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## China Policy and Market Report

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Provided by:



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SUBJECT	KEY FINDINGS
<p><b>Cotton Market</b></p>	<p>a) <b>China's Cotton Imports</b></p> <p>In October China imported 956,000 bales (208,144 MT) of cotton, representing a decrease of 1.03 percent month-on-month (m/m), and an increase of 185.10 percent year-on-year (y/y). The total value was USD 321.48 million, representing a decrease of 1.45 percent m/m, an increase of 140.67 percent y/y.</p> <p>US ranked as the largest cotton supplier to China, India the second, and Brazil the third.</p> <ul style="list-style-type: none"> <li>• U.S. Imports: 602,725 bales (131,228 MT), representing a decrease of 10.05 percent m/m, and an increase of 1149.78 percent y/y. U.S. cotton imports accounted for 63.05 percent of the total.</li> <li>• India Imports: 128,589 bales (27,997 MT), representing an increase of 179.89 percent m/m, and an increase of 27897 percent y/y. India cotton imports accounted for 13.45 percent of the total.</li> <li>• Brazil Imports: 105,643 bales (23,001 MT), representing an increase of 113.88 percent m/m, and a decrease of 20.38 percent y/y. Brazil cotton imports accounted for 11.05 percent of the total.</li> </ul> <p>In 2020, Chinese cotton imports totaled 7,380,365 bales (1,606,885 MT), an increase of 1.03 percent y/y. U.S. cotton was ranked as largest supplier with a total 3,539,127 bales (770,554 MT), accounting for 47.95 percent of total imports. Brazil cotton was ranked as the second largest with a total quantity of 1,953,139 bales (425,246 MT), accounting for 26.46 percent of total imports. India and Australia were the third and fourth largest supplier, marking 10.43 percent and 5.94 percent, respectively.</p> <p><i>(See the tables and charts below for a breakdown of cotton imports by country.)</i></p>

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	<p>b) <b>The Growing Situation &amp; Picking Progress in China in October</b></p> <p>According to the China Cotton Association (CCA)'s latest survey, the estimated total output of cotton in 2020 is 27.21 million bales (5.92 million MT), with an increase of 0.3 percent y/y. As of the end of October, the nationwide picking progress is 92.05 percent, with an increase of 4 percent y/y. The delivery progress is 91.90 percent, representing an increase of 7.76 percent y/y. The average unit price is 6.45 RMB/Kg, with an increase of 30.04 percent y/y.</p> <p>c) <b>Cotton Price</b></p> <p><b><u>Imported Cotton</u></b></p> <p>In October, the average price of imported cotton was USD 70.06 Cents/Pound, representing a decrease of 0.42 percent m/m, and a decrease of 15.58 percent y/y. Average prices for cotton from U.S., India and Brazil were:</p> <ul style="list-style-type: none"> <li>• U.S. cotton: USD 70.05 Cents/Pound, representing an increase of 0.09 percent m/m, and a decrease of 12.68 percent y/y.</li> <li>• India cotton: USD 62.63 Cents/Pound, representing an increase of 3.39 percent m/m, and a decrease of 21.32 percent y/y.</li> <li>• Brazil cotton: USD 75.02 Cents/Pound, representing an increase of 4.93 percent m/m, and a decrease of 5.87 percent y/y.</li> </ul> <p><b><u>Domestic Cotton</u></b></p> <p>The CC Index 2129B average price in October was USD 96.36 Cents/Pound (RMB 14,254 /MT), representing an increase of 10.20 percent m/m, and an increase of 14.56 percent y/y. It increased from USD 88.42 Cents/ Pound (RMB 13,236/MT) on October 1<sup>st</sup> to USD 100.39 Cents/ Pound (RMB 14,859/MT) on October 29<sup>th</sup>.</p> <p><i>(In October, USD 1 = RMB 6.71; from the State Administration of Foreign Exchange)</i></p>
<p><b>Textile Industry</b></p>	<p>a) <b>Man-made Fiber Production</b></p> <p>According to the National Bureau of Statistics (NBS), man-made fiber production for October was 5.61 MMT, with an increase of 3.54 percent m/m, and an increase of 3.66 percent y/y. As of October, total production of man-made fiber in 2020 reached 49.85 MMT, with an increase of 0.56 percent y/y.</p> <p>b) <b>Textile and Apparel Exports</b></p> <p>According to the General Administration of Customs of China (GACC), China's textile and apparel exports in October totaled USD 24.84 billion, representing a decrease of 12.45 percent m/m, and an increase of 10.7 percent y/y. The textile accounted for USD 11.66 billion, representing a decrease of 11.33 percent m/m,</p>

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	<p>and an increase of 15.7 percent y/y; the apparel accounted for USD 13.18 billion, representing a decrease of 13.41 percent m/m, and an increase of 6.6 percent y/y.</p> <p>China's textile and apparel exports totaled for first ten months of 2020 reached USD 240.62 billion, representing an increase of 10 percent y/y.</p>
<p><b>Policy Updates</b></p>	<ul style="list-style-type: none"> <li data-bbox="345 499 1451 1491"> <p>● <b>Chinese textile industry expects more opportunities from RCEP</b></p> <p>This month, as the world's biggest free trade agreement, RCEP has been signed by ten members of ASEAN, China, Japan, South Korea, Australia, and New Zealand. As the RCEP will progressively phase out 90% of the tariffs on imports between member countries and members could enjoy customs facilitation measures to further improve clearance efficiencies by harmonized standards and streamlined documents, the Chinese textile industry expects more opportunities from this agreement in the long run. In general, the agreement is expected to bring more orders (due to Chinese textile industry's advantages of industry clusters, quality labor and equipment, stable infrastructure), larger markets, and lower cost. Meanwhile, with closer links between the members besides the tariff exemption or reduction, the industry will have more active international cooperation within the region including the outbound investment especially in the Southeast Asia countries.</p> <p>However, it will also increase the competition in the middle and low-end textile production between China and Vietnam, Myanmar, to name a few, while competition with Japan, South Korea, and Australia in the downstream brands and retailers are also expected. In 2018, the 15 members of RCEP's textile and apparel exports took 47% of the world's total. China's textile industry is preparing for a quickened pace of upgrade and quality development to avoid the competitions and accelerate the division of labor inside the region and form the pattern of high-end and low-end coordination with other members. Against this background, U.S. cotton industry and Chinese mills should recalibrate their business strategy and supply chains to find new win-win model while RCEP member countries are taking a closer partnership and offer more investment and trade incentives.</p> </li> <li data-bbox="345 1556 1451 1892"> <p>● <b>National cotton reserve refill is expected to be behind the schedule</b></p> <p>China has announced its plan to begin the refill of 500,000 MT of Xinjiang cotton from December 1<sup>st</sup>, 2020 to March 31<sup>st</sup>, 2021 as routine practice to improve the reserve quality. As December is around the corner, the industry is concerned about the circuit breaker will be triggered to slowdown the refill process. As of November 27<sup>th</sup>, the price difference between international and domestic cotton is RMB 1,679/ton according to China National Cotton Exchange, which could have triggered the circuit breaker set as less than RMB 800/ton by the National</p> </li> </ul>

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	<p>Development and Reform Commission (NDRC), and it's not likely that it could be narrowed any time soon. By far NDRC has not announced any note to postpone the refill. Even if the refill process was kicked off as planned, given the total amount is relatively small compare with China's supply and demand structure, the impact on the real-time spot purchase and the cotton imports is believed to be limited.</p> <ul style="list-style-type: none"> <li>● <b>Chinese textile industry's peak season ends</b></li> </ul> <p>October was the traditional peak season for production with multiple shopping milestones approaching, this year the Chinese textile mills once again received more domestic and abroad orders which supported the sector to enjoy the positive trend of recovery. Entering November, the industry expects the rush of new orders will come to an end. Though the signing of RCEP may bring potential opportunities for the industry in the long run, before that, the textile industry needs to survive from the challenges of decreased quality of Xinjiang cotton supply, weak demands from U.S. and Europe under the second wave of pandemic, narrowed profits of textile exports due to the RMB currency exchange. For those U.S. exports oriented companies, they need to take extra cautious for the sanctions of using Xinjiang cotton, as well as the high uncertainties during the transition time after the U.S. presidential election, which most of the players do not expect any material changes before Chinese's New Year holiday in February 2021.</p> <ul style="list-style-type: none"> <li>● <b>China and President Elect Biden take cautious first steps</b></li> </ul> <p>More than three weeks following the U.S.-election on Nov. 3<sup>rd</sup>, Chinese President Xi Jinping belatedly acknowledged the victory of President Elect Joe Biden in a congratulatory call on Nov. 25<sup>th</sup>. Despite friendly relations when the two served as counterparts as respective vice presidents of China and the US prior to 2012, there has been no indication either side desires or expects a "reset" in bilateral relations.</p> <p>President Elect Biden has announced three appointments for the new administration, all of these have had White House level experience with China policy during the Obama Administration and are viewed as professional and responsible officials from that era by their Chinese counterparts. Many expect the new administration be more systematic balancing engagement and confrontation in its U.S.-China policy to lay a foundation for the next four years, to engage in more traditional multilateralism, and try to restore the foundations of the U.S. international order that have been strained under President Trump. Once Biden takes office, we expect the following in the short term:</p>

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	<p>a) The U.S. and China could move to fast-track some tariff reductions in specific areas once the new administration is in power, agriculture included, which are strategically important to both. It is still unclear how the additional tariffs will be removed more broadly. Politically, Biden cannot remove the tariffs without the appearance of significant compromise on the structural reform of the Chinese economy. New negotiations will take some time to restart. Recently the U.S. has already moved to limit Chinese access to sensitive U.S. technology and financial markets which could limit the space for further trade negotiations.</p> <p>b) The U.S. will repair relations with its traditional allies in Europe and Asia to reestablish the foundations of the U.S.-led international system. The Biden Administration will re-join the WHO and Cop-21 Paris Climate Agreement and restart contributions to the WTO and making moves on appellate judges currently held up waiting U.S. approval. In China, however, these actions may be viewed as an effort to “gang up” on China and have a negative effect on big picture U.S.-China cooperation.</p> <p>c) Ideological and geopolitical disagreements will play an increasingly important role in the bilateral relationship, and China will not tolerate any U.S. legislation or diplomatic moves regarding Xinjiang, Hong Kong, or Taiwan that it sees as infringing on its sovereignty. It is unclear how important these issues will be to the new administration, but there will definitely be pressure from some domestic constituents to take a harder line.</p> <p>Possible Areas for cooperation in short term:</p> <p>a) Fast-track progress on Chinese purchase agreements for U.S. products in areas of strategic importance to both sides, e.g. agriculture, aircrafts, etc.</p> <p>b) Reestablishing people-to-people exchanges and greater support and assurances to Chinese students and workers in the U.S.</p> <p>c) Cooperation on climate change.</p> <p>● <b>China stimulates the domestic economy while preparing for slow recovery and growth</b></p> <p>The domestic consumption driven recovery of China’s economy faces great deal of challenges, and according to the quarterly report on monetary policy issued by the Central Bank of China the government is prepared for a slower pace of economic growth next year. China needs to stabilize real economy to ensure the unemployment rate is under control and disposable income will not collapse by supporting the market functioning not only through continued execution of those</p>

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	<p>fiscal measures, but also via efforts to deepen market reform and level the playing field, for which better government services, especially at the local level could play an essential role. With a risk prevention oriented governing mindset, domestic economic policies will be designed and implemented accordingly, for which the upcoming Central Economic Work Conference in December is expected to shed light of the country's next steps in 2021.</p> <p>Under the new "dual-circulation" development pattern, for the external part, in November, China's commitment of promoting a higher-level of opening-up was highlighted by the signing of the Regional Comprehensive Economic Partnership (RCEP). China expects to increase the resilience of its industrial chain, especially those export-oriented ones, by optimizing the resources within the region to support domestic industry upgrade by delegating low-end manufacture parts to those relatively lower labor cost countries.</p> <ul style="list-style-type: none"> <li>● <b>U.S. corn's market share reach 32% in China in 2020</b></li> </ul> <p>Based on the latest statistics from China's General Administration of Customs (GACC), in October China imported 1.14 MMT of corn with a 53.6% m/m increase and a 1,152% y/y increase. The imports from U.S. reached 1 MMT, taking 89% of the total. For the first ten months, China has imported 7.88 MMT of corn, hitting a growth at 97% y/y. Ukraine and U.S. are the major sources with a quantity of 4.98 MMT and 2.5 MMT respectively. For the domestic production, since the end of October, China's weather conditions were favorable for the harvest, drying and storage. Although the northeast region, China's key production area has suffered several typhoons in the past months, the actual yield and quality of corn were not significantly affected. Based on the latest estimation of Ministry of Agriculture and Rural Affairs (MARA), the production for 2020/21 is 26.47 MMT which is consistent with their last forecast in October.</p> <p>The industry still holds the perception that the price could continue to grow considering the high supply and demand gap in 2021. Though there are voices that Chinese government has quietly issued additional quota besides the 7.2 MMT TRQ and has used reserves of wheat and rice and expanded imports of corn substitutes to add supply, the domestic corn prices maintain high and MARA increased the price estimation of 2020/21 at RMB 2,200-2,400/ton, which indicates major growth compared with the average price of RMB 1,965/ton in 2019/20.</p> <p>Reports of the month:</p>

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	- Hefei Trip Report 20201104 (takeaways of CCA summit and China's 14 <sup>th</sup> Five Year Plan)

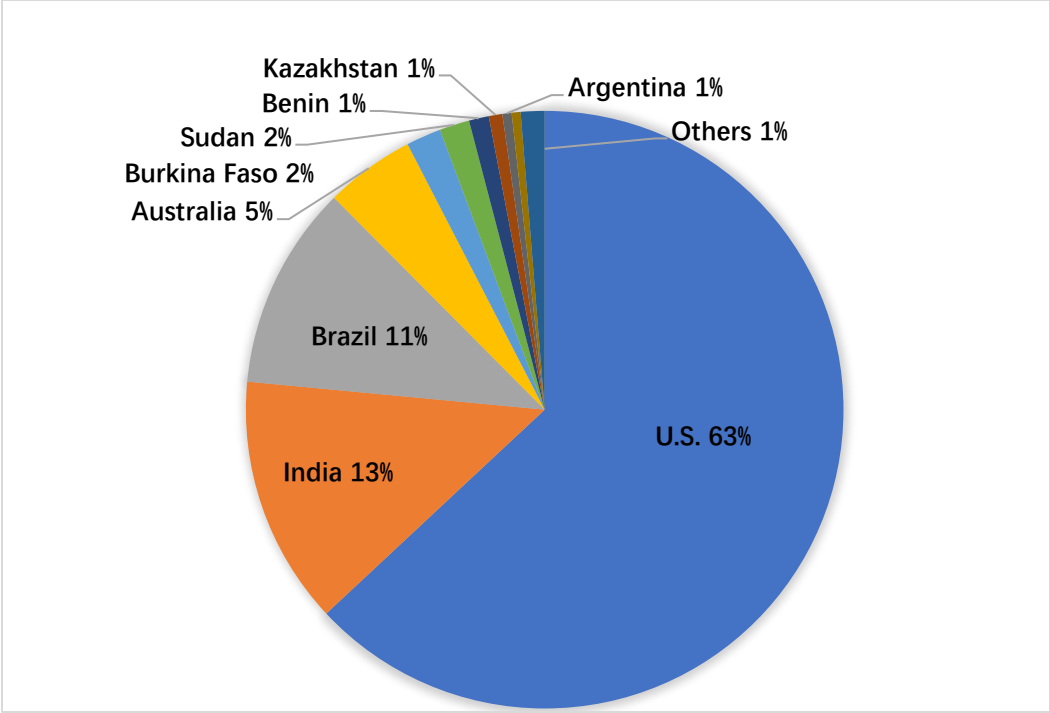
Appendix:

Table 1: October 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 (%)
<b>U.S.</b>	131,228	203	1,544	63.05%	63.04%
<b>India</b>	27,997	39	1,381	13.45%	12.02%
<b>Brazil</b>	23,002	38	1,654	11.05%	11.83%
<b>Australia</b>	10,126	18	1,798	4.86%	5.66%
<b>Burkina Faso</b>	3,926	6	1,459	1.89%	1.78%
<b>Sudan</b>	3,382	5	1,392	1.62%	1.46%
<b>Benin</b>	2,237	4	1,591	1.07%	1.11%
<b>Kazakhstan</b>	1,527	2	1,372	0.73%	0.65%
<b>Argentina</b>	1,038	1	1,386	0.50%	0.45%
<b>South Africa</b>	1,005	2	1,666	0.48%	0.52%
<b>Others</b>	2,676	5	1,766	1.29%	1.47%
<b>Total</b>	208,144	321	1,545	100.0%	100.0%



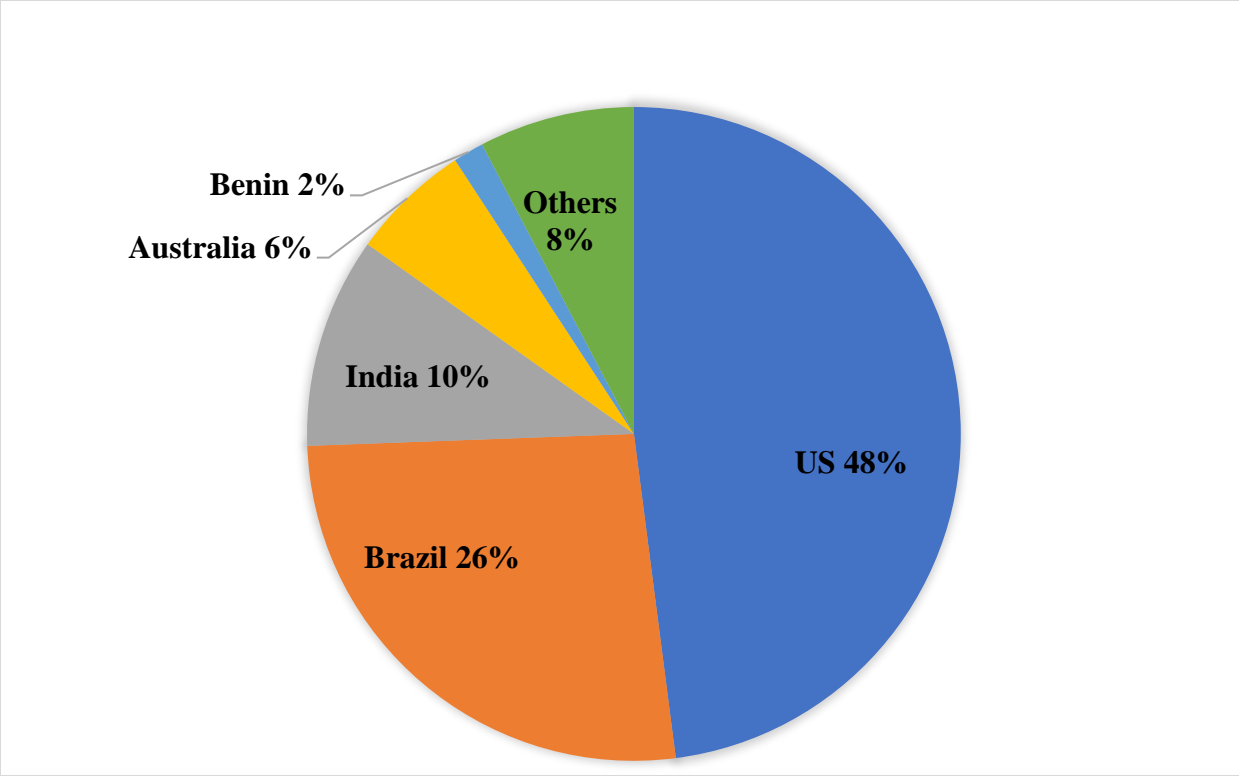
**Chart 1: October 2020 China Cotton Imports by Country of Export (Quantity)**



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

Country	Jan-Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Total Quantity by Country	Share of Total Quantity (%)
<b>US</b>	71,901	52,350	70,817	41,167	56,643	98,040	102,517	145,891	131,228	770,553	47.95%
<b>Brazil</b>	233,250	84,030	25,479	13,405	14,993	10,009	10,325	10,754	23,002	425,247	26.46%
<b>India</b>	46,818	33,219	16,865	5,164	2,970	16,424	8,173	10,003	27,997	167,633	10.43%
<b>Australia</b>	28,024	5,972	6,174	4,734	4,837	9,194	7,981	18,435	10,126	95,478	5.94%
<b>Benin</b>	1,000	3,000	0	996	2,227	3,494	3,977	7,488	2,237	24,419	1.52%
<b>Others</b>	31,305	22,356	5,495	4,548	8,590	11,094	8,880	17,733	13,554	123,555	7.69%
<b>Total</b>	412,297	200,927	124,830	70,015	90,260	148,256	141,852	210,304	208,144	1,606,885	100.00%

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



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

