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Report Highlights:

Cotton imports are forecast at 2.6 million metric tons (MMT) in marketing year (MY) 21/22. U.S. cotton exports to China surged to 1.2 MMT in the first 11 months of MY20/21, up from the 0.47 MMT in MY19/20, pushing the U.S. share of China's cotton imports to 45 percent. Demand from the domestic market and increased orders from overseas are driving factors that led to the new China cotton consumption forecast of 8.7 MMT in MY21/22, up from the estimated 8.6 MMT in MY20/21. Based on lower acreage in the Yellow River and the Yangtze River regions, China's MY21/22 cotton production is forecast at 5.9 MMT, down from the estimated 6.4 MMT in MY20/21. Note: The estimates and forecasts are developed by FAS China and do not represent official USDA forecasts.

Report Summary:

China's cotton imports are forecast at 2.6 million metric tons (MMT) in marketing year (MY)21/22, 200 thousand metric tons (KMT) less than MY20/21, and an increase of approximately 400 KMT from the official USDA estimate. U.S. cotton exports to China surged to 1.2 MMT in the first 11 months of MY20/21, up from the 470 KMT in MY19/20. This increased the U.S. market share of China's cotton imports to approximately 45 percent in MY20/21.

China's MY20/21 cotton production is forecast at 5.9 MMT, down from 6.4 MMT for MY20/21. The higher production estimate for MY20/21 reflects higher official cotton classification data for Xinjiang. Based on stable cotton acreage for Xinjiang and a significant fall in the Yangtze River and Yellow River regions due to low profits for cotton farming, MY21/22 cotton acreage is forecast down 5.3 percent to 3.05 MHa from the 3.22 MHa for MY20/21. A trend line yield is expected for the MY21/22 crop given the mixed weather conditions at different growing stages and regions in Xinjiang as of mid-August 2021. Xinjiang's share of China's cotton production is expected to increase to 92 percent in MY21/22.

Cotton consumption is forecast to reach 8.7 MMT in MY21/22, an increase from Post's estimated 8.6 MMT in MY 20/21, as domestic and international demand for textiles and apparel improves. The economic impacts of COVID-19 on consumer behavior and retail habits are a factor creating added uncertainty on the demand side.

China's cotton ending stocks are forecast to fall slightly to 8.2 MMT in MY21/22 from a relatively high level in MY20/21 when imports and production remained high. China's state cotton reserve dropped to approximately 1.8 MMT and the Chinese government announced plans to purchase 500 KMT of Xinjiang cotton for the state reserve in late 2020. However, sources shared that the purchase did not happen as domestic cotton prices rose with the price gap remaining above the RMB 800/ton trigger point. Industry sources reported that the Chinese government seems to have moderately rebuilt the state cotton reserve with imported foreign cotton since the later part of 2020. Sales of 600 KMT of reserve cotton began on July 5, 2021 with 350 KMT of cotton in auctions almost fully sold as of August 24.

Note: Exchange rate: U.S. \$1 = RMB 6.9 in 2019; U.S. \$1 = RMB 7.0 in 2020; U.S. \$1 = RMB 6.5 in 2021.

I. Production

MY21/22 production is forecast at 5.9 MMT, down from the estimated 6.4 MMT in MY20/21. The lower MY21/22 production is based on a 5.3 percent fall of acreage from the previous year and a trend yield. Forecast MY21/22 cotton acreage is 3.05 MHa as compared to the estimated 3.22 MHa in the previous year. Forecast Xinjiang cotton acreage is 2.58 MHa in MY21/22, unchanged from the previous year supported by the government's fixed subsidy policy. The Yangtze and Yellow River regions, however, saw significant reductions in planted area due to low profitability.

China's National Statistics Bureau (NSB) estimated MY20/21 cotton production at 5.91 MMT based on planted area of 3.17 MHa. Based on a series of surveys administered from March to June 2021, the China Cotton Association (CCA) put MY21/22 cotton acreage at 2.9 MHa, down 5.5 percent from the previous year, and production at 5.72 MMT, down 3.4 percent from the previous year. In its August report, China's Ministry of Agricultural and Rural Affairs (MARA) forecast cotton planted area at 3.1 MHa and production at 5.73 MMT for MY21/22, down by 2 percent and 3 percent, respectively, from the previous year.

Table 1 – Cotton Production (MMT) and Area (MHa)

Source	CCA		MARA		BCO		cncotton.com	
MY	MY20/21	MY21/22	MY20/21	MY21/22	MY20/21	MY21/22	MY20/21	MY21/22
Area	3.06	2.9	3.17	3.1	2.91	2.78	3.04	2.83
Change (%)		-5.47		-2		-4.4		-7
Production	5.92	5.72	5.91	5.73	6.33	5.64	5.95	5.58
Change (%)		-3.4		-3		-10.9		-6.3

Note: Change is MY21/22 forecast to MY20/21 estimate. Sources: CCA, MARA and BCO-Beijing Cotlook Co. and cncotton.com

According to CCA, cotton growth was delayed in Xinjiang due to low temperatures and freezing in the early stages of production. Cotton growth improved as temperature rebounded in most of Xinjiang during the months of June through August; however, the crop also experienced more disease and pest pressure as the temperature rose. As of mid-August, a moderately high temperature and less rainfall seem to be favorable to cotton growth and boll bearing. The overall growth and development of cotton is still later than last year. CCA forecasts a reduction in Xinjiang production of 1 percent, to 5.18 MMT, in MY21/22 on lower yield. Another leading source believes that cotton growth in Xinjiang is 7 to 10 days later than average. MARA's August report said the comprehensive weather conditions were rated as better than average of the past five years and were favorable for cotton growth.

Table 2 - Weather Conditions in July of 2021

	Nation	Yellow River Region	Yangtze River Region	Xinjiang
Average Temperature (°C)	28.2	27.5	28.8	28.6
--YoY change	2	1.6	2.3	2.2
--Compare with average	0.8	0.4	0.2	2.1
Precipitation (mm)	228.3	326.9	269.5	19.7
--YoY change	33.7	179.3	-80.9	4.2
--Compare with average	87.8	165.8	68.7	6.9
Sunshine (hours)	197.8	178.3	160	283.9
--YoY change	27.3	2.1	65.6	-3.5
--Compare with average	-24	-15.3	-38.7	-16.5
Yield trend estimate	Average	Average	Up	Average

Sources: CCA

According to CCA, most of the cotton areas in the Yellow River region have better light and heat conditions, but the dryness lasted longer than during previous years, resulting in slow growth of cotton seedlings that affected buds and flowering. The heavy rainfall from the end of June eased the drought. Based on a forecast yield gain of 2.5 percent, total production is expected to be 272 KMT in MY21/22. In the Yangtze River region, excessive rainfall resulted in waterlogged cotton fields and slow growth of the crop. However, with lower disease and pest pressure, and no extreme weather, the growth of cotton is rated as better than the previous year when the crop suffered from serious floods. The cotton yield is expected to increase by 21.6 percent from the low yield witnessed in the previous year. The forecast production for the region is up 9 percent to 226 KMT in MY21/22.

Interviewed farmers in Shandong planted 25 percent less cotton in MY21/22 compared to the previous year. Farmers reduced cotton area on expectations for high corn profits. Additionally, cotton farming continues to demand expensive labor inputs for planting, trimming, spraying, and picking. Some cotton is planted in marginal land or mingled with trees, fruits, vegetables, peanuts, etc. Cotton growth for the region is considered normal as of mid-June.

In general, China's cotton production is challenged by increasingly high production costs, particularly in the Yellow River and the Yangtze River regions. High costs for labor and other inputs are likely to force farmers to gradually abandon cotton. In Xinjiang, limited water resources will constrain area expansion, and may lead to abandonment of cotton farming on marginal land. Based on NSB data, Xinjiang cotton production accounted for 87.3 percent of the nation's total in MY20/21. This is expected to increase to 92 percent in MY21/22 based on Post's forecast.

II. Consumption

MY21/22 consumption is forecast at 8.7 MMT, up from Post's estimated 8.6 MMT in MY20/21. The forecast is driven by recovering demand in the domestic market and increased orders from overseas. The textile and apparel sector took an economic hit in MY19/20 as consumer spending dropped during the COVID-19 outbreak. Consumption recovered significantly in MY20/21 as consumer confidence and spending recovered, restoring some of the lost demand in both the domestic and overseas markets. The recovery is likely to continue at a low rate in MY21/22. Table 3 shows Chinese leading sources vary on cotton consumption but echo a slowing growth trend in MY21/22.

Table 3 – Cotton Use and Imports in MY20/21 and MY21/22

	CCA		MARA		BCO		cncotton.com	
	MY20/ 21	MY21/ 22	MY20/ 21	MY21/ 22	MY20/ 21	MY21/ 22	MY20/ 21	MY21/ 22
Consumption	8.1		8.4	8.2	8.54	8.29	8.39	8.24
Imports	3.0		2.8	2.5	2.73	2.0	2.86	2.31
Ending stocks	8.7		7.64	7.65	5.84	5.18	6.6	6.21

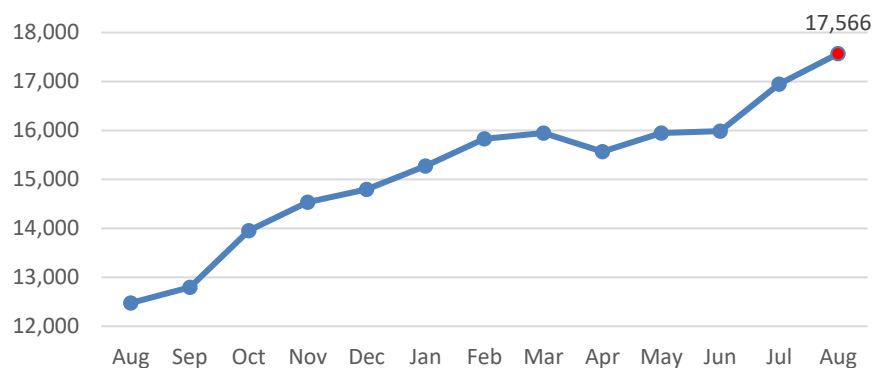
Sources: CCA, MARA and BCO-Beijing Cot look Co. and cncotton.com

According to the NSB, in the first half of 2021, the operation rate of textile and chemical fiber capacity stood at 79.7 percent and 86.1 percent, both up 9 and 9.4 percentage points, respectively, over the previous year. The national sales of clothing, footwear, and knitting textiles increased by 33.7 percent year-on-year. Online retailing of clothing continued to be active with sales value up by 24.1 percent year-on-year. The cumulative output value of textile enterprises reached RMB 2343.5 billion (or U.S. \$360.5 billion), up 20.3 percent from the previous year, and total profit surged 41.1 percent from the previous year.

The textile sector's profitability improved gradually with an average profit of 4.6 percent. Total fixed asset investment for the textile, chemical fiber, and clothing industries all increased, up 15.2 percent, 16.6 percent, and 5.8 percent, respectively, from the previous year. In particular, the large textile provinces including Shandong, Jiangsu and Zhejiang increased textile investment. Investment in central China has increased, especially in Hubei Province, which was hit hard by the pandemic. A CCA survey showed production and sales of textile enterprises were smooth with good profits in July. With increased new orders, the operating rate of enterprises remained high with strong demand for cotton. However, a re-emergence of COVID-19 in several provinces from the end of July affected the transportation of cotton and cotton yarn.

Chart 1 - China's Cotton Price Increased Rapidly from August 2020

(CC Index 3128 B at RMB/Ton)



Source: cottonchina.org.cn

Based on China's Customs statistics, in the first half of 2021 China's textile and apparel exports totaled U.S. \$140 billion, up 12.1 percent from 2020. Driven by the recovery of overseas demand and the gradual diversification of export channels, the apparel export situation continued to improve. Apparel export values in the first half of 2021 reached approximately \$72 billion, a sharp increase of 40.3 percent from the previous year, and its share of total textile and apparel exports increased to 51 percent from 41 percent in the previous year. However, as the global control of COVID-19 improved in 2021, the demand for personal protective equipment (PPE) has declined, and China's textile exports have shrunk. The cumulative export value in the first half of 2021 was approximately U.S. \$69 billion, 7.4

percent lower than the previous year. It is worth noting that China's home textile exports hit a record of approximately U.S. \$16 billion in the first half of 2021, up 54 percent from the previous year and up 22.4 percent from 2019. Chinese industry insiders said some orders returned to China given the uncertain pandemic situation in India and ASEAN countries and expected this trend is likely to continue in the 3rd and 4th quarter of 2021. However, Chinese exporters remain cautiously optimistic and hesitate to expand capacity as they are worried the orders may fall when the pandemic situation improves in competing countries.

In 2020, driven by exports of personal protective equipment (PPE), the textile export value surpassed that of apparel for the first time, accounting for 53 percent of exports for the sector compared to an average of 40 percent in previous years. The export value for yarn, fabric, home textile products, and apparel fell by 21.5 percent, 17.7 percent, 3.6 percent, and 15 percent, respectively, from 2019.

China's textile and apparel sector continues to be challenged by increasing production costs from raw materials and labor inputs in the long term. China's yarn imports are expected to affect the growth of domestic spinning cotton use given yarn imports recovered quickly in MY20/21. Restrictions on imports produced with Xinjiang cotton seriously affected companies engaged in exports of high-end products. Some companies' operations shrank significantly even after they made adjustments in the first months of 2021.

According to China's Textile Industry Association, China's spinning capacity was 110 million spindles as of the end of 2020. The sector has upgraded equipment and technology, with production efficiency advancing greatly in recent years. Chinese industry leaders believe cotton fiber use was down to 6 MMT in 2020 -falling 13 percent from the previous year. The share of non-cotton fiber in yarn production is up to 65.3 percent in 2020.

III. Trade

China's cotton imports are forecast at 2.6 MMT in marketing year (MY) 21/22, 200 KMT less than MY20/21, and an increase of approximately 400 KMT from the official USDA estimate. The rapid increase of imports in MY20/21 reflects a recovery in consumption and higher ending stocks. A slight fall in imports in MY21/22 over the previous marketing year will result in relatively stable ending stocks.

Cotton imports surged to about 2.8 MMT in MY20/21, 80 percent growth year-on-year. The U.S. market share expanded to 45.3 percent in the first 11 months of MY20/21, up from approximately 30 percent in MY19/20. While Chinese end-users favor the quality and reliability of U.S. cotton, exports from Brazil, Australia, and India are increasingly competitive. Brazil's cotton industry is confident it will increase its production in the next few years and can address quality concerns raised by Chinese end-users. Chinese spinners increased imports/use of U.S. cotton partly due to the decreased supply of high-grade cotton from Xinjiang as quality declined in MY20/21.

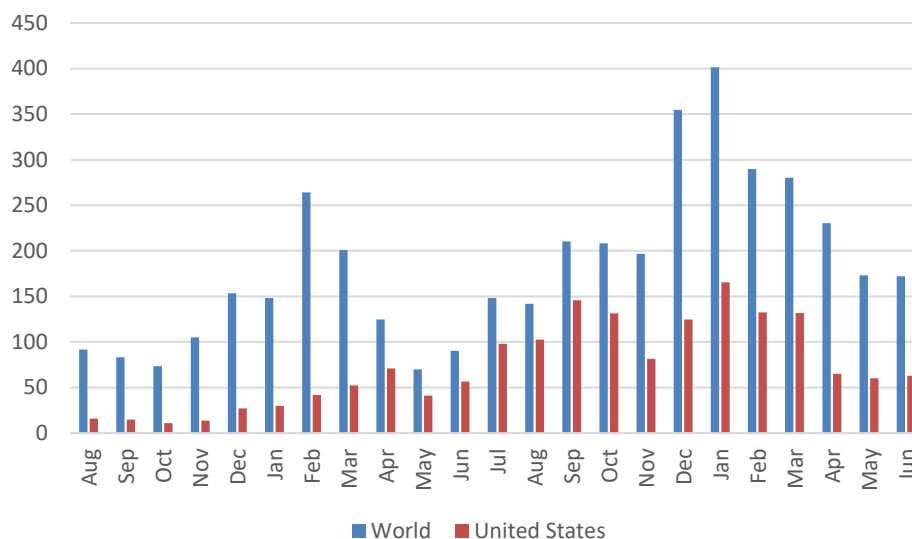
The additional tariff rate quote (TRQ) together with an expanding price gap between domestic and international markets are expected to facilitate cotton imports from July to the end of 2021. In addition to market demand, China's cotton imports are subject to how the government administers the TRQ. China's WTO TRQ obligation is 894,000 tons of cotton annually subject to an in-quota tariff of one percent.

On April 30, 2021, the Chinese government decided to issue an additional 0.7 MMT of cotton TRQ subject to a sliding duty. The 0.7 MMT is completely for non-state-owned enterprises, and out of the total, 0.4 MMT is for processing trade, and 0.3 MMT is open to all participants in the trade. Chinese industry contacts reported that spinners received the TRQ around July 20 and the TRQ will be valid through the end of 2021.

During the last two years, China has made additional TRQ available, subject to a sliding duty, to meet demand from the domestic spinning industry.

Chart 2 - China's Cotton Imports Increased in MY20/21

(Monthly in 1,000 tons from August 2019 to June 2021)



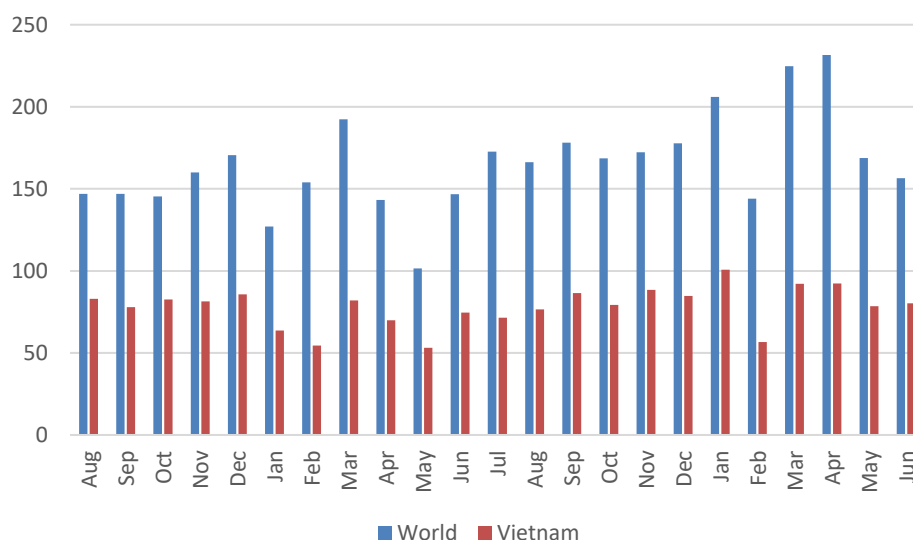
Source: TDM

Recovering yarn imports will pressure for cotton imports in MY21/22. 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 recovering demand for textile and apparel products, yarn imports rebounded in MY20/21 with total imports up to about 2 MMT in the first 11 months of MY20/21, compared to the 1.8 MMT in MY19/20. Given China's large spinning capacity coupled with higher cotton prices domestically, Chinese spinners are expected to compete with recovering yarn imports in MY21/22. Vietnam continues to be the largest yarn supplier to China with market share

increasing to 46 percent in MY20/21. However, yarn imports from Vietnam face uncertainty for the remainder of 2021. Industry is reporting low operation rates and closure of mills in Vietnam since July 2021 due to an increase in COVID-19 cases.

Chart 3 - China's Yarn Imports Increased in MY20/21

(Monthly in 1,000 tons from August 2019 to June 2021)



Source: TDM

IV. Stocks

Ending cotton stocks are forecast to fall to 8.2 MMT in MY21/22 from an estimated 8.4 MMT in MY20/21 on strong demand.

China maintains an unknown amount of state cotton reserve which is said to have been rebuilt with imported cotton since 2020. In early July 2021, the Chinese government announced that, in an effort to improve the cotton reserve mix, ensure good quality, and regulate the market, the government decided to sell 0.6 MMT of cotton reserve from July 5 through September 30, 2021. As of August 24, about 0.35 MMT of cotton in auction were fully sold. The purchase price showed a moderate growing trend with average price at RMB 17,186 (U.S. \$2,644)/ton in the auction held on August 24. The high purchase rate and increasing price partly reflect recovering consumption by spinners. CCA reported that, effective on August 24, non-spinning buyers were not allowed to purchase cotton from the sales auctions of state reserve. Industry contacts suspected this reflects the government's intention to stop speculation in cotton.

The Chinese government maintains very high stock levels partly to enable it to manage the cotton market.

V. Cotton China Sustainable Development Program

On April 30, 2021, CCA initiated the “Cotton China Sustainable Development Program” (CCSD). CCA issued the "China Cotton Production and Management Specifications" along with six Chinese cotton companies and signed cooperation agreements with them. The "Specifications" cover the production and processing of cotton. Engaged in cotton production, processing, and trade, the six companies are large-scale cotton enterprises with annual cotton business volume of more than 1.6 MMT. As the program covers all cotton produced in China, it is not known how the relevant certification standards for sustainable production, traceability and brand promotion will be enforced given that cotton farming and quality in other provinces is different from the largest cotton producer, Xinjiang.

Tables

Production, Supply and Distribution (PSD)

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

Cotton China	2019/2020		2020/2021		2021/22	
	Market Year Begin: Aug 2019		Market Year Begin: Aug 2020		Market Year Begin: Aug 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		3,220		3,220		3,050
Area Harvested	3,450	3,220	3,250	3,220	3,100	3,050
Beginning Stocks	35,670	35,670	36,899	35,760	39,139	38,495
Production	27,250	27,099	29,500	29,400	26,750	27,190
Imports	7,136	7,136	12,750	12,860	10,000	11,942
MY Imports from U.S.						
Total Supply	70,056	69,905	79,149	78,020	75,889	77,627
Exports	157	157	10	25	50	50
Use	33,000	33,988	40,000	39,500	41,000	39,960
Loss	0	0	0	0	0	0
Total Dom. Cons.	33,000	33,988	40,000	39,500	41,000	39,960
Ending Stocks	36,899	35,760	39,139	38,495	34,839	37,617
Total Distribution	70,056	69,905	79,149	78,020	75,889	77,627
Stock to Use %	111	105	98	97	85	94
Yield	1,720	1,832	1,976	1,988	1,879	1,941

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

Cotton China	2019/2020		2020/2021		2021/22	
	Market Year Begin: Aug 2019		Market Year Begin: Aug 2020		Market Year Begin: Aug 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		3,220		3,220		3,050
Area Harvested	3,450	3,220	3,250	3,220	3,100	3,050
Beginning Stocks	7,766	7,766	8,034	7,786	8,521	8,381
Production	5,933	5,900	6,423	6,401	5,824	5,920
Imports	1,554	1,554	2,776	2,800	2,177	2,600
MY Imports from U.S.						
Total Supply	15,253	15,220	17,233	16,987	16,523	16,901
Exports	34	34	2	5	11	11
Use	7,185	7,400	8,709	8,600	8,927	8,700
Loss	0	0	0	0	0	0
Total Domestic Consumption	7,185	7,400	8,709	8,600	8,927	8,700
Ending Stocks	8,034	7,786	8,521	8,381	7,585	8,190
Total Distribution	15,253	15,220	17,233	16,987	16,523	16,901
Stock to Use %	111	105	98	97	85	94
Yield	1,720	1,832	1,976	1,988	1,879	1,941

Trade Tables

Table 6. China's Monthly Cotton Imports in Metric Tons

Month	2018	2019	2020	2021
January	133,908	279,865	148,367	401,232
February	102,700	229,061	263,885	289,503
March	107,502	151,901	200,913	280,364
April	104,989	179,695	124,830	230,316
May	131,714	178,323	70,011	173,208
June	98,843	157,395	90,260	172,072
July	137,482	163,492	148,256	
August	162,424	91,838	141,852	
September	135,526	83,266	210,303	
October	108,311	73,388	208,144	
November	132,286	105,096	196,583	
December	218,919	153,588	354,691	
TOTAL	1,574,604	1,846,908	2,158,095	
Unit: Bales				
Month	2018	2019	2020	2021
January	615,039	1,285,420	681,450	1,842,859
February	471,701	1,052,077	1,212,024	1,329,687
March	493,757	697,681	922,793	1,287,712
April	482,214	825,339	573,344	1,057,841
May	604,962	819,038	321,561	795,544
June	453,986	722,915	414,564	790,327
July	631,455	750,919	680,940	
August	746,013	421,812	651,526	
September	622,471	382,441	965,922	
October	497,472	337,071	956,005	
November	607,590	482,706	902,906	
December	1,005,495	705,430	1,629,096	
TOTAL	7,232,156	8,482,848	9,912,130	

Source: TDM

Table 7. China's Cotton Imports by Country of Origin in Metric Tons

Country	MY17/18	MY18/19	MY19/20	MY20/21*
United States	558,777	370,045	473,292	1,203,250
Brazil	82,148	476,494	565,352	694,870
India	120,125	271,955	130,162	454,085
Australia	282,467	555,463	203,903	74,772
Uzbekistan	85,020	81,484	13,014	
Benin	9,501	48,779	16,449	
Burkina Faso	10,501	35,567	14,612	
Cameroon	3,291	18,179	11,997	
Mali	502	26,931	15,301	
Mexico	22,010	33,783	14,253	
Cote d'Ivoire	9,634	20,200	10,623	
Zimbabwe	3,544	11,369	1,165	
Others	55,602	146,013	83,566	
Total	1,243,122	2,096,262	1,553,689	2,658,061
Price \$/ton	1,950	2,004	1,754	

Source: TDM; *Data reflect the first 11 months of MY20/21

Table 8. China's Monthly Cotton Yarn and Thread Imports in Metric Tons

Month	2018	2019	2020	2021
January	195,754	164,777	126,977	206,070
February	92,081	119,921	153,860	144,067
March	172,157	191,394	192,440	224,689
April	157,245	192,237	143,176	231,537
May	209,293	207,638	101,501	168,744
June	195,786	156,829	146,701	156,529
July	204,750	150,333	172,649	
August	202,857	146,888	166,110	
September	175,349	147,175	178,152	
October	141,009	145,327	168,600	
November	161,792	160,038	172,268	
December	155,886	170,427	177,768	
TOTAL	2,063,959	1,952,984	1,900,202	
Marketing Year	Aug/18-Jul/19	Aug/19-Jul/20	Aug/20-Jul/21	
TOTAL	2,020,022	1,807,159		

Source: TDM

Table 9. China's Monthly Cotton Yarn and Thread Exports in Metric Tons

Month	2018	2019	2020	2021
January	38,165	38,968	30,577	26,201
February	31,406	21,149	13,241	15,867
March	34,592	39,628	31,647	23,203
April	42,789	37,172	15,194	26,850
May	37,960	35,330	14,533	24,349
June	32,563	37,492	16,895	27,979
July	33,902	27,889	23,472	
August	32,262	27,980	24,537	
September	30,577	24,623	26,991	
October	27,960	25,446	26,736	
November	27,398	38,112	23,030	
December	30,648	27,974	23,127	
TOTAL	400,222	381,763	269,980	
Marketing Year	Aug/18-Jul/19	Aug/19-Jul/20	Aug/20-Jul/21	
TOTAL	386,473	289,694		

Source: TDM

Other Tables**Table 10. Cotton Planted Area and Production by Region**

Area (1,000 Ha)			
Year	MY19/20	MY20/21	MY21/22
Xinjiang	2,490	2,580	2,580
Others	730	640	470
Total	3,220	3,220	3,050
Production (1,000 Tons)			
Year	MY20/21	MY20/21	MY21/22
Xinjiang	5,030	5,700	5,450
Others	870	700	470
Total	5,900	6,400	5,920
Average Yield (Kg/Ha)	1,832	1,988	1,941

Note: FAS/Beijing estimate and forecast

Attachments:

No Attachments