

The Rupp Report

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The Rupp Report: The Chinese Cotton Situation (ITMF Conference Part 3)

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As reported in the Rupp Report over the past few weeks, the textile industry gathered in Beijing from October 16-18, 2014, at the International Textile Manufacturers Federation's (ITMF's) annual conference. Keeping in mind that the event was in China, the attendees expected some clarification about the somewhat strange cotton stock situation in China, and they were not disappointed. As already reported also, the openness and the clear words of the Chinese speakers were remarkable.

Cotton Purchase Policy

Gao Fang, head of the China Cotton Association (CCA), presented an accurate China cotton market analysis and outlook of the purchase policy of China for cotton during the 2011-13 seasons. Fact is, China still is holding a stock of more than 10 million metric tons (mt) of cotton. This is equivalent to the total annual Chinese cotton consumption. Gao's four main targets to change this situation in a foreseeable time are:

- Decreased acreage and smaller production;
- Enlarged difference between demand and supply;
- Adjustment of the cotton policy; and
- Consequent transformation between the old and new system.

She mentioned that the reserve cotton purchase transaction volume has reached nearly 16 million tons, with around 16.5 million tons of actual warehouse delivery during the 2011-13 seasons. From November 2013 until August 2014, the reserve cotton release target has reached 13.11 million mt, with an actual transaction of 2.645 million mt, 20.2 percent by transaction rate, comprised of 2.491 million mt of domestic cotton and 0.163 million mt of imported cotton. This is approximately 80 percent of national cotton production. In contrary to the turbulent and volatile situation on the global cotton markets, the China National Bureau of Statistics says that the price difference in the domestic cotton market was less than 10 percent during the time period.

Reduced Acreage

Acreage will be reduced by some 9.34 percent down to 4.23 million hectares, according to Gao. The consequence of this action is India could become the largest cotton grower in the world. Gao estimated the domestic cotton consumption for the next season at some 8.5 million mt.

However, a stock of 10 million mt is normal for China, and the stock's only purpose is to stabilize the market so recent past volatilities with cotton prices will not occur again. Up-to-now, every cotton fiber farmed in China was sold to the government. Gao gave an interesting explanation why there are two different cotton prices: There are 40 million cotton farmers in China and the government bought their crops at above market prices to help stabilize the market. The price was determined in 2011 at 19,800 renminbi (RMB) (US\$3,236). Then the financial crisis occurred, and the global price of cotton fell. The price set by the government — which is much higher than the current global cotton price — is not good for Chinese spinners, Gao said, and it will be changed in the future.

Extensive Imports

The enlarged price difference between domestic and global cotton was distorted by the gap between the domestic prices being supported by reserve purchase, and consequently the international price was falling largely.

It goes without saying that the 2012 and 2013 seasons cotton import volumes were among the highest in history resulting in negative consequences — decreased cotton consumption and increased imports of cotton yarn. The high domestic cotton yarn price brought up by a high cotton price, encouraged extensive cotton yarn imports, which peaked in these seasons.

Another factor of the reduced cotton consumption regarding the overall fiber consumption, is the fact that also in China man-made fibers are gaining ground in many applications, existing as well as new ones. It is a fact that China is responsible for more than 50 percent of the global man-made fiber production. The man-made fiber production increased steadily.

Revised Cotton Policy For 2014 Season

Interesting to hear was the fact that the temporary cotton reserve purchase was closed and a "Xinjiang cotton target price reform trial" was launched. There will be no subsidy when the average price is higher than 19,800 RMB/mt during the price collection period. On the other side, subsidies will be triggered when the average price is lower than 19,800 RMB/mt during the price collection period. Gao is convinced that "the market will dominate the domestic cotton prices and the price gap home and abroad will narrow down, and a cotton demand recovering increase is expected.

Another measure taken was to suspend reserve cotton releases from September 2014 until March 2015. The only exception, Gao mentioned, "is when the demand could not be met on a large scale."

According to the CCA statistics, the acreage for the 2014 season will be 4.23 million hectares. This is a decrease of 9.35 percent. On a year-to-year change the different regions are planned to produce the following acreage:

Region	Million hectares	%
National	666	-5
Xinjiang	459	+7
Yellow River	97	-26
Yangtze	95	-23

Throughout the 2011 to 2013 seasons, the maximum price was 20,010 RMB/mt (US\$3,270), the minimum price 16,992 RMB/mt (US\$2,777). During the same time, she explained, the international market price change was 1/3 more than the domestic one. In 2011 the seasonal average price was 19,113 RMB/mt (US\$3,123); in 2012 season 19,136 RMB/mt (US\$3,127) and in 2013 18,625 RMB/mt (US\$3,044).

The supported Chinese cotton reserve purchase cotton yarn price with some 32 yarn counts cotton yarn prices during 2011 to 2013 seasons was at an average price of 25,800 RMB/mt (US\$4,216), then 25,914 RMB (US\$4,231), and finally 26,034 RMB/mt (US\$4,247). Gao mentioned that from June 2012 until the closure of the reserve purchase, the international cotton price changed between 80-100 cents per pound.

New Pricing System

Gao explained that in the future the cotton prices should be based on the markets and that spinners should be the buyers and not the government. From September 2014 until March 2015, the Chinese government will not influence the cotton prices Gao assured the breathless listening audience. However, she added with a smile, if the cotton prices climb too high, the government probably will release some raw material from the existing 10 million mt to balance the prices.

Gao is convinced that the market will dominate the domestic cotton price, and the price gap between the domestic and international markets will narrow, and the cotton demand increase is expected to reach 8.5 million mt. Already by October 15, the CC Index 3128B declined to 14,797 RMB/mt (US\$2,418), this is a 23.8 percent decrease since the end of March. On the other hand, Zhengzhou cotton futures major contract settlement price was at 13,620 RMB/mt (US\$2,226), this is another decrease of 14.72 percent for the same time period.

And Now?

There probably is only one thing to bear in mind: What happens if the Chinese government starts to release some cotton that is up to three years old? Will the color and the quality still be comparable and the same as the newly harvested cotton?

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