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Cotton Market Update

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Report Highlights:

China's domestic cotton production estimate in MY 09/10 is revised down to 7.2 MMT from the May forecast of 7.4 MMT because of reports of planted area reduction in some producing regions. Cotton imports in MY 08/09 were 1.5 MMT, the lowest in the last four years, mainly attributed to weak demand for textile products as a result of the global economic slowdown.

General Information:

Executive Summary

China's domestic cotton production in marketing year (MY) 09/10 is estimated at 7.2 MMT, down from Post's May forecast of 7.4 MMT, mainly because of substantiated reports of planting area declines in several producing provinces. Anticipated strong yields, based on better growth performance of the crop in most producing regions, are likely to offset the overall production decline resulting from the decreased planted area. Along with the expected recovery of the world economy, China's cotton imports in MY 09/10 are expected to increase from the 1.5 MMT imports in MY 08/09.

MY09/10 Domestic Cotton Production Estimated at 7.2 MMT

According to the China Cotton Association's (CCA) 'cotton growth report' dated August 24 and based on survey data conducted in July, the total cotton planted area for MY09/10 is estimated at 5.2 million hectares (Mha), down 12 percent compared with the previous year's 5.85 Mha. The survey also indicated that despite the reported drought or conversely unseasonably wet weather in parts of the cotton-producing region, the overall growth rate was reported better than the same month in the previous year. However, the maturity of the crop will likely be more delayed than normal. According to CCA, total production is estimated at 7.1 MMT based on expected higher yields compared to the previous year. (Yield is expected to increase by 5.8, 1.5, and 2 percent in the Yellow River, the Yangtze River and Northwest region, respectively). The survey covered 2,355 cotton households/farms in 12 major cotton-producing provinces.

At the 2009 Provincial Cotton Conference held in late August 2009, Shandong Agriculture Bureau authorities estimated that the MY 09/10 cotton planted area for the province is similar to the previous year, the growth of the crop is rated as "good," and cotton seed subsidy was distributed smoothly.

Additionally, China Cotton Research Institute conducted a field study in Northern Xinjiang in August. The study showed that cotton plantings in Northern Xinjiang (including both PCC and non-PCC farms) declined by more than 10 percent compared to the previous year. Similar to production in Shandong, the growth of the crop was rated as "good," and less affected by diseases compared to the previous year. Crop maturity is expected to be delayed by two weeks due to relatively warmer temperatures coupled with inadequate/delayed irrigation, the result of water scarcity in the region.

In late August, CCA sent three field study teams to Xinjiang, Henan/Hubei, and Shandong/Jiangsu Provinces. The surveys revealed that Xinjiang's cotton planted area is estimated at 1.67 Mha (compared to the local government's estimated 1.53 Mha, down 13 percent over the previous year). The weather conditions in general have been favorable for cotton growth. Total production is expected to exceed three MMT, based on an anticipated higher yield compared to the previous year. The harvest is expected to begin on September 10. The planted area in Henan and Hubei Provinces declined by 9 and 12 percent, respectively, from MY 08/09. As of the date of the survey, CCA believes the crop has better growth performance than the previous year. Based on an anticipated increase of yield, the production in Henan is likely to reach 650,000 MT, similar to the previous year. Conversely, production in Hubei is estimated at 500,000 MT, down 13,000 MT from the previous year. The CCA study in Shandong Province found the planted area in the province was 870,000 Ha, down two percent from last year, and total production is forecast at 940,000 MT, down 100,000 MT from MY 08/09.

Post's communication with contacts in major cotton-producing regions also indicate a general decrease of planted area. The growth of the crop, however, is regarded as above average or average. Yields are likely to increase in Xinjiang Province, while remaining stable in other Provinces. The planted area decline is a result of relatively higher profit margins for grain crops in MY 08/09 compared with cotton. Post estimates total planted area decreased about 12 percent in MY 09/10. The Chinese government's policy continues to favor grain crops, which receive more direct subsidies (industry sources reported that grain crops received a combined subsidy of \$130 per hectare, compared to \$22 per hectare of cotton). In conclusion, Post expects China's domestic cotton production to fall to 7.2 MMT, compared to the previous estimate of 7.4 MMT reported in the 2009 Cotton Annual.

Cotton Imports for MY08/09 Fell to 1.5 MMT

As a result of the global economic slowdown, China's demand for cotton fell in MY 08/09. Total cotton imports in MY 08/09 stood at slightly more than 1.5 MMT, compared to the 2.5 MMT in the previous year. Imports from the United States were 908,000 MT, down 12 percent from the previous year, while imports from India plummeted to 148,000 MT from the 826,000 MT in MY07/08.

Cotton imports were also hindered by large domestic production in MY 08/09. In an effort to protect domestic cotton farmer's income, the Chinese government purchased 2.75 MMT of the MY 08/09 crop at a relatively higher price. According to industry sources, as of the end of August, more than 1.5 MMT of state reserves has been marketed, and an additional 600,000 MT (including 100,000 MT of cotton imported in 2005) will be auctioned in September. The release of these reserves and the sliding duty applied to cotton imports made imported cotton less competitive in China's market. The state purchase and release of cotton resulted in a net increase of state cotton stocks by 600,000 MT. Along with an anticipated recovery of the world economy, China's cotton imports in MY 09/10 are expected to increase from the 1.5 MMT imports in MY 08/09.

Textile/Apparel Exports Down 11 Percent in First Seven Months of 2009

According to China's customs statistics, total textile and apparel exports were valued at \$89.2 billion in the first seven months of 2009, down 11 percent compared with the same period the previous year. However, according to the National Development and Reform Commission (NDRC) total yarn production reached 13 MMT in the first seven months of 2009, an increase of 10 percent over the previous year. Based on a survey conducted by the National Cotton Market Monitoring Network in July 2009, cotton consumption is continuing this declining trend in the textile sector. Half of the surveyed mills reduced the cotton share in yarn production. Fifty percent of surveyed enterprises reported fewer overseas orders in recent months, and one-third said they also received fewer orders from the domestic market and at a lower price. According to the National Statistics Bureau (NSB), man-made fiber production reached 15.2 MMT, up 12 percent over the previous year.