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China - Peoples Republic of

Cotton and Products Annual

Imports Expected to Recover Modestly in MY18/19 in Response to Growing Consumption

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Report Highlights:
Post's forecast for MY18/19 cotton planted area is 3.38 million hectares (MHa), up from the estimated 3.35 MHa in MY17/18. The area expansion is supported by the government's continued subsidies and higher cotton profitability. However, forecast MY18/19 cotton production is 5.9 million tons (MMT), slightly down from the estimated 6 MMT in MY17/18. Cotton use is expected to increase to 8.7 MMT in MY17/18, and forecast to rise to 8.8 MMT in MY18/19. The narrowing gap between domestic and global cotton prices contributed to the consumption recovery but also resulted in lower yarn imports. In MY17/18, China continues to focus on reducing its state cotton reserves. Hence, MY18/19 total ending stocks are forecast to fall to 7.4 MMT, down significantly from the 10.5 MMT at the end of MY16/17. Anticipating sales of cotton reserves and continuing restrictions on additional import quotas, China's cotton imports are expected to be 1.1 MMT in MY17/18, almost unchanged from the previous year and the second lowest level in 13 years. That said, China's cotton imports are forecast to rise to 1.4 MMT in MY18/19. This is under the assumption that the government will issue additional import quotas to meet the textile industry's demand for higher-grade foreign cotton to help them stay competitive in export markets.

Executive Summary:

China's MY18/19 cotton production is forecast to fall moderately to 5.9 million tons (MMT) from the estimated 6 MMT in MY17/18**.** This modest fall is based on a slight increase in acreage offset by lower (but still higher than average) yield. Post's forecast for MY18/19 cotton planting area is up to 3.38 million hectares (MHa) from the 3.35 MHa in MY17/18. China's government cotton support policy for Xinjiang and the high yield achieved in that province contributed to higher cotton profits in MY17/18. The "Target Price-based Subsidy" policy for Xinjiang will continue in MY17/18 through MY19/20 with a fixed target price unchanged from the MY16/17 level of RMB18,600/ton ($2,800/ton). Higher cotton earnings in MY17/18 are expected to encourage the Xinjiang cotton area to grow modestly in MY18/19. However, in other cotton-producing provinces, MY18/19 cotton acreage is forecast to fall given an increase in corn profits in 2017 coupled with lower cotton earnings in those regions due to low subsidies and cotton prices in MY17/18.

China's forecast steady economic growth, lower yarn imports, and the recovery of cotton fiber share (vs. polyester) are expected to stimulate cotton consumption. Thus, cotton consumption is estimated at 8.7 MMT in MY17/18, and forecast to grow to 8.8 MMT in MY18/19. Despite the small domestic production and the recovery in cotton use, China's priority remains to ease the burden of its large cotton stocks following years of state cotton purchases (MY11/12 – MY13/14). At the beginning of MY17/18, China's total cotton stocks were estimated high at 10.5 MMT but are expected to fall to 7.4 MMT by the end of MY18/19. The government's ability to control domestic supplies through sales of state reserves and limit the issuance of additional tariff rate quotas (TRQ) will continue to temper cotton imports to an estimated 1.1 MMT in MY17/18. This estimate is almost unchanged from the previous year and the second lowest level in 13 years. Assuming the government will issue additional import quotas to satisfy the textile industry's demand, China's cotton imports are forecast to rise to 1.4 MMT in MY18/19. The domestic textile industry demands higher-grade foreign cotton in order to stay competitive in export markets. Despite stagnant cotton imports and increasing competition from other cotton suppliers such as Australia, Chinese mills continue to favor U.S. cotton for its quality and reliability. Hence, the Chinese textile industry will continue sourcing higher-grade cotton from the United States.

MY18/19 Cotton Production Forecast Down Slightly to 5.9 MMT

MY18/19 domestic cotton production is forecast to fall to 5.9 MMT, down 1.6 percent from an estimated 6 MMT in MY17/18. The forecast smaller production is based on a 0.9 percent expansion in planted area to 3.38 MHa, offset by a higher than average yield but lower than the unusually high yield achieved in MY17/18. Increase in cotton profitability during MY17/18 and the government's continued distribution of subsidies to Xinjiang province contributed to the moderate area increase in MY18/19.

Introduced in MY14/15, the government's "Target Price-based Subsidy" policy for cotton production (applied to Xinjiang only, see more in the Policy Section of this report) has guaranteed basic returns for

Xinjiang cotton farmers while effectively reducing earnings in other cotton-producing provinces. The policy switch in MY14/15 led to a decade-low cotton production in MY15/16 (see GAIN report CH16024). In early 2017, the Chinese government decided to continue the high target price support policy for Xinjiang in MY17/18 and carry it through MY19/20 with the same MY16/17 target price fixed at RMB18,600 ($2,900)/ton. In addition, the relatively high cotton earnings, mainly due to good yield in MY17/18, enhanced Xinjiang farmer's confidence in cotton. However, farmers in other cotton-producing regions are expected to plant less cotton due to low returns from cotton in MY17/18. Furthermore, as the domestic corn price increased in 2017, farmers in some provinces may opt to plant more corn by cutting cotton acreage in MY18/19.

Estimates for China's cotton area and production continue to differ among sources. Below is a table of estimates from various sources showing area and production data for MY16/17 and MY17/18. China's National Statistics Bureau (NSB) estimates MY17/18 total cotton production at 5.49 MMT. This is based on a planted area of 3.23 MHa with yield averaging about 1,699 Kg/Ha. NSB's data shows MY17/18 Xinjiang's cotton production is 4.08 MMT (about 74.3 percent of total production) and acreage of 1.96 MHa (or 60.8 percent of total acreage). This production figure is far below the official classified volume of 4.96 MMT for Xinjiang done by the China Fiber Inspection Bureau (CFIB) as of March 25, 2018. It is also below the processed cotton volume of 5.01 MMT reported by a leading industry source as of March 25, 2018. However, the NSB MY17/18 production estimate of 1.41 MMT for all other provinces is significantly higher than the industry estimated production at less than 1 MMT. NSB provided further details on its statistics methodology, described to combine remote sensing and sample surveys to estimate the planted area and yield in Xinjiang. For other major cotton-producing provinces including Hebei, Shandong, Henan, Anhui, Jiangsu, Hubei and Hunan, NSB conducted sample surveys to estimate the planted area and yield. In other small cotton-producing provinces, NSB used "comprehensive statistics" to obtain area and yield information.

Cotton Production Estimate/Forecast by Various Sources (MMT; MHa)

	CCA	NCMMN	MOA	NSB	Post
MY16/17 Acreage/Production	2.75/**4.94**	2.91/**5.12**	3.1/**4.72**	3.38/**5.34**	3.0/**5.05**
MY17/18	2.94/**6.05**	3.17/**5.69**	3.35/**5.89**	3.23/**5.49**	3.35/**6.0**

Acreage/Production					
MY18/19 intended planting area/production	2.89/NA	3.18/**5.53**	NA	NA	3.38/**5.9**
MY18/19 area change	-1.6%	+0.3%	NA	NA	+0.9%

CCA- China Cotton Association, NCMMN- National Cotton Market Monitoring Network, MOA-China's Ministry of Agriculture

Many industry sources believe the CFIB classified volume may provide the real production picture for Xinjiang. NSB's 4.08 MMT production data for Xinjiang generally reflects official statistical reports which show more of the local government's intended plan to maintain cotton acreage in response to the central government's call to adjust the crop mix in light of the high state cotton reserves at the beginning of 2016. In addition, cotton planting in unreported lands continues to be one of the safest and reliable sources of income for some farmers when the government target price remains high at RMB18,600($2,900)/ton. Hence, it is not surprising that the MY17/18 cotton acreage for Xinjiang could exceed the official statistics.

MY17/18 cotton production for other provinces is likely to be inflated as the central government's production-based subsidy policy can lead to over reporting by operators at different levels of the production chain.

Planted Area

Post forecasts MY18/19 total planted area will rise by 0.9 percent to 3.38 MHa from the estimated 3.35 MHa in the previous year. Specifically, the Xinjiang planted area is forecast up by 2.3 percent to 2.47 MHa on estimated high earnings received in MY17/18. The planted area for all other provinces is forecast to decline by 2.7 percent to 0.91 MHa in MY18/19 in response to stagnant cotton earnings and facing the rapid increase in corn prices in MY17/18.

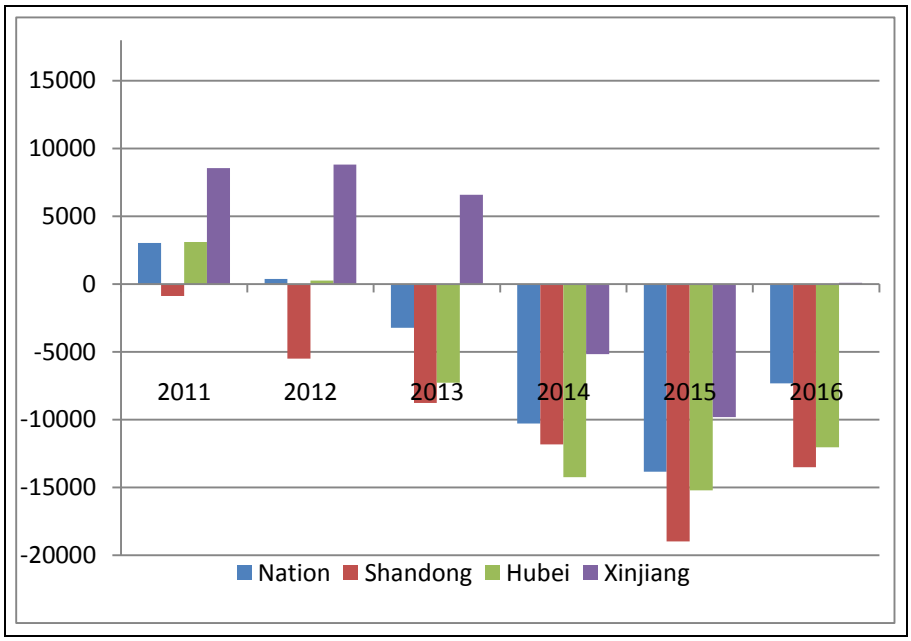
The government's "Target Price-based Subsidy" policy program (for 2017 to 2019) guarantees basic cotton profits which expect to stimulate continuous cotton expansion in MY18/19 in Xinjiang. As previously reported, the target price is fixed at RMB18,600 ($2,900)/ton for MY17/18 through MY19/20. The subsidy program stipulates that cotton planted in uncertified areas will remain ineligible to receive support payments in Xinjiang, and the yearly volume of cotton eligible for the subsidy is capped by the central government at 5.47 MMT.[1] Nevertheless, cotton still continues to be the most reliable income crop in Xinjiang. The positive earnings as a result of the rise in cotton yield and the subsidy in MY17/18 will encourage farmers to expand cotton area in Xinjiang in MY18/19. The estimated production of 5 MMT in MY17/18 for Xinjiang remains below the production ceiling eligible for subsidy, implying all cotton could receive subsidy theoretically. Hence, farmers planting in uncertified areas in MY17/18 are most likely to continue in MY18/19. The farms of the Xinjiang Production and Construction Corporation (PCC), which seemed to be conservative in expanding cotton area in MY17/18, may also add cotton area in marginal land in MY18/19.

[1] The cap volume of 5.47 MMT is 85 percent of the average national cotton production from 2012 to 2014.

A survey by the Xinjiang Provincial Development and Reform Commission supports a moderate growth in the cotton area for MY18/19 although no specific data has been released. Note: this survey excludes area under the PCC. The survey indicated that MY17/18 cotton production displayed an increase in production/yield, a higher selling price and profits despite a moderate growth in production costs. In addition, the seed cotton selling price is 3.6 percent higher than the previous year. A 5.9 percent increase in production costs were offset by a yield gain of 8.9 percent compared to the previous year. Thus, the estimated cotton profits are RMB975 ($150)/Ha higher than the previous year. However, another leading industry source reported a decline in seed cotton selling price in Xinjiang in MY17/18 (down 2.9 percent as of mid-December 2017), but the price decline was offset by yield gain and better quality.

Chart 1 - Average Net Earnings* from Cotton Planting in Recent Years

(2011-2016; RMB/Ha)



Source: National Development and Reform Commission (NDRC)

*Excludes labor income

Chart 1 shows the NDRC estimated profits for cotton in three representative provinces until MY16/17. According to NDRC, the net profits for Xinjiang cotton stood at RMB99 ($15)/Ha in MY16/17. Taking into account the above Xinjiang official survey results, the net cotton profit for MY17/18 is estimated at RMB1,074 ($162)/Ha. This is in addition to an estimated family labor income of RMB6,800 ($1,030)/Ha. Hence, the total cotton profits are expected to increase if the government subsidy is included. As of this report, the survey reports on the PCC cotton production cost and profits were not available. In general, the PCC area showed higher profits due to its higher yield and lower production costs given its high rate of mechanized harvest.

It is worth noting, however, that there are several factors constraining Xinjiang farmers from significantly increasing the province's cotton acreage in MY18/19. Some of these factors include the government's call for restructuring the crop mix along with limited water resources. Furthermore, a

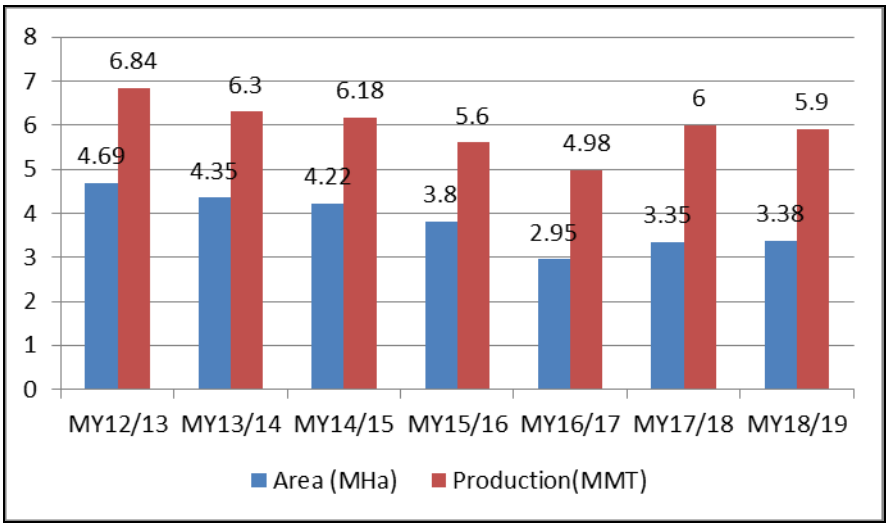
fixed government's target price means that the subsidy rate will not reflect any increases in production costs for the next three years (2017 to 2019). This could hinder profits unless increases in production costs can be offset by other factors such as yield gain.

For cotton-producing provinces outside of Xinjiang, MY18/19 cotton acreage is forecast to fall due to low earnings from cotton profits in MY17/18. Based on a CCA survey, the seed cotton selling price for the Yangtze River and the Yellow River regions were both down by 13.4 and 10 percent, respectively, from MY16/17. The MY17/18 cotton profits in these regions are estimated to be generally lower than the previous year. However, the situation varies among different producing regions based on level of yield. For instance, in Shandong Province, local official sources reported that low yield/price and high production costs drove cotton earnings to be negative at RMB6,000($935)/Ha in MY17/18 from the negative RMB3,480 ($540)/Ha in the previous year in Xiajing City. A similar situation was reported in Hezi City with cotton earnings remaining negative at RMB1,900 ($295)/Ha in MY17/18 compared to the positive earnings of RMB829 ($130)/Ha in MY16/17. In Hubei Province, increased losses for cotton were reported in Ezhou City. However, positive earnings were achieved in Jingzhou City due to higher yield although earnings declined from MY16/17. (Note: family labor income is excluded in calculating earnings).

Additionally, cotton planting in these provinces continues to be challenged by increases in labor costs (as almost 100 percent of harvest is hand-picked) and stagnant yields. Cotton planting in these regions is also impacted as farmers have more crop choices such as corn and more informal work opportunities available in cities within the Yangtze River and the Yellow River regions. Based on industry sources, the corn price recovered sharply in MY17/18, up 25 percent in March 2018 compared to last year. In consideration of all these factors, Post forecast cotton planting area to decline by 2.7 percent to 0.91 MHa during MY18/19, the lowest in recent decade.

Currently, the Chinese industry survies on MY18/19 cotton planting intentions remain limited and results vary. CCA's March report indicated that MY18/19 cotton planting intentions are down 1.6 percent from the previous year with total intended area at 2.89 MHa. Specifically, while plantings intentions are expected to rise from the previous year by 0.57 percent in Xinjiang, planting intentions are down 7.7 percent in the Yellow River region and down 4 percent in the Yangtze River region. An earlier survey conducted in late 2017 by the National Cotton Market Monitoring Network (an information source of the China State Cotton Reserve Corporation) indicated that the MY18/19 cotton planting intentions are up by 0.3 percent and could reach 3.18 MHa. Specifically, planting intentions are down 4.7 percent in the Yangtze River region and down 3.1 percent in the Yellow River region from MY17/18. However, Xinjiang's planting intentions showed a 2.4 percent increase from MY17/18.

Chart 2 - China Cotton Planted Area and Production
(MY12/13 to MY18/19)



Source: NSB; MY17/18 estimate and MY18/19 forecast by FAS/Beijing

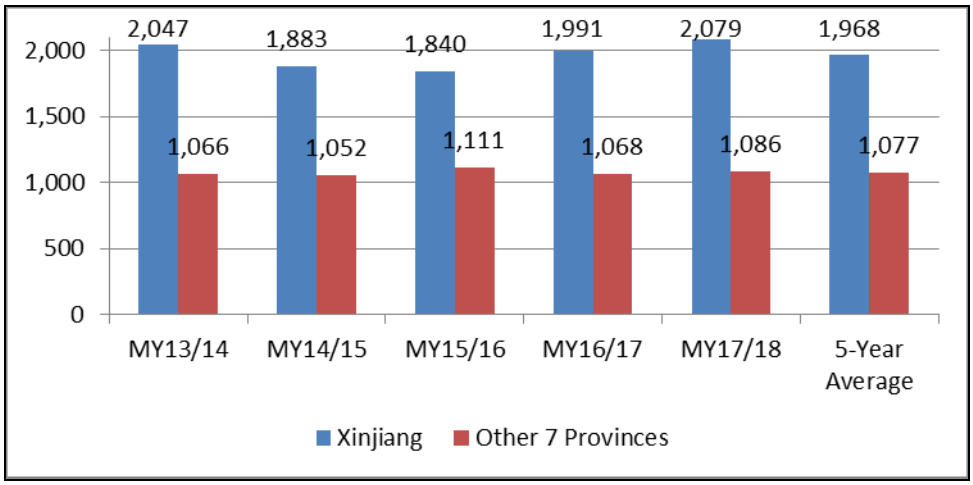
Yield

NSB data shows average cotton yield has varied significantly by individual province/autonomous region. In recent years, yields ranged from about 1,000Kg/Ha in the Yangtze River region to 2,079Kg/Ha in Xinjiang province in MY17/18. Chart 3 shows average yields for Xinjiang and other 7 major cotton-provinces for the last five years. Despite a record high yield of 2,079Kg/Ha in Xinjiang, Post forecast MY18/19 cotton yields to be above average at 1,990Kg/Ha for Xinjiang and 1,077Kg/Ha for all other provinces.

Weather conditions and the use of new technologies, including biotech cotton varieties, continue to be key factors in improving yield gains. The use of biotech cotton varieties to reduce pest-related losses will continue to dominate in the provinces within the Yangtze River and the Yellow River regions. However, weather uncertainties in these regions, such as flooding or drought, frequently delay harvest, affect fiber quality, and impact yields.

The weather conditions in Xinjiang continue to be an advantage for cotton farming. The use of biotech cotton varieties is also reportedly increasing to reduce sprays although pests are less prevalent than in other provinces. Conventional varieties with specific traits, such as a dwarfed plant height and early maturity, continue to raise yield. The PCC farms, which are organized on a larger scale than the typical Chinese cotton farm, are able to incorporate other agronomic practices to improve yield, such as high density sowing, plastic sheet covering, and drip irrigation technology.

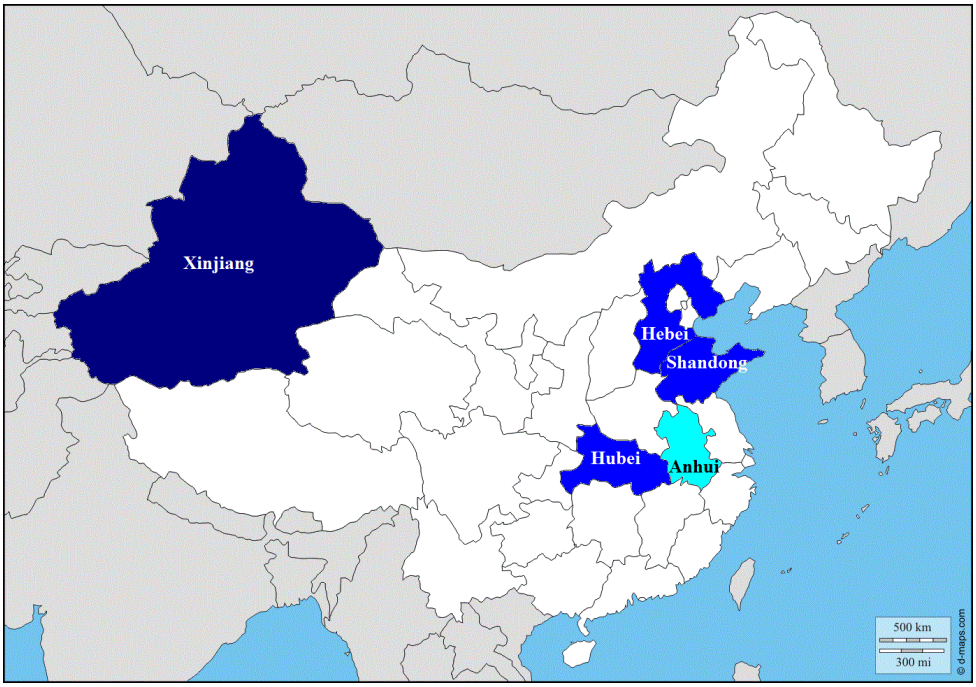
Chart 3 – NSB Five-Year Average Yields for Xinjiang and Others
(Kg/Ha; MY13/14 to MY17/18)



Source: NSB

Mechanized harvest is increasingly popular throughout the Xinjiang Province. This is particularly true in the PCC farms seeking to reduce the need for labor inputs. Industry sources estimate that in MY17/18, over 90 percent of the PCC cotton area was mechanically harvested compared to 70 percent during the previous year. For non-PCC farms in Xinjiang, the rate of mechanized harvest remained relatively low in MY15/16 at 255,000 Ha. This rate should have increased in MY17/18 but the specific rate is not available. However, industry sources reported that in Bortala prefecture, Xinjiang, mechanized harvest reached 93 percent out of its 100,000 Ha cotton planted in MY17/18. This trend in mechanization is expected to continue in MY18/19 given that the labor cost for handpicking remains high at about 5 times the cost of mechanized harvest. That said, there have been complaints about yield losses and lower fiber quality as a result of mechanized harvest. Hence, it will take some time for the Xinjiang cotton sector to develop more adequate technology, including appropriate cotton varieties and agronomical practices, for mechanized harvest to fully upgrade the overall productivity of its cotton farming.

China's Cotton Producing Provinces



Source: Post MY17/18 production estimate, blank map from http://www.d-maps.com/carte.php?num_car=11570&lang=en

Legend:

Dark Blue = 83 % or more of total Chinese production (Xinjiang)
Blue = 5 to 10% (Hebei, Hubei, Shandong)
Light Blue = 3 to 5% (Anhui)

Stocks

China was estimated to hold 10.54 MMT of cotton at the beginning of MY17/18. However, Chinese cotton stocks are forecast to fall dramatically to 7.42 MMT by the end of MY18/19. The forecast reduction is a result of increased use of state reserves and relatively low domestic cotton production. The estimated low cotton imports in MY17/18 in response to the scheduled stocks sale at market-oriented prices will also contribute to the stock's fall in MY18/19. Government cotton support policies during MY11/12 through MY14/15 led to the purchase of 16.45 MMT of domestic cotton. This, combined with weaker domestic cotton consumption, contributed to China's current high level of cotton stocks.

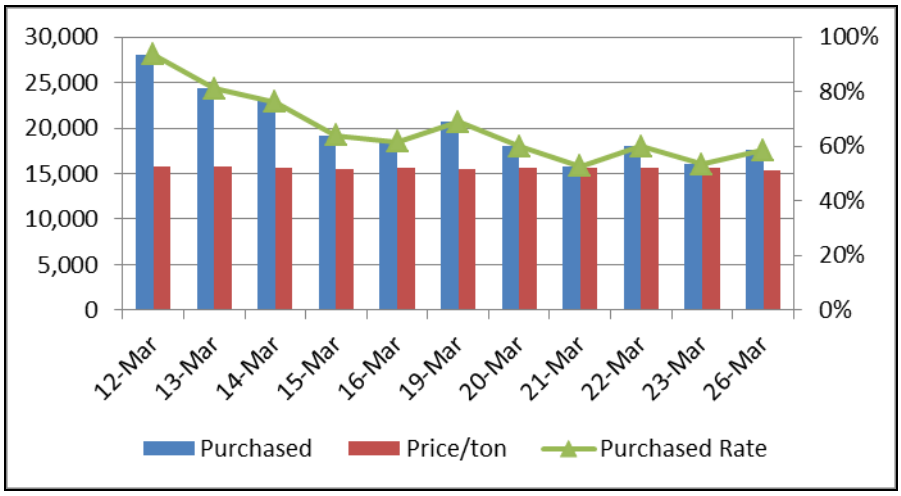
Since 2014, the Chinese government has spared no efforts to reduce its high state cotton reserves. It is estimated that cumulatively over 11 MMT state cotton reserves have been sold thereby reducing state cotton reserves down to about 5.4 MMT as of March 2018. The 2018 government's cotton reserve sales began on March 12 and are scheduled to end in late August 2018. Similar to 2017, the basic auction price will be more "market–oriented" based on the average of the domestic and international spot market cotton price indexes during the previous week. The daily volume for auction will be about 30,000 tons.

The purchase volume could range from 2.5 to 3 MMT. Hence, total state cotton reserves are likely to fall below 3 MMT by the end of August 2018 (ranging from 2.4 to 2.9 MMT). This would be considered a manageable level compared to the 13.9 MMT in MY14/15, when China's cotton reserves peaked after three years of state support purchase programs. (See GAIN Report CH15011).

An industry survey conducted in early April 2018, shows many mills opined that the state cotton reserve sales over the last two years ensured adequate cotton supplies at reasonable prices which allowed mills to make relatively good profits. Mills suggested that the ideal future size of the state cotton reserves should be generally higher than the gap between production and demand. Assuming the gap is above 2 MMT then the state cotton reserve should be targeted to be 3.5 MMT.

As of March 26, 2018, the cumulative cotton purchased reached 219,000 tons and accounted for 66.4 percent of the total offered volume. This is lower than the 85.4 percent purchased rate during the first auction weeks in 2017. The purchased price averaged RMB15,622 ($2,440)/ton (converted into Grade 3218). It is worth noting that the industry favors high grade cotton in these auctions. As of March 23 (the first two weeks of auctions), out of the total 201,500 tons sold, 139,300 tons of Xinjiang cotton auctioned were completely sold out. Comparatively, the purchase rate for cotton produced in other provinces (160,000 tons) was low at only 38.6 percent. 51 percent of the buyers were spinning mills which accounted for 52 percent of the cotton sold while the rest were traders. The purchase rate has been declining since March 12. Main reasons for the declining trend can be attributed to cotton produced in other provinces not meeting miller's quality and grade requirements, and adequate new crop cotton supplies. Based on the current purchase rate of 66.4 percent, the total volume likely to be sold is estimated at 2.4 MMT.

Chart 4. Daily Average Purchased Volume (tons)/Price (RMB/ton)/Purchased Rate of 2018 Sales of State Cotton Reserve



Source: CCA (Current exchange rate: $1=RMB6.4)

Cotton Trade

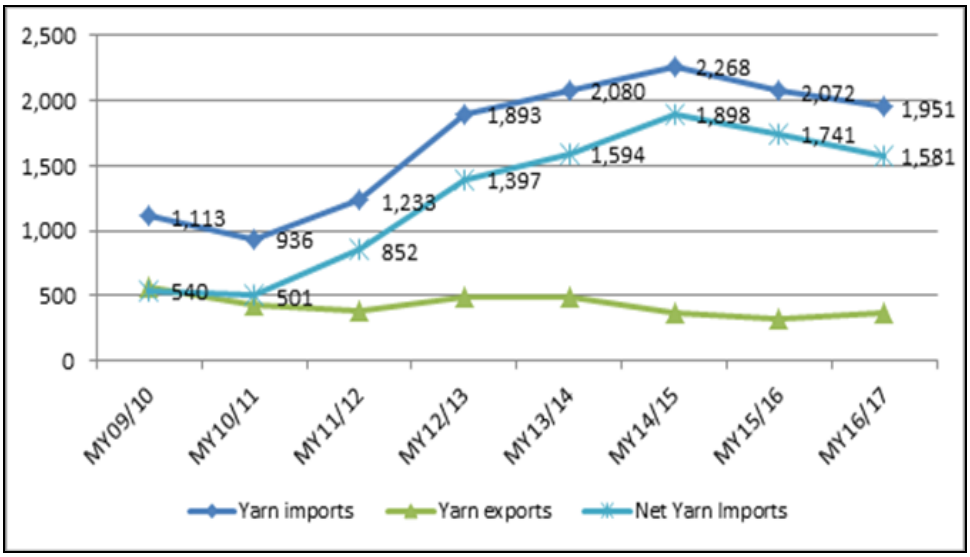
Cotton imports expected to recover to 1.4 MMT in MY18/19

Based on the government's sales plan for cotton reserves and minimal chances for additional import quotas during the first half of 2018, China's cotton imports are estimated at 1.1 MMT in MY17/18. Forecast cotton imports are 1.4 MMT in MY18/19 in consideration of possible additional imports quotas to satisfy the Chinese textile industry need to source higher-grade foreign cotton to stay competitive in export markets. That said, the government has the ability to temper any significant increases in cotton imports by limiting the issuance of additional import TRQs outside of those committed under the World Trade Organization (WTO).

Under its WTO commitments, China is obligated to annually allocate 894,000 tons of cotton TRQ imports (subject to a one percent import tariff). Until 2014, China also issued additional import quotas outside of it WTO TRQ (see attached Table 12). However, the additional TRQ allocation in 2015 through 2017 remained unknown or zero. Based on current cotton prices in international and domestic markets, imports of cotton outside of the WTO TRQ (that is, paying the full 40 percent out-of-quota duty) appear not to be commercially viable in the near future.

During MY11/12-MY13/14, Chinese cotton imports averaged about 4.3 MMT a year as China's government's cotton support policies enabled state purchases of domestic cotton at high prices and artificially inflated demand for imports. As the Chinese government limited the issuance of additional import quotas to utilize its high state cotton reserves, cotton imports in MY14/15 returned to pre-MY11/12 levels to 1.8 MMT. For the same reasons, cotton imports continued to slide further to 959,000 tons in MY15/16 but then recovered to 1.1 MMT in MY16/17.

Chart 5 - Yarn Trade and Net Imports
(MY12/13 to MY16/17; in 1,000 tons)

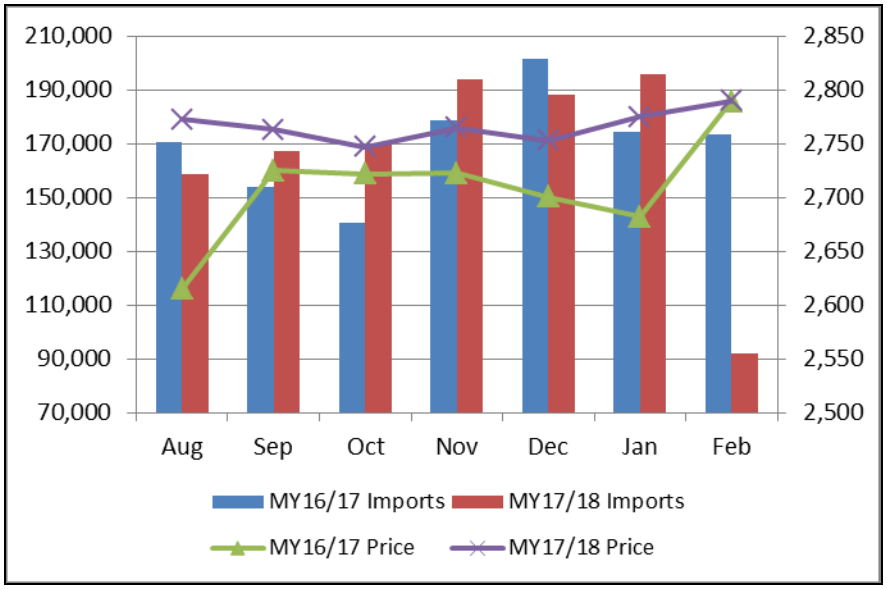


Source: Global Trade Atlas

In recent years, increasing yarn imports have been another factor exerting downward pressure on cotton imports. Unlike cotton imports, yarn imports do not face quota restrictions. From MY13/14 to MY15/16,

China's yarn imports remained robust at an annual average of 2.14 MMT. From MY14/15 to MY15/16, net yarn imports reached 1.8 MMT per year, compared to 0.5 MMT per year from MY09/10 to MY10/11. High yarn imports partly reduced cotton imports from 2015 through 2017. However, yarn imports declined to 1.95 MMT in MY16/17 from 2.07 MMT over the previous year. Preliminary data shows that during the first seven months of MY17/18, yarn imports decreased to 1.16 MMT compared to 1.19 MMT the previous year. By comparison, imports in February 2018 plummeted to about 92,000 tons, down 47 percent compared to the same month last year. Industry sources even reported that at the end of February 2018, imported yarn was priced RMB335 ($50)/ton higher than domestic product on the spot market. Industry sources agree that imported yarn is increasingly losing its price advantage and profitability as the price of the auctioned state cotton reserves remains competitive. Given the current lower gap between the domestic and international cotton price, domestically produced yarn will continue to be favored over imported yarn. Current price gap is about RMB1,000 ($155)/ton compared to the usual RMB2,000 ($315)/ton.

Chart 6 – Comparison of Monthly Yarn Imports and Price in the First 7 Months
(MY16/17 and MY17/18; in tons/left axis and $/ton/right axis)



Source: Global Trade Atlas; Data for Feb of MY17/18 is based on industry estimate

In MY16/17, Vietnam, India and Pakistan remained China's top three yarn suppliers, absorbing a combined 72.6 percent share of the Chinese market. Since 2012, China's spinning sector has continued restructuring resulting in the closing of many small mills with an estimated removal of 30 million spindles. Forecast decrease in yarn imports are expected to facilitate cotton imports in 2018.

U.S. cotton continues to compete with other suppliers for China's limited import quotas

In MY18/19, as China's total imports are forecast to improve to 1.4 MMT, Chinese imports of U.S. cotton in MY18/19 are expected to surpass the 501,000 tons in MY16/17 after falling to its lowest level in 14 years at 192,000 tons in MY15/16. Chinese end-users continue to favor the quality and reliability

of U.S. cotton. In MY16/17, the U.S. cotton exports to China accounted for 46 percent of China's total imports. Australian cotton remained competitive ranking second with 200,000 tons but down from the previous year. On the other hand, India's cotton exports to China remained stagnant mainly due to Chinese buyers' preference for high-grade cotton when import quotas are limited.

Chinese cotton exports are forecast to remain low in MY18/19

China's cotton exports average about 10,000 tons annually, a nominal amount compared to China's total cotton use. While cotton exports reached the highest level in nine years in MY15/16 at 28,000 tons, cotton exports normalized in MY16/17 at 13,000 tons. Facing high stocks, China's cotton exports are likely to continue in 2018 as the government chooses to sell its reserve at more market-oriented prices. For MY17/18, Post estimates cotton exports are 13,000 tons in MY17/18 and will stay unchanged in MY18/19. Meanwhile, Chinese yarn exports recovered to 370,000 tons in MY16/17, but still far below the 497,000 tons reached in MY12/13.

Consumption

MY18/19 cotton consumption is forecast at 8.8 MMT, up from an estimated 8.7 MMT in MY17/18. The modest growth in cotton use is mainly driven by a more market-oriented domestic cotton price, which is expected to reduce yarn imports and stimulate cotton fiber use in yarn production. Anticipated growth in domestic demand for textiles and apparel products is also expected to moderately boost China's cotton use. Chinese exports of textile and apparel products are expected to continue recovering in 2018 based on global economic growth. However, Chinese exports continue to face strong competition from other South East Asian suppliers with lower labor costs. CCA estimates cotton use to grow to 8.43 MMT in MY17/18 from the 8 MMT in MY16/17. CCA's forecast for MY18/19 cotton use to continue to grow from the MY17/18 level. Conversely, MOA's estimate for MY17/18 cotton use is 8.22 MMT, down from the 8.28 MMT during the previous year.

Chinese Textile industry maintains growing momentum

Based on NSB, in 2017, China's total yarn production continued growing, up 8.5 percent to 40.5 MMT. Total chemical fiber production was up 0.7 percent to 49.2 MMT; total sales value of apparel, footwear/headgear and textile and knitted articles increased 7.8 percent, and total fixed asset investment in the textile sector grew up 4.4 percent from the previous year. The preliminary official statistics show that in the first two months of 2018, the sales value of textile and apparel products increased 7.7 percent from the previous year. Textile sector profits increased 3 percent, and total production of yarn and fabric both increased 6.7 percent, respectively, compared to the same period in 2017.

China's Textile Sector Production/Investment Trends

Year/Item	2013	2014	2015	2016	2017*	2017/2016 Change %*
Yarn Production (million tons)	32	33.79	35.38	37.33	40.5	8.5
Fabrics Production (Million Meters)	883	894	893	907	868	-4.3
Chemical Fiber Production (million	41.	43.	48.	48.	49.2	0.7

tons)	2	9	32	86		
Fixed Asset Investment in Textile Sector (RMB billion)	472.6	NA	NA	664.3	693.6	4.4

Source: NSB; * 2017 China Economic and Social Development Report by NSB

Forecast lower yarn imports encourage China's cotton use

China's imports of yarn are expected to fall in 2018 in response to decreasing import profits. In previous years, increased yarn imports significantly reduced China's cotton use for spinning. The net yarn imports averaged 1.8 MMT per year in MY14/15 to MY15/16 but declined to 1.58 MMT in MY16/17.

Industry sources indicate that the current gap between the domestic and international cotton prices stands at about RMB1,000 ($156/ton), lower than the RMB1,000 to 2,000 ($156- $310)/ton in second half of 2017. This will support more domestic spinning and reduce profits of imported yarn in 2018. Industry sources reported that yarn imports in February 2018 decreased significantly as compared to the same month in 2017. Nevertheless, the price gap between the domestic and international cotton continues to be uncertain given a forecast increase in global cotton supply/stocks in MY17/18.

Cotton share is expected to recover slightly in yarn production

In 2018, cotton fiber is expected to moderately regain its share in Chinese yarn production as the cotton price becomes more market-oriented and prices for polyester fiber increase in response to price growth of crude oil. Chinese industry reported that the price of polyester fiber increased 25 percent in late 2017 from the previous year and remained high as of March 2018. Cotton share in yarn production is expected to recover from the current estimated very low level of 36 percent. Many years ago, when cotton price remained competitive over man-made fiber, the cotton share in yarn spinning was estimated as high as 64 percent. However, in recent years, technological advancement has enhanced the quality of man-made fiber and increased its use in the manufacturing of textiles and apparel.

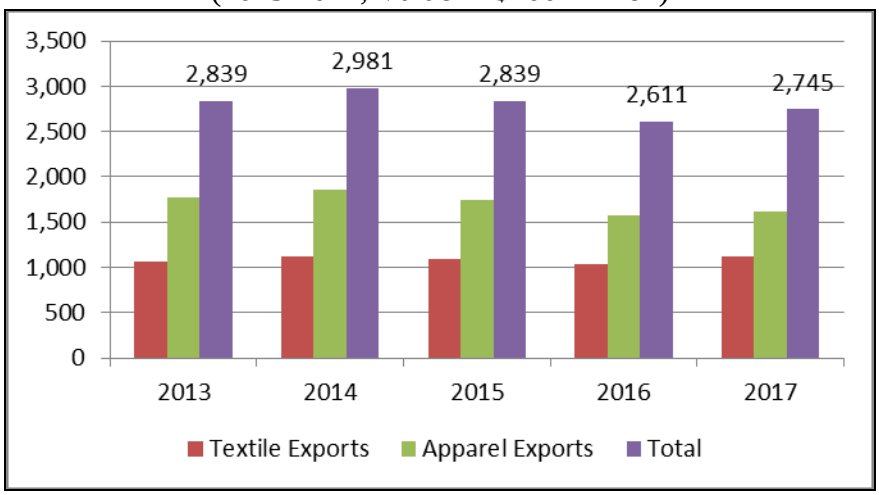
Export of textiles and apparel expected to see moderate growth in MY18/19

NSB data shows that in 2017, the total value of Chinese textile and apparel exports increased 7.4 percent and 2.3 percent, respectively, compared to the previous year. Meanwhile, Chinese Customs data showed that total textile and apparel exports were valued at $274.5 billion in 2017, up 1.6 percent from 2016. This 1.6 percent growth, however, is 8.7 percentage points above the level of 2016, reflecting a steady recovery in the exports of Chinese textile and apparel. With the exception of a fall in exports to the European Union, in 2017, exports to the United States and ASEAN countries recovered moderately while exports to Japan remained generally stable. Chinese exports to the "One Belt and One Road" countries increased in 2017 and show good potential for 2018. (Note: the actual export value converted into U.S. dollars and the growth rate can vary due to exchange rate used.)

Preliminary customs statistics for the first two months of 2018 indicate that total textile and apparel exports hit $43.44 billion, a 25.5 percent surge over the previous year. Textile exports were valued at $18.9 billion, up 34.4 percent and apparel exports stood at $24.54 billion, up 19.4 percent over the

previous year. Despite the low export value in February 2017, the sharp increase in exports in February 2018 is still remarkable as it was achieved while facing rises in the Chinese currency and the Chinese Spring Festival vacation. China's industry experts generally remain optimistic about the prospects for moderate export growth in 2018 supported by a more competitive domestic cotton price and anticipated improvements in global economic growth.

Chart 7 – China's Textile and Apparel Exports
(2013-2017; Value in $100 million)



Source: NSB Yearly Social and Economic Development Report

Growth in domestic demand for textile and apparel drives cotton use

Chinese industry sources estimated that domestic market accounted for 88 percent of the textile and apparel sales while exports represented only 12 percent of sales in 2017. China's overall increase in demand for textile and apparel products is fueled by higher disposable income, rising living standards, population growth, and urbanization. China's GDP growth hit 6.9 percent in 2017 and the target growth rate is 6.5 percent in 2018. The overall increase in demand for textile and apparel products is also driven by population growth and urbanization. According to the NSB, from 2011 to 2015, China's average annual net population growth was 6.8 million. The government's amendment to the "one child policy" in 2016 pushed net population growth to 8.09 million in 2016 and 7.37 million in 2017. This growing trend is expected to continue in 2018 and beyond. Additionally, rapid urbanization continues with annual urban population growth averaging 20.4 million from 2011 to 2016, and 20.49 million new urban residents added in 2017.

NSB data reveals that in 2017, the domestic sales value of apparels and other textile products increased 7.8 percent from the previous year; the sales of new homes/apartments increased by 7.7 percent from last year encouraging demand for more home textile products. According to NSB, the per capita expenses on clothing in 2017 increased 6.8 percent from 2016. However, the gap between urban and rural residents in per capita clothing expenditures continued to be wide in 2016. Urban residents' expenditures reached RMB 1,739 ($256) still outspending rural counterparts at RMB575 ($83). In 2016, the difference in regional spending was also large ranging from RMB2,643 ($365) in Beijing to RMB1,777 ($146) for Gansu in North China, and RMB1,583 ($166) for Guangdong to RMB860 ($76)

for Hainan in South China. As rural incomes grow, the market potential for China's 576.6 million rural residents to increase textile related purchases is expected to rise. This will undoubtedly support continued demand for domestic cotton products.

China's Textile Sector Continues to Restructure and Upgrade

The textile and apparel industry continues to be one of China's economic pillars with total sales value at RMB6,893.6 billion (or $1,044.5 billion) in 2017, up 4.2 percent over the previous year. The industry's production efficiency also recovered in 2017 with profits up 6.9 percent from 2016. As shown above, total fixed asset investment in the textile industry sustained normal growth in 2017, up 4.4 percent from 2016. Given the considerable amount of cotton yarn imports in recent years, the investment boom in cotton spinning leveled off to 1.6 percent in 2017, down 17.8 percentage points from 2016. Investment in chemical fiber rebounded, up 19.2 percent compared to 2016, implying demand for chemical fiber products continue to be driven by both home and international markets.

The new investment is mostly concentrated in the eastern provinces and Xinjiang (in particular cotton spinning). With accumulated investment of RMB136.2 billion (or about $20.6 billion) from 2014 to 2017, industry sources estimate that by the end of 2017, Xinjiang's total spindles exceeded 12 million (or as high as 17 million spindles as reported by other sources). Over the last four years, the industry created almost half a million new jobs in Xinjiang. By the end of 2017, the registered textile and apparel enterprises reached 2,700 compared to 560 registered enterprises in early 2014. NSB's preliminary statistics show Xinjiang's yarn production surged to 1.51 MMT in 2017, up 39.4 percent from the previous year. Xinjiang's development plan is to expand total spindles to 18 million (with yarn production at 2 MMT) by 2020 and up to 20 million (with yarn production at 2.2 MMT) by 2023. Hence, total cotton consumption is estimated at 1.3 to 1.5 MMT by 2020 and up to 1.6 to 1.8 MMT by 2023. However, in response to the rapid expansion of textile investment, in March 2018, the Xinjiang government issued an official notice requesting local governments to comply with the development plan and stop the blind expansion of capacity.

The financial influx to Xinjiang reflects significant challenges for the Chinese textile and apparel industry including higher cotton prices compared to other competitors, rising production costs for key inputs such as land, electricity, and labor in eastern provinces. Given the government's focus to utilize the state cotton reserves and to restrict additional cotton import quotas, industry statistics show that China's spinning sector continues to pay RMB1,000 ($155)/ton more for cotton. In addition, environmental pressure (emission limits) particularly in eastern China also discourage the expansion of facilities. In search of lower raw material and labor costs, and a more favorable investment environment, some industry leaders have moved their operations to China's central and western regions (Xinjiang, Henan, Anhui, and Jiangxi Provinces) and to foreign countries (Vietnam and Cambodia). China's industry is also reportedly investing in spinning facilities in the United States, Vietnam and other South East Asian countries. Many Chinese invested in Vietnam to take advantage of free imports of global cotton resources, then export yarn to China. In 2017, Vietnam's yarn exports to China continued on a growing trend with total exports at 716,000 tons, up 14.5 percent from the previous year. These developments may continue to impact China's cotton consumption in the long-term.

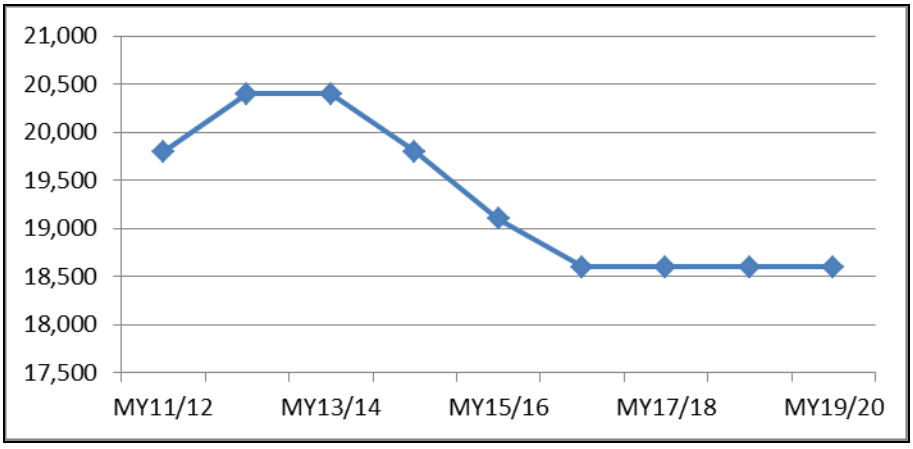
Policy

The "Target Price" in Xinjiang will remain fixed for the next 3 years

On March 16, 2017, NDRC announced the "Enhancement Reform to the Target Price-based Subsidy Policy" for Xinjiang cotton. The announcement stated that the subsidy policy will continue for the next 3 years (MY17/18 through MY19/20). The fixed target price for the subsidy will also remain unchanged from the MY16/17 level of RMB18,600 ($2,735)/ton. The NDRC also set a yearly ceiling volume entitled to the subsidy for Xinjiang. The entitled volume is set to be 85 percent of the averaged NSB certified national cotton production from 2012 to 2014. Based on NSB production data during that period, this volume ceiling would be 5.47 MMT per year. While Xinjiang's cotton production has never exceeded 5.47 MMT per year, the MY17/18 production reached a record 5 MMT. Preliminary speculation is that the high ceiling volume may stimulate greater cotton area and production for Xinjiang over the next 3 years.

As of the date of this report, there is no official announcement for the fixed subsidy (RMB2,000 or $313/ton) for the other nine cotton-producing provinces. As previously reported, the fixed subsidy amount provided to these provinces will be equivalent to 60 percent of the subsidy rate distributed to Xinjiang in any given year, but the maximum fixed amount will not be higher than RMB2,000/ton.

Chart 8 - China Cotton Support Policy Evolution
(RMB/ton; MY11/12 to MY19/20)



Note: MY11/12 to MY13/14 is government purchase floor price;
MY14/15 to MY19/20 is "target price" for Xinjiang only; Source: NDRC

In MY14/15, after three marketing years of state purchases at a minimum price, the government switched to a target price-based subsidy program with a trial period of three years ending in MY16/17.

As mentioned above, the "Target Price-based Subsidy Policy" for Xinjiang cotton continues and the target price is fixed at RMB18,600 ($2,900) /ton for the next three years (MY17/18 through MY19/20).

As is common practice, the central government calculates the total subsidy amount based on the provincial production and provides the funds to provincial authorities. Provincial officials must then develop their own plan to distribute the payments in their respective provinces.

Total Central Government Cotton Subsidies under the Target Price-based System (billion)

	MY14/15	MY15/16	MY16/17	MY17/18
Xinjiang	RMB18.4 ($2.98)	RMB25.6 ($4.13)	RMB9.7 ($1.46)*	RMB12.6 ($1.89)*
Other Cotton Producing Provinces	RMB 4.97 ($0.81)	RMB3.98 ($0.64)	NA	NA
Total	RMB23.32 (3.79)	RMB29.58 ($4.8)	NA	NA

Source: Based on Industry Source; *Based on NSB production and estimated price gap between target price and market average price by Post

The MY17/18 distribution model for subsidy payments in Xinjiang expected to continue

According to industry reports, in MY17/18, the distribution of subsidies in Xinjiang (to Non-PCC farms) continued to be production-oriented. That is, 90 percent of the subsidy that is paid to farmers is based on actual production. The remaining 10 percent of the total provincial subsidy funds were used to provide an area-based subsidy for cotton farmers in the four prefectures located in southern Xinjiang. The reason behind this is reportedly to further encourage the restructuring of Xinjiang's cotton farming. The shift is towards more advantaged lands with higher yield/productivity while taking into account the interests of the minority groups living in the four lower yielding prefectures in southern Xinjiang. The Xinjiang PCC subsidy distribution, based on certified production, remained unchanged in MY17/18 and is expected to carry on in MY18/19.

The estimated MY17/18 subsidy converted to acreage rate is likely higher from the previous year due to an expanded price gap between market and target prices. The above table shows estimates of total government funds to Xinjiang in MY16/17 and MY17/18 based on NSB production data and the gap between the target price and the average domestic cotton market price (estimated by Post) in MY16/17 and MY17/18. An industry source estimated that MY16/17 subsidy rate to cotton farmers is about RMB200/Mu (or $452/Ha) for Xinjiang. This rate is expected to increase moderately in MY17/18 based on a decreased average domestic cotton market price and an unchanged target price. Xinjiang official news reported that the MY17/18 subsidy will be distributed to cotton farmers in two payments. The first payment was paid around November 20, 2017. The second payment was scheduled to be paid by February 15, 2018; however, there are no specific reports in this regard.

Subsidies in other provinces appear unchanged in MY17/18

Since MY14/15, the Chinese government implemented a fixed subsidy rate of RMB2,000 ($315)/ton for cotton production in the other nine producing provinces. Base on the initial plan, the central government appropriated funds to these nine provinces based on their NSB certified production. Each of these provinces then formulated their own subsidy distribution plan based on the farmers' area or production. However, since MY16/17, official reports on distribution of this subsidy in these provinces are rarely available. It appeared that Anhui and Shandong governments provided this subsidy to farmers in MY16/17 at a rate equivalent to RMB1,950 ($300)/ton in Anhui and RMB1,910 ($295)/ton in Shandong. As of this report, the payment for MY17/18 crop is still unknown but it is likely to be similar to the previous year. These provinces are expected to continue to pay this subsidy to cotton farmers in MY18/19.

Corn price recovery could lead to less cotton in MY18/19

In 2016, China eliminated its temporary state reserve system for corn as the government pushed to cut output and reduce massive state corn stockpiles. Since then, China replaced this system with a different subsidy mechanism which lowered corn profitability. As a result, corn acreage has fallen over the past two years by 2 MHa (30 million Mu) in MY15/16 and 1.3 MHa (20 million mu) in MY16/17 respectively. However, in MY17/18, the corn price started relatively high and stayed high mainly driven by an increase in consumption and lower imports of corn substitutes. This could mean a stable or slight increase in corn earnings for farmers in MY17/18. MOA has noticed that the MY2017/18 corn destocking progress and the strong corn price rally have both exceeded market expectations. This may lead to a greater number of farmers continuing to plant corn in non-advantageous regions. In provinces including Hebei and Shandong, farmers may add corn acreage which would impact cotton planting in MY18/19.

Seed Subsidy

In MY18/19, the government will continue to provide a long-standing seed subsidy of about $36/Ha for selected "high quality variety" seeds to improve the cotton quality in all provinces.

Targeted Loans

In MY16/17, the Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for seed cotton purchases. This program facilitated the marketing of seed cotton when market prices remained weak and demand for cotton was stagnant. Total loans amounted to RMB30.6 billion in MY16/17, up 10.4 percent over the previous year on a relatively larger cotton production. ADBC continues to provide financial assistance for the marketing of domestic cotton in MY17/18 and total loans are expected to increase due to larger cotton production.

Registration System for Overseas Cotton Suppliers

In order to export cotton China, overseas cotton suppliers must register with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). On January 18, 2013,

AQSIQ published Decree No.151 on "Supervision and Administration Measures for Inspection of Import Cotton." The Decree took effect on February 1, 2013. Based on these registration requirements, traders are recommended to register with AQSIQ before exporting cotton to the Chinese market. AQSIQ keeps updating the supplier list on its website to include newly registered or renewed overseas cotton suppliers. The latest update was on July 25, 2017. To date, Post has not received any reports of trade disruptions as result of this registration process. The U.S. cotton traders intending to export cotton to China are recommended to submit applications to AQSIQ for registration before exportation (http://www.aqsiq.gov.cn/bsdt/jyjy/jkmhjwghqydj/blzn/).

National Standard on Cotton Baling (GB6975-2013)

On December 31, 2013, China's National Standardization Technical Committee on Cotton Processing published a National Standard on cotton baling (GB6975-2013) which went into effect on April 2014 (see GAIN translation report). As cotton baling practices differ among world cotton suppliers, full implementation of China's revised standards remains impractical. Thus far, U.S. cotton exports have not faced significant problems related to this standard. However, as overall Chinese imports of cotton remain under greater scrutiny, a stricter implementation of this standard is likely.

Marketing

China's MY17/18 seed cotton marketing was 98.4 percent completed (with Xinjiang 100 percent completed) by the end of February 2018, almost unchanged compared to the previous year. Industry sources estimated the cotton ginning in Xinjiang was almost completed with total processed cotton of 5.01 MMT as of March 25, 2018. In general, the marketing for processed cotton went smoothly. However, marketing slowed down in March as the mills are controlling their stocks level in anticipation of the state reserve sales. In MY17/18, the improved quality of Xinjiang cotton facilitated its marketing. Based on CFIB classification results, as of the end of February 2018, Xinjiang cotton with fiber length of 28 mm or above accounted for 96.5 percent, up about 4 percentage points from the previous year. Cotton color and Micronaire readings also show improvement in MY17/18. In addition, increased cotton use by mills in Xinjiang mildly addressed the usual burden of having to transport cotton outside the province. As reported by industry sources, the marketing of MY17/18 Xinjiang cotton (baled and classified) cotton was relatively slow and was estimated to be 50 percent completed as of the end of February 2018.

U.S. cotton exporters interested in exporting cotton to China in need of marketing assistance may contact USDA/FAS's Agricultural Trade Offices (ATO) in Beijing, Chengdu, Guangzhou, Shanghai and Shenyang.

The China International Cotton Conference, a biannual event sponsored by CCA and MOA attracts a worldwide audience from the cotton/textile industry. The 2017 conference was held in Chongqing Municipality in June 2017. CCA, in collaboration with the China National Cotton Exchange also holds an annual event known as the China Cotton Industry Development Forum. The 2018 Forum will be held in Harbin, Heilongjiang Province on June 7-8.

Note: Exchange rate is: $1=RMB6.64 in 2016; $1=RMB6.67 in 2017; $1=RMB6.4 in 2018

Tables

Production, Supply and Demand (PSD)

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

	2016/2017		2017/2018		2018/2019	
	Market Year Begin: Aug 2016		Market Year Begin: Aug 2017		Market Year Begin: Aug 2018	
Cotton China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	2,950	0	3,355	0	3,385
Area Harvested	2,900	2,950	3,400	3,355	0	3,385
Beginning Stocks	58,198	58,198	48,419	48,419	0	41,019
Production	22,750	22,750	27,500	27,560	0	27,100
Imports	5,032	5,032	5,100	5,100	0	6,430
MY Imports from U.S.	0	2,302	0	2,985	0	0
Total Supply	85,980	85,980	81,019	81,079	0	74,549
Exports	61	61	50	60	0	60
Use	37,500	37,500	40,000	40,000	0	40,420
Loss	0	0	0	0	0	0
Total Dom. Cons.	37,500	37,500	40,000	40,000	0	40,420
Ending Stocks	48,419	48,419	40,969	41,019	0	34,069
Total Distribution	85,980	85,980	81,019	81,079	0	74,549
Stock to Use %	129	129	102	102	0	84
Yield	1,708	1,679	1,761	1,789	0	1,743
TS=TD	0	0	0	0	0	0

Table 2. PSD (in 1,000 Tons and 1,000 Ha)

	2016/2017		2017/2018		2018/2019	
	Market Year Begin: Aug 2016		Market Year Begin: Aug 2017		Market Year Begin: Aug 2018	
Cotton China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	2,950	0	3,355	0	3,385
Area Harvested	2,900	2,950	3,400	3,355	0	3,385
Beginning Stocks	12,671	12,671	10,542	10,542	0	8,931
Production	4,953	4,953	5,987	6,000	0	5,900
Imports	1,096	1,096	1,110	1,110	0	1,400
MY Imports from U.S.	0	501	0	650	0	0
Total Supply	18,720	18,720	17,640	17,653	0	16,231
Exports	13	13	11	13	0	13
Use	8,165	8,165	8,709	8,709	0	8,800
Loss	0	0	0	0	0	0
Total Domestic Consumption	8,165	8,165	8,709	8,709	0	8,800
Ending Stocks	10,542	10,542	8,920	8,931	0	7,418
Total Distribution	18,720	18,720	17,640	17,653	0	16,231
Stock to Use %	129	129	102	102	0	84
Yield	1,708	1,679	1,761	1,789	0	1,743
TS=TD	0		0		0	

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Tons					
Month	2014	2015	2016	2017	2018
January	292,485	161,230	95,588	114,924	133,908
February	246,057	159,095	56,231	138,262	102,700
March	222,100	127,919	57,903	121,004	
April	224,365	160,761	70,004	105,170	
May	191,535	163,073	78,778	85,482	
June	218,246	161,775	72,750	72,413	
July	280,253	105,659	94,855	89,592	
August	204,493	70,019	69,533	83,976	
September	122,903	50,948	60,644	92,847	
October	81,939	42,109	41,334	78,128	
November	92,112	84,465	54,972	72,363	
December	264,459	188,157	143,551	100,415	
TOTAL	2,440,947	1,475,210	896,143	1,154,576	
Unit: Bales					
Month	2014	2015	2016	2017	2018
January	1,343,384	740,529	439,036	527,846	615,039
February	1,130,140	730,723	258,269	635,037	471,700
March	1,020,105	587,532	265,948	555,771	
April	1,030,508	738,375	321,528	483,046	
May	879,720	748,994	361,827	392,619	
June	1,002,404	743,033	334,141	332,593	
July	1,287,202	485,292	435,669	411,496	
August	939,236	321,597	319,365	385,702	
September	564,493	234,004	278,538	426,446	
October	376,346	193,407	189,847	358,842	
November	423,070	387,948	252,486	332,363	
December	1,214,660	864,205	659,330	461,206	
TOTAL	11,211,270	6,775,640	4,115,985	5,302,968	

Source: Global Trade Atlas

Table 4. China's Cotton Imports by Country of Origin

Unit: Tons

Country	MY13/14	MY14/15	MY15/16	MY16/17	MY17/18*
Australia	677,112	272,075	268,389	199,963	161,957
United States	**638,621**	**153,372**	**191,680**	**501,178**	**191,967**
Uzbekistan	161,403	107,675	137,415	68,616	43,779
India	1,097,372	160,723	120,980	151,826	45,871
Brazil	91,395	134,084	116,075	44,571	68,594
Burkina Faso	79,905	18,588	5,557	4,464	
Cameroon	55,217	8,811	51,233	14,795	
Mali	42,214	2,238	2,862	4,608	
Benin	39,196	6,582	13,918	26,710	
Mexico	27,462	11,271	14,788	9,635	
Cote d Ivoire	25,953	3,224	8,283	5,575	
Zimbabwe	12,516	12,542	2,345	1,654	
Tanzania	11,266	1,994	0	0	
Others	115,477	33,957	28,281	63,287	
Total	3,075,109	927,136	961,806	1,096,882	561,637
Price $/ton	2,117	1,840	1,716	1,858	

* First six month data of MY17/18; Source: Global Trade Atlas

Table 5. China's Monthly Cotton Exports

Unit: Tons					
Month	2014	2015	2016	2017	2018
January	440	516	200	40	473
February	408	533	574	778	
March	440	845	487	137	
April	363	150	433	1,237	
May	766	0	557	3,303	
June	296	1,544	446	1,063	
July	258	1,459	1,351	2,995	
August	2,676	12,047	1,197	1,091	
September	4,194	4,293	387	1,554	
October	1,633	2,826	239	1,590	
November	1,646	3,549	987	920	
December	349	1,153	899	2,375	
TOTAL	13,469	28,915	7,757	17,083	
				Unit: 480-lb Bales	
Month	2014	2015	2016	2017	2018
January	2,021	2,370	919	184	2,172
February	1,874	2,448	2,636	3,573	
March	2,021	3,881	2,237	629	
April	1,667	689	1,989	5,682	
May	3,518	0	2,558	15,171	
June	1,360	7,092	2,048	4,882	
July	1,185	6,701	6,205	13,756	
August	12,291	55,332	5,498	5,011	
September	19,263	19,718	1,777	7,138	
October	7,500	12,980	1,098	7,303	
November	7,560	16,301	4,533	4,226	
December	1,603	5,296	4,129	10,908	
TOTAL	61,863	132,807	35,628	78,462	

Source: Global Trade Atlas

Table 6. China's Monthly Cotton Yarn and Thread Imports

Unit: Tons

Month	2014	2015	2016	2017	2018
January	180,997	217,843	161,490	174,281	195,754
February	153,398	124,091	115,953	173,467	
March	178,145	248,568	190,540	182,451	
April	182,080	215,583	164,621	141,013	
May	152,393	184,435	170,963	141,904	
June	140,619	193,558	159,339	150,042	
July	155,906	215,671	163,693	142,462	
August	150,303	207,673	170,417	158,773	
September	174,074	217,860	153,966	167,404	
October	172,794	174,326	140,745	169,598	
November	164,263	159,505	178,832	193,874	
December	206,439	186,270	201,699	188,184	
TOTAL	2,011,411	2,345,383	1,972,258	1,983,453	
Marketing Year	Aug/14-Jul/15	Aug/15- Jul/16	Aug/16- Jul/17	Aug/17- Jul/18	
TOTAL	2,267,622	2,072,233	1,951,279		

Source: Global Trade Atlas

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

Unit: Tons

Month	2014	2015	2016	2017	2018
January	42,977	37,419	26,183	28,147	38,165
February	33,104	22,913	18,911	21,691	
March	42,707	29,445	31,001	35,737	
April	44,665	33,292	31,066	32,720	
May	39,518	31,396	32,024	36,137	
June	36,283	30,874	30,089	34,047	
July	35,197	31,168	35,713	31,963	
August	33,310	28,116	35,768	34,967	
September	34,685	25,847	30,133	35,155	
October	26,973	22,739	26,320	32,035	
November	26,858	20,394	26,200	33,938	
December	31,564	28,460	30,888	35,064	
TOTAL	427,841	342,063	354,296	391,601	
Marketing Year	Aug/14-Jul/15	Aug/15-Jul/16	Aug/16-Jul/17	Aug/17- Jul/18	
TOTAL	513,236	413,656	437,704		

Source: Global Trade Atlas

Table 8. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	2014	2015	2016	2017	2018
January	42,962	37,275	25,469	14,869	25,380
February	40,429	25,127	19,124	18,218	
March	50,594	50,279	26,885	19,581	
April	60,366	45,715	27,881	20,581	
May	46,247	37,295	24,641	18,958	
June	39,731	40,496	28,651	23,567	
July	44,237	41,323	26,311	23,093	
August	37,979	34,816	26,136	19,997	
September	41,738	36,373	24,871	22,700	
October	43,946	34,927	21,013	22,536	
November	38,112	34,010	23,537	27,902	
December	42,675	36,270	25,105	26,917	
TOTAL	529,015	453,904	299,624	258,919	

Source: Global Trade Atlas

Table 9. China's Monthly Cotton Fabric Exports
Unit: 1,000 Square Meters

Month	2014	2015	2016	2017	2018
January	702,301	550,266	643,228	624,364	583,712
February	236,633	463,496	428,582	284,083	
March	544,449	349,172	616,650	666,513	
April	661,831	559,964	667,348	686,395	
May	626,164	601,174	685,033	687,562	
June	547,612	516,393	582,197	615,492	
July	545,390	559,230	624,459	581,575	
August	604,286	591,247	701,082	644,524	
September	572,285	633,045	578,439	627,746	
October	620,901	674,052	575,869	674,682	
November	631,127	580,570	554,328	648,073	
December	592,102	617,955	551,292	586,974	
TOTAL	6,885,080	6,696,564	7,208,507	7,327,983	

Source: Global Trade Atlas

Other Tables

Table 10. Cotton Planted Area and Production by Province

Planted Area (in 1,000 Ha)				
Year	MY15/16	MY16/17	MY17/18	MY18/19
Xinjiang	1,950	1,970	2,420	2,475
Shandong	450	220	215	
Hebei	320	140	158	
Hubei	220	198	169	
Henan	100	50	40	
Anhui	100	104	106	
Jiangsu	80	70	61	
Hunan	80	90	99	
Gansu	30	28	17	
Other	70	130	70	
Total	3,400	3,000	3,355	3,385
Production (in 1,000 tons)				
Year	MY15/16	MY16/17	MY17/18	MY18/19
Xinjiang	3,600	3,950	5,000	4,925
Shandong	460	260	265	
Hebei	300	144	160	
Hubei	250	220	161	
Henan	100	60	42	
Anhui	150	88	98	
Jiangsu	100	66	55	
Hunan	100	80	80	
Gansu	45	56	36	
Other	95	126	103	
Total	5,200	5,050	6,000	5,905
Average Yield (Kg/Ha)	1,529	1,683	1,661	

Note: FAS/Beijing estimate and forecast

Table 11. Cotton Tariffs as of January 1, 2018 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Cotton, not carded or combed	5201.0000					Kg
Cotton, not carded or combed, including degreased cotton -in quota	5201.0000.01	1	125	11	11	
Cotton, not carded or combed, including absorben cotton – custom, out of quota, interim	5201.0000.80		0	11	11	
Cotton, not carded or combed, including degreased cotton -out of quota	5201.0000.90	40	125	11	11	
Cotton waste, yarn waste	5202.1000	10	30	17		Kg
Cotton waste, garnetted stock	5202.9100	10	30	17		Kg
Cotton waste, other	5202.9900	10	30	17		Kg
Cotton, carded or combed	5203.0000		125	17	13	Kg
Cotton, carded or combed, in quota	5203.0000.01	1	125	17	11	
Cotton, carded or combed, out of quota	5203.0000.90	40	125	17	11	
Cotton sewing thread, containing	5204.1100	5	40	17	17	Kg
85% or more by weight of cotton						
Other	5204.1900	5	40	17	17	Kg
Put up for retail sale	5204.2000	5	50	17	17	Kg
Cotton yarn (other than sewing	5205.1100	5	40	17	17	Kg
thread), containing 85% or more	to					
by weight of cotton, not for retail sale	5205.4800					
Cotton yarn (other than sewing thread) containing less than 85% by weight of cotton, not put for retail sale	5206.1100 to 5206.4500	5	40	17	17	Kg
Cotton yarn (other than sewing	5207.1000	6	50	17	17	Kg
thread), containing 85% or more	5207.9000	6	50	17	17	Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate; Source: PRC Customs Import & Export Tariff, 2018

Table 11. Cotton Tariffs as of January 1, 2018 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Woven fabrics of cotton,	5208.1100	10	70	17	17	M/Kg
containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	to 5208.5990*					
"	5208.5990*					
Woven fabrics of cotton, containing	*Except:					
85% or more by	5208.2300	12	70	17	17	M/Kg
weight of cotton, weighing more	5209.1100	10	70	17	17	M/Kg
than 200 g/square meter	5209.1200	10	70	17	17	M/Kg
"	5209.1900	10	70	17	17	M/Kg
"	5209.2100	12	70	17	17	M/Kg
	5209.2200	12	70	17	17	M/Kg
	5209.2900	12	70	17	17	M/Kg
	5209.3100	10	70	17	17	M/Kg
	5209.3200	10	70	17	17	M/Kg
	5209.3900	10	70	17	17	M/Kg
	5209.4100	10	70	17	17	M/Kg
	5209.4200	10	70	17	17	M/Kg
	5209.4300	10	70	17	17	M/Kg
	5209.5900	10	70	17	17	M/Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate;
Source: PRC Customs Import & Export Tariff, 2018

Table 12. Tariff Rate Quota

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 MT	894,000 MT	2004
	5201 - 0000	1%	1%	
	5203 - 0000	1%	1%	
Other terms and conditions:				
1) STE share = 33% (See Note)				
2) Staging of TRQ for cotton:				
Year TRQ quantity:				
2002 - 818,500 MT				
2003 - 856,250 MT				
2004 - 894,000 MT				
2005 - 894,000 MT (China added 1.4 MMT TRQ in 2005)				
2006 - 894,000 MT (China added 2.7 MMT TRQ in 2006, subject to variable import duty)				
2007 - 894,000 MT (China added 2.6 MMT TRQ in 2007, subject to variable import duty)				
2008 - 894,000 MT (China added 2.6 MMT TRQ in 2008, subject to variable import duty)				
2009 - 894,000 MT (China added 400,000 MT TRQ only for processing trade, due to weak demands for cotton)				
2010 - 894,000 MT (China added 2.67 MMT TRQ subject to variable import duty)				
2011 - 894,000 MT (China added 2.7 MMT of TRQ subject to variable import duty)				
2012 - 894,000 tons (China added 2.4 million tons of TRQ subject to variable import duty)				
2013 - 894,000 tons (China added an estimated 2.3 million tons additional TRQ subject to variable duty or for processing trade)				
2014 - 894,000 tons 2014 - 894,000 tons (China added about 1.3 million tons additional TRQ subject to variable duty were distributed but not officially announced)				
2015 – 894,000 tons distributed (Industry sources estimated about 300,000 tons of cotton were imported by China's bonded zones* and destined for processing-trade for re-export in 2015)				
2016 – 894,000 tons distributed				
2017 -- 894,000 tons distributed				
2018 – 894,000 tons distributed				

*Cotton imports by China's bonded zones are included in China's total cotton import data. However, industry sources explained that these imports are not subject to TRQ control if the processed products are proven to be exported.

Note: China's WTO commitment does NOT mandate a TRQ for CY05 and after, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, China adds TRQs based on market demand. The added TRQs are subject to a variable import duty.

Source: NDRC and industry estimates.