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Report Highlights:

Cotton imports into Hong Kong are expected to decline 17 percent in MY 99 as the expectation of lower prices in early MY99 already pushed down cotton imports by 30 percent, (between Aug 1998 - Feb 1999 and Aug 1999 - Feb 2000). The rise in cotton imports in the latter half of MY99 will probably not offset the significant drop earlier. Imports of U.S. cotton, however, are marching forward in MY99 as Step 2 provisions have sharpened its relative competitiveness.

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Situation & Outlook

Hong Kong's cotton import prospects are clouded in the short term by overhanging stocks, but will likely benefit in the longer run from the House of Representatives' recent passage of Permanent Normal Trade Relations for China and that country's eventual accession to the WTO. Imports of U.S. cotton, however, are marching forward in MY99 as Step 2 provisions have sharpened its relative competitiveness.

Cotton imports into Hong Kong are expected to decline 17 percent in MY 99 as the expectation of lower prices in early MY99 already pushed down cotton imports by 30 percent, (between Aug 1998 - Feb 1999 and Aug 1999 - Feb 2000). The rise in cotton imports in the latter half of MY99 will probably not offset the significant drop earlier. The forecast also reflects several other factors as well. Local yarn production will continue to face keen competition from imported cotton yarn and fabric, as well as synthetic yarn and fabric. On the re-export front, the surge of cotton re-exported to Indonesia in MY 98 was due to the recovery of that economy and such a remarkable surge will be difficult to sustain through MY99. Lastly, China continues to restrict cotton imports in MY99, which will limit gains in re-exports there.

Longer term prospects appear to be more positive. The recent House of Representatives' vote for Permanent Normal Trade Relations (PNTR) which normalizes U.S. trade relations with Beijing will help eliminate the annual uncertainty of China's textile and garment exports to the U.S., thereby improving demand for cotton including imports into and re-exports from Hong Kong. The PNTR is a big step towards China's accession to World Trade Organization membership.

Hong Kong's cotton imports in MY98 rose 9 percent to 134,940 MT, due primarily to the buoyant re-export trade to Indonesia. Local spinning industry demand for cotton remained stable in MY98. U.S. cotton still maintained the largest market share (31%) and experienced 4 percent growth. The most significant change of the cotton trade in the previous marketing year was the emergence of Chinese cotton. Cotton imports from China rose precipitously from a market share of 2 percent for MY97 to 22 percent for MY98, amounting to 30,021 MT.

Production & Consumption

Hong Kong does not produce any cotton. Cotton supplies are entirely dependent on imports. There are only four cotton spinning mills in Hong Kong. The majority of yarns produced in Hong Kong are open-end spun based on 10 counts. Ring spun yarn, which is generally in 20 counts, accounts for a mere 13 percent of total yarn production.

1999 spinning capacity in Hong Kong is as follows:

Total number of ring spindles installed	45,376 spindles
Total number of open-end rotors installed	22,608 rotors
Total number of doubling spindles installed	1,200 doubling spindles
Total number of workers employed	1,756 workers

Hong Kong's cotton use in MY99 is seen remaining stable. The local spinning industry is not expected to experience significant changes this year because the industry is very unlikely to undergo any significant expansion or contractions, given the general reluctance of further investment by local spinners and the

steadiness of Hong Kong garment exports to the U.S. and EU.

Hong Kong's consumption of cotton in MY98 decreased 5 percent to 103,597 MT. Local yarn production is expected to be rather stable without much fluctuations in the coming year. Hong Kong continued to import a good volume of U.S. cotton because of good quality and a variety of grades available. Hong Kong spinners also bought a great deal of Chinese cotton. Industry representatives estimated that Hong Kong's procurement of Chinese cotton amounted to 100,000 (220 pound) bales between Jan 1999 and May 2000. End-users commented that Chinese cotton quality was good and the price was competitive. For example, the quality of a grade 4 Chinese cotton was better than US's SLM cotton and the price was lower. Cotton from India and Pakistan has been in short supply. Although high in quality, Australian cotton use declined in MY98 because it was expensive. Australian cotton is disadvantaged by limited cotton grades and price fluctuations. Given that the majority of local yarn is O.E. produced, spinning mills very often do not require extremely good quality cotton like Australian. Since Australia rarely provides lower quality cotton at a more competitive price, Hong Kong spinners therefore turn to other suppliers.

Trade

MY99 cotton imports are forecast to drop 17 percent. Imports in the period August-February dropped 30 percent between MY98 and MY99. One major reason for the huge decline was that cotton prices kept on decreasing from 40 cents/lb in September 1999 to 30 cents/lb in November and December 1999. The expectation of a downward price trend in the early stages of marketing year 1999 discouraged end-users from procuring a large volume of stock. In addition, the high volume stock level for MY98 (37,181 MT) also allowed them to reduce cotton procurement for awhile. However, cotton prices have picked up in recent months and the declining stock will probably encourage more imports for the remaining months of MY99. The rise in cotton imports will offset the drop in earlier months. As such, cotton imports for all of MY99 are expected to decline 17 percent. However, imports of U.S. cotton during MY99 may rise 20 percent because of its good quality and availability of Step 2 payments.

MY98 cotton imports rose 9 percent compared with MY97. Given that local yarn production dropped slightly in MY98, the rise in imports was attributed to the increased re-exports to South East Asian countries like Indonesia, Malaysia, and Thailand, driven by recovering economies. China continued to be the largest re-export market for Hong Kong's cotton yet its share of Hong Kong's total re-exports has declined steadily (97 percent in MY96, 93 percent in MY 97 and 47 percent in MY98). China started to export cotton and reduced cotton imports by restricting import quotas in MY97. In May of this year, China's State Council approved import quotas of up to 450,000 (480 lb) bales. Although quotas have been authorized, individual mills still need to apply for licenses to import the cotton. Trade sources in Hong Kong expect that actual licenses granted will total just 45,000 bales. In view of the high inventory of cotton in China, Hong Kong's re-exports of cotton to China for MY99 are expected to decline further. However, re-exports to South East Asia will continue to increase, lifting Hong Kong's total cotton re-exports in MY99 by an expected 7 percent.

Competition

Hong Kong's yarn production faces strong competition from imported yarn of neighboring low production cost countries like Pakistan, India, Indonesia and mainland China. Imports of cotton yarn from China, Hong Kong's largest supplier, rose 22 percent in 1999. Imported yarns from Pakistan & India are very price competitive. For example, O.E spun yarn from these two countries sold at HK\$2700/bale (220 pound) (US\$1 = HK\$7.78)

whereas local yarn sold at HK\$3000/bale(220 pound). Over the years, Hong Kong has become the second largest export market for Pakistani and Indian textile products. On the whole, local coarse open-end yarn faces the strongest competition from imported yarn, while local fancy and fashionable ring spun yarn like core yarn and slub yarn enjoy reasonable profits and sales.

Cotton prices dropped significantly in MY98 from levels around U.S. 75 cents/pound for cotton spot futures in August 1998 to much lower levels of around U.S. 50 cents/lb in June 1999. Lower prices helped cotton to face competition from synthetic yarns and fabrics more effectively in MY98 and account for some of the decline of synthetic yarn and fabric imports for 1999. In 2000, a fabric made with synthetic yarn, disco denim, is becoming very popular. It will pose some competitive pressure on cotton.

Statistical Tables

PS&D Table

PSD Table						
Country	Hong Kong					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	22426	24983	25692	37181	25692	22185
Production	0	0	0	0	0	0
Imports	136079	134940	130636	111778	0	115131
TOTAL SUPPLY	158505	159923	156328	148959	25692	137316
Exports	13064	19145	10886	20491	0	19000
USE Dom. Consumption	119750	103597	119750	106283	0	106000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	119750	103597	119750	106283	0	106000
Ending Stocks	25692	37181	25692	22185	0	12316
TOTAL DISTRIBUTION	158506	159923	156328	148959	0	137316

Trade Matrices

Import Trade Matrix			
Country	Hong Kong		
Commodity	Cotton		
Time period	Aug - Feb	Units:	MT
Imports for:	1998		1999
U.S.	23457	U.S.	31284
Others		Others	
Australia	3213	Australia	10862
India	7526	Argentina	1086
Argentina	3450	Cameroon R	720
Cameroon R	3919	China	7165
China	20973	Syrian Arab R	4076
Syrian Arab R	15432		
Total for Others	54513		23909
Others not Listed	6144		3666
Grand Total	84114		58859

Export Trade Matrix			
Country	Hong Kong		
Commodity	Cotton		
Time period	Aug-Feb	Units:	MT
Exports for:	1998		1999
U.S.	0	U.S.	0
Others		Others	
China	5918	China	5574
Indonesia	1323	Indonesia	1640
Japan	0	Japan	462
Korea	0	Korea	231
Malaysia	0	Malaysia	689
Thailand	155	Thailand	262
Total for Others	7396		8858
Others not Listed	151		3
Grand Total	7547		8861

Price Table

Prices Table			
Country	Hong Kong		
Commodity	Cotton		
Prices in	US\$	per uom	MT
Year	1998	1999	% Change
Jan	1530	1389	-9.22%
Feb	1546	1263	-18.31%
Mar	1555	1248	-19.74%
Apr	1494	1180	-21.02%
May	1435	1203	-16.17%
Jun	1441	1209	-16.10%
Jul	1436	1152	-19.78%
Aug	1418	1213	-14.46%
Sep	1381	1178	-14.70%
Oct	1359	1123	-17.37%
Nov	1387	1052	-24.15%
Dec	1327	1032	-22.23%
Exchange Rate	7.78	Local currency/US \$	

Table 1 : 1999 Average Monthly Prices

Prices in US\$ per MT	USA	China	Syrian Arab	Australia	All countries
January	1,382	1,312	1,417	1,916	1,389
February	1,229	1,294	1,381	0	1,263
March	1,205	1,321	1,418	1,574	1,248
April	1,184	1,313	1,436	1,159	1,180
May	1,140	1,386	1,418	1,159	1,203
June	1,136	1,409	1,418	1,633	1,209
July	1,106	1,303	0	0	1,152
August	1,105	1,295	1,206	1,468	1,213
September	1,123	1,292	1,218	1,199	1,178
October	1,048	1,041	1,216	1,266	1,123
November	972	1,085	0	1,082	1,052
December	982	1,104	0	1,130	1,032
1999 avg.	1,134	1,263	1,348	1,359	1,187
1998avg.	1,472	1,383	1,397	1,784	1,442
% change	-23%	-9%	-4%	-24%	-18%

Table 2 : Hong Kong's Marketing Year Cotton Imports by Volume (Aug-Jul)

	MY 97 MT	Market share	MY 98 MT	Market share	Volume change
USA	39,469	32%	41,197	31%	4%
China	2,052	2%	30,021	22%	1363%
Syrian Arab	9,073	7%	16,661	12%	84%
India	25,165	20%	7,526	6%	-70%
Australia	12,108	10%	4,445	3%	-63%
Cameroon R	0	0%	4,825	4%	0%
S. Africa	0	0%	4,935	4%	0%
Argentina	1,409	1%	4,404	3%	213%
All countries	124,257	100%	134,940	100%	9%

Table 3 : Hong Kong's Marketing Year Cotton Imports by Value (Aug - July)

	MY 97 USD'000	Market share	MY 98 USD'000	Market share	Value change
USA	60,030	32%	52,085	30%	-13%
China	3,028	2%	40,413	23%	1,235%
Syrian Arab	13,426	7%	23,144	13%	72%
India	38,621	20%	9,733	6%	-75%
Australia	20,659	11%	7,935	5%	-62%
Cameroon R	0	0%	6,598	4%	0%
S. Africa	0	0%	5,699	3%	0%
Argentina	1,986	1%	5,672	3%	186%
All countries	189,040	100%	176,224	100%	-5%

Table 4 : Hong Kong's Marketing Year Cotton Exports (Aug - Jul), MT

	MY 97	Market share	MY 98	Market share	Volume change
China	13,122	93%	9,012	47%	-31%
Indonesia	617	4%	3,585	19%	481%
All countries	14,048	100%	19,145	100%	36%

Table 5 : Hong Kong's Import of Cotton Yarn by Major Suppliers, MT

	1998	1999	% change
China	110,176	134,915	22%
Pakistan	111,606	107,068	-4%
India	83,461	65,165	-22%
Indonesia	23,511	18,651	-21%
Korea R	13,847	11,602	-16%
Taiwan	13,991	7,888	-44%
Australia	3,659	5,470	49%
Thailand	2,582	3,565	38%
Macau	401	618	54%
Italy	509	528	4%
Japan	537	461	-14%
USA	997	346	-65%
All countries	370,572	360,954	-3%

Table 6 : Hong Kong's Total Exports of Cotton Yarn, MT

	1998	1999	% change
China	281,321	275,987	-2%
Thailand	1,339	3,663	174%
Macau	4,381	2,131	-51%
India	1,453	1,651	14%
USA	89	267	200%
All countries	302,439	306,601	1%

Source : Hong Kong Census & Statistics Department

Table 7 : Hong Kong's Local Yarn Production, MT

	1998	1999
Ring production	10,153	12,330
Open end production	88,397	85,476
Total	98,550	97,806

Source : Hong Kong Cotton Spinners Association

Table 8 : Average Import Price of Cotton Yarn, USD/MT

	1998	1999	% change
Italy	12,841	17,817	39%
Japan	9,833	11,726	19%
Japan	9,833	11,726	19%
USA	4,931	6,638	35%
Korea	5,676	5,953	5%
Macau	3,804	3,807	0%
China	3,612	3,570	-1%
Taiwan	2,398	3,133	31%
Indonesia	3,139	3,096	-1%
Thailand	3,097	2,923	-6%
India	2,922	2,812	-4%
Pakistan	2,557	2,367	-7%
Australia	2,396	2,267	-5%
all countries	3,150	3,131	-1%
Local	2262	2262	0%

Note : Local cotton yarn is predominantly O.E. spun cotton, while most yarn imports are ring spun.

Table 9 : Hong Kong's Import of Cotton Fabric

(In thousand square meters)

	1998	1999	% change
China	1,298,038	1,357,873	5%
Pakistan	274,082	269,033	-2%
Taiwan	78,819	80,241	2%
Japan	52,755	50,672	-4%
Indonesia	48,128	44,045	-8%
India	42,075	35,896	-15%
Korea R	13,831	18,974	37%
Thailand	10,247	14,078	37%
Italy	5,947	6,716	13%
USA	6,283	4,014	-36%
All countries	1,890,217	1,941,255	3%

Table 10 : Hong Kong's Total Export of Cotton Fabric

(In thousand Square Meters)

	1998	1999	% change
China	1,268,649	1,250,997	-1%
USA	74,022	91,507	24%
Indonesia	64,453	64,065	-1%
Taiwan	51,235	48,003	-6%
Thailand	26,855	33,491	25%
Japan	16,882	3,283	-81%
All countries	2,098,135	2,108,721	1%

Table 11 : Hong Kong's Import of Synthetic Yarn by Major Suppliers, MT

	1998	1999	% change
Taiwan	230,265	133,827	-42%
China	65,929	73,049	11%
Indonesia	70,191	43,515	-38%
Korea R	66,733	36,938	-45%
Thailand	33,658	13,878	-59%
Japan	6,575	8,702	32%
Italy	2,046	2,489	22%
USA	3,446	2,360	-32%
Pakistan	1,803	1,841	2%
India	253	122	-52%
All countries	609,579	364,501	-40%

Table 12 : Hong Kong's Total Exports of Synthetic Yarn by Major Destinations, MT

	1998	1999	% change
China	516,459	316,355	-39%
All countries	526,531	336,282	-36%

Table 13 : Hong Kong's Import of Synthetic Fabric by Major Suppliers

(In thousand square meters)

	1998	1999	% change
Taiwan	1,085,326	1,072,412	-1%
China	1,026,361	1,055,173	3%
Korea r	751,297	583,914	-22%
Japan	95,304	100,759	6%
Indonesia	92,744	49,049	-47%
Thailand	49,453	35,181	-29%
USA	13,036	13,197	1%
Italy	7,762	7,837	1%
Pakistan	698	3,889	457%
India	993	1,102	11%
All countries	3,685,998	3,563,731	-3%

Table 14 : Hong Kong's Total Exports of Synthetic Fabric by Major Destinations

	1998	1999	% change
China	2,021,501	2,071,210	2%
Taiwan	140,070	114,171	-18%
All countries	2,619,674	2,625,500	0%

Source :Hong Kong Census & Statistics Department