



**American Cotton Shippers Association** P (901)525-2272  
 88 Union Avenue, Suite 1204 F (901)527-8303  
 Memphis, T N 38103 [www.acsa-cotton.org](http://www.acsa-cotton.org)

## China Policy and Market Report

December 2020

Provided by:



| SUBJECT                     | KEY FINDINGS   |
|-----------------------------|--|
| <p><b>Cotton Market</b></p> | <p>a) <b>China's Cotton Imports</b></p> <p>In November China imported 902,899 bales (196,583 MT) of cotton, a decrease of 5.55% month-on-month (m/m), and an increase of 87.01% year-on-year (y/y). The total value was USD 311.00 million, representing a decrease of 3.26% m/m, an increase of 70.18% y/y.</p> <p>The U.S. ranked as the largest cotton supplier to China, Brazil the second, and India the third.</p> <ul style="list-style-type: none"> <li>• U.S. Imports: 374,262 bales (81,486 MT), representing a decrease of 37.90% m/m, and an increase of 497.15% y/y. U.S. cotton imports accounted for 41.45% of the total.</li> <li>• Brazil Imports: 257,707 bales (56,109 MT), representing an increase of 143.94% m/m, and a decrease of 3.49% y/y. Brazil cotton imports accounted for 28.54% of the total.</li> <li>• India Imports: 139,121 bales (30,290 MT), representing an increase of 8.19% m/m, and an increase of 2676.74% y/y. India cotton imports accounted for 15.41% of the total.</li> </ul> <p>In 2020, Chinese cotton imports totaled 8,283,263 bales (1,803,468 MT), an increase of 6.36% y/y. U.S. cotton was ranked as largest supplier with a total 3,913,389 bales (852,040 MT), accounting for 47.24% of total imports. Brazil cotton was ranked as the second largest with a total quantity of 2,210,846 bales (481,355 MT), accounting for 26.69% of total imports. India and Australia were the third and fourth largest supplier, marking 10.97% 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) <b>The Growing Situation &amp; Picking Progress in China in November</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% y/y. In Xinjiang, the overall cotton production is higher 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% y/y. As for the Yellow river and Yangtze river area, the estimated production is 1.82 and 1.14 million bales (0.40 and 0.25 million MT) respectively, which will see significant decrease due to declining area and unfavorable weathers.</p> <p>As of the end of November, the nationwide picking progress is 99.86%, with an increase of 0.71% y/y. The delivery progress is 95.47%, representing an increase of 3.26% y/y. The average unit price is 6.53 Yuan/Kg, with an increase of 1.40% m/m and 21.34% y/y.</p> <p>c) <b>Auction of Reserved Cotton in 2020/21</b></p> <p>According to 2020 Xinjiang Cotton State Reserve Auction Trading Regulation, China's cotton State Reserve procurement has been suspended on December 1<sup>st</sup> and has not started so far due to the price difference remains high. Based on the data of China National Cotton Exchange, the average price difference between domestic and international cotton from December 1<sup>st</sup> to December 24<sup>th</sup> is RMB 1,828/MT.</p> <p>d) <b>Cotton Price</b></p> <p><b><u>Imported Cotton</u></b></p> <p>In November, the average price of imported cotton was USD 71.76 Cents/Pound, representing an increase of 2.43% m/m, and a decrease of 9.00% y/y. Average prices for cotton from U.S., Brazil and India were:</p> <ul style="list-style-type: none"> <li>• U.S. cotton: USD 72.04 Cents/Pound, representing an increase of 2.84% m/m, and a decrease of 1.65% y/y.</li> <li>• Brazil cotton: USD 73.83 Cents/Pound, representing a decrease of 1.58% m/m, and a decrease of 3.99% y/y.</li> <li>• India cotton: USD 65.16 Cents/Pound, representing an increase of 4.04% m/m, and a decrease of 9.84% y/y.</li> </ul> <p><b><u>Domestic Cotton</u></b></p> <p>The CC Index 2129B average price in November was USD 101.81 Cents/Pound (RMB 14,814 /MT), representing an increase of 5.65% m/m, and an increase of 17.69% y/y. It increased from USD 102.17 Cents/ Pound (RMB 14,866/MT) on November 1<sup>st</sup> to USD 102.29 Cents/ Pound (RMB 14,883/MT) on November 30<sup>th</sup>.</p> <p><i>(In November, USD 1 = RMB 6.60; from the State Administration of Foreign Exchange)</i></p> |

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| <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 November was 5.74 MMT, with an increase of 2.30% m/m, and an increase of 5.10% y/y. As of November, total production of man-made fiber in 2020 reached 55.63 MMT, with an increase of 1.28% 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 November totaled USD 24.60 billion, representing a decrease of 1.01% m/m, and an increase of 13.50% y/y. Textiles accounted for USD 12.04 billion, representing an increase of 3.24% m/m, and an increase of 22.2% y/y; the apparel accounted for USD 12.55 billion, representing a decrease of 4.76% m/m, and an increase of 6.9% y/y.</p> <p>China's textile and apparel exports totaled for first eleven months of 2020 reached USD 265.21 billion, representing an increase of 10% y/y.</p>  |
| <p><b>Policy Updates</b></p>   | <ul style="list-style-type: none"> <li>● <b>China Lowers Tariff Rate for STRQ in 2021</b></li> </ul> <p>Every year-end, China announces its annual tariff reductions for the next year as a standard practice. This month, the Customs Tariff Commission of the State Council announced the provisional import tariff rates for 883 commodities will be lower than Most Favored Nation tariff rates starting January 1, 2021 to fulfill its commitment of continued endeavors on trade facilitation and opening-up. Specifically for cotton, the import tariff rate for sliding tariff rate quota (STRQ) will enjoy reduction, which will support the cotton imports in the coming year to help mills post-pandemic recovery. According to our discussion with China Cotton Association (CCA), it is estimated that about RMB 360/tons will be saved for domestic importers based on the current international cotton price. At the macro level, the further reduction on tariffs is believed will not only bring tangible benefits to domestic enterprises and customers, but also to support the goal of facilitating the country's Dual Circulation economic growth model in the next five year.</p> <ul style="list-style-type: none"> <li>● <b>National Cotton Reserve Refill Suspended Due to Major Price Differences</b></li> </ul> <p>As routine practice to improve the quality of the national cotton reserve, China planned to refill of 500,000 MT of high-quality Xinjiang cotton from December 1, 2020 to March 31, 2021. However, since the differences between domestic and international cotton prices were higher than RMB 800/ton, Chinese government has to postpone the refill until the differences could be narrowed within RMB</p> |

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|         | <p>800/ton. As of December 29<sup>th</sup>, the price difference was RMB 1,689/ton and there is no chance the refill could be initiated any time soon.</p> <ul style="list-style-type: none"> <li data-bbox="347 411 1230 478"> <p><b>● Trade Tensions Rise Between China and U.S. Allies as Trump Administration Escalates Sanctions</b></p> <p>Despite having less than one month left in office as of the end of December, the Trump administration is using its lame duck session to continue ramping up punitive measures and sanctions against China across the board, and as a result new trade disputes and tensions are increasing between China and close US allies like Australia and Canada. Even though the Biden Administration is expected to take a more multi-lateral approach on trade and China compared with the Trump team, however the nomination of Katherine Tai to serve as USTR indicates that the ongoing bilateral trade negotiations with China over additional tariffs will continue well into 2021 and beyond, and comprehensive political reset is not possible.</p> <p>This will have significant impact on China’s trade relationships with other countries, because while not aggressively pushing back on the U.S. directly, China has singled out U.S. allies it perceives to be working with the U.S. to confront it, most notably Australia, which has seen nearly all of its exports sanctioned either through domestic trade-remedy, such as anti-dumping and anti-subsidy countervailing duties on exports of barely and wine (interim), or using non-tariff trade barriers (TBT) such as political pressure to stop purchases on goods, especially cotton, or customs quarantine restrictions to slow down the imports of lobsters, timber, and red meat.</p> <p>Without a political détente between the U.S. and China it is unlikely that new disputes like those with Australia will be resolved quickly, and indeed more of them should be expected in the future. That said, due to considerations behind China’s actions are largely political, if the Biden Administration could ease the tensions with China after the inauguration in January the trade bans and restrictions may improve. In the meantime, China has finalized negotiations to join the RCEP and signed the EU-China Comprehensive Agreement on Investments (CAI) on December 30<sup>th</sup>, which is expected to significantly restructure China’s global supply chain in the future and give China more room to negotiate with the new administration.</p> </li> <li data-bbox="347 1692 1321 1759"> <p><b>● All-Around Deepening of Reforms and Opening-Up Will Drive 2021 Economic Recovery and Growth</b></p> <p>In December, the annual Central Economic Work Conference (CEWC), China’s highest-level economic policy planning meeting, mapped out the detailed tasks</p> </li> </ul> |

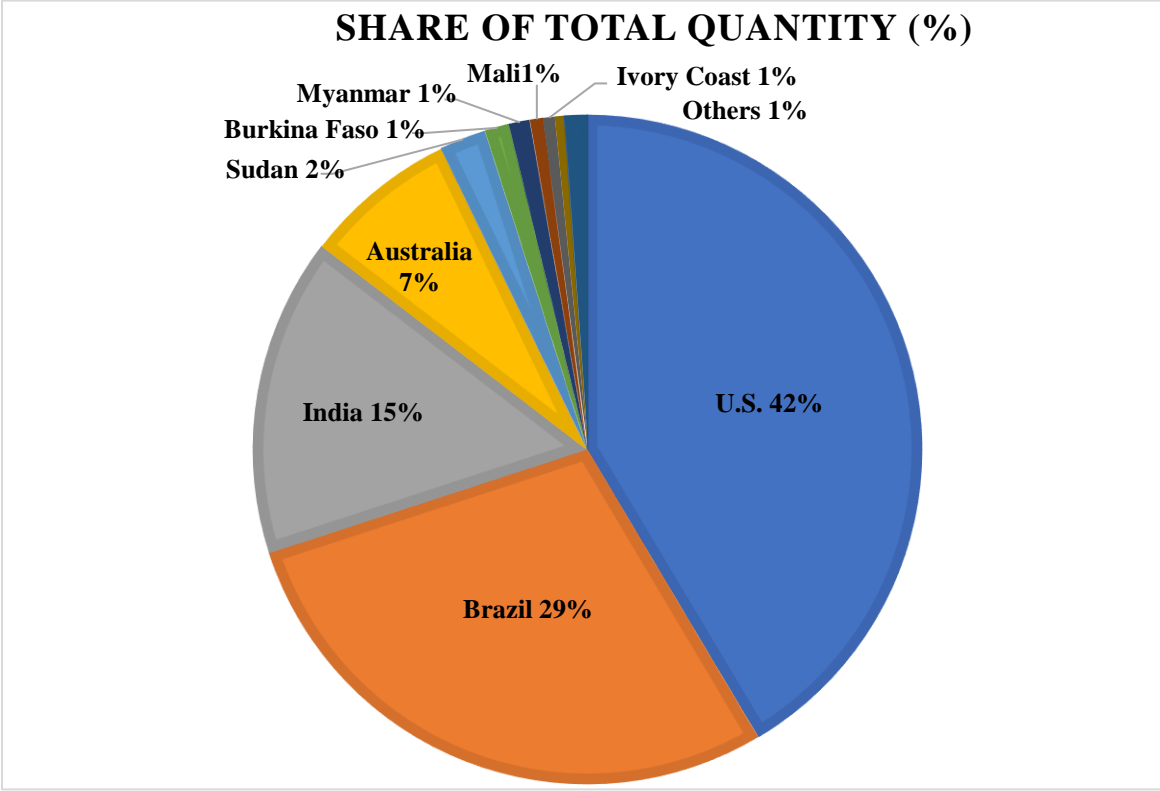
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|         | <p>to lay the foundation to strengthen the “Dual Circulation” model while maintaining the policy continuity, bearing a risk prevention-oriented mindset to address challenges from COVID-19 and a more complex and unpredictable global environment to kick off the 14th Five-Year-Plan. The Central Economic Work Conference is an integral part of China's system of governance that includes monthly politburo meetings and study sessions to ensure that key policy decisions are addressed in a well-informed and holistic approach. The Two Sessions, which is announced to begin on March 4, 2021, will roll out the 14<sup>th</sup> Five-Year-Plan and the action plan for 2021 to further elaborate on how to achieve the tasks. Data for the manufacturing sector, the service sector, foreign trade as well as the consumption sector in November are encouraging, pointing to faster economic growth in Q4. China has seen better economic recovery over other major economies in the world and now has an opportunity to calibrate massive short-term stimulus to support the economy as a whole to target small and medium enterprises, technology innovation, and green development.</p> <ul style="list-style-type: none"> <li data-bbox="347 919 1422 989">● <b>Prioritized Domestic Production to Stable Grains Kept China with Limited Resources on Cotton: Stable Domestic Supply and Adequate Imports</b></li> </ul> <p>The Central Rural Work Conference, the highest-level meeting for policy planning on agriculture and rural development that was held from December 28<sup>th</sup> to 29<sup>th</sup>, put emphasis on increasing self-sufficiency capacity to increase the resilience of domestic food supply chain and balance imports to seek deeper participation in the reconstruction of global supply chains for long-term benefits in 2021. Before the conference, China announced its total grain production reached about 669.5 million tons in 2020, rising by nearly 0.9% y/y, with total area planted in grain reached 116.8 million hectares, up by 704,000 hectares from last year and reversing a four-year streak of decline. Under the country’s food security strategy, self-sufficiency of grains is the top priority while the rest ag products will rely on adequate imports, given the lack of water, farmland, seed, labor force, as well as unbalanced development in different areas. The unswerving political intention of securing farmers’ income to ensure social stability in Xinjiang, China’s cotton production hub, determined China will try to stabilize both production and distribution of Xinjiang cotton, especially taking the scattered global supply chain under the covid-19 and uncertain external relations into consideration. That said, the restrictions on China’s agriculture production limited the country’s capacity to increase domestic cotton plantation growth and would continue to rely adequate imports to ensure sufficient supply, especially high-quality ones to support the textile industry’s post-pandemic recovery and long-term upgrade.</p> |

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|         | <ul style="list-style-type: none"> <li data-bbox="347 302 1370 336">● <b>China’s Promotion on Credibility System to Promote Contract Sanctity</b> <p data-bbox="402 373 1435 919">This month, China’s State Council issued a guideline on building a permanent mechanism and credibility system to further optimize restraints on unfaithful activities. In essence, the guideline calls for measures to punish those who do dishonest businesses by identifying and adding dishonest players to a “blacklist”. Those companies on the list will face reputation damage from nationwide public disclosure to restrictions and/or penalties on all perspective subject to governing agencies’ decisions. The system will also provide a protocol for companies to repair their reputation and thus be removed from the list. Although it is a state level guideline and subject to each industry governing agency to develop and apply it to the day-to-day supervision, China Cotton Association (CCA) is taking the initiative to develop the default list for the cotton industry. This is a supportive move to support China’s overarching efforts of improving the business climate to level the playing field in China. ACSA is assisting CCA in the creation of the default list in an effort to promote contact sanctity between our members and our Chinese customers.</p> </li> <li data-bbox="347 957 1117 991">● <b>China Expects Continued Tight Corn Supply in 2021</b> <p data-bbox="402 1029 1435 1575">Based on the estimation of Ministry of Agriculture and Rural Affairs (MARA) in December, this month China’s corn market maintained stable. Prices still are in high places at RMB 2200-2400/ton while it is expected to keep stable considering the arrival of large amount of imports of corn and substitutes into the market. Based on the latest statistics from China’s General Administration of Customs (GACC), in November China imported 1.23 MMT of corn with a 7.75% m/m increase and a 1,149.71% y/y increase. The imports from U.S. were 0.76 MMT, taking 62.15% of the total. For the first 11 months, China has imported 9.04 MMT of corn, registered a y/y growth at 128%. Ukraine and U.S. are the major sources with a quantity of 5.2 MMT and 3.3 MMT, respectively. For 2021, the tight supply of corn is expected to continue which will support the high price and stimulate the domestic production. The corn and downstream industries estimated that Chinese government will adjust the import policy to increase the supply to meet the demand of recovered swine production and deep-processing industry.</p> </li> </ul> <p data-bbox="347 1650 646 1684"><b>Reports of the Month:</b></p> <ul style="list-style-type: none"> <li data-bbox="370 1717 1153 1751">➤ Takeaways of Qingdao Cotton Outlook Forum 20201221</li> </ul> |

**Appendix:****Table 1: November 2020 China's Cotton Imports by Country of Export**

| <b>Country</b>          | <b>Quantity<br/>(Metric<br/>Tons)</b> | <b>Value<br/>(Million<br/>\$ U.S.)</b> | <b>Value Per<br/>Unit<br/>(\$/MT)</b> | <b>Share of<br/>Total<br/>Quantity (%)</b> | <b>Share of<br/>Total Value<br/>(%)</b> |
|-------------------------|---------------------------------------|--|---------------------------------------|--|---|
| <b>U.S.</b>             | <b>81,486</b>                         | <b>129</b>                             | <b>1,588</b>                          | <b>41.45%</b>                              | <b>41.61%</b>                           |
| <b>Brazil</b>           | 56,109                                | 91                                     | 1,628                                 | 28.54%                                     | 29.37%                                  |
| <b>India</b>            | 30,290                                | 44                                     | 1,437                                 | 15.41%                                     | 13.99%                                  |
| <b>Australia</b>        | 14,576                                | 26                                     | 1,758                                 | 7.41%                                      | 8.24%                                   |
| <b>Sudan</b>            | 4,415                                 | 6                                      | 1,405                                 | 2.25%                                      | 1.99%                                   |
| <b>Burkina<br/>Faso</b> | 2,362                                 | 4                                      | 1,483                                 | 1.20%                                      | 1.13%                                   |
| <b>Myanmar</b>          | 1,962                                 | 2                                      | 1,224                                 | 1.00%                                      | 0.77%                                   |
| <b>Mali</b>             | 1,281                                 | 2                                      | 1,771                                 | 0.65%                                      | 0.73%                                   |
| <b>Ivory Coast</b>      | 1,093                                 | 2                                      | 1,643                                 | 0.56%                                      | 0.58%                                   |
| <b>Togo</b>             | 850                                   | 1                                      | 1,748                                 | 0.43%                                      | 0.48%                                   |
| <b>Others</b>           | 2,159                                 | 3                                      | 1,598                                 | 1.10%                                      | 1.11%                                   |
| <b>Total</b>            | <b>196,583</b>                        | <b>311</b>                             | <b>1,582</b>                          | <b>100%</b>                                | <b>100%</b>                             |

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

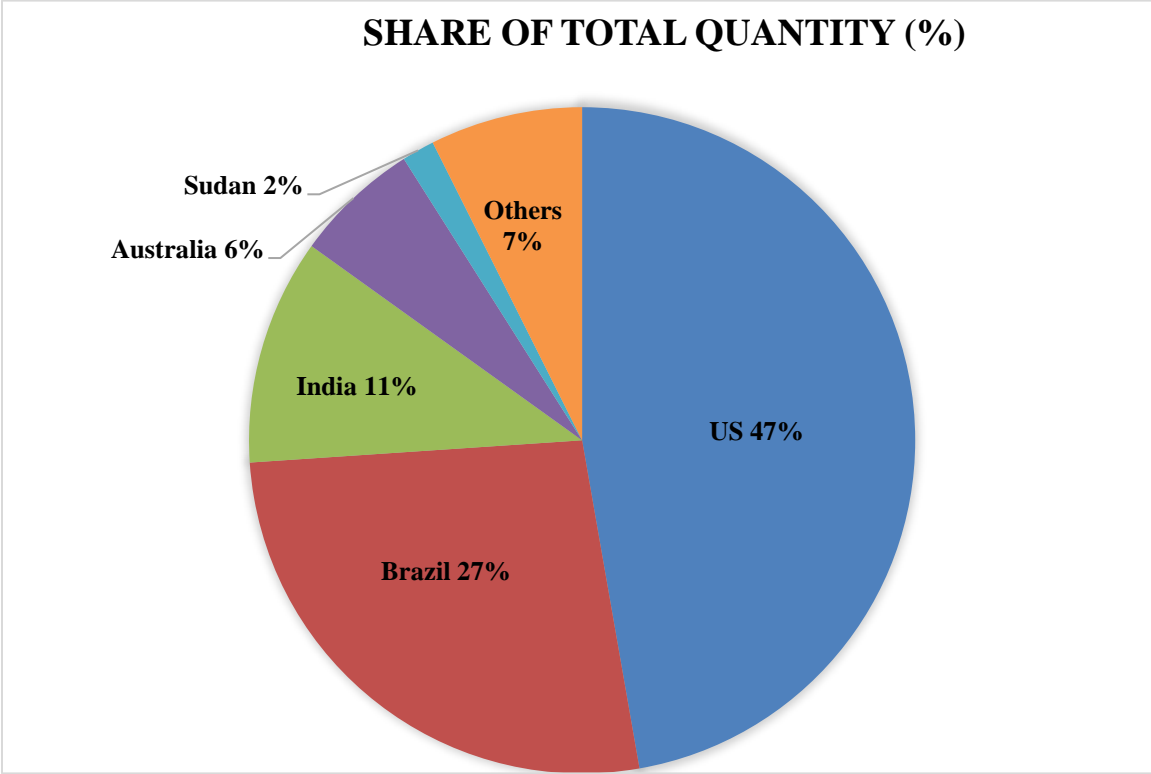




**Table 2: China's Cotton Imports by Country of Export in 2020**

| Country          | January-February | March   | April   | May    | June   | July    | Aug.    | Sep.    | Oct.    | Nov.    | 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 | 81,486  | 852,039                   | 47.24%                      |
| <b>Brazil</b>    | 233,250          | 84,030  | 25,479  | 13,405 | 14,993 | 10,009  | 10,325  | 10,754  | 23,002  | 56,109  | 481,356                   | 26.69%                      |
| <b>India</b>     | 46,818           | 33,219  | 16,865  | 5,164  | 2,970  | 16,424  | 8,173   | 10,003  | 27,997  | 30,290  | 197,923                   | 10.97%                      |
| <b>Australia</b> | 28,024           | 5,972   | 6,174   | 4,734  | 4,837  | 9,194   | 7,981   | 18,435  | 10,126  | 14,576  | 110,054                   | 6.10%                       |
| <b>Sudan</b>     | 7,496            | 3,314   | 1,151   | 1,099  | 726    | 1,030   | 1,909   | 4,084   | 3,382   | 4,415   | 28,605                    | 1.59%                       |
| <b>Others</b>    | 24,809           | 22,042  | 4,344   | 4,445  | 10,091 | 13,558  | 10,949  | 21,136  | 12,409  | 9,707   | 133,490                   | 7.40%                       |
| <b>Total</b>     | 412,297          | 200,927 | 124,830 | 70,015 | 90,259 | 148,255 | 141,852 | 210,303 | 208,144 | 196,583 | 1,803,468                 | 100.00%                     |

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



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

