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China Policy and Market Report

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Provided by:



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SUBJECT	KEY FINDINGS
<p>Cotton Market</p>	<p>a) China’s Cotton Imports</p> <p>In September, China imported 965,915 bales (210,303 MT) of cotton, representing an increase of 48.26% month-on-month (m/m), and an increase of 152.52% year-on-year (y/y). The total value was USD 326.20 million, representing an increase of 51.90% m/m, an increase of 104.31% y/y.</p> <p>U.S. ranked as the largest cotton supplier to China, Australia the second, and Brazil the third.</p> <ul style="list-style-type: none"> • U.S. Imports: 670,070 bales (145,891 MT), representing an increase of 42.31% m/m, and an increase of 885.41% y/y. U.S. cotton imports accounted for 69.37% of the total. • Australia Imports: 84,672 bales (18,435 MT), representing an increase of 131% m/m, and a decrease of 55.03% y/y. Australia cotton imports accounted for 8.77% of the total. • Brazil Imports: 49,393 bales (10,754 MT), representing a decrease of 4.16% m/m, and an increase of 66.03% y/y. Brazil cotton imports accounted for 5.11% of the total. <p>In 2020, Chinese cotton imports totaled 6,424,367 bales (1,398,741 MT), a decrease of 7.82% y/y. U.S. cotton was ranked as largest supplier with a total 2,936,397 bales (639,325 MT), accounting for 45.71% of total imports. Brazil cotton was ranked as the second largest with a total quantity of 1,847,497 bales (402,245 MT), accounting for 28.76% of total imports. India and Australia were the third and fourth largest supplier, marking 9.98% and 6.10%, 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) The Growing Situation & Picking Progress in China in September</p> <p>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 MMT), with an increase of 0.44 % y/y. In Xinjiang, the overall cotton growth is better than last year due to the favorable weathers. The estimated production is 24.07 million bales (5.24 MMT), with an increase of 4.10% 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 MMT) respectively, which see significant decrease due to declining plantation area and unfavorable weathers.</p> <p>As of the end of September, the nationwide harvest progress is 10.61%, with an increase of 0.05% y/y. The delivery progress from farmers to gins is 3.26%, representing an increase of 0.60% y/y. The average unit price is 6.37 RMB/Kg, with an increase of 3.39% y/y.</p> <p>c) Cotton Price</p> <p><u>Imported cotton</u></p> <p>In September, the average price of imported cotton was USD 70.36 Cents/Pound, representing an increase of 2.46% m/m, and a decrease of 19.09% y/y. Average prices for cotton from U.S., Australia and Brazil were:</p> <ul style="list-style-type: none"> • U.S. cotton: USD 69.99 Cents/Pound, representing an increase of 2.14% m/m, and a decrease of 13.14% y/y. • Australia cotton: USD 81.15 Cents/Pound, representing an increase of 0.76% m/m, and a decrease of 11.45% y/y. • Brazil cotton: USD 71.49 Cents/Pound, representing a decrease of 1.31 % m/m, and a decrease of 14.74% y/y. <p><u>Domestic Cotton</u></p> <p>The CC Index 2129B average price in September was USD 87.44 Cents/Pound (RMB 13,129 /MT), representing an increase of 3.54% m/m, and an increase of 2.33% y/y. It increased from USD 87.23 Cents/Pound (RMB 13,130/MT) on September 1st to USD 88.43 Cents/ Pound (RMB 13,237/MT) on September 30th.</p> <p><i>(In September, USD 1 = RMB 6.81; 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 September was 5.42 MMT, with an increase of 3.24% m/m, and an increase of 2.5% y/y. As of September, total production of man-made fiber in 2020 reached 44.39 MMT, with a decrease of 0.3% y/y.</p> <p>b) Textile and Apparel Exports</p>

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	<p>According to the General Administration of Customs of China (GACC), China's textile and apparel exports in September totaled USD 28.38 billion, representing a decrease of 8.24 % m/m, and an increase of 15.73% y/y. The textile accounted for USD 13.15 billion, representing a decrease of 10.64% m/m, and an increase of 34.69% y/y; the apparel accounted for USD 15.23 billion, representing a decrease of 6.06% m/m, and an increase of 3.19% y/y.</p> <p>China's textile and apparel exports totaled for first nine months of 2020 reached USD 215.78 billion, with an increase of 9.0% y/y.</p>
<p>Policy Updates</p>	<ul style="list-style-type: none"> ● Chinese mills are experiencing major recovery with more orders <p>Entering October, China's textile industry operation is experiencing major recovery with more orders and increased operating rate, which is beyond the industry's expectation. Besides the orders from overseas for the upcoming Thanksgiving and Christmas holidays and from domestic market stimulated by the online shopping festivals (November 11th and December 12th), the ongoing severe pandemic situation in other countries such as India also pushed more orders back to China, especially those short orders that needs quick supply chain coordination. The recovered downstream consumption both at home and abroad and high prices of domestic cotton have pushed the yarn price high which created opportunities for mills to clear product inventory and continue to purchase cotton to support their production. Based on our communication with key mills during field visits, the mills are getting their STRQ for processing trade in October and exploring more cotton purchase in the rest of the months of 2020 to deliver orders. However, they face several challenges including insufficient TRQs (for large scale mills), concerns of import difficulties of Australian cotton, long delivery turnaround time of U.S. cotton (if shipment arrive later than February 2021, their TRQ of 2020 would expire), overseas retail clients' demand of using non-Xinjiang cotton, to name a few. Meanwhile, the uncertainties of U.S.-China relations after the presidential elections and ongoing pandemic especially in Europe still haunt them greatly, and the rising RMB currency exchange and high price of raw materials made their profits very limited.</p> <p>As for the cotton market, after China wrapped up the reserve auction in September, this month China announced it will refill 500,000 MT of Xinjiang cotton from December 1st, 2020 to March 31st, 2021 as routine practice to improve the reserve quality. Given the total amount is relatively small in terms of China's supply and demand structure, the impact of the purchase is believed to be limited. While the overheated price surge of cotton started to cool off after the announcement.</p>

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	<ul style="list-style-type: none"> <li data-bbox="440 302 1468 373">● U.S.-China hope to fulfill phase one targets by 2021 while preparing for renegotiations <p data-bbox="493 443 1528 1062">A recent interim report on the phase one agreement jointly issued by USTR and USDA claims China has implemented 50 of the 57 technical commitments that have specific deadlines, and that Chinese monthly purchases of ag products have exceeded their 2017 counterparts from April through August. Although the tone of the USTR/USDA report was positive about the progress of the phase one agreement, there are still substantial structural and practical barriers to fulfilling the targets. Furthermore, the trade relationship has been overshadowed by rising bilateral tensions in other areas, such as U.S. arms sales to Taiwan. China said it will impose sanctions on Lockheed Martin, Boeing Defense, Raytheon, and other U.S. companies that are involved. China's latest countermeasures over Taiwan highlight a major shift in its diplomatic approach toward the U.S. China held the 5th plenary session of the 19th CPC Central Committee to begin to map out objectives for the next five years and through 2035 the last week of October, and leaders were quoted as saying they do not hope to “decouple” from the U.S. economically. No matter the outcome of the presidential election in the U.S. next week, China is prepared to renegotiate the phase one agreement if needed and hopes to find ways to prevent further deterioration of the bilateral relationship.</p> <li data-bbox="440 1100 1403 1136">● China takes flexible approach to guide social and economic growth <p data-bbox="493 1173 1528 1392">The Fifth Plenary Session of the 19th Central Committee of the Communist Party of China (CPC) wrapped up on October 29th during which the leadership said China will continue to increase the quality and efficiency of the economic structure to realize sustainable and healthy growth. As a major economy, China emphasized that a strong society and domestic economy is the ultimate foundation to support this goal.</p> <p data-bbox="493 1430 1528 1686">In the next five years and onwards, China will use the dual-circulation economic model that includes “internal circulation” to drive domestic economic recovery and growth and leveraging “external circulation” to balance continued opening-up. Finding adaptive, real time solutions across industry to industry and region to region will be sought out while fostering technological self-sufficiency to address the long existing choke points of inadequate and imbalanced economic development and reliance on foreign technology.</p> <p data-bbox="493 1724 1528 1866">For key drivers of economic growth in the domestic market, China will continue to implement innovation strategies to not only develop domestic consumption to sustain the demand side, but also provide adequate support for the continued health of the supply side, in particular manufacturing. That said, China will</p>

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	<p>continue to upgrade its industrial supply chain, and support the growth of strategic emerging industries, services, as well as the finance and digital sectors in parallel, to increase the competitiveness and resilience of the economy in the long run.</p> <p>In terms of international markets, China may reduce its dependency on foreign trade and technology in certain sectors. At the same time, the leadership has committed to a higher level opening up to allow China to proactively deal with the rising uncertainties and instability. China will continue to advocate for fairness and mutuality in international cooperation. Despite the bilateral tensions with trade partners, especially with U.S., China pointed out that unilateralism or decoupling will do more harm than good.</p> <p>In the meantime, Chinese leaders are also fully aware that social development and the wellbeing of the people are foundation of sustainable economic development, and China views income growth, employment, education, and public health as equally essential and priorities as the country moves forward after the Covid-19 pandemic. China will escalate its efforts in food security, energy security, and cyber security, by innovating new governing structure and policy frameworks.</p> <p>China's 14th Five-Year Plan to be announced early next year will be based on the flexible and adaptive approach described in the plenum, as well the achievements of the 13th Five Year Plan, and pave the way for China to achieve its qualitative goal of modernization by 2035.</p> <ul style="list-style-type: none"> ● China corn market maintained stable in October <p>This month, China wrapped up its 2019/20 crop year for corn and the industry saw no major changes. The Ministry of Agriculture and Rural Affairs did not revise their October estimate of China's corn supply and demand situation. Based on the latest statistics published by the GACC, in September, China imported about 1.08 MMT of corn with an increase of 6% m/m and 675% y/y respectively. Imports from U.S. were 0.85 MMT with a y/y increase at 644%. For the first 9 months of 2020, China imported 6.7 MMT of corn with an increase of 73% y/y. Ukraine still ranks as the largest supplier with a total amount of 4.9 MMT, marking an increase of 40% y/y; U.S. ranks as the second with 1.5 MMT and 657% y/y increase. Imports from Bulgarian and Russia also witnessed dramatic y/y increase while they only accounted for 1.7% and 1.4% of the total, respectively. Although currently the supply is abundant with a new crop harvest and the arrival of imported corn and its substitutes at ports as well as the auction of reserve corn entering the market, the industry still holds the expectation that the supply gap next year will be relatively high, which</p>

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	<p>supported the high price of corn in the market (RMB 1,965/ton with an increase of 5.2% y/y) together with the expectation that feed consumption will continue to recover.</p> <p>Reports of the month:</p> <ul style="list-style-type: none">- Chinese Mills' Operation in September 20201016

Appendix:

Table 1: September 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.	145,891	225	1,543	69.37%	68.98%
Australia	18,435	33	1,789	8.77%	10.11%
Brazil	10,754	17	1,576	5.11%	5.19%
India	10,003	13	1,336	4.76%	4.09%
Benin	7,488	13	1,672	3.56%	3.84%
Burkina Faso	4,976	7	1,399	2.37%	2.13%
Sudan	4,084	6	1,358	1.94%	1.70%
Togo	2,963	4	1,283	1.41%	1.16%
Mali	2,879	4	1,457	1.37%	1.29%
Kazakhstan	591	1	1,224	0.28%	0.22%
Others	2,239	4	1,876	1.06%	1.29%
Total	210,304	326	1,552	100.0%	100.0%

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

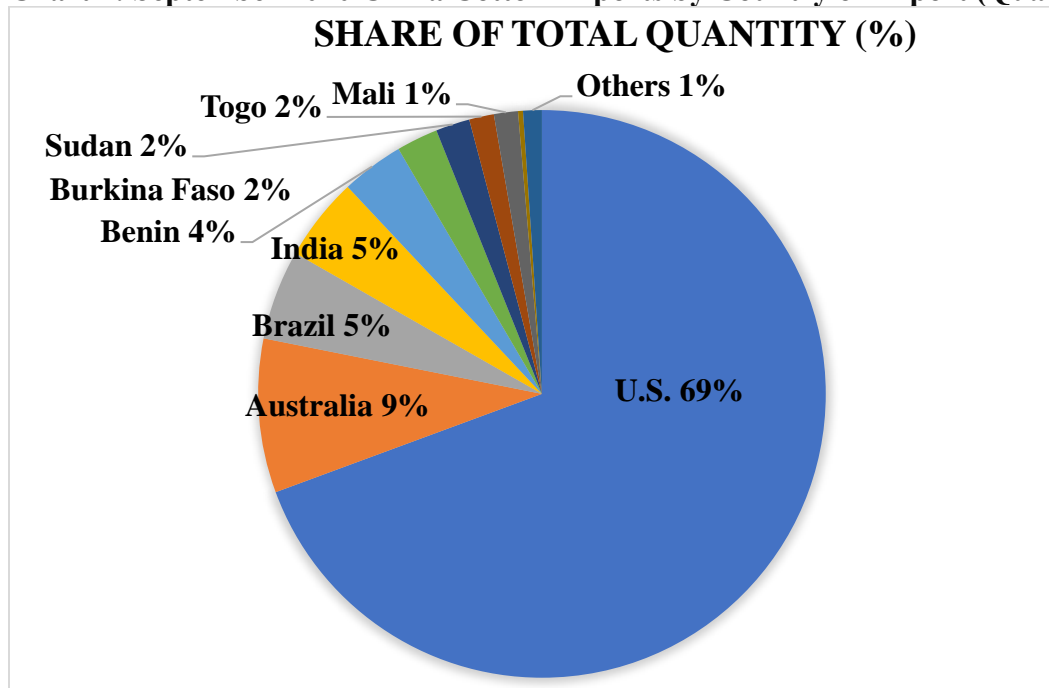


Table 2: China's Cotton Imports by Country of Export in 2020

Country	Jan-Feb	Mar	Apr	May	June	July	Aug	Sept	Total Quantity by Country	Share of Total Quantity (%)
U.S.	71,901	52,350	70,817	41,167	56,643	98,040	102,517	145,891	639,325	45.71%
Brazil	233,250	84,030	25,479	13,405	14,993	10,009	10,325	10754	402,245	28.76%
India	46,818	33,219	16,865	5,164	2,970	16,424	8,173	10003	139,636	9.98%
Australia	28,024	5,972	6,174	4,734	4,837	9,194	7,981	18435	85,352	6.10%
Benin	1,000	3,000	0	9,96	2,227	3,494	3,977	7488	22,183	1.59%
Others	31,305	22,356	5,495	4,548	8,590	11,094	8,880	17733	110,001	7.86%
Total	412,297	200,927	124,830	70,015	90,260	148,256	141852	210304	1,398,742	100.00%

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

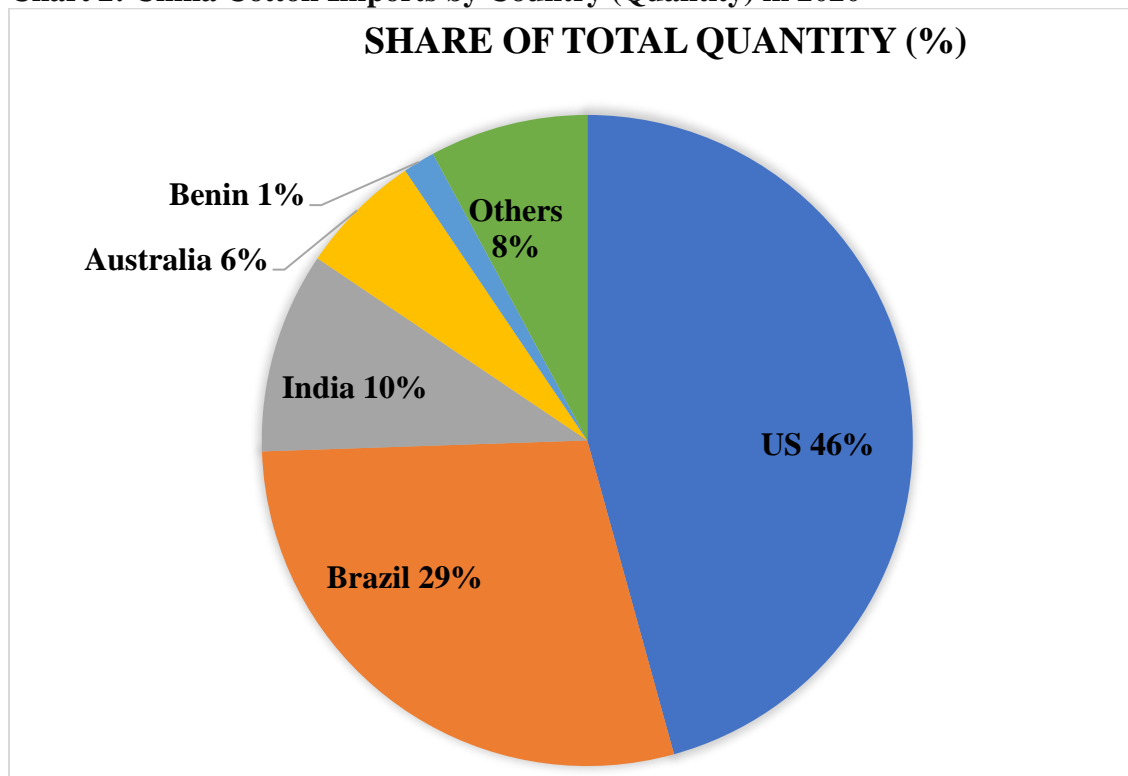


Chart 3: China Imports of U.S., India, and Brazil Cotton in September 2020

