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## **Report Name:** Cotton and Products Update

**Country:** China - Peoples Republic of

**Post:** Beijing

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### **Reduced Cotton Use Offsets Lower Production, Keeping Imports Flat**

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#### **Report Highlights:**

China's marketing year (MY) 2019/20 cotton consumption is lowered to 8.6 million tons, based on stagnant textile and apparel exports, low manufacturer confidence due to trade uncertainties, and a rise in substitution of synthetic fibers for cotton. Imports for MY 2019/20 are unchanged at 2 million tons. The impact of the U.S.-China trade situation continues, with Brazil, Australia, and other suppliers benefitting from the additional 25 percent tariff on U.S. cotton exports. Production is lowered to 5.91 million tons, a 2.6 percent decrease from the MY 2018/19 estimate, due to lower yield and area.

**Note:** November's update compares estimates and forecasts to the August update [report](#) for marketing years 2017/18, 2018/19, and 2019/20. The term Post refers to FAS-Beijing projections and does not represent official USDA forecasts.

## EXECUTIVE SUMMARY

The marketing year (MY) 2019/20 consumption forecast is lowered from the August update [report](#) to 8.6 million tons, mainly due to uncertainties about the strength of the textile and apparel market. Sluggish global economic growth, stagnant exports, and manufacturers' anticipation of additional U.S. tariffs on Chinese exports will reduce China's cotton consumption in 2019. In addition, synthetic fibers will push down cotton use as consumers demand ever more sportswear and other synthetic-based apparel. Cotton yarn and fabric production have already taken a hit in the face of expanding polyester and viscose fiber production. On the other hand, cotton consumption will be slightly bolstered by decreased yarn imports due to a price advantage for domestic yarn.

Imports for MY 2019/20 are unchanged at 2 million tons. The additional 25 percent tariff imposed on U.S. cotton continues to work to the advantage of competitors, including Brazil and Australia. According to industry sources, a September visit by a large Brazilian cotton delegation resulted in China's contracting about 200,000 tons from Brazil destined for the state reserve. Brazil is said to be focused on improving its cotton quality to meet Chinese demands.

Ending stocks for MY 2019/20 are virtually unchanged, with lower consumption offsetting lower production. Government sales from the state reserve totaled 1 million tons in 2019, leaving the reserve at about 1.9 million tons, a figure which the central government regards as inadequate. Therefore, it plans to purchase 500,000 tons of domestic cotton between December 2019 and March 2020. These purchases will not affect total stocks, but rather the balance between government and privately held stocks.

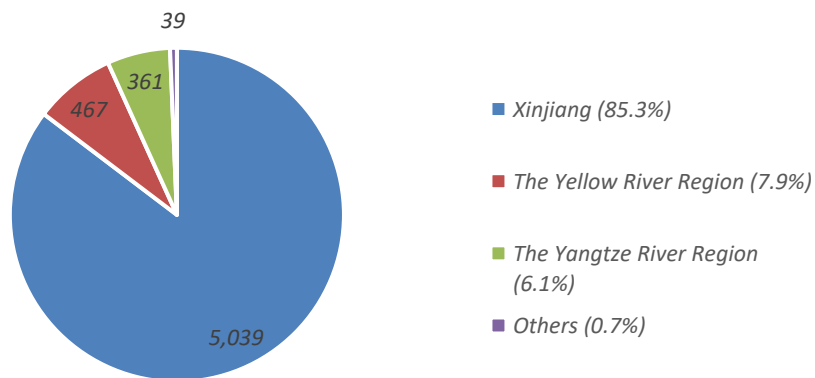
China's MY 2019/20 cotton production is forecast at 5.91 million tons, down from the August update [report](#), due to lower overall yield and decreased planted area outside of Xinjiang. Poor weather has impacted yields throughout China's cotton-growing regions. Both northern and southern Xinjiang experienced unfavorably low temperatures during the growing season. The Yellow River region suffered a serious typhoon that brought heavy rainfall, strong winds, and flooding, while the Yangtze River region faced low moisture and relatively high temperatures.

Although the price support subsidy for Xinjiang is set to expire at the end of MY 2019/20, the government is expected to extend the program through MY 2020/21, maintaining the target price at RMB18,600/ton (\$USD 2,650/ton).

## PRODUCTION

China's marketing year (MY) 2019/20 cotton production is forecast at 5.91 million tons, down from the August update [report](#), due to lower yield and area. Yield is reduced due to unfavorable weather conditions in most cotton-producing regions, and particularly in northern Xinjiang province. Cotton acreage is moderately lower outside of Xinjiang as a result of reduced anticipated profits. The China Cotton Association (CCA) and the Ministry of Agriculture and Rural Affairs (MARA) published similar MY 2019/20 production forecasts, down from their MY 2018/19 estimates, and likewise attributed the reduction to lower overall yield and decreased area outside of Xinjiang.

**Cotton MY 2019/20 Production Forecast (in 1,000 tons) and Share by Regions**



*Source: China Cotton Association (CCA) Monthly Report dated October 28, 2019*

### Xinjiang Province

Planted area in China's primary cotton-producing province has been stable in recent years, primarily due to a government price subsidy. Yield is nearly twice the national average, and output is expected to account for 85 percent of China's MY 2019/20 crop.

Relatively low temperatures in the early growing stage negatively impacted cotton plant growth in much of northern Xinjiang, including Shihezi and Kuitun cities, followed by higher temperatures and lower rainfall beginning in late July. Plant growth was also delayed in parts of southern Xinjiang due to relatively low temperatures in May. Cotton ball weight was relatively low, and the harvest was delayed by about ten days. Yield decreases ranged from 3 to 10 percent in northern Xinjiang, an area that accounts for an estimated 45 percent of the province's overall production.

The mechanized harvest in the northern part of the province was completed by late October, with the harvest in the remainder of the province—the majority of which is accomplished manually—wrapped up by mid-November. Sales of the northern MY 2019/20 crop are nearly complete, and more than 50 percent of the southern crop has been sold, bolstered by moderate increases in farm gate prices.

Cotton quality has improved in recent years, somewhat alleviating the shortage of high-grade cotton required by certain Chinese yarn and textile mills. However, the quality of the MY 2019/20 crop is reportedly lower than in the previous marketing year, particularly the machine-harvested cotton, due to increasingly outdated equipment.

Cotton production costs in Xinjiang increased in MY 2019/20, with costs for land rental, irrigation, and labor all rising. In contrast, the increased use of drones for chemical spraying moderately reduced production costs.

### **Yellow River and Yangtze Regions**

Planted area fell in the cotton-growing areas outside of Xinjiang. Likewise, yields were down in these areas. The Yellow River region—in particular, Shandong and Hebei provinces—suffered a serious typhoon that brought heavy rainfall, strong winds, and flooding, destroying crops. In the Yangtze River region, unfavorable weather conditions, including inadequate moisture and relatively high temperatures, have resulted in fewer cotton balls per plant.

### **Government Support Policies**

Since MY 2017/18, the central government has provided a price support subsidy to cotton farmers in Xinjiang province. The target price has been stable at RMB18,600/ton (\$USD 2,650/ton). Although this subsidy is set to expire at the end of the current marketing year, the government is widely expected to extend the program through MY 2020/21 at the same target price level.

In MY 2019/20, the Shandong provincial government implemented a support policy to fully subsidize risk insurance premiums for cotton farmers in that province.

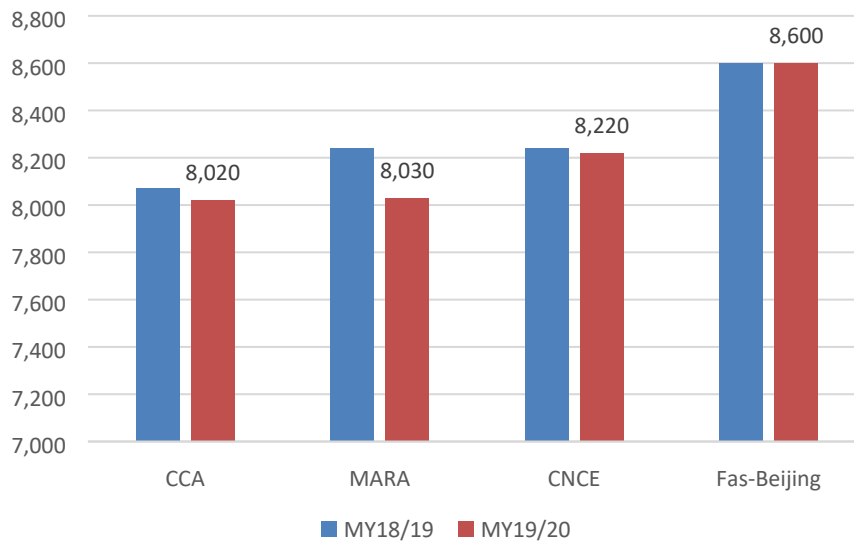
On November 14, 2019, the central government announced plans to purchase 500,000 tons of domestic cotton for the state reserve. See additional details in the Stocks section below.

For more information about China's cotton subsidy policy, see GAIN report [CH18014](#).

## **CONSUMPTION**

China's 2019/20 cotton consumption forecast is lowered from the August update [report](#) to 8.6 million tons, mainly due to uncertainties about global textile demand. Sluggish global economic growth and manufacturers' anticipation of additional U.S. tariffs on Chinese exports will continue to dampen textile and apparel operations.

## MY 2019/20 Consumption Estimated to Decline



Source: CCA, Ministry of Agriculture and Rural Affairs (MARA), China National Cotton Exchange (CNCE)

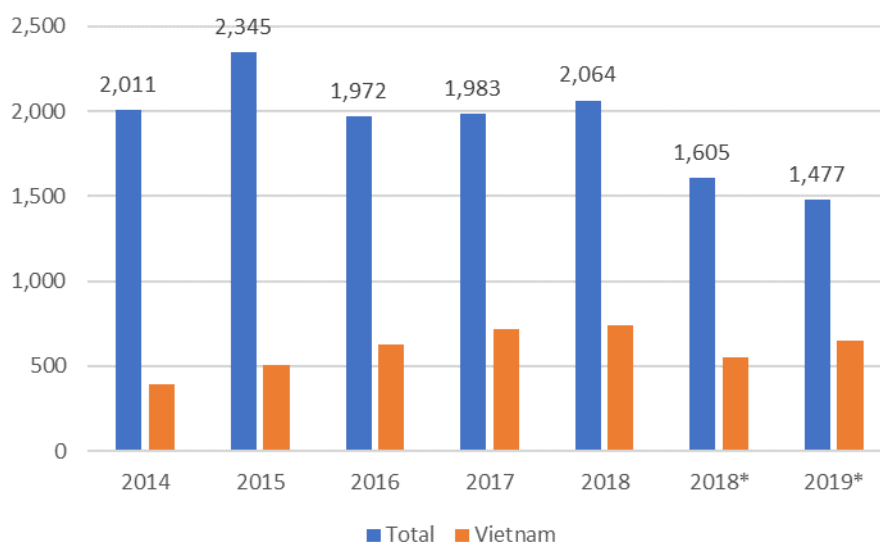
Stagnant exports and continuing low confidence on the part of Chinese exporters are expected to reduce China's cotton consumption in 2019. According to preliminary statistics released by China's General Administration of Customs (GACC), textile and apparel exports totaled \$224.8 billion during the first ten months of 2019, down 2.6 percent compared to the previous year. Apparel exports amounted to \$125.5 billion, down 4.8 percent from the previous year. During the first 3 quarters of 2019, cotton yarn and cotton fabric export volumes declined by 7.3 percent and 8 percent, respectively, as compared to the previous year. According to the China Textile Industry Association, factories in Guangdong and Henan provinces have suspended operations and reduced wages in response to declining export orders.

Along with constrained global economic growth and trade uncertainties, a rise in substitution of synthetic fibers for cotton is expected to restrain China's cotton demand. Consumers are buying ever more sportswear and other clothing made from blended yarn and fabrics. Cotton yarn and fabric production have already taken a hit in the face of expanding polyester and viscose fiber production. According to a Chinese textile industry source, pure cotton yarn production was down 8 percent during the first 3 quarters of 2019 compared to the previous year, while total yarn production was down 6 percent. Likewise, pure cotton fabric production was down over 6 percent, while pure synthetic fabric production was up 10 percent.

China's yarn imports are likely to continue to fall through the end of 2019 and into 2020, giving a slight boost to the country's slowing cotton consumption. The price advantage of yarn imports is slipping, with imported yarn prices averaging about \$120 per ton higher than domestic yarn in early November 2019. GACC data puts yarn imports at 1.5 million tons in the first 3 quarters of 2019, down by 100,000 tons from the previous year. Lower yarn imports also reflect weak demand and lack of confidence in the textile and apparel sectors. Vietnam, which is the primary cotton-yarn supplier, still lags behind China in yarn production efficiency, with Chinese spinners benefitting from more skilled labor and better-established supply chains.

## China's Total Yarn Imports and Yarn Imports from Vietnam

(CY2014 - CY2019; 1,000 tons)



Source: TDM; \*January-September of 2018 and 2019

### TRADE

Imports for 2019/20 are unchanged at 2 million tons. The impact of the U.S.-China trade situation continues, with apparel exports down in September and October. In the first 3 quarters of 2019, textile and apparel exports to the United States declined 3.3 percent in value compared to the previous year.

The Chinese government continues to take steps to support the textile sector in the face of a challenging trade situation. Additional quota (subject to sliding-scale duties) of 0.8 million tons was issued to private merchants in May 2019. Moreover, the government implemented a more flexible application process for the annual WTO-required import quota of 894,000 tons (subject to 1 percent import duty). The application process for 2020 quota was opened in late October to a widened pool of applicants.

The additional 25 percent tariff imposed on U.S. cotton continues to work to the advantage of competitors, including Brazil and Australia. According to industry sources, a September visit by a large Brazilian cotton delegation resulted in China's contracting about 200,000 tons from Brazil destined for the state reserve. Brazil is said to be focused on improving its cotton quality to meet Chinese demands.

Reportedly in response to progress in the trade talks between the United States and China, a small volume of U.S. cotton was contracted by China excluding the additional 25 percent tariff in mid-2019.

## **STOCKS**

Ending stocks for 2019/20 are virtually unchanged, due to the combined effect of lower production and lower consumption, with one factor offsetting the other.

On November 14, 2019, China's Ministry of Finance and the National Food and Strategic Reserves Administration jointly announced plans for the central government to purchase a total of 500,000 tons of domestically produced cotton for the state reserve. The purchases, which will be limited to Xinjiang cotton from MY2019/20, are slated to begin on December 2 and continue through the end of March 2020. During this time period, the government will make daily purchases of no more than 7,000 tons, and government buying will be suspended if the domestic cotton price rises to RMB800/ton (\$USD115/ton) above the international market price (plus 1 percent import duty and 9 percent value-added tax) for 3 consecutive days. Purchases will resume if the price gap falls below RMB800/ton. The government purchases will not affect total stocks, but rather will serve as a reallocation between government and private stocks.

Government sales of prior year product from the state reserve concluded in September, with about 1 million tons sold. Following the sales, the reserve had fallen to about 1.9 million tons, which the government regards as inadequate, hence the planned 2019/20 purchases for the state reserve.

**Table 1. Cotton PSD (1,000 Metric Tons)**

Cotton	2017/2018		2018/2019		2019/2020	
Market Year Begin	Aug 2017		Aug 2018		Aug 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3,200	0	3,250	0	3,220
Area Harvested	3,400	3,200	3,500	3,250	3,450	3,220
Beginning Stocks	9,998	9,998	8,272	8,265	7,766	7,788
Production	5,987	5,950	6,042	6,070	5,933	5,910
Imports	1,243	1,246	2,099	2,100	2,068	2,000
Total Supply	17,228	17,194	16,413	16,435	15,767	15,698
Exports	30	30	46	46	38	27
Use	8,927	8,900	8,600	8,600	8,600	8,600
Loss	0	0	0	0	0	0
Total Dom. Cons.	8,927	8,900	8,600	8,600	8,600	8,600
Ending Stocks	8,272	8,265	7,766	7,788	7,129	7,071
Total Distribution	17,228	17,194	16,413	16,435	15,767	15,698
Stock to Use %	92.4	92.6	89.8	90.1	82.5	82.0
Yield	1,761	1,860	1,726	1,868	1,720	1,835

(1000 HA), 1,000 Metric Tons, (PERCENT), (KG/HA)



**Table 2. Cotton PSD (480-lb Bales)**

Cotton	2017/2018		2018/2019		2019/2020	
Market Year Begin	Aug 2017		Aug 2018		Aug 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3,200	0	3,250	0	3,220
Area Harvested	3,400	3,200	3,500	3,250	3,450	3,220
Beginning Stocks	45,919	45,919	37,993	37,959	35,670	35,771
Production	27,500	27,330	27,750	27,880	27,250	27,145
Imports	5,710	5,725	9,640	9,645	9,500	9,186
Total Supply	79,129	78,974	75,383	75,484	72,420	72,102
Exports	136	137	213	213	175	125
Use	41,000	40,878	39,500	39,500	39,500	39,500
Loss	0	0	0	0	0	0
Total Dom. Cons.	41,000	40,878	39,500	39,500	39,500	39,500
Ending Stocks	37,993	37,959	35,670	35,771	32,745	32,477
Total Distribution	79,129	78,974	75,383	75,484	72,420	72,102
Stock to Use %	92.4	92.6	89.8	90.1	82.5	82.0
Yield	1,761	1,860	1,726	1,868	1,720	1,835

(1000 HA), 1,000 Bales, (PERCENT), (KG/HA)

**Table 3. Cotton and Fiber Imports from the United States Subject to Additional Tariff**

<b>HS Code (8-digit)</b>	<b>Product Description</b>	<b>MFN Rate</b>	<b>Response to US 301</b>	<b>Additional Tariff</b>	<b>Proposed Additional Tariff</b>	<b>Total Applied Tariff</b>
	Implementation Date	January 1, 2019	June 1, 2019	September 1, 2019	December 15, 2019	December 15, 2019
52010000	Cotton, Not Carded or Combed, In-Quota	1%	25%		5%	31%
52010000	Cotton, Not Carded or Combed, Out-of-Quota	40%	25%		5%	70%
52021000	Yarn Waste of Cotton	10%	25%		5%	40%
52029100	Garnetted Stock of Cotton	10%	25%			35%
52029900	Cotton Waste, Nes	10%	25%			35%
52030000	Cotton, Carded or Combed, In-Quota	1%	25%			26%
52030000	Cotton, Carded or Combed Out-of-Quota	40%	25%			65%

Source: China's Ministry of Finance

**Attachments:**

No Attachments