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Cotton Update

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Approved By:

Chanda Beckman

Prepared By:

Wu Xiping

Report Highlights:

Recent China National Cotton Market Monitoring Network, China Cotton Association, and FAS/Beijing field surveys confirm MY 10/11 cotton planted area is stable or just slightly above the previous year. This increase is attributed to increases in the Yangtze River and Northwest planting regions, and relatively strong seed cotton prices received in MY09/10. In response to higher prices for cotton and tight supply, the Government of China allocated additional TRQs and is expected to release more cotton from the national reserve.

General Information:

Production

NCMMN Survey:

According to the results of a cotton planted area survey conducted by China's National Cotton Market Monitoring Network (NCMMN) in May, China's marketing year (MY) 10/11 cotton planted area was 5.2 million hectares (Ha) (77.84 million Mu), up 0.2 percent (or 10,000 Ha) over the previous year. The survey covered 4,489 cotton households/farms located in 89 counties/cities/farms distributed in 15 cotton-producing provinces. It also showed that cotton planted area increased in the Yangtze River region (5.4 percent higher than the previous year), and in the Northwest region (up 1.5 percent over the previous year), but decreased in the Yellow River region (down by 4 percent from the previous year). More specifically, in the Yangtze River region the planted area increased 10.5 percent in Jiangxi Province, 7.6 percent in Hunan Province, 7.6 percent in Hubei Province, 5 percent in Anhui Province, and 1 percent in Jiangsu Province. In the Yellow River region, however, the planted area declined 12 percent in Henan Province, 6.4 percent in Hebei Province, and 2.5 percent in Shanxi Province. In the Northwest region, the planted area is up 1.5 percent from the previous year (with Xinjiang up 1.9 percent and Gansu down 9.5 percent). The survey also indicated that the slightly increased area is mainly a result of the increased selling price for seed cotton in MY09/10.

However, the recovery of China's planted area for cotton is not as rapid as many industry insiders initially thought. This is mainly attributed to the government's support policy for production of grains, the shortage of rural labor for labor-intensive crops like cotton, and the unfavorable weather conditions in some regions impacted the recovery of cotton planted area. In the Yellow River region, the per-unit comparative profit generated from cotton remained lower than both wheat and corn crop patterns. Additionally, the increased mechanization farming of grain crops disadvantaged cotton because most on-farm work is done manually by older farmers. The unfavorable weather in April through May also reduced cotton planted area in some regions because farmers were concerned growth and harvest could be impacted.

CCA Survey

In mid-June, China Cotton Association (CCA) released results of its planted area survey conducted in May to June which covered 2,476 households/farms located in 310 counties/cities/farms distributed in 12 Provinces. The survey showed MY10/11 cotton planted area is 5.15 MHa (77.2 million Mu), down 0.7 percent from CCA's estimate the previous year. (Note: this represents a 4-percent increase if compared to the National Statistic Bureau (NSB) MY09/10 area of 4.95 MHa (74.3 million Mu); and the CCA April-May planting intention survey, which showed a 1 percent decline in planted area). The CCA survey indicated that cotton growth was delayed by 7 to 10 days due to unfavorable weather in May in most cotton-producing regions. In general, the growth in all regions (except Xinjiang) was rated as "not as good as the previous year." In Xinjiang, however, emergence and growth of the crop remain generally normal. The survey also showed a similar trend to the NCMMN's survey in the Yangtze River and the Yellow River regions. However, the CCA survey showed the Xinjiang planted area declined by 3.2 percent compared to the previous year.

FAS/Beijing Survey

In mid June, FAS/Beijing conducted a field reporting trip in Henan and Hubei Provinces on cotton planting and growth. Overall, the trip findings are similar to the above two surveys. Four counties located in southeast of Zhengzhou, Henan Province were surveyed. The interviewed farmers complained about the uncertainties of cotton prices and high labor inputs compared to grain crops. Many farmers adopted complicated intercropping patterns on their very limited land to manage these price risks. For instance, one household planted almost every possible crop on its approximately one acre of land including: wheat, corn, peanuts, watermelon, and vegetables alongside its planted cotton. The intercropping pattern of "one row of cotton + two row of peanut + two rows of water melon" (totaling one meter wide) is popular in Weishi and Fuguo counties. In Yinglin county farmers reported that for the past few

years they abandoned cotton planting in favor of grain and other crops. All land along the highway from Yinglin to Xuchang City was used as nurseries for ornamental plants/trees. In Hubei Province, the trip covered Hanchuan and Tianmen counties in the west of Wuhan. The interviewed farmers expressed satisfaction with the seed cotton selling price and income from cotton during the previous year. They also revealed a stable or slight increase in planted area in Hanchuan and Tianmen. The transplanting of the crop was completed in the beginning of June but growth of the crop was rated as “not as good as the previous year.” A recent published survey by the Hunan Provincial Statistics Bureau reported a 15 percent increase of cotton area from the previous year in the Province, chiefly due to high seed cotton price in the previous year.

NCMMN and CCA Differ on Xinjiang

It is worth noting that the NCMMN and CCA surveys showed opposite trends for planted area in Xinjiang Province. According to the Xinjiang Agriculture Bureau’s report, as of May 25, total planted area reached 920,000 Ha (13.8 million Mu), up 56,600 Ha (849,000 Mu) over the previous year. Most Chinese cotton industry insiders, however, believe that Xinjiang’s planted area is unlikely to decline given the recovered cotton price and improved profit from cotton in MY09/10.

South China Floods

To date, the current flooding in southern China has had limited impact on cotton mainly because the affected area is not a major cotton producing region. According to CCA, cotton is planted in some flood-hit regions including: Yujiang, Zixi, and Fuzhou in Jiangxi Province. However, the impact remains limited due to small planted area.

MY10/11 cotton planted area remains similar to MY 09/10

In summary, FAS/Beijing estimates China’s cotton planted area in MY10/11 remains similar or slightly higher than the previous year (we forecast a 3 percent increase in planted area in the recent Annual Report. See GAIN CH10019). This is based on relatively good seed cotton prices most farmers received in MY09/10, which are aimed at boosting cotton planting, especially for those planting on marginal land in Xinjiang Province. Although it is early to accurately predict, it appears MY 10/11 yields are unlikely to increase given the delayed transplanting of the crop and excessive rainfall in most parts of the Yangtze River region.

Policy

New policy to add cotton supply to meet industry demand

In addition to the 800,000 MT cotton import TRQ (subject to a sliding duty) distributed in May 2010, another batch of cotton TRQs were distributed to mills in June. The actual volume was not released, but based on CCA’s total TRQ volume of 3.6 MMT already distributed, the recent distributed volume is estimated at 900,000 MT. These TRQs are still subject to a sliding import duty and are mainly allocated to mills to meet the growing demand by the textile sector in a “tight supply - high price” market.

More reserves to be released

Meanwhile, the Chinese government plans to release another 600,000 MT of state reserves. The release plan and related rules are already formulated and according to industry contacts can begin “upon market demand.” Chinese industry sources said that the government’s decision to release 600,000 MT of state reserve and the increased TRQ indicate the sector was facing a serious supply gap before the new crop comes to market. Currently the price for cotton remains at a record high in China’s market. However, some industry insiders think the government’s release of reserves could serve to curb cotton prices increases. Given the declining state reserves, however, FAS/Beijing is not confident prices will decline.

Consumption

Cotton consumption and imports expected to grow

According to CCA, China’s textile and apparel exports were valued at \$16.4 billion in May, up 13 percent over April and up 33 percent over the same month in 2009. Total textile and apparel export value reached \$70.2 billion, up 19 percent from the previous year. The textile sector’s purchase of cotton remains dynamic and growing. Yarn

production reached 2.33 MMT in May, making total yarn production for the first five months of 2010 reach 10.2 MMT, a 17-percent increase over the previous year, with cotton yarn production up 16 percent. Cotton fabrics in May reached 3.2 billion meters, up 18 percent over the previous year. As of the end of May, total cotton imports exceeded 2 MMT (2,030,000 MT) in MY09/10.