Analysis on Global and China Cotton Market

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Internationally

- The cotton-growing area in major countries in the Northern Hemisphere is dwindling, except in the U.S.
- Cotton plantations in the U.S. have lower comparative gains than the plantations of other major crops.
- High import volume of cotton in China
Positive Factors

China

- Lower reserve requirement ratio and interest rate
- Government’s cotton-reserve policy for the next season
- Lower availability in China’s cotton market after the end of buying for national cotton reserve for this season
- Macro controls by issuing import quota and launching reserved cotton
- Higher costs for cotton plantation
- Weaker interest in cotton plantation due to less profit in comparison with plantation of grain crops

Negative Factors

Internationally (1)

- Upgrading eurozone debt crisis
- Soaring US Dollar Index
- USDA has been lowering global cotton consumption forecast since the beginning of this year
- A few deals were cancelled as reported occasionally in USDA Weekly Cotton Export Sales Report.
- ICA arbitration
USDA predicts high global ending cotton stocks in 2012/13.
USDA predicts higher production than demand in 2012/13.
USDA predicts the world trade to decrease by 10% in 2012/13.
USDA predicts China to import 140,000 bales of cotton in 2012/13.
The weather in the cotton growing regions in the United States improved a lot in recent time.

China slows down economic growth rates for the coming years.
Central and regional economic data in recent months (GDP, CPI, PPI, power consumption and exports)
Sluggish social demand, real estate market and auto market in China
China’s textiles & garments seeing weaker demand from export destinations like Europe
China’s export data for textiles and garments
Slower growth of fixed asset investment in textile industry in Q1 2012
China’s textile market does not show booming trend in a traditional busy season, and the pressure is transferred toward upstream.
Cotton yarn production
Textile firms see higher costs of several types & short labor resources.
Negative Factors

China (2)
- Lower cotton demand in China
- A large quantity of cotton in China’s bonded zones
- A great amount of cotton yarn imports
- Substituted by chemical fibers
- A large number of cotton lots in Zhengzhou Cotton Futures Market

Uncertain Factors

Internationally
- Global economic recovery progress and currency (interest rate) policies of different countries
- Expectation on QE3 to be issued by the United States
- Eurozone debt crisis
- Less speculative funds in global commodity and futures markets
- Price trends of agricultural products, industrial products (copper etc.) and currency futures
- China’s import quota and cotton reserve policies
- Indian cotton export policies, cotton data and reserve
- Global agricultural product market subject to weather again
Uncertain Factors

China (1)

- National fiscal and monetary policies
- The influence from enlarging range for floating exchange rate of RMB yuan against US dollar
- Government’s control on commodity market
- Operating status of textile enterprises, still destocking
- Attitude of buyers in export market on cotton price and their orders

Uncertain Factors

China (2)

- Post-reserve market trend of this cotton season
- The weather during cotton-growing season
- The economics of cotton plantation compared with the plantation for grain crops
- Trading activity in cotton futures market
- Replacement of cotton by viscose fiber and synthetic fibers
- China’s cotton consumption
- China’s cotton yarn imports
- China’s cotton import tariff policy in 2013
Questions and Discussions

- Why do global yarn factories stop or postpone buying cotton this year?
- Why does China reserve cotton while textile mills make passive purchase?
- Why does China import cotton all along this year?
- Why is China’s cotton import expected to reach a new high this year?
- Why is there such a huge cotton in China’s bonded zones this year?
- Why do we make little analysis on remaining market resources this year?
- Why are all players in the industry still talking about destocking?
- Why do more Chinese companies import cotton yarn this year?
- What on earth is the bottom line for cotton consumption in China & globe?
- Why are there fewer orders in spite of more quota from government? Why is the off-take speed in bonded zones slower than expected?

Thank You

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