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China Policy and Market Update

Provided by:



SUBJECT	KEY FINDINGS
<p>Cotton Market</p>	<p>a) China’s Cotton Imports</p> <p>In December China imported 1,629,083 bales (354,691 MT) of cotton, representing an increase of 80.43 percent month-on-month (m/m), and an increase of 130.94 percent year-on-year (y/y). The total value was USD 588.82 million, representing an increase of 89.33 percent m/m, an increase of 117.21 percent y/y.</p> <p>Brazil ranked as the largest cotton supplier to China, US the second, and India the third.</p> <ul style="list-style-type: none"> • Brazil Imports: 628,418 bales (136,822 MT), representing an increase of 143.85 percent m/m, and an increase of 64.25 percent y/y. Brazil cotton imports accounted for 38.57 percent of the total. • U.S. Imports: 572,853 bales (124,724 MT), representing an increase of 53.06 percent m/m, and an increase of 358.87 percent y/y. U.S. cotton imports accounted for 35.16 percent of the total. • India Imports: 252,985 bales (55,081 MT), representing an increase of 81.85 percent m/m, and an increase of 742.41 percent y/y. India cotton imports accounted for 15.53 percent of the total. <p>In 2020, Chinese cotton imports totaled 9,912,346 bales (2,158,159 MT), an increase of 16.71 percent y/y. U.S. cotton was ranked as the largest supplier with a total 4,486,242 bales (976,764 MT), accounting for 45.26 percent of total imports, US cotton’s market share increased 25.76 percent y/y. Brazil cotton was ranked as the second largest with a total quantity of 2,839,260 bales (618,176 MT), accounting for 28.64 percent of total import, and its market share increased 1.31 percent y/y. India and Australia were the third and fourth largest supplier, marking 11.72 percent and 5.44 percent, respectively.</p> <p><i>(See the tables and charts below for a breakdown of cotton imports by country.)</i></p> <p>b) The Growing Situation & Picking Progress in China in December</p>

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	<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. In Xinjiang, the overall cotton production is higher than last year benefit from the favorable weathers. Although CCA's estimated production is 24.07 million bales (5.24 million MT), with an increase of 4.10 percent y/y, the actual production has surpassed the estimation and reached to 25.17 million bales (5.48 million MT) as of January 24th (the final amount is expected to wrap up after processing is completed – April the earliest).</p> <p>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>c) Auction of Reserved Cotton in 2020/21</p> <p>According to 2020 Xinjiang Cotton State Reserve Auction Trading Regulation, China's cotton State Reserve procurement has been suspended on December 1st, 2020 and not started by far due to the price difference remains high (above RMB 800/ton). Based on the data of China National Cotton Exchange, the average price difference between domestic and international cotton from January 4th to 28th is RMB 1,361 Yuan/MT, which narrowed significantly from the previous month (which as RMB 1,828/MT).</p> <p>d) Cotton Price</p> <p><u>Imported Cotton</u></p> <p>In December, the average price of imported cotton was USD 75.30 Cents/Pound, representing an increase of 4.93 percent m/m, and a decrease of 5.94 percent y/y. Average prices for cotton from U.S., Brazil and India were:</p> <ul style="list-style-type: none"> • U.S. cotton: USD 76.61 Cents/Pound, representing an increase of 6.35 percent m/m, and a decrease of 2.45 percent y/y. • Brazil cotton: USD 75.39 Cents/Pound, representing an increase of 2.11 percent m/m, and a decrease of 4.33 percent y/y. • India cotton: USD 72.15 Cents/Pound, representing an increase of 10.72 percent m/m, and a decrease of 0.62 percent y/y. <p><u>Domestic Cotton</u></p> <p>The CC Index 2129B average price in December was USD 104.44 Cents/Pound (RMB 15057 /MT), representing an increase of 2.58 percent m/m, and an increase of 19.63 percent y/y. It increased from USD 102.70 Cents/ Pound (RMB 14,876/MT) on December 1st to USD 106.81 Cents/ Pound (RMB 15,365/MT) on December 31st.</p> <p><i>(In December, USD 1 = RMB 6.54; from the State Administration of Foreign Exchange)</i></p>

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<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 December was 6.04 MMT, with an increase of 5.23 percent m/m, and an increase of 12.20 percent y/y. As of December, total production of man-made fiber in 2020 reached 61.68 MMT, with an increase of 3.40 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 in December totaled USD 26.20 billion, representing an increase of 6.50 percent m/m, and an increase of 5.00 percent y/y. The textile accounted for USD 12.29 billion, representing an increase of 2.10 percent m/m, and an increase of 11.60 percent y/y; the apparel accounted for USD 13.91 billion, representing an increase of 10.79 percent m/m, and a decrease of 0.27 percent y/y.</p> <p>According to the General Administration of Customs of China (GACC), China's textile and apparel exports in 2020 reached USD 291.22 billion, representing an increase of 10 percent y/y. The textile totally accounted for USD 153.84 billion, representing an increase of 29.20 percent y/y; the apparel accounted for 137.38 billion, representing a decrease of 6.40 percent y/y.</p> <p>c) Increased demand resulted in strong production and sales among textile mills</p> <p>China Cotton Association (CCA) worked with encotton.org to conduct a regular cotton textile industry survey, mainly for the mills in major production regions, Xinjiang, Shandong, Hebei, Henan, Jiangsu, Zhejiang, Hubei, Anhui, Jiangxi, Shanxi, Shannxi, Hunan provinces in 2020. According to the latest results come back for the December 2020, the demand for cotton textile was strong despite the increasingly high cotton price, more mills are in the process of refilling or increasing their commercial inventory for raw cotton. By December 31st, the total commercial inventory among mills was 802,300 tons, increased 74600 tons m/m, and 69800 tons y/y. Among which, 38% mills increased their inventory, 43% remained the same level while 19% lowered inventory. Among all the consumed raw cotton, the usage percentage of Xinjiang cotton dropped (89.32% reduced 0.33 percentage point m/m) while imported cotton increased (account 7.68% increased 0.25 percentage points m/m while reduced 0.21 percentage point y/y).</p>
<p>Policy Updates</p>	<ul style="list-style-type: none"> ● Latest Cotton plantation intention survey showed Xinjiang to increase 1.45% against nationwide drop at 2.17% <p>In January 2021, Xinjiang Development and Reform Commission (XJDRC) conducted plantation intention survey in 2021, results showed the planting intention for grains, cotton and other ag commodities all increased, with estimated acreage of cotton increase 1.45% y/y, accounted 45.59% of Xinjiang's total ag plantation. XJDRC believed that compared with other ag products in the region, three main consideration caused this increase, including: 1) cotton grower's</p>

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	<p>income was secured along with continued implementation of target price policy; 2) the return of investment for planting cotton upheld at an above average level due to continuously increased standard plantation; and 3) with increased yield, the price of cotton was higher than the past years, which cemented cotton growers' confidence.</p> <p>This result is more positive than the finding from CCA's routine first round national survey conducted in December which showed the overall planting intention of cotton dropped 2.17%, among which 0.85% were in Xinjiang, while 7.12% and 6.00% for Yellow River and Yangtze River regions respectively. According to CCA's interpretation, the continued decline in cotton plantation was mainly caused by the suspended issuing of cotton subsidy in 2020 and unclear future subsidy policies.</p> <ul style="list-style-type: none"> <p>● China lowers tariff rate for STRQ in 2021</p> <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 1st, 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. Domestic buyers expect 2021 STRQ will be allocated around April to May 2021.</p> <p>● China 2020 Gross Domestic Product exceeded RMB 100 trillion, increased 2.3% y/y amid pandemic challenges</p> <p>With the economic annual report published by the National Bureau of Statistics (NBS), it is claimed that China's economy in 2020 not only met key structural index goals set at the beginning of the year, but also exceeded expectations especially when China struggled to balance epidemic control and prevention and social and economic development. The achievement of the year also marked all targets and tasks set in the 13th Five-Year Plan accomplished and contributed to China's phased target to build a moderately prosperous society in all respects, which is on course to finish.</p> <p>China's annual GDP came in at RMB 101.6 trillion (USD 15.42 trillion) for 2020, surpassing RMB 100 trillion for the first time. With no GDP growth target set at the beginning of the year, China values the stronger-than-expected economic</p>

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	<p>rebound reflected from the quarterly growth rates, which were -6.8 percent, 3.2 percent, 4.9 percent and 6.5 percent, respectively, and that China should be the only major economy to have achieved annual growth (increased by 2.3 percent y/y).</p> <ol style="list-style-type: none"> 1. CPI kept stable: In 2020, CPI increased 2.5% y/y (cap target was 3.5%). The food prices climbed majorly with an increase of 8.3% y/y and the pork price still contributed strongly to the inflation with an increase of 49.7% y/y. 2. Foreign trade reached RMB 32.16 trillion (USD 4.88 trillion), with an increase of 1.9% y/y: Exports witnessed an increase of 4% y/y reaching RMB 17.93 trillion, while import dropped by 0.7% to RMB 3.7 trillion. The first three trade partners in terms of trade volume were ASEAN, EU, and US, experienced growth at 7%, 5.3%, and 8.8% respectively. Trade through cross-border e-commerce reached RMB 1.69 trillion with an increase of 31.1% y/y. 3. An increase of per capita disposable income of residents leaves room for increase of consumption. China's goal of doubling the per capita income of residents in 2010 was achieved on schedule, reaching RMB 32,189 (USD 4,884). Although the annual consumption of RMB 39 trillion is 3.9 percent lower than that of 2019, as the COVID-19 is gradually being curbed, the overall consumption growth rate is picking up and has reached 4.6 percent in the fourth quarter. 4. Investment reached RMB 51.89 trillion (USD 7.87 trillion), with an increase of 2.9% y/y. The investment in high-tech industry, healthcare and education experienced annual increase by 10.6%, 29.9% and 12.3% respectively. China's utilization of FDI increased 6.2% y/y in 2020 and became the world's top investment destination – a total of 38,570 foreign-invested enterprises were newly established throughout the year. <p>The Chinese government is fully aware that the foundation for fully recovery of economy is not solid enough and will continue to adopt a risk prevention mindset to tackle the potential epidemic outbreaks and uncertainty of international relations. The huge domestic market is seen as an advantage to sustain economic growth. As China is entering a new development stage, policy priorities will be focused on stimulating consumption, with the expectation to raise the contribution rate of consumption to economic growth from the average of 60% in 2013-2019 to 70%-80% of developed countries. In the meantime, China's high national savings rate is seen as a pool to pump money into real economy. China's scholars have conducted forecast of China's potential growth rate in 2021 to 2025, ranging from 4-5% to 8%. In 2021, with China's ongoing economic recovery, latest forecasts from the IMF showed China will grow by another 8.1% or more in 2021 as other parts of the economy continue to make up for the lost time last year. From China's Premier Li Keqiang's internal remarks at the most recent State Council</p>

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	<p>Meeting to President Xi’s addressing for the world at the World Economic Forum, China vows to deepen opening-up and uphold multilateralism, it will seek for regional cooperation while strengthening bilateral trade and investment relations, as well as making stronger representations in global economic governance.</p> <ul style="list-style-type: none"> ● China hopes the Biden Administration will meet it halfway A Chinese spokesperson of Ministry of Foreign Affairs said China's position on China-US. relations is consistent and clear, stressing that China would like to strengthen dialogue and cooperation and properly manage differences following the spirit of non-conflict, non-confrontation, mutual respect and win-win cooperation. China hopes the United States will meet it halfway. It is also China’s clear position that the government will take firm reactions to all moves undermining our sovereignty, security and development interests. A clear indication of this, China imposed sanctions on Trump administration officials just minutes after Joe Biden was sworn in as the 46th president of the United States including former Secretary of State Mike Pompeo, according to the Chinese Foreign Ministry. As of the end of January, China’s President Xi has not made direct communication with President Biden, nor has China confirmed a high-level delegation will visit Washington DC soon after the inauguration after new leaders of China’s ministerial level trade negotiators have been appointed. ● China Responds to most recent WRO on cotton and tomato from Xinjiang The U.S. announced it will bar entry of all cotton products and tomatoes from China’s Xinjiang region, where it says Beijing is oppressing Muslim-minority Uighurs. Zhao Lijian, spokesman of the Chinese Ministry of Foreign Affairs (MOFA), commented at the regular press conference that “ ‘Forced labor’ is the biggest lie of the century made by persons and agencies in some Western countries including the United States, with an aim to restrict and suppress the relevant Chinese authorities and companies and contain China's development. The United States both creates lies and takes egregious actions based on its lies to violate international trade rules and principles of market economy, undermine global industrial and value chains, and damage the interests of companies and consumers all over the world including those in the United States, bringing no good to anyone. He emphasized that Xinjiang affairs are China's internal affairs that no other country has the right or privilege to interfere. China will take all essential measures to uphold national interests and dignity, and safeguard sovereignty, security, and development interests.” The domestic cotton industry treaded lightly in the dynamics as they want to see if the Biden Administration would recant or modify the WRO, and/or how the implementation will be rolled out.

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	<p>● U.S. corn’s market share reach 46.88% in China in December 2020 Based on the latest statistics from China’s General Administration of Customs (GACC), in December China imported 2.25 MMT of corn with a 83.86 % m/m increase and a 207.1% y/y increase. The imports from U.S. increased 996,850.195 MT y/y and totaled 1.06 MMT, accounting 46.88% of total imports in December, while imports from Ukraine increased 510,313.5 MT, about an increase of 90.54% y/y totaled at 1.07 MMT, taking 47.64% of total imports and ranked the largest supplier. In 2020, China totally imported 11.29 MMT of corn, landing at a growth at 135.74% y/y. Ukraine, U.S. and Laos are the top three sources with a quantity of 6.298 MMT, increased 52.2% y/y; 4.34 MMT, hitting a growth of 1266.89% y/y; and 132,624.8 MT, with a decrease of 6.38% y/y respectively.</p> <p>For the domestic production, according to the latest data issued by China’s National Bureau of Statistics, in 2020/21, China’s total plantation areas for corn was 41,264 thousand hectares, dropped 0.05% y/y, with total output of 260.67 MMT, a decrease of 0.04% y/y. Corn price spiked greatly in 2020, by the end of December, the domestic price was RMB 2,589/ton, increased 22.75% y/y. With the high price, as of December 20th, 2020, China auctioned off a total 575.0 MMT national reserves, with a success rate of 94.86% (total 606.1 MMT were put for auction in 15 weeks’ time).</p> <p>With the better-than-expected recovery of domestic swine production, the overall animal husbandry production remains strong, and the demands for feeds will stay solid and growing. China expects a strong demand for imported corn in 2021 in general. The latest estimation of China’s production in 2021 was 258.78 MMT, with an increase at 6.28% y/y, while estimation of total corn imports in 2020/21 is 10 million tons. Total feed-use corn consumption will be 185 MMT, while total industrial use corn consumption is estimated to be 820 MMT.</p> <p>Reports of the month:</p> <ul style="list-style-type: none"> ➤ China Cotton Policy and Market Report – January 2021 ➤ ACSA Middle Winter Board of Director Meeting – China Updates

Appendix:

Table 1: December 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 (%)
Brazil	136,822	227	1,662	38.57%	38.62%
U.S.	124,724	211	1,689	35.16%	35.78%
India	55,081	88	1,591	15.53%	14.88%
Burkina Faso	7,405	13	1,734	2.09%	2.18%
Australia	7,355	13	1,746	2.07%	2.18%
Mali	3,762	7	1,761	1.06%	1.13%
Mexico	3,095	5	1,603	0.87%	0.84%
Sudan	2,997	4	1,464	0.85%	0.75%
Myanmar	2,992	3	1,106	0.84%	0.56%
Cameroon	1,885	3	1,648	0.53%	0.53%
Others	8,573	15	1,758	2.42%	2.56%
Total	354,691	589	1,660	100.0%	100.0%

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

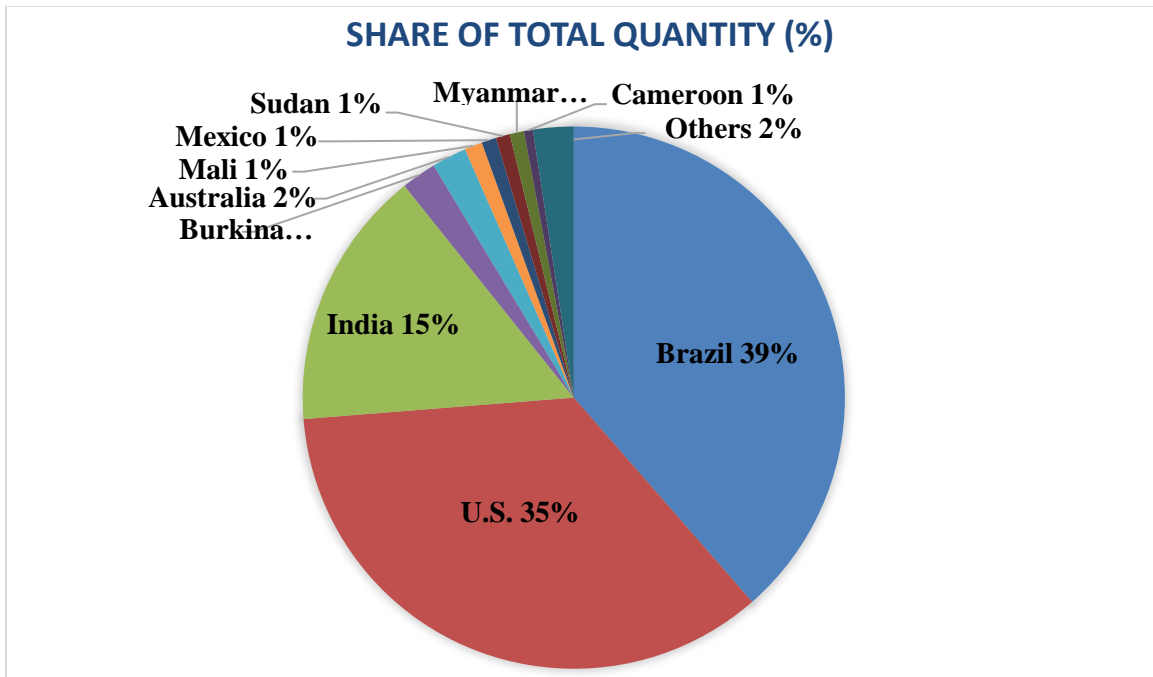


Table 2: China's Cotton Imports by Country of Export in 2020

Country	January-February	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total Quantity by Country	Share of Total Quantity (%)
US	71,901	52,350	70,817	41,167	56,643	98,040	102,517	145,891	131,228	81,486	124,724	976,763	45.26%
Brazil	233,250	84,030	25,479	13,405	14,993	10,009	10,325	10,754	23,002	56,109	136,822	618,177	28.64%
India	46,818	33,219	16,865	5,164	2,970	16,424	8,173	10,003	27,997	30,290	55,081	253,004	11.72%
Australia	28,024	5,972	6,174	4,734	4,837	9,194	7,981	18,435	10,126	14,576	7,355	117,409	5.44%
Sudan	7,496	3,314	1,151	1,099	726	1,030	1,909	4,084	3,382	4,415	2,997	31,603	1.46%
Others	24,809	22,042	4,344	4,445	10,091	13,558	10,949	21,136	12,409	9,707	27,713	161,203	7.47%
Total	412,297	200,927	124,830	70,015	90,259	148,255	141,852	210,303	208,144	196,583	354,691	2,158,159	100.00%

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

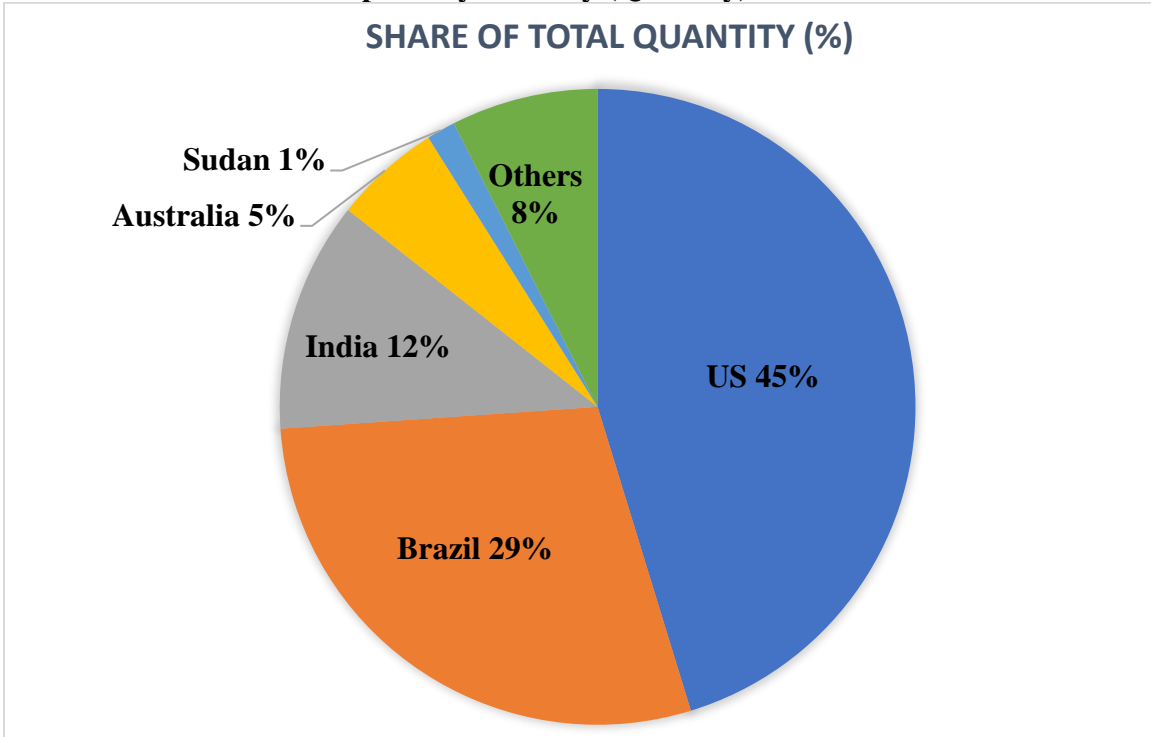


Table 3: December 2020 China's Cotton Yarn Imports by Country of Export

Country	Quantity (Metric Tons)	Value (Million \$ U.S.)	Value Per Unit (\$/KG)	Share of Total Quantity (%)	Share of Total Value (%)
Vietnam	82,498	200.65	2.43	47.00%	49.01%
India	26,299	64.30	2.45	14.98%	15.71%
Pakistan	21,508	46.72	2.17	12.25%	11.41%
Uzbekistan	17,477	36.45	2.09	9.96%	8.90%
Indonesia	11,985	26.56	2.22	6.83%	6.49%
Taiwan, China	5,956	10.82	1.82	3.39%	2.64%
China	2,919	10.01	3.43	1.66%	2.45%
Bangladesh	2,330	2.43	1.04	1.33%	0.59%
Malaysia	2,284	5.01	2.19	1.30%	1.22%
Cambodia	490	0.49	1.00	0.28%	0.12%
South Korea	449	1.49	2.94	0.26%	0.36%
Others	1,349	4.46	3.31	0.77%	1.09%
Total	175,542	409.39	2.33	100.00%	100.00%

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

