

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## China - Peoples Republic of

**Post:** Beijing

### Cotton Market Updates

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Cotton and Products

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**Report Highlights:**

Several surveys conducted in China show MY 12/13 cotton planting area intentions are lower than previous years following lower profits for MY 11/12 crop and sluggish demand from a recovering domestic textile industry. China has been supporting the domestic floor price of RBM19,800/MT with purchases for state reserve and believed to be supplementing stocks with imported cotton as well. China's National Statistics Bureau (NSB) announced MY11/12 domestic cotton production is 6.6 MMT based on planted area of 5.04 MHa, up 10.7 percent and 190,000Ha, respectively, over the previous year.

## Executive Summary:

Several surveys conducted in China show MY 12/13 cotton planting area intentions are lower than previous years following lower profits for MY 11/12 crop and sluggish demand from a recovering domestic textile industry. China has been supporting the domestic floor price of RBM19,800/MT with purchases for state reserve and believed to be supplementing stocks with imported cotton as well. China's National Statistics Bureau (NSB) announced MY11/12 domestic cotton production is 6.6 MMT based on planted area of 5.04 MHa, up 10.7 percent and 190,000Ha, respectively, over the previous year.

## General Information:

### MY12/13 cotton planting intention surveys show decline in area

On Feb 22, 2012, the China Academy of Agricultural Science (CRI), Cotton Research Institute, based on a January survey, reported a 6.1percent fall in MY12/13 cotton planting intentions to 4,846,000 Ha, a dip from CRI estimated area of 5,416,000 Ha in MY11/12.

The three main cotton-producing regions all show a planting area decline:

- Yangtze River Region down 4.1%,
- Yellow River Region down 8%
- Northwest Region down 3.4%
  - North Xinjiang down 2.7%,
  - South Xinjiang down 3.3%.

The following table shows the area changes by Province:

<b>Province</b>	Xinjiang	Shandong	Henan	Hebei	Anhui	Hubei
<b>Change</b>	-3.4%	-13.5%	-2.7%	-10.3%	-1.4%	+1.3%
<b>Province</b>	Hunan	Jiangsu	Tianjin	Gansu	Jiangxi	<b>Nation</b>
<b>Change</b>	-4.3%	-14.6%	-13.6%	-13.2%	-0.2%	<b>-6.1%</b>

On January 17, China Cotton Association published a December survey showing MY12/13 cotton planting intention decline to 78 million Mu (5.2 MHa), down 10.5 percent over the previous year as a result of the sharp fall in prices for MY11/12 crop. Their survey showed:

- Yangtze River Region: down 10.8%
- Yellow River Region : down 16.5%
- Northwest Region: down 5%

A previous survey by National Cotton Market Monitoring Network showed 2012 cotton planting intention down 8.2 percent from the previous year to 72.49 million Mu (or 4,863,000 Ha).

Lower planting area predictions could cause total cotton production to fall below the government's basic production target of about 7 MMT. To minimize planting area reductions and encourage farmers to plant cotton, the government may announce a new purchase floor price for the MY 12/13 crop (likely RMB20,400/MT) by the end of February, however, Post believes the MY12/13 floor price will likely

remain unchanged at RMB19,800/MT. Plentiful stocks, a sluggish textile industry slowing consumption and a profit last year aren't conditions which favor a Government increase of the floor price.

### **MY12/13 planting intention drop due to lower profits**

In MY 11/12 a 30 percent drop in seed cotton prices, which averaged \$1,180/MT, coupled with a 21 percent increase in production costs, caused profits to fall by 58.5 percent to \$1,134/Ha. The table below reflects farmers earned a profit with their MY 11/12 crop but less than in MY 10/11. Government purchase of MY11/12 crop at the floor price without any volume limits has currently stemmed the drop in the cotton price.

Comparison of Cotton Production Output Value and Profit in MY10/11 and MY11/12

Item	Output Value		Total Cost		Physical Cost		Profit	
	RMB/Mu	Change	RMB/Mu	Change	RMB/Mu	Change	RMB/Mu	Change
<b>MY11/12</b>	1995.5	-18%	1503.6	+21%	584.7	+5.4%	491.5	-58.8%
<b>MY10/11</b>	2433.2	46.7%	1242.6	+17.5%	554.5	+13.5%	1190.6	+97.9%

Note: Exchange rate: 2010-\$1=RMB6.7; 2011-\$ 1=RMB6.5; 1 Ha = 15 Mu

### **China's huge cotton reserve remains an uncertainty for trade**

China maintains a cotton reserve as a means to regulate domestic cotton supply/demand and protect domestic farmer's income. China's state cotton reserves fell to a low level in 2011 after the government released a large portion of its reserve to curb a historic price spike.

As of February 21, sources estimate China purchases for state reserve total approximately 2.6 MMT of MY11/12 domestic crop at the floor price (RMB19,800/MT). Purchases will continue through March, however, currently daily purchased volume remains small at several thousand tons.

([http://cncotton.com/gnmh/scdt/xh/rd/201202/t20120221\\_226574.html](http://cncotton.com/gnmh/scdt/xh/rd/201202/t20120221_226574.html)) Industry sources report China has imported cotton to replenish reserve stocks in the second half of 2011 but specific volume amounts remain unknown. The 2.6 MMT accounts for 35.6 percent of Post estimated 7.3 MMT production for MY11/12 bringing total cotton reserve toward 4 MMT, including recent imported cotton for reserve and small ending stocks of MY10/1.

### **MY11/12 Production**

On February 22, NSB published the official MY11/12 domestic cotton production at 6.6 MMT based on planted area of 5.04 MHa, up 10.7 percent and 190,000Ha, respectively, over the previous year. NSB also announced a 2011 total yarn production of 29 MMT, up 6.7 percent over the previous year.

(<http://www.china-cotton.org/article/2012/02/22/42479.php>).