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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 8.1 million metric tons (MMT) and 2 MMT respectively, following the COVID-19 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. Forecast U.S. cotton exports to China are expected to increase in MY20/21 mainly driven by China's recovering spinning demand and implementation of the U.S.-China Phase One Trade Agreement. Based on forecast higher yield offsetting acreage decline, China's MY20/21 cotton production is 5.9 MMT, unchanged from MY19/20.

Note: 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 5.9 million metric tons (MMT), unchanged from the previous year. The forecast is slightly lower than the USDA official figure based on a lower planted area forecast, with acreage projected to fall by about 3 percent compared to MY19/20. Higher cotton yield is achieved on favorable weather conditions, which facilitated good crop growth and maturation till harvest in Xinjiang and the Yellow River region.

Cotton consumption is forecast to grow in MY20/21, reaching 8.1 MMT compared to an estimated 7.35 MMT in the previous year due to a projected recovery in domestic and international demand for textiles and apparel. While both the MY20/21 and MY19/20 consumption figures are relatively low due to the economic impacts of the COVID-19 pandemic, consumption is expected to recover in MY20/21 as consumer confidence improves, pushing up imports. Forecast MY20/21 cotton imports are up to 2 MMT, an increase over the 1.55 MMT in MY19/20, and U.S. cotton exports are likewise projected to increase in MY20/21. China's cotton imports reached 0.56 MMT during the first 3 months of MY20/21, up 56 percent year on year, including 0.38 MMT of U.S. cotton, 89 percent higher than the same period in MY19/20.

China's cotton stocks are forecast to fall slightly to 7.6 MMT by the end of MY20/21 from the relatively high level the previous year, when consumption dropped significantly. There is still no publicly available data on the volume of China's state cotton reserve, which are estimated at about 1.8 MMT. Industry sources report that the Chinese government is likely to source more foreign cotton in 2021 to rebuild the state reserve in terms of volume and quality mix.

I. Production

MY20/21 production is forecast at 5.9 MMT, unchanged from the MY19/20 estimate mainly due to higher yield offsetting an estimated 3.1 percent area decline. As previously reported, Xinjiang planted area has remained generally stable, while the Yangtze and Yellow River regions have seen reduced planted area as high input costs pushed down farmers' profits. Total cotton acreage in MY20/21 declined to 3.12 MHa. Forecast cotton yield is up due to generally good weather conditions in both Xinjiang and the Yellow River region since August.

Favorable temperatures and adequate rainfall in most Xinjiang cotton growing areas from August onward facilitated crop development and boll bearing, and measures for prevention/control of diseases and pests have been generally successful. Since September, weather conditions in most Xinjiang cotton areas have been conducive to cotton maturation and harvest, although rainfall and snow with strong winds in parts of northern Xinjiang is reportedly affecting cotton maturation and drying. Weather conditions in the cotton growing region of Gansu province are also favorable, supporting higher yield than in MY19/20.

Most of the cotton areas in the Yellow River region reported adequate temperatures, abundant precipitation, and satisfactory moisture conditions for crop growth. Weather conditions in the cotton area of the Yellow River region has been good since September, supporting cotton maturation and drying. The average yield in the Yellow River region this year is comparable to that of 2019.

In the Yangtze River region, however, yield is down compared to the previous year. Excessive rainfall in part of the region has had an adverse impact on cotton flowering and boll setting through late August. The rainy weather continued in September, impacting cotton maturation and picking. In most cotton areas of Hubei Province, high soil moisture negatively impacted cotton root growth and led to increased cotton leaf shedding and unmaturing bolls.

China’s leading industry sources concur that favorable weather conditions boosted cotton yield in Xinjiang and stabilized yield in the Yellow River region, boosting forecast production for MY20/21. As compared to previous forecasted production decline, major sources forecast a moderate growth of production compared to MY19/20.

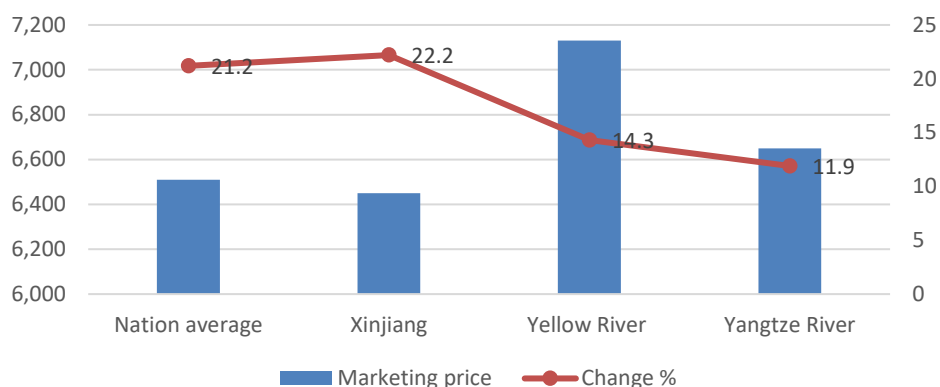
Table 1 – Cotton Production and Area
(MY19/20 Estimates and MY20/21 Forecasts)

	CCA		NCMMN		MARA		BCO	
	MY 19/20	MY 20/21	MY 19/20	MY 20/21	MY 19/20	MY 20/21	MY 19/20	MY 20/21
Area (MHa)	3.21	3.06	3.2	3.05	3.3	3.21	NA	NA
Change (YoY %)		-4.7		-4.7		-2.5		
Production (MMT)	5.91	5.93	5.84	5.87	5.8	5.85	5.75	5.64
Change (YoY MMT)		+0.02		+0.03		+0.05		-0.11

Note: Change is MY19/20 to MY20/21. Sources: China Cotton Association (CCA), National Cotton Market Monitoring Network (NCMMN), Ministry of Agriculture and Rural Affairs (MARA), Beijing Cotlook Company (BCO)

According to the China Cotton Association (CCA), as of mid-November, the cotton harvest was 70 percent complete in southern Xinjiang, and 100 percent complete in northern Xinjiang and the other cotton-producing provinces. Seed cotton sales were nearly complete by November 8 in northern Xinjiang but are underway in southern Xinjiang. The pace of cotton ginning is faster this year than last, with the Xinjiang processed volume at 2.83 MMT as of mid-November, up 13 percent from the previous year. Processed volume for all other provinces stood at 39,000 tons, 11.7 percent higher than the previous year. The seed cotton price maintains a growing trend with the national average price in October up more than 20 percent compared to the previous year. Industry sources believe excessive ginning capacity in Xinjiang is the main factor pushing up seed cotton prices.

Chart 1 – Seed Cotton Marketing Price in October 2020



Source: CCA; Note: Left-RMB/MT; Right – Change in % over October 2019

As of November 17, the volume of cotton classified by the China Fiber Inspection Bureau reached 2.36 MMT, of which 2.33 MMT was Xinjiang cotton. Based on the monitoring of classified volume as of early November, overall cotton quality is reportedly lower than the previous year. For instance, white cotton grade 3 and above accounted for 77.7 percent of the total, 6.4 percent lower than the same period the previous year. Likewise, cotton with fiber lengths of 28 mm and above accounted for 77.1 percent of the total, down 15.6 percentage points year on year. Finally, micronaire A+B (3.5 to 4.9) accounted for 53.3 percent of the total, 10.7 percentage points lower the same period in 2019.

II. Consumption

MY20/21 consumption is forecast at 8.1 MMT, up from an estimated 7.35 MMT in MY19/20. The textile and apparel sector took an economic hit in MY19/20 as consumer spending dropped during the COVID-19 pandemic outbreak. Consumption is expected to rebound in MY20/21 as consumer confidence and spending begin to recover, restoring some of the lost demand in both the domestic and overseas markets. However, global demand is not projected to completely recover from the coronavirus pandemic this marketing year, reflected in lower forecast consumption in MY20/21 compared to MY18/19 (8.1 MMT vs. 8.6 MMT respectively). The main Chinese organizations tracking cotton demand estimate decreased cotton use in MY19/20 and forecast a recovery in MY20/21. Chinese sources forecast an average net growth of 0.5 MMT of cotton use in MY20/21 compared to the previous marketing year.

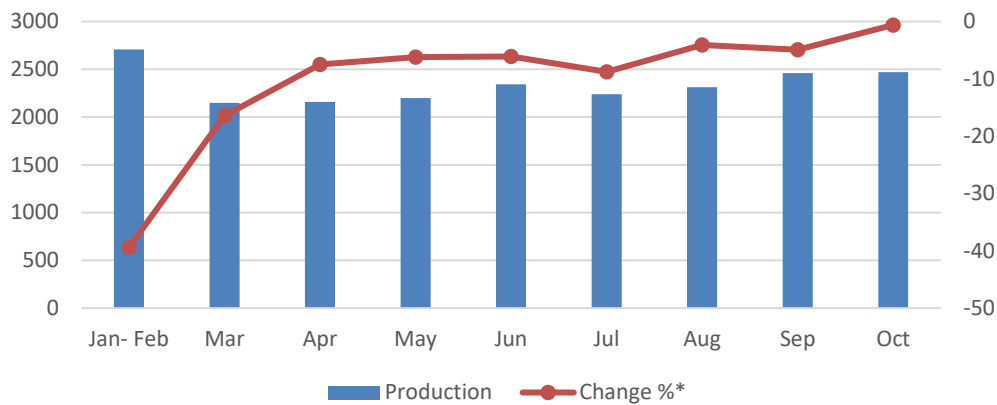
Table 2 – Cotton Use and Imports in MY19/20 and MY20/21 (MMT)

	CCA		NCMMN		MARA		BCO	
	MY 19/20	MY 20/21	MY 19/20	MY 20/21	MY 19/20	MY 20/21	MY 19/20	MY 20/21
Consumption	7.65	7.99	7.48	7.75	7.23	8	7.41	8.03
Consumption Yearly change		0.34		0.27		0.77		0.62
Imports	1.6	1.98	1.6	1.8	1.6	2	1.6	2
Ending stocks	7.9	7.79	6.23	6.11	7.36	7.16	5.33	4.9

Source: CCA, NCMMN, MARA and BCO

The Chinese textile sector was seriously impacted by the outbreak of COVID-19 since January 2020. This forced many mills to suspend operations—either fully or partially—through March 2020. According to industry data, total yarn production for MY19/20 (August 2019 to July 2020) is an estimated 7 percent lower than in MY18/19. However, based on an enterprise survey conducted by the China Textile Industry Alliance, the sector resumed operations gradually and reached a capacity utilization rate exceeding 90 percent by the end of September. Specifically, an estimated 79 percent of mills reported utilization of spinning capacity at 85 percent or above, while 77 percent of fabric manufacturers reported capacity use of 85 percent or above, as of late September. Chinese industry statistics indicate total yarn production was down by 11.5 percent during the first ten months of 2020 compared to the same period the year before, while fabric production was down 14 percent during the first nine months of 2020 compared to the same period in 2019. Yarn production has exhibited a slow recovering trend since July 2020, a pattern that is projected to continue into 2021 if the domestic COVID-19 situation remains stable.

Chart 2 – Yarn Production Continues to Recover (Jan to Oct 2020; in 1,000 tons)
 (Left axis-in 1,000 tons; Right axis – Change %)



Source: Chinese Industry Source; Note: Change % refers to production vs same month in 2019

Chinese industry data indicate growth in textile and apparel exports during the first ten months of 2020, with a total value reaching \$240.6 billion during that period, up 9.5 percent compared to the previous year. Textile exports in particular surged during this period, logging a growth of 31.9 percent by value driven by strong exports of surgical masks, gowns, and other personal protective equipment. During the months of August, September, and October 2020, textile exports grew by 47 percent, 49 percent, and 14.8 percent respectively compared to the same month in the previous year. Apparel exports remained stagnant through July and grew sporadically in August, September, and October, increasing by 3.2 percent, 38 percent, and 8.6 percent respectively year on year. Looking forward, Chinese industry insiders believe personal protective equipment will continue to drive textile exports, while exports of general textile and apparel products will be constrained by the impact of COVID-19 on global demand. Exports of yarn and fabrics to countries such as Vietnam are expected to slow down and exports to the United States continue to face uncertainties.

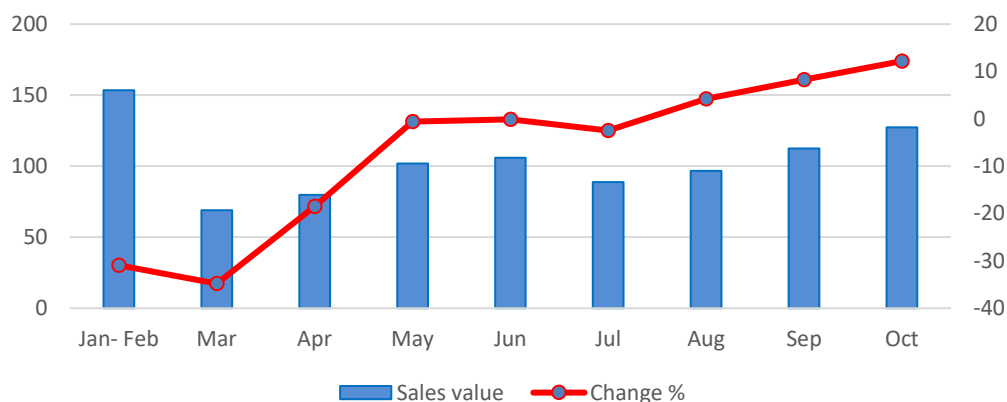
Table 3 - Textile and Apparel Exports Continue to Recover in 2020 (in \$billion)

Category	Sep export value	Change from Sep 2019 (%)	Oct export value	Change from Oct 2019	Total exports (Jan to Sep)	Jan to Oct Growth (%)
Textile	13.2	+49	11.7	+14.8	129.6	+31.9
Apparel	15.2	+38	13.2	+3.7	111.0	-8.6
Total					240.6	+9.5

Source: Chinese Industry Estimates Based on Preliminary Customs Data

Domestic sales of textile and apparel products have been recovering since August 2020, although the total sales value during the first ten months of 2020 is 9.7 percent smaller than the same period in 2019. According to data presented at a National Statistics Bureau press briefing, the total sales value of textile, apparel, hats, and shoes from September 2019 to August 2020 was 11.7 percent lower year on year. Domestic demand for textile and apparel products is projected to continue its growing trend in 2021 along with the expected recovery in GDP growth.

Chart 3 - Textile and Apparel Sales Value Turned Positive from August 2020
(Left axis-in RMB billion; Right axis – Change %)



Source: Chinese Industry Source; Note: Change % refers to production vs same month in 2019

III. Trade

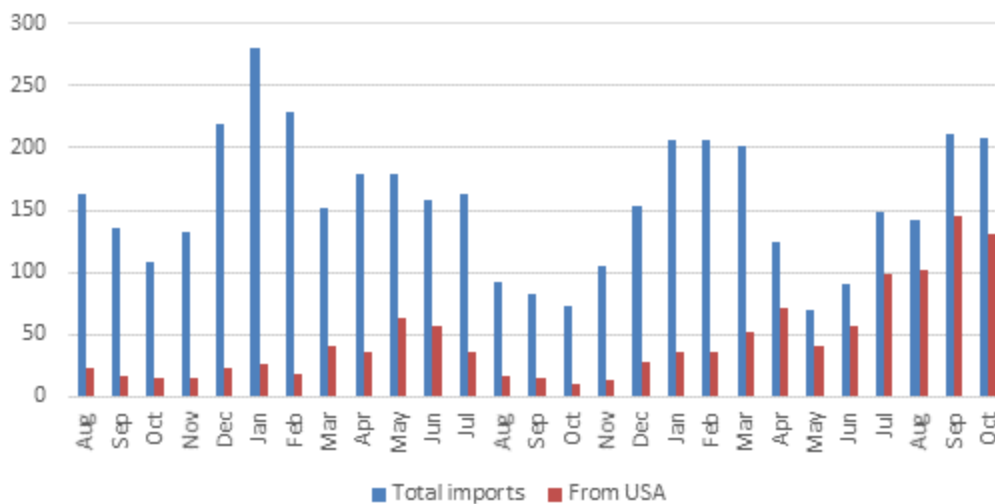
China's MY20/21 cotton imports are forecast at 2 MMT, up from 1.55 MMT in MY19/20 based on an anticipated recovery in spinning use to support the rebounding textile and apparel sectors. Additionally, cotton imports are likely to be boosted by rising domestic cotton prices and the widening price gap between domestic and imported cotton since October 2020. China's cotton imports reached 0.56 MMT during the first 3 months of MY20/21, up 56 percent year on year, including 0.38 MMT of U.S. cotton, 89 percent higher than the same period in MY19/20.

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 31 percent in MY19/20, and this surged to over 70 percent in the first two months of MY20/21 partly due to China's implementation of the U.S. - China Phase One Trade Agreement.

Since bottoming out in May, China’s domestic cotton price has exhibited a growing trend, exceeding that of imported cotton by about RMB1,700/ton (U.S. \$243) at the end of October.

In addition to market demand, China’s cotton imports are subject to how the government administers the 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 two years, China made additional TRQ available, subject to a sliding duty, to meet demand from the domestic spinning industry. In October 2020, China announced that an additional 400,000 tons of cotton TRQ would be distributed to non-state-owned enterprises, subject to a sliding duty. Although cotton use has not fully recovered from the impact of decreased demand in MY19/20, the gap between China’s cotton use and its cotton production is projected to be larger in 2020 than the annual WTO TRQ obligation of 894,000 tons. Based on a forecast supply gap of more than 2 MMT in 2020, it is likely that China will make available a total of more than 1 MMT of additional TRQ in 2020. For an explanation of how China calculates and administers the sliding duty, see GAIN report [CH18033](#).

Chart 4 - China’s Cotton Imports from August 2018 to October 2020
(Monthly in 1,000 tons)



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, spurring cotton imports at the expense of yarn imports in MY20/21. Additionally, yarn imports are highly sensitive to the price gap between domestically spun and imported products. Yarn imports exceeded 0.5 MMT in the first 3 months of MY20/21, up 15 percent from the previous year, mainly due to a price advantage. As global demands remain weak, yarn prices declined both home and abroad in mid-November, and prices of imported Vietnamese and Indian yarn surpassed that of domestic product yarn. Yarn import growth is likely to level off in MY20/21 on decreasing price advantage. Vietnam continues to dominate China’s market with share at about 48 percent, unchanged from the previous year.

Chart 5 - China's Yarn Imports from August 2018 to October 2020
(Monthly in 1,000 tons)



Source: TDM

While Chinese end users favor the quality and reliability of U.S. cotton, imports of U.S. cotton have been constrained by China's additional 25 percent tariff on U.S. cotton. The additional tariff on U.S. products put U.S. cotton at a disadvantage compared to China's other main cotton suppliers, including Australia, Brazil, and India in the first months of MY19/20. 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 adjusted higher based on market data. Low consumption resulted in relatively higher carry out stocks in MY19/20.

Annual sales from the state cotton reserve began on July 1 and ended on September 30, 2020. Out of 504,000 tons of cotton auctioned, 503,000 tons were sold. The high purchase rate has mainly been driven by low, generally stable offer prices. Industry insiders said the sales of reserve cotton is positive as it met the spinning sector's demand for various grades of cotton and raised the sector's competitiveness in the market.

On October 20, China announced it will purchase 0.5 MMT of Xinjiang cotton for the state reserve, with purchases slated to begin on December 1, 2020 and continue through March 2021. The daily purchase volume is 7,000 tons based on a price slightly above the domestic spot market price. During the purchase period, if the domestic price exceeds the international price by RMB800/ton (U.S. \$114) for 3 consecutive days, purchases will be suspended, and will resume when the price gap falls below RMB800/ton. The government's decision to purchase Xinjiang cotton reflects a low state reserve and intention to boost domestic cotton prices. China's state cotton reserve level continues to be difficult to predict, however, the current reserve stocks are estimated to be at slightly above 1.8 MMT.

Tables

Production, Supply and Demand (PSD)

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	3,250	3,120
Beginning Stocks	37,993	37,993	35,670	35,800	36,899	36,118
Production	27,750	27,880	27,250	27,099	27,500	27,099
Imports	9,640	9,640	7,136	7,136	9,500	9,186
Total Supply	75,383	75,513	70,056	70,035	73,899	72,403
Exports	213	213	157	157	125	128
Use	39,500	39,500	33,000	33,760	37,500	37,200
Loss	0	0	0	0	0	0
Total Dom. Cons.	39,500	39,500	33,000	33,760	37,500	37,200
Ending Stocks	35,670	35,800	36,899	36,118	36,274	35,075
Total Distribution	75,383	75,513	70,056	70,035	73,899	72,403
Stock to Use %	90	90	111	106	96	94
Yield	1,726	1,868	1,720	1,832	1,842	1,891

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	3,250	3,120
Beginning Stocks	8,272	8,272	7,766	7,794	8,034	7,864
Production	6,042	6,070	5,933	5,900	5,987	5,900
Imports	2,099	2,099	1,554	1,554	2,068	2,000
Total Supply	16,413	16,441	15,253	15,248	16,089	15,764
Exports	46	46	34	34	27	28
Use	8,600	8,600	7,185	7,350	8,165	8,099
Loss	0	0	0	0	0	0
Total Domestic Consumption	8,600	8,600	7,185	7,350	8,165	8,099
Ending Stocks	7,766	7,794	8,034	7,864	7,898	7,637
Total Distribution	16,413	16,441	15,253	15,248	16,089	15,764
Stock to Use %	90	90	111	106	96	94
Yield	1,726	1,868	1,720	1,832	1,842	1,891

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	141,800
September	60,644	92,847	135,526	83,266	210,300
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	651,287
September	278,538	426,446	622,471	382,441	965,908
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	166,110
September	153,966	167,404	175,349	147,175	172,152
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