last month's estimation. The adjustment was stimulated by the increased imports from U.S. Based on the latest statistics published by the GACC, in August, China imported about 1.02 MMT of corn with an increase of 12% m/m and 340% y/y. Imports from U.S. were 0.46 MMT with a y/y increase at 644%. Ukraine still ranked as the No.1 supplier with a quantity of 0.54 MMT, registering a y/y increase at 394% y/y. National Development and Reform Commission (NDRC) this month announced to issue the tariff rate quota at 7.2 MMT for 2021 as normal practice.

  For the next quarter, with the new crop and arrival of imported corn as well as the auction reserved corn entering the market, the supply is abundant. For the domestic production, the severe typhoons in the key production area have impacted the harvest which will be 1.8 MMT lower than last estimation, while considering the good yield the total output will not be majorly impacted.

Supply Demand Gap of Corn in China *(MMT)*

		2018/19	2019/20	2020/21
Demand	Domestic Consumption	274.78	278.3	288.17 ↑
	Exports	0.02	0.02	0.02
Supply	Domestic Production	257.17	260.77	264.71 ↓
	Imports	4.48	7	7 ↑
Gap		**13.15**	**10.55**	**16.48**

**Corn crop year in China is from October to next September*
*** Source: Ministry of Agriculture and Rural Affairs, August 2020*

Reports of the Month:

- Latest Situation of China's Textile Mills 20200911
- SOE's role in China's cotton imports 2020901
- Memo for Xinjiang Forum 20200930

Appendix:

Table 1: August 2020 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 (%)
U.S.	102516.59	154.87	1510.70	72.27%	72.12%
Brazil	10324.80	16.49	1596.70	7.28%	7.68%
India	8172.98	10.43	1276.17	5.76%	4.86%
Australia	7980.62	14.17	1775.24	5.63%	6.60%
Benin	3977.01	6.05	1521.55	2.80%	2.82%
Burkina Faso	2960.61	4.12	1391.32	2.09%	1.92%
Sudan	1908.51	2.55	1336.76	1.35%	1.19%
Togo	1324.31	1.75	1317.87	0.93%	0.81%
Kazakhstan	1134.57	1.47	1298.72	0.80%	0.69%
Mali	989.12	1.70	1719.59	0.70%	0.79%
Others	563.11	1.16	2056.84	0.40%	0.54%
Total	141852.22	214.75	1513.93	100.0%	100.0%

Chart 1: August 2020 China Cotton Imports by Country of Export (Quantity)

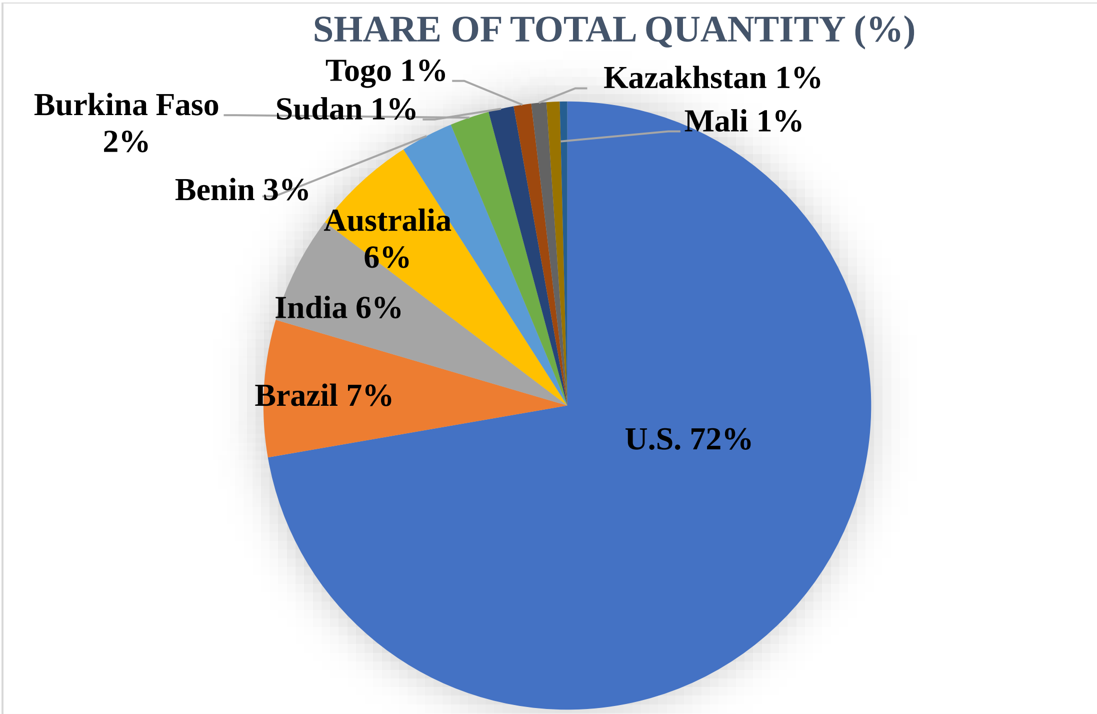

Table 2: China's Cotton Imports by Country of Export in 2020

Country	January-February	March	April	May	June	July	August	Total Quantity by Country	Share of Total Quantity (%)
U.S.	71901	52350	70817	41167	56643	98040	102517	493434	41.52%
Brazil	233250	84030	25479	13405	14993	10009	10325	391491	32.94%
India	46818	33219	16865	5164	2970	16424	8173	129633	10.91%
Australia	28024	5972	6174	4734	4837	9194	7981	66917	5.63%
Sudan	7496	3314	1151	1099	726	1030	1909	16724	1.41%
Others	24809	22042	4344	4446	10091	13558	10949	90238	7.59%
Total	412297	200927	124830	70015	90260	148256	141852	1188437	100.00%

Chart 2: China Cotton Imports by Country (Quantity) in 2020

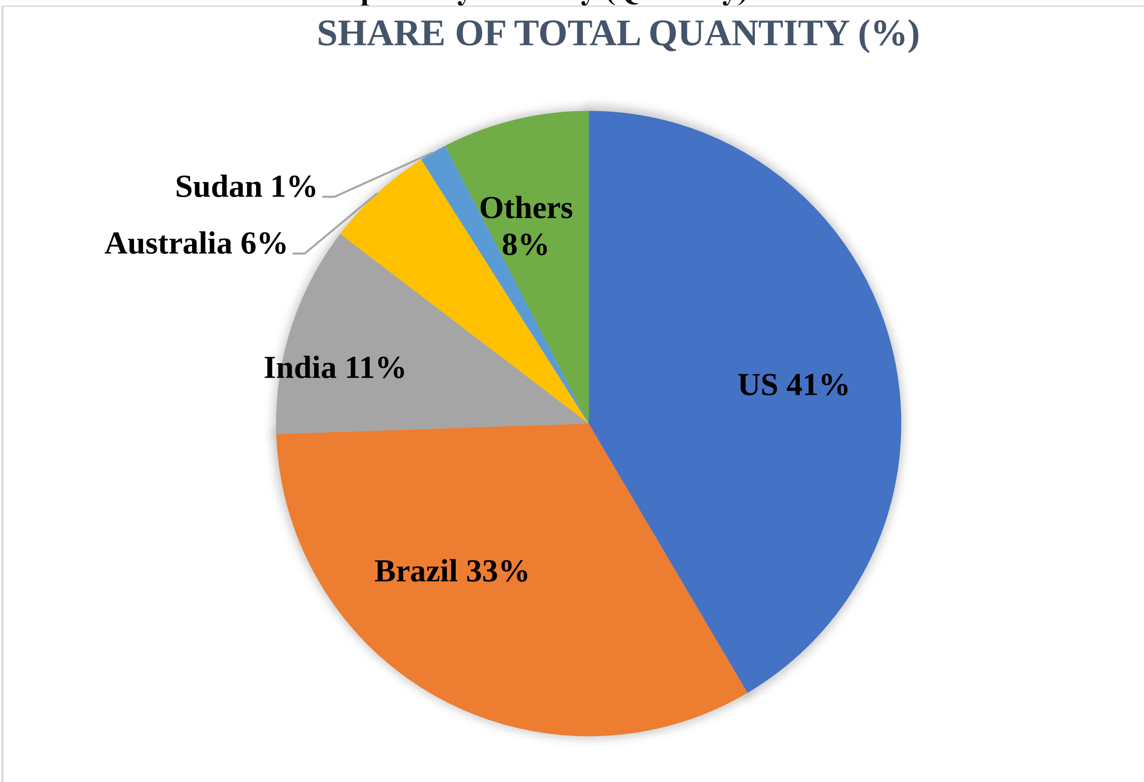

Chart 3: China Imports of U.S., India and Brazil Cotton in August 2020