

Required Report: Required - Public Distribution

Date: November 25,2020

Report Number: VM2020-0116

Report Name: Cotton and Products Update

Country: Vietnam

Post: Hanoi

Report Category: Cotton and Products

Prepared By: Kiet Vo, Megan Francic

Approved By: Benjamin Petlock

Report Highlights:

Due to COVID-19, Vietnam's cotton imports dropped 7 percent in marketing year (MY) 2019/2020, to 6.47 million bales [or 1.41 million metric tons (MMT)]. Vietnam's success in combating the COVID-19 outbreak has allowed textile and garment companies to maintain operations, despite a few short-term disruptions. Vietnam's imports of cotton were propped up by Chinese demand for cotton yarn which remained strong. U.S. cotton exports to Vietnam in MY19/20 reached 838 thousand metric tons (TMT), up 0.5 percent over MY18/19. The U.S. cotton market share also expanded to 59 percent in MY19/20. For MY20/21, Post estimates that Vietnam's cotton imports will stand at 6.5 million bales (or 1.42 MMT), given the uncertainty in global demand.

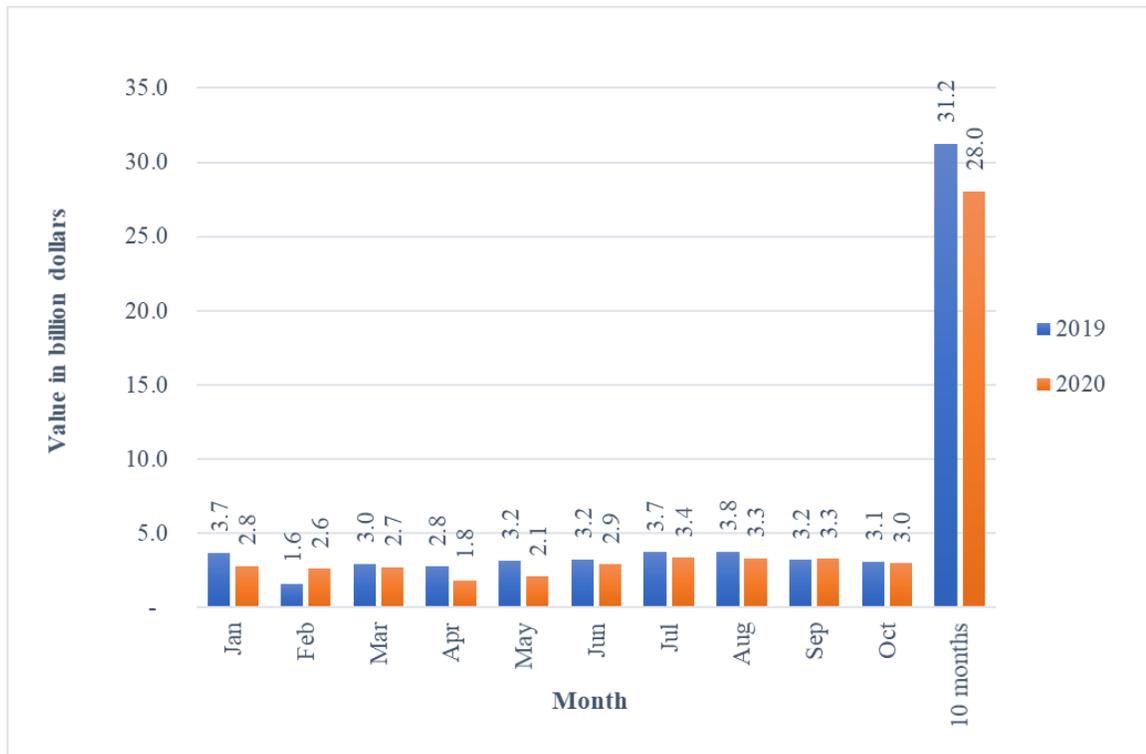
SITUATION AND OUTLOOK

Textile Industry

As noted in Post's [Cotton Annual report](#), the COVID-19 pandemic heavily disrupted Vietnam's textile and apparel industry, resulting in a sharp decline in exports to major markets, including the United States and the European Union. A significant number of Vietnamese garment exporters have, and are continuing to make, adjustments to their operations, including but not limited to: switching from producing regular apparel to manufacturing personal protection equipment (PPE), such as protective clothing and masks; reducing working hours; and, investing more in domestic promotions/outlets/e-commerce to boost local sales.

Preliminary Vietnam Customs data shows that the export value in the first 10 months of calendar year (CY) 2020 dropped 10 percent to \$28 billion, as compared to \$31 billion over the same period last year (Figure 1). The Vietnam Textile and Apparel Association (VITAS) estimates that total textile and apparel exports in CY2020 will likely fall 10 percent as compared to CY2019. However, this decline is smaller than originally forecasted by industry experts. For example, in May 2020, VITAS estimated that Vietnam's exports of textile and apparel products would drop 20 percent to \$30 billion in CY2020. Vietnam's success in combating COVID-19 has allowed companies to maintain operations despite a few short-term disruptions.

Figure 1: Vietnam's Exports of Textile and Apparel Products to the Global Market



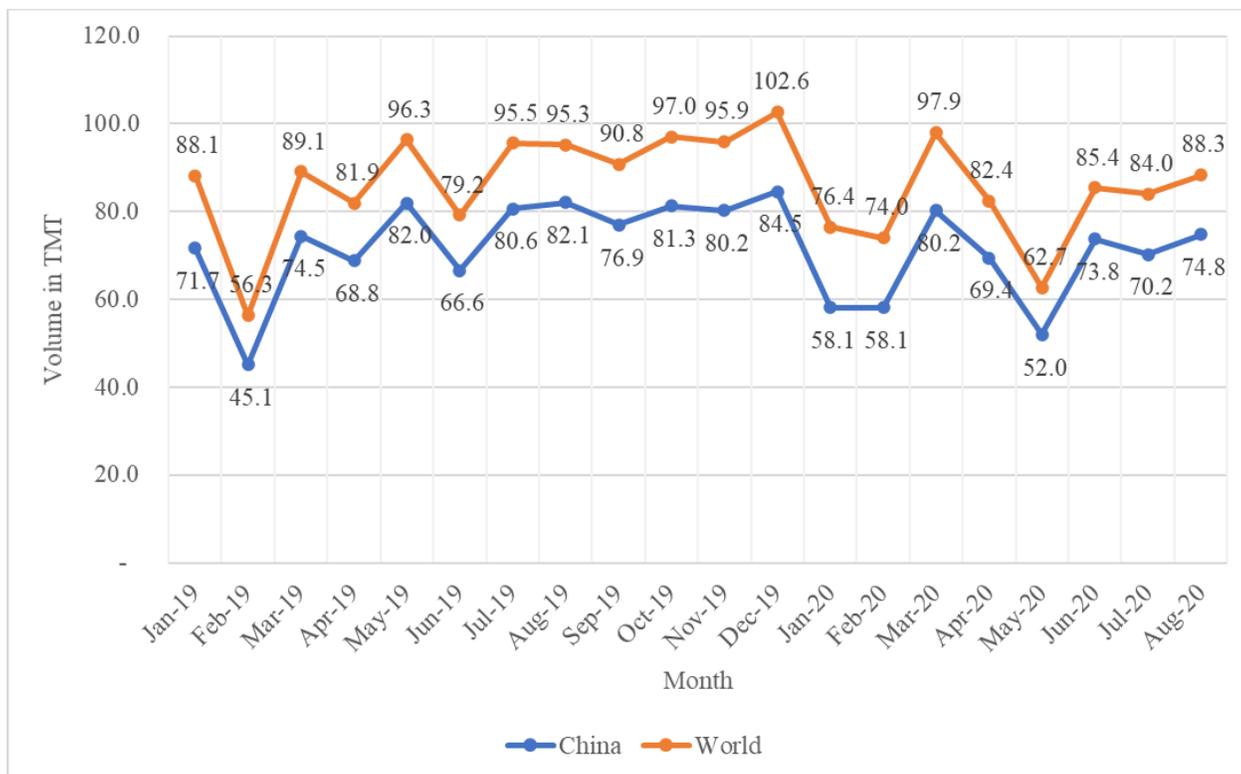
Source: Post's calculations; Vietnam Customs

Yarn

Vietnam’s yarn exports are showing signs of recovery following an extended period of market disruption due to COVID-19. According to Vietnam Customs’ preliminary data, exports of all types of yarn in the first 10 months of CY2020 reached approximately 1.40 MMT, down 1 percent as compared to the same period last year. Export value, however, dropped 15 percent to roughly \$2.95 billion, due to falling prices. Industry experts expect total yarn exports to rebound at the end of CY2020, mostly due to higher demand from China.

According to Trade Data Monitor (TDM), Vietnam’s cotton yarn exports under harmonized system (HS) code 5205 and HS code 5206 in the first 8 months of CY2020 dropped 4 percent to 651.2 TMT, as compared with the same period last year. With China’s rebounding imports over the past 3 months (Figure 2), industry expects that Vietnam’s cotton yarn exports in CY2020 could reach the same or even exceed last year’s amount. Between May to August 2020, Vietnam’s exports of cotton yarn have steadily increased, from a record low of 62.7 TMT in May to 88.3 TMT in August.

Figure 2: Vietnam’s Cotton Yarn Monthly Exports to Global Market and China



Source: TDM

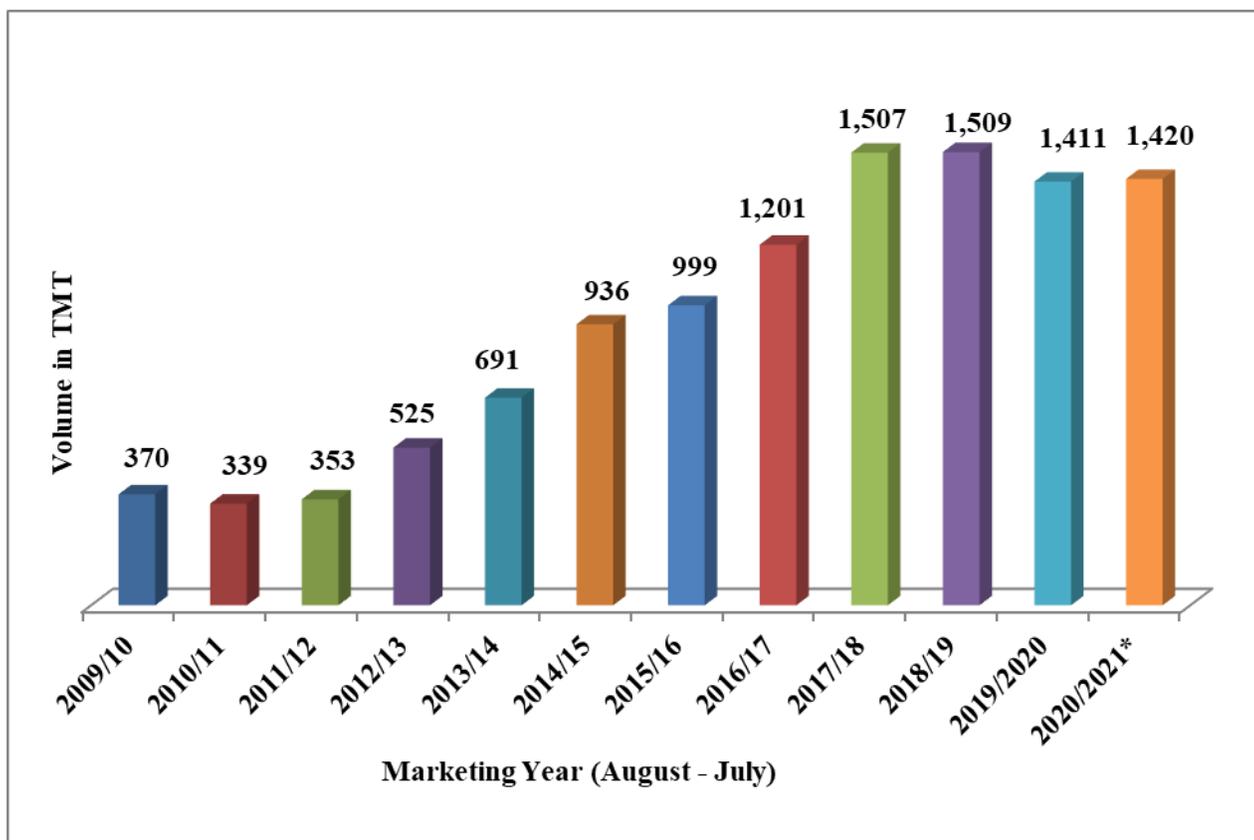
TRADE

According to Vietnam Customs, Vietnamese cotton imports in MY19/20 totaled approximately 6.47 million bales (or 1.41 MMT) higher than Post’s preliminary estimate in the annual report. Vietnam’s

exports of cotton yarn to China sharply dropped in January and February due to COVID-19 situation in China. At that time, local spinners and industry experts estimated that Vietnam’s cotton yarn exports would fall significantly in CY2020, as over 80 percent of the cotton yarn spun in Vietnam goes to China, and the decline in cotton yarn exports would subsequently affect cotton imports. Fortunately, the outbreak in China was quickly contained, exports of cotton yarn to China gradually resumed, and Vietnamese spinners continue to import cotton for their yarn production.

Given that major textile and apparel markets, including the United States and the EU, continue to struggle with the ongoing pandemic, Post maintains its preliminary estimate for Vietnam’s cotton imports in MY20/21 at approximately 6.5 million bales or 1.42 MMT (Figure 3). This estimate is subject to change based on COVID-19 developments.

Figure 3: Vietnam’s Cotton Imports by Marketing Year (TMT)



Source: Post’s calculations; Vietnam Customs and
 * Post’s estimate

Local spinners, both Vietnamese and foreign invested enterprises, continue to favor the quality and reliability of U.S. cotton. While Vietnam Customs data shows that Vietnam’s cotton imports fell to 1.41 MMT in MY19/20, a 7 percent decline year-on-year, the U.S. cotton market share expanded from 55 percent in MY18/19 to 59 percent in MY19/20, with total imports reaching 838 TMT, up 0.5 percent

over MY18/19 (Table 1). This figure is higher than Post’s preliminary estimate of 707 TMT in the annual report published on April 1, 2020, as Chinese textile factories were able to quickly resume operations.

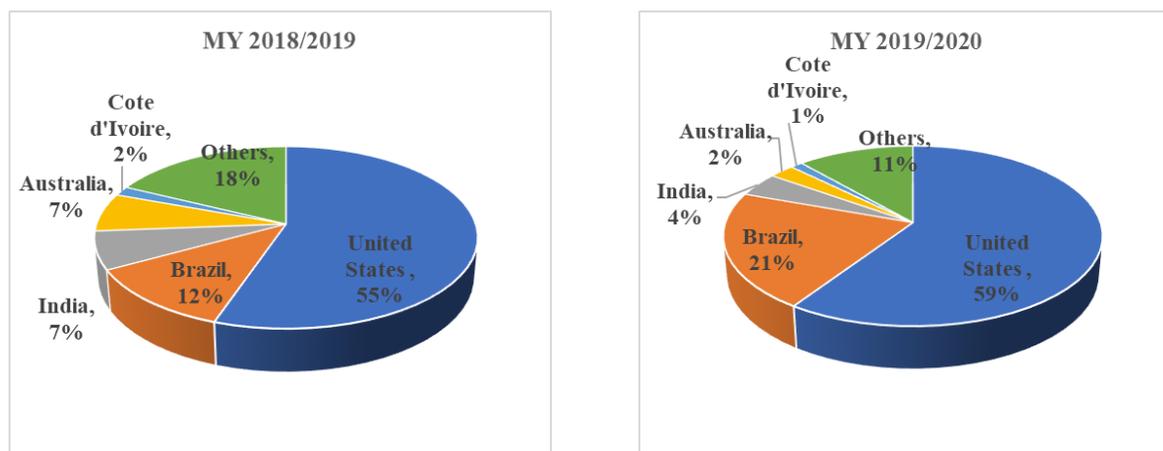
Brazil’s cotton exports to Vietnam amounted to 298 TMT in MY19/20, a 68 percent increase year-on-year, according to TDM. Abundant supply, competitive prices, and good quality helped Brazil increase its market share, from 12 percent in MY18/19 to 21 percent in MY19/20. With this significant increase, Brazil became the second largest cotton exporter to Vietnam, behind the United States. Meanwhile, cotton exports from Australia, India, and Cote d’Ivoire continued to lose market share due to various factors, including but not limited to lower production (Figure 4).

Table 1: Vietnam Cotton Imports by Marketing Year (TMT)

Reporter	Marketing Year (August - July)			% change 2019/2020 vs 2018/2019	Market share		
	2017/2018	2018/2019	2019/2020		2017/2018	2018/2019	2019/2020
United States	729	834	838	0.5%	48%	55%	59%
Brazil	190	177	298	68.4%	13%	12%	21%
India	200	102	61	-40.2%	13%	7%	4%
Australia	189	103	35	-66.0%	13%	7%	2%
Cote d’Ivoire	25	25	17	-32.0%	2%	2%	1%
Others	174	268	162	-39.6%	12%	18%	11%
Total	1,507	1,509	1,411	-6.5%	100%	100%	100%

Source: Post’s calculations; Trade Data Monitor; Vietnam Customs

Figure 4: Cotton Market Share in Vietnam



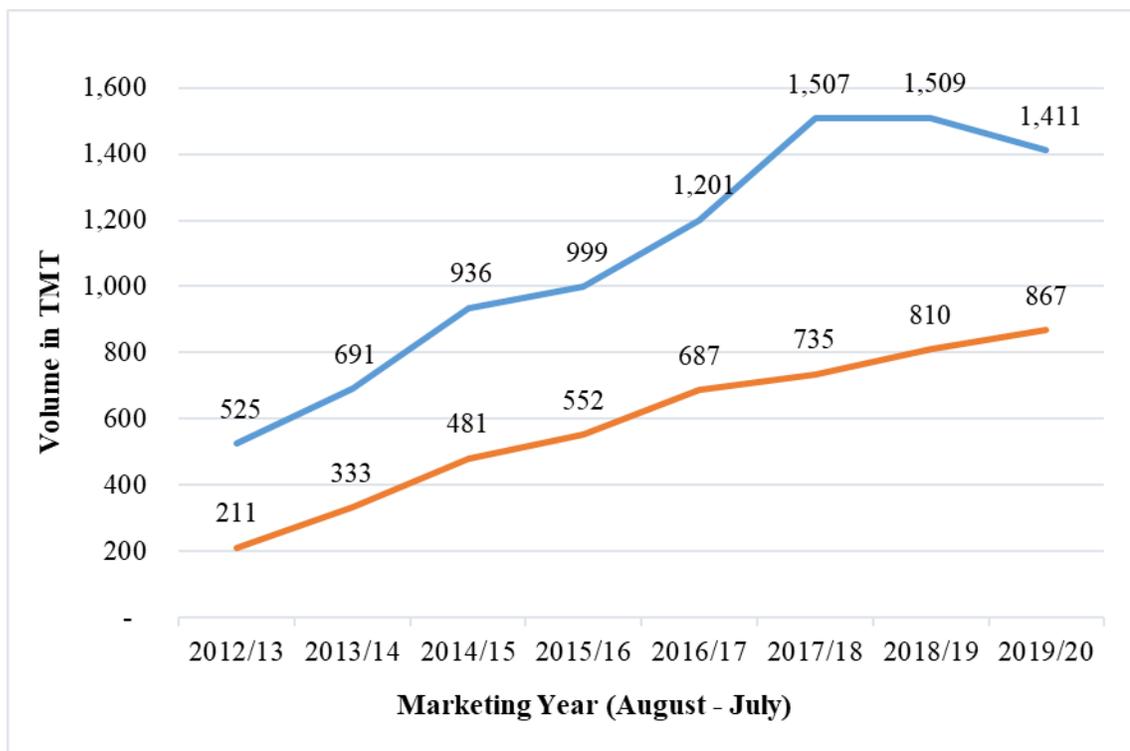
Source: Trade Data Monitor; Vietnam Customs; Post’s calculations

CONSUMPTION

Post previously forecasted that Vietnam's cotton consumption would drop sharply in the second half of MY19/20 and continue to decline in MY20/21 due to the negative effects of COVID-19. However, Vietnam's cotton consumption, reflected by cotton imports and cotton yarn exports, has remained strong, due to Vietnam and China's success in combating COVID-19.

As most of Vietnam's cotton yarn goes to China, any changes in Chinese demand and policies regarding cotton and cotton yarn can have an impact on Vietnam's cotton consumption. Vietnam's cotton yarn exports to China in MY19/20 reached 867 TMT, up 7 percent over MY18/19 and accounting for 83 percent of Vietnam's total cotton yarn export volume (Figure 5). Although China's exports of garments to the United States and the EU are forecast to drop due to lower demand, exports of cotton yarn from Vietnam, especially from Chinese-invested spinning mills, remain robust. Post maintains its estimate for MY20/21 consumption at 6.4 million bales, or 1.4 MMT.

Figure 5: Vietnam's Cotton imports vs. Cotton Yarn Exports to China



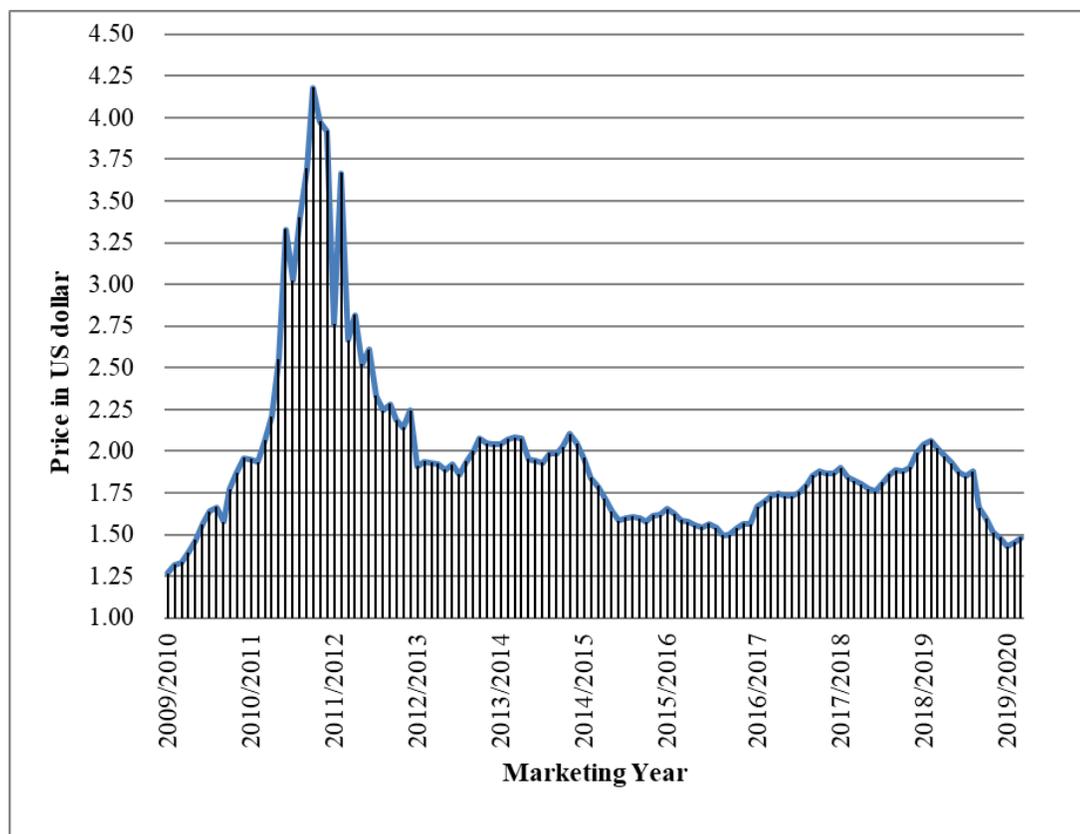
Source: Trade Data Monitor; Vietnam Customs

PRICES

Vietnam's average cotton import prices steadily dropped in MY18/19, from \$2.04/kilogram (kg) in August 2019 to a record low of \$1.43/kg in August 2020 (Figure 6). The crashing prices are due to a

combination of trade tensions between the United States and China, low demand, and the impacts of COVID-19.

Figure 6: Cotton Average Import Price (USD/kg)



Source: Vietnam Customs

STOCKS

Local spinners continued to minimize stocks in MY19/20 due to the large supply globally and decreasing cotton prices. Post estimates that the stocks-to-use ratio in MY19/20 was at 17 percent and remains unchanged in MY20/21.

MARKETING/ POLICY

Tariffs on cotton

Cotton fiber (HS codes 5201, 5203) has a zero tariff, and a 5 percent value added tax.

Tariff on cotton yarn

Cotton yarn (HS codes 5204, 5205, 5207) has a 5 percent tariff, and a 10 percent value added tax.

Table 2: Production, Supply, and Demand Data Statistics

Cotton	2018/2019		2019/2020		2020/2021		
Market Begin Year	Aug 2018		Aug 2019		Aug 2020		
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
							(Units)
Area Planted	-	-	-	-	-	-	(1000 HA)
Area Harvested	1	-	1	-	1	-	(1000 HA)
Beginning Stocks	1,285	1,285	1,228	1,208	1,611	1,180	1000 480 lb. Bales
Production	3	-	3	-	3	-	1000 480 lb. Bales
Imports	6,940	6,923	6,480	6,472	6,800	6,500	1000 480 lb. Bales
MY Imports from U.S.	-	3,826	-	3,846	-	3,900	1000 480 lb. Bales
Total Supply	8,228	8,208	7,711	7,680	8,414	7,680	1000 480 lb. Bales
Exports	-	-	-	-	-	-	1000 480 lb. Bales
Use	7,000	7,000	6,100	6,500	6,800	6,400	1000 480 lb. Bales
Loss	-	-	-	-	-	-	1000 480 lb. Bales
Total Dom. Cons.	7,000	7,000	6,100	6,500	6,800	6,400	1000 480 lb. Bales
Ending Stocks	1,228	1,208	1,611	1,180	1,614	1,280	1000 480 lb. Bales
Total Distribution	8,228	8,208	7,711	7,680	8,414	7,680	1000 480 lb. Bales
Stock to Use %	18	17	26	18	24	20	(PERCENT)
Yield	653	-	653	-	653	-	(KG/HA)

Attachments:

No Attachments