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China - Peoples Republic of Cotton and Products Update Economic Headwinds Stymie Cotton Use

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Report Highlights:

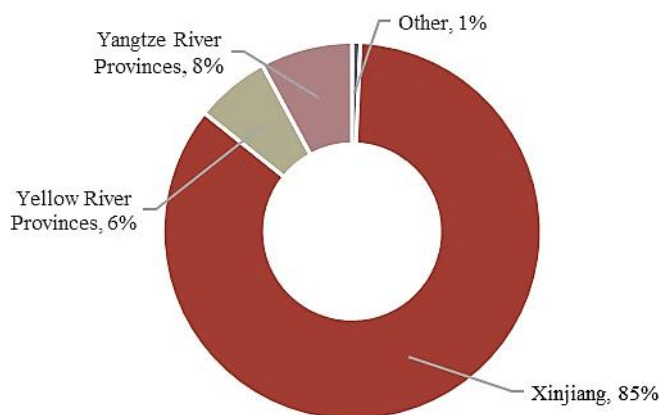
Cotton consumption is lowered for both 2018/19 and 2019/20, mostly due to uncertain global demand for Chinese textiles. Slower-than-expected world growth and proposed U.S. additional tariffs on China's textile exports (additional fifteen percent on September 1, 2019 along with other textile products on December 15, 2019) has stymied downstream market confidence. Imports for 2019/20 are unchanged at 2.0 million tons. Despite lower 2018/19 consumption, imports are higher and attributed to stronger-than-expected import data. Production is projected down slightly to 6.0 million tons and lower than 2018/19.

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

2019/20¹

PRODUCTION

China **production** is down slightly to 6.0 million tons and projected lower than the previous year. Lower expected profits outside of Xinjiang is forecast to decrease 2019/20 area. China Cotton Association (CCA) and the Ministry of Agriculture and Rural Affairs (MARA) forecast production at 6.0 and 5.8, respectively, lower than their estimated production for 2018/19. Both sources attribute higher temperatures and lower rainfall in Xinjiang to lower production, in addition to decreased area outside the province.



Source: China Cotton Association (CCA)

Xinjiang Province

In the largest cotton-producing province, farmers have benefited from a stable target-price subsidy since 2017 and have maintained a stable planted area. The government has implemented the fixed target-price at 18,600 RMB/ton. Outside of Xinjiang, cotton acreage is expected to fall as farmers are not covered by this program.

Yield is nearly twice the national average, and output is expected to account for about eighty-five percent of China’s 2019/20 crop. Cotton growth was less impacted by disease and pests relative to last year. However, extreme weather conditions were prevalent in spring and plant development was delayed ten days.

Xinjiang quality is reportedly improving and alleviating a shortage of high-grade cotton for some Chinese mills.

¹ August 2019 – July 2020

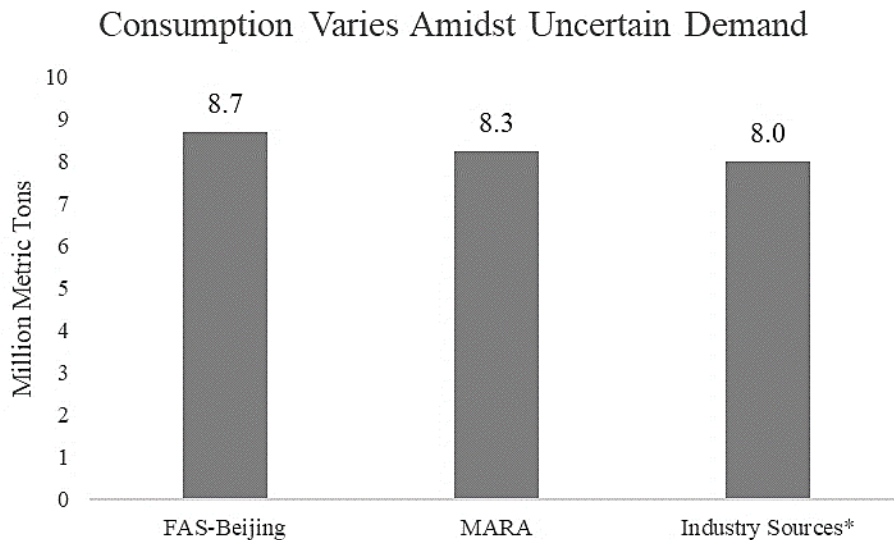
Yangtze and Yellow River Provinces

Extreme weather including dryness, hail, and typhoons have adversely affected yields in the Yangtze River region. In the second week of August, a serious typhoon brought heavy rainfall and wind in Shandong (Dongying City – 2018 production around 24,000 tons) and Hebei (Cangzhou City- 2018 production about 18,600 tons) provinces. Fields were reportedly flooded and plants destroyed as yield is expected to fall in the region.

Cotton growth in the Yellow River region has been impacted by dryness and high temperatures, with area expected down from the previous year.

CONSUMPTION

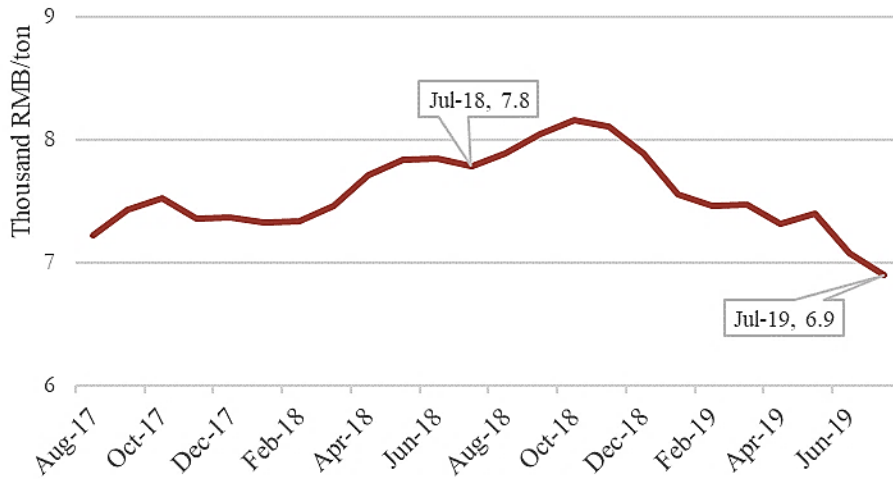
China consumption is lowered for both 2018/19 and 2019/20, mostly due to uncertainties for global textile demand. Post’s 2019/20 consumption is higher relative to government and industry sources. Slower-than-expected world growth and proposed U.S. additional tariffs on Chinese textiles is projected to stymie downstream manufacturing, lowering 2019/20 cotton use to 8.7 million tons. Textile exports to the United States and other developed countries is a pivotal outlet for supplies. Other sources also indicate an unfavorable environment for China’s textiles and apparel exports in addition to low confidence in demand prospects improving. Effects are prevalent in the domestic supply chain with lower prices relative to last year for cotton and cotton yarn.



*Note: *Average of industry’s forecasts; Post (FAS-Beijing), MARA (Ministry of Agriculture and Rural Affairs)*

The degree of yarn imports also affects domestic consumption. Although China is a significant importer, demand is expected to remain stable. Spinning in Vietnam (largest cotton-yarn exporter to China) and other ASEAN countries is not relatively as efficient as China; Chinese spinners are better equipped with skilled labor and well-established supply chains.

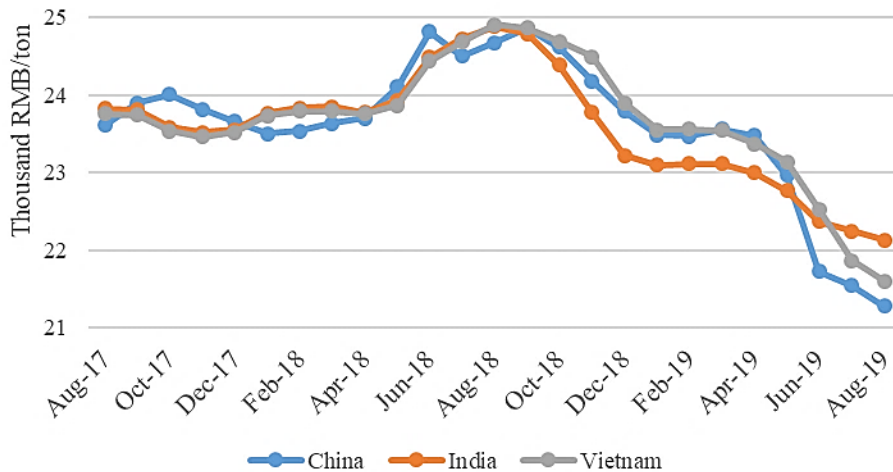
China Cotton Yarn Profitability Lacks Direction



Note: Post calculation using CNCotton data. Proxy for profitability equals (1) Cotton Yarn Grade 32S Price - (2) CC Index

Vietnam has recently shipped significant quantities of cotton yarn to China (displacing other exporters) as some Chinese spinners have relocated outside the country (including to Vietnam). High domestic cotton prices and limited access to higher quality cotton drove this phenomenon. However, Chinese supply chains and investors remain cautious in exploring new FDI (foreign direct investment), especially as China cotton prices trend closer toward world prices. Moreover, the government’s distribution of import quota has become more flexible.

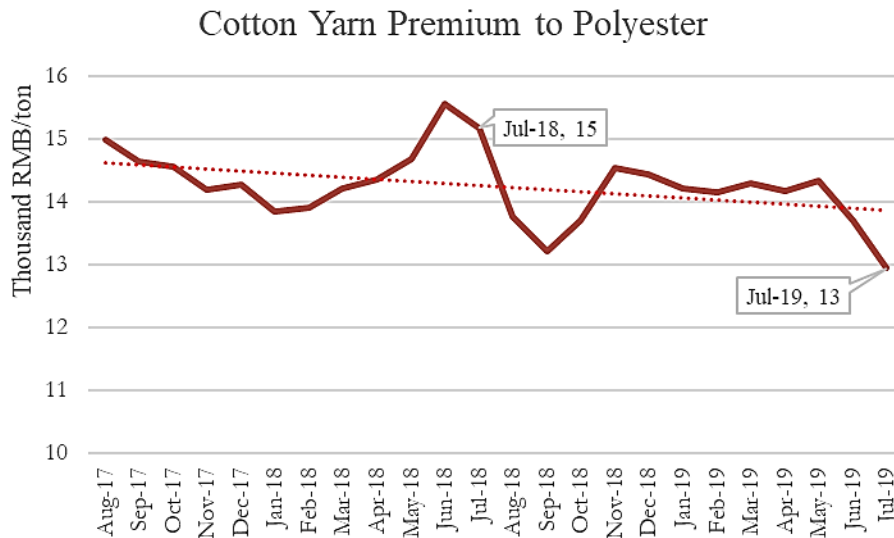
Global Yarn Prices Fall



Source: China (CNCotton), India and Vietnam (China customs data)

In addition to uncertain trade conditions and global outlook, greater substitution of Man-made fibers (MMF) is expected to hinder domestic demand for cotton yarn. Capacity has expanded for production of polyester and viscose fibers; industry sources reported that firms could produce two million tons more in 2018 compared with the previous year (two million tons is almost a quarter of cotton yarn production per annum). The China Textile Industry Association reported that in the first half of 2019, chemical fiber achieved thirteen percent growth in value terms, almost double the level of January to June 2018.

Blended yarn and fabrics are increasingly demanded by consumers, as demand for athletic apparel (typically a high percentage of MMF) continues to thrive.



Note: Post calculation using CNCotton data. Premium calculation is (1) Cotton Yarn Grade 32S Price - (2) Polyester Price

With an uncertain export market, factories opt to sign short-term contracts and minimize risks. In response to declining export orders, the China Textile Industry Association indicated that factories suspended operation, or reduced wages for employees (Guangdong and Henan provinces). Yarn and fabric stocks are relatively high, and pressure is mounting to spur greater exports in the second half of CY 2019 and beyond. However, several sources estimate that with a moderate depreciation of the Yuan, Chinese exporters and U.S. importers could share the additional tariff to maintain textile trade.



TRADE

Imports for 2019/20 (Aug. to Jul.) are unchanged at 2.0 million tons and below the USDA forecast; upward revisions to 2018/19 are attributed to stronger-than-expected data.

Going forward, China’s supply gap is expected to exceed two million tons per annum, and the government’s flexibility regarding import quotas has recently facilitated stronger imports. With the textile industry encountering an uncertain environment, the government is expected to support the textile sector with more flexible import policies. For example, additional quota (subject to sliding-scale duties) of 0.8 million tons was issued to private merchants from October 2018 to February 2019.

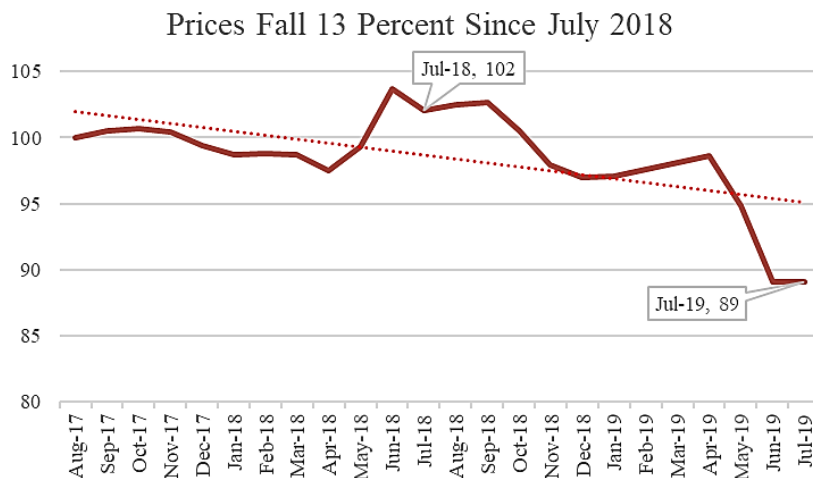
The additional tariff imposed on U.S. cotton has not only made commercial imports unlikely (estimates suggest twenty-five percent duties add \$600/ton), but have also encouraged robust imports from Brazil, Australia, and other countries. Stronger shipments from other exporters are expected to continue while additional tariffs remain in place, especially with China’s additional import tariff on U.S cotton rising to thirty percent on December 15, 2019.

STOCKS

Both 2019/20 and 2018/19 stocks are raised amongst less consumption.

Marketing of the 2018/19 crop has been slower than expected, with estimates suggesting more than a million metric tons remain unsold. Meanwhile, State Reserve sales of old crop started May 5th and are scheduled to stop by the end of September 2019. As of August 27, 0.75 million tons or eighty-five percent of the quantity offered had been sold. From May to September of 2018, the State Reserve sold approximately 2.5 million tons.

Given the drop in domestic cotton prices, resumption of government purchases for the State Reserve may occur (2013/14 was the latest marketing year involving government purchases) to stabilize the domestic market and subdue volatile prices.



Note: Post calculation using CCA data. Index of CC Index. Base month is Aug-2017 (100).

Table 1. Cotton 15D (1,000 metric tons)

Cotton	2017/2018		2018/2019		2019/2020	
Market Year Begin	Aug 2017		Aug 2018		Aug 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3,200	0	3,250	0	3,220
Area Harvested	3,400	3,200	3,500	3,250	3,450	3,220
Beginning Stocks	9,998	9,998	8,278	8,265	7,749	7,788
Production	5,987	5,950	6,042	6,070	6,042	6,000
Imports	1,246	1,246	2,068	2,100	2,286	2,000
Total Supply	17,231	17,194	16,388	16,435	16,076	15,788
Exports	27	30	39	46	27	27
Use	8,927	8,900	8,600	8,600	8,709	8,700
Loss	0	0	0	0	0	0
Total Dom. Cons.	8,927	8,900	8,600	8,600	8,709	8,700
Ending Stocks	8,278	8,265	7,749	7,788	7,340	7,061
Total Distribution	17,231	17,194	16,388	16,435	16,076	15,788
Stock to Use %	92	93	90	90	84	81
Yield	1,761	1,860	1,726	1,868	1,751	1,863

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

Table 2. Cotton PSD (480-lb Bales)

Cotton	2017/2018		2018/2019		2019/2020	
Market Year Begin	Aug 2017		Aug 2018		Aug 2019	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3,200	0	3,250	0	3,220
Area Harvested	3,400	3,200	3,500	3,250	3,450	3,220
Beginning Stocks	45,919	45,919	38,019	37,959	35,589	35,771
Production	27,500	27,330	27,750	27,880	27,750	27,558
Imports	5,725	5,725	9,500	9,645	10,500	9,186
Total Supply	79,144	78,974	75,269	75,484	73,839	72,515
Exports	125	137	180	213	125	125
Use	41,000	40,878	39,500	39,500	40,000	39,960
Loss	0	0	0	0	0	0
Total Dom. Cons.	41,000	40,878	39,500	39,500	40,000	39,960
Ending Stocks	38,019	37,959	35,589	35,771	33,714	32,430
Total Distribution	79,144	78,974	75,269	75,484	73,839	72,515
Stock to Use %	92	93	90	90	84	81
Yield	1,761	1,860	1,726	1,868	1,751	1,863

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