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Report Name: Cotton and Products Update

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Report Highlights:

In marketing year (MY) 20/21 (August/July), China's cotton consumption and cotton imports are projected to recover to 8 million metric tons (MMT) and 1.96 MMT respectively, following the coronavirus-related decline in cotton use and imports in MY19/20. This decline was the result of market disruptions and reduced consumer demand for textiles and apparel. In MY 19/20, U.S. cotton exports to China reached 473,000 tons, up from 370,00 tons in MY18/19, pushing the U.S. share of China's cotton imports up to 30 percent. China's MY20/21 cotton production is forecast at 5.8 MMT, basically unchanged from MY19/20.

Note: The August update compares estimates and forecasts to the April annual [report](#) for marketing years 2018/19, 2019/20, and 2020/21. The estimates and forecasts are developed by FAS Beijing and do not represent official USDA forecasts. Exchange rate: US\$1=RMB6.62 in 2018; US\$1=RMB6.9 in 2019; US\$1=RMB7 in 2020.

Report Summary:

China's marketing year (MY) 20/21 cotton production is forecast at 5.8 million metric tons (MMT). The forecast is lowered from the April report based on a 3.1 percent acreage decline in MY20/21 due to low profits for growing cotton in the Yangtze River and Yellow River regions. MY20/21 cotton yield is expected to be high based on favorable weather conditions, which facilitated good crop growth and boll bearing as of mid-August.

Cotton consumption is forecast to grow in MY20/21, reaching 8 MMT compared to an estimated 7.3 MMT the previous marketing year due to a projected recovery of domestic and international demand for textiles and apparel. While both the MY20/21 and MY19/20 consumption figures are reduced from the April report due to the economic impacts of the coronavirus pandemic, consumption is expected to recover moderately in MY20/21 as consumer confidence improves. Forecast MY20/21 cotton imports are 1.96 MMT, which is lower than the previous report due to a greater than expected economic impact from the pandemic. However, this is still an increase over the 1.55 MMT in MY19/20. Imports are expected to rise in MY20/21 as consumer confidence begins to recover. The U.S. share of China's cotton imports increased to 30 percent during the 19/20 marketing year.

China's cotton stocks are forecast to fall to 7.6 MMT by the end of MY20/21 from the relatively high level in the previous year when consumption dropped significantly. China's state cotton reserve dropped to about 2 MMT in September 2019 and thereafter only 0.37 MMT domestic cotton was added. Annual sales from the state cotton reserve began on July 1, 2020 and are scheduled to run through September, with a target auction volume of 0.5 MMT. Industry sources report that the Chinese government is likely to source more foreign cotton in 2021 to rebuild the state reserve.

I. Production

MY20/21 production is forecast at 5.8 MMT, basically flat compared to an estimated 5.9 MMT in MY19/20. Although yield is forecast to be higher in MY20/21 than the previous year, the MY20/21 production forecast is reduced compared to the April report based on lower planted area of 3.12 MHa. While Xinjiang planted area is generally stable, the Yangtze and Yellow River regions saw less planted area as high input costs pushed down farmers' profits for growing cotton.

Based on a series of surveys administered from March to June 2020, the China Cotton Association (CCA) puts MY20/21 cotton acreage at 3.08 MHa, down 4.1 percent from the previous year. China's Ministry of Agricultural and Rural Affairs (MARA) estimates cotton planted area at 3.21 MHa for MY20/21, down from 3.3 MHa in MY19/20.

Table 1 – Cotton Production (MMT) and Area (MHa)
(MY19/20 Estimates and MY20/21 Forecasts)

	CCA		NCMMN		MARA	
	MY19/20	MY20/21	MY19/20	MY20/21	MY19/20	MY20/21
Area	3.21	3.08	3.20	3.05	3.30	3.21
Change (%)		-4.1		-4.7		-2.5
Production	5.91	5.77	5.84	5.81	5.80	5.68
Change (%)		-2.4		-0.6		-2.1

Note: Change is MY19/20 to MY20/21. Sources: CCA, National Cotton Market Monitoring Network (NCMMN), MARA

CCA’s monitoring data for Xinjiang as of mid-August indicate good weather conditions and improved cotton growth compared to last year. Favorable temperatures and adequate rainfall in most Xinjiang cotton areas have facilitated plant growth and boll bearing, and disease and pest prevention and control measures have been generally successful. Based on better weather conditions compared to MY19/20, the yield in Xinjiang is expected to be higher than that of MY20/21. Industry sources reported Xinjiang cotton sowing started relatively early this year, in late March, and cotton growth is expected to be 5-7 days earlier than average. In Northern Xinjiang, the spraying of defoliant will likely begin in early September and the harvest will kick off around September 10. The machine-picked cotton in Southern Xinjiang will be harvested later, with spraying of defoliant starting between September 15 and 20, and the harvest beginning in late September. On the other hand, harvesting of Southern Xinjiang’s hand-picked cotton will likely start in mid- to late September.

Most of the cotton areas in the Yellow River Basin reported adequate temperatures, abundant precipitation, and satisfactory moisture conditions for plant growth. Yield is likely to increase in MY20/21. In the Yangtze River Basin, however, excessive rainfall in part of the region in recent months has had an adverse impact on cotton flowering and boll setting. As of mid-August, the comprehensive climate index for the region is less favorable for cotton, thus yield is likely to be below average.

China’s National Statistics Bureau (NSB) estimated MY19/20 production in Xinjiang at 5 MMT, accounting for 85 percent of the national total. In MY20/21, Xinjiang’s production share is expected to exceed 85 percent.

II. Consumption

MY20/21 consumption is forecast at 8 MMT, up from an estimated 7.3 MMT in MY19/20. The textile and apparel sector took an economic hit in MY19/20 as consumer spending dropped during the coronavirus pandemic. While both the MY20/21 and MY19/20 consumption figures are reduced from the April report, consumption is expected to recover moderately in MY20/21 as consumer confidence and spending recovers, restoring some of the lost demand in both the domestic and overseas markets.

Preliminary Chinese customs data show a moderate recovery of textile and apparel exports in July 2020 at US\$31.3 billion, up 7.8 percent from June. The value of apparel exports in particular is up 19 percent compared to June. Total textile and apparel exports reached US\$56.5 billion during the first 7 months of 2020, up 5.6 percent over the previous year. However, forecast MY20/21 consumption is still well

below the MY18/19 level of 8.6 MMT. The main Chinese organizations tracking cotton demand remain pessimistic about MY19/20 cotton consumption and imports, while forecasting a recovery in MY20/21.

Table 2 – Cotton Use and Imports in MY19/20 and MY20/21

	CCA		NCMMN		MARA	
	MY19/20	MY20/21	MY19/20	MY20/21	MY19/20	MY20/21
Consumption	7.65		7.01	7.36	7.23	7.8
Imports	1.54		1.57	1.8	1.75	2.0
Ending stocks	7.84		6.33	6.31	7.48	7.32

Source: CCA, NCMMN and MARA

During the first six months of 2020, total revenue for large-scale textile enterprises (those with annual sales of RMB 20 million or more) was RMB1926.1 billion (US\$275 billion), down 16.4 percent year-on-year, and their total profits were down 19 percent. During this period, these large companies decreased their production of synthetic fiber by 1 percent. In contrast, their total production (including both synthetic and cotton) of yarn, fabrics, and apparel fell by 15.8 percent, 25.9 percent, and 13.7 percent respectively, compared to the previous year. However, large companies' revenue from sales of medical personal protective equipment (PPE), such as protective clothing and masks, increased rapidly during this period.

Also during the first half of 2020, total domestic retail sales of clothing, shoes, hats, and knitting textiles by large-scale enterprises totaled RMB512 billion (US\$73 billion), a year-on-year decrease of 19.6 percent. During the same period, online retail clothing sales fell by 2.9 percent year-on-year, while total textile and apparel exports were US\$125.2 billion, an increase of 3.2 percent year-on-year. Due to the sharp increase in export demand for medical PPE, textile exports reached US\$74.1 billion, a year-on-year increase of 27.8 percent. However, apparel exports were greatly impacted by reduced consumer spending, dropping 19.4 percent year-on-year to US\$51.1 billion.

Table 3 - Textile and Apparel Exports Showed Recovery in July 2020 (in \$billion)

Category	July export value	Change from June (%)	Change from June 2019 (%)	Jan to July export value	Jan to July Growth (%)
Textile	16	-1.1	+48.4	90.1	+31.3
Apparel	15.3	+19	-8.5	66.4	-16.6
Total	31.3	+7.8	+13.7	156.5	+5.6

Source: China Textile Industry Alliance

Industry sources report that China's textile and apparel sector continues to face challenges. According to a local industry association, approximately 75 percent of large-scale textile companies had resumed operations as of August, while a lower percentage of small and medium-sized enterprises were back up and running. Companies of all sizes are confronted with a shortage of workers, supply chain disruptions, and weak demand, including a drop in overseas orders. A survey of Nantong City in Jiangsu Province indicates that nearly all factories there have resumed operations, but companies complain about a shortage of export orders for August and September. At the same time, production costs have remained the same even though operations are not at full capacity. Companies report that

they have had to keep paying salaries, even to those employees who are not working due to the production slowdown, in order to maintain their supply of skilled labor should production levels recover. Additionally, prices for raw materials have fluctuated frequently and shown an upward trend.

III. Trade

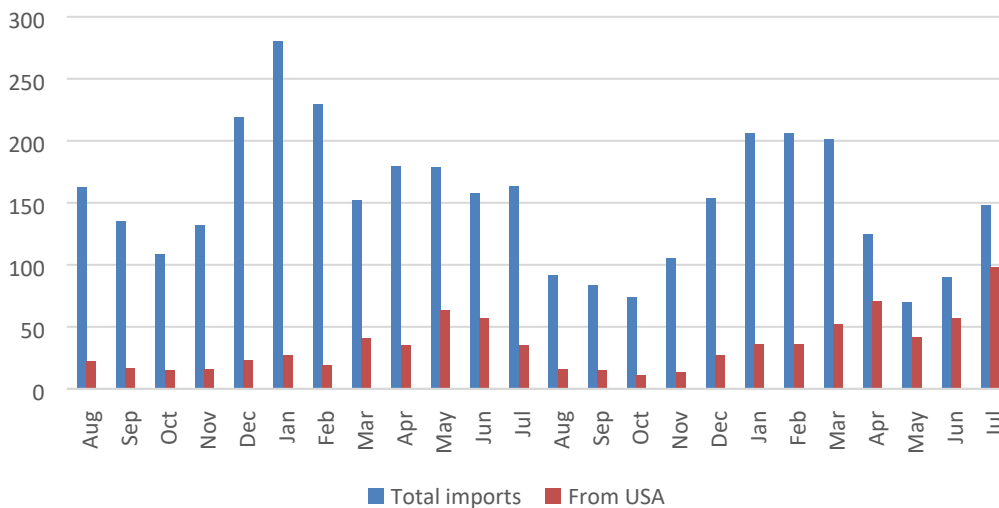
China’s MY20/21 cotton imports are forecast at 1.96 MMT, up from the 1.55 MMT in MY19/20 based on an anticipated recovery of spinning use in 2021. Both the MY20/21 forecast and the MY19/20 estimate are lowered from the previous report due to a longer than expected production slowdown and a slower than expected recovery during the first half of 2020.

China’s cotton imports fell to 1.55 MMT in MY19/20, a 26 percent decline year-on-year. However, the U.S. market share expanded to 30 percent in MY19/20, with total imports from the United States reaching 473,000 tons, up from 370,000 tons in MY18/19. While Chinese end users favor the quality and reliability of U.S. cotton, the additional tariff on U.S. products puts U.S. cotton at a disadvantage compared to China’s other main cotton suppliers, including Australia, Brazil, and India. In MY19/20, Brazil maintained its 36 percent market share, while Australia's share fell to 13 percent in MY19/20 as it lost market share to the United States.

In addition to market demand, China’s cotton imports are subject to how the government administers tariff rate quote (TRQ). China’s WTO TRQ obligation is 894,000 tons of cotton annually, subject to an in-quota one percent tariff and conditioned on processing for re-export. During the last 2 years, China made additional TRQ available, subject to a sliding duty, to meet demand from the domestic spinning industry. For an explanation of how China calculates and administers the sliding duty, see GAIN report [CH18033](#).

Chart 1 - China’s Cotton Imports in MY18/19 to MY19/20
(Monthly in 1,000 tons)

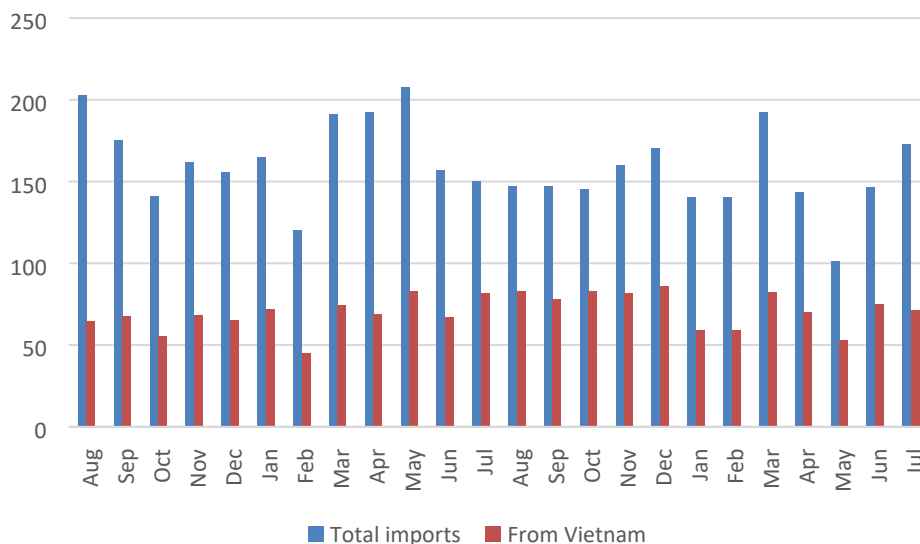
Source: TDM



Source: TDM

Unlike cotton imports, yarn imports do not face quota restrictions, and thus serve to fill the supply gap in years when no additional cotton TRQ quota is allocated. Based on weak demand for textile and apparel products, yarn imports fell to 1.8 MMT in MY19/20, down 10.5 percent from the previous year. Given China’s large spinning capacity, Chinese spinners are expected to maintain market share which shall spur cotton imports in MY20/21. Vietnam continues to be the largest yarn supplier to China with market share up to 48.7 percent in MY19/20.

**Chart 2 - China’s Yarn Imports
(August 2018 to July 2020; Monthly in 1,000 tons)**



Source: TDM

Imports of U.S. cotton have been constrained by China’s additional 25 percent tariff on U.S. cotton. On February 18, China announced a new tariff exclusions application round for U.S. agricultural commodities impacted by the additional 301 tariffs. The announcement enumerates approximately 150 agricultural and agricultural-related tariff lines, including cotton. For more information on the tariff exclusions process, see [Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process for U.S. Products](#). For information on applicable tariff rates, see the [2020 Cotton and Products Annual](#).

IV. Stocks

China’s total cotton stocks are forecast to fall to 7.6 MMT by the end of MY20/21 from an estimated 7.9 MMT in MY19/20, both figures being adjusted up from the April report based on local industry assessments. Low consumption resulted in relatively higher carry out stocks in MY19/20.

Annual sales from the state cotton reserve began on July 1, 2020 and will continue through the end of September. As of August 17, approximately 0.29 MMT were offered at auction, 100 percent of which was sold. The high purchase rate has mainly been driven by low, generally stable offer prices, which averaged RMB11,711(US\$1,673)/ton on August 17. The purchased volume has been divided equally between spinning mills and traders.

Production, Supply and Demand (PSD) Tables

Table 4. PSD (in 1,000 Bales and 1,000 Ha)

Cotton China	2018/2019		2019/2020		2020/2021	
	Market Year Begin: Aug 2018		Market Year Begin: Aug 2019		Market Year Begin: Aug 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3,250	0	3,220	0	3,120
Area Harvested	3,500	3,250	3,450	3,220	3,300	3,120
Beginning Stocks	37,993	37,993	35,670	35,800	36,745	36,330
Production	27,750	27,880	27,250	27,099	26,500	26,685
Imports	9,640	9,640	7,000	7,138	9,000	9,000
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	75,383	75,513	69,920	70,037	72,245	72,015
Exports	213	213	175	157	125	128
Use	39,500	39,500	33,000	33,550	36,500	36,745
Loss	0	0	0	0	0	0
Total Dom. Cons.	39,500	39,500	33,000	33,550	36,500	36,745
Ending Stocks	35,670	35,800	36,745	36,330	35,620	35,142
Total Distribution	75,383	75,513	69,920	70,037	72,245	72,015
Stock to Use %	90	90	111	108	97	95
Yield	1,726	1,868	1,720	1,832	1,748	1,862

Table 5. PSD (in 1,000 Tons and 1,000 Ha)

Cotton China	2018/2019		2019/2020		2020/2021	
	Market Year Begin: Aug 2018		Market Year Begin: Aug 2019		Market Year Begin: Aug 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3,250	0	3,220	0	3,120
Area Harvested	3,500	3,250	3,450	3,220	3,300	3,120
Beginning Stocks	8,272	8,272	7,766	7,794	8,000	7,910
Production	6,042	6,070	5,933	5,900	5,770	5,810
Imports	2,099	2,099	1,524	1,554	1,960	1,960
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	16,413	16,441	15,223	15,249	15,729	15,679
Exports	46	46	38	34	27	28
Use	8,600	8,600	7,185	7,305	7,947	8,000
Loss	0	0	0	0	0	0
Total Domestic Consumption	8,600	8,600	7,185	7,305	7,947	8,000
Ending Stocks	7,766	7,794	8,000	7,910	7,755	7,651
Total Distribution	16,413	16,441	15,223	15,249	15,729	15,679
Stock to Use %	90	90	111	108	97	95
Yield	1,726	1,868	1,720	1,832	1,748	1,862

Trade Tables

Table 6. China's Monthly Cotton Imports

Unit: Tons					
Month	2016	2017	2018	2019	2020
January	95,588	114,924	133,908	279,865	206,126
February	56,231	138,262	102,700	229,061	206,126
March	57,903	121,004	107,502	151,901	200,913
April	70,004	105,170	104,989	179,695	124,830
May	78,778	85,482	131,714	178,323	70,011
June	72,750	72,413	98,843	157,395	90,260
July	94,855	89,592	137,482	163,492	148,256
August	69,533	83,976	162,424	91,838	
September	60,644	92,847	135,526	83,266	
October	41,334	78,128	108,311	73,388	
November	54,972	72,363	132,286	105,096	
December	143,551	100,415	218,919	153,588	
TOTAL	896,143	1,154,576	1,574,604	1,846,908	
Unit: Bales					
Month	2016	2017	2018	2019	2020
January	439,036	527,846	615,039	1,285,420	946,737
February	258,269	635,037	471,701	1,052,077	946,737
March	265,948	555,771	493,757	697,681	922,793
April	321,528	483,046	482,214	825,339	573,344
May	361,827	392,619	604,962	819,038	321,561
June	334,141	332,593	453,986	722,915	414,564
July	435,669	411,496	631,455	750,919	680,940
August	319,365	385,702	746,013	421,812	
September	278,538	426,446	622,471	382,441	
October	189,847	358,842	497,472	337,071	
November	252,486	332,363	607,590	482,706	
December	659,330	461,206	1,005,495	705,430	
TOTAL	4,115,985	5,302,968	7,232,156	8,482,848	

Source: TDM

Table 7. China's Monthly Cotton Yarn and Thread Imports

Unit: Tons

Month	2016	2017	2018	2019	2020
January	161,490	174,281	195,754	164,777	140,419
February	115,953	173,467	92,081	119,921	140,419
March	190,540	182,451	172,157	191,394	192,440
April	164,621	141,013	157,245	192,237	143,176
May	170,963	141,904	209,293	207,638	101,501
June	159,339	150,042	195,786	156,829	146,701
July	163,693	142,462	204,750	150,333	172,649
August	170,417	158,773	202,857	146,888	
September	153,966	167,404	175,349	147,175	
October	140,745	169,598	141,009	145,327	
November	178,832	193,874	161,792	160,038	
December	201,699	188,184	155,886	170,427	
TOTAL	1,972,258	1,983,453	2,063,959	1,952,984	
Marketing Year	Aug/15- Jul/16	Aug/16- Jul/17	Aug/17- Jul/18	Aug/18-Jul/19	
TOTAL	2,072,233	1,951,279	2,104,899	2,020,022	

Source: TDM

Attachments:

No Attachments