



China's Cotton Policy Leads to Bearish World Outlook

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Summary

China's recent policies to decrease cotton prices have stimulated exports, and contributed to the bearish world cotton outlook. China's evolving cotton policy will continue to impact world market prices and U.S. prospects for cotton exports in key markets in Asia. However, once stocks are reduced over the next few years, it is likely that China will re-emerge as a net cotton importer to satisfy the fiber needs of its export-oriented textile industry.

Introduction

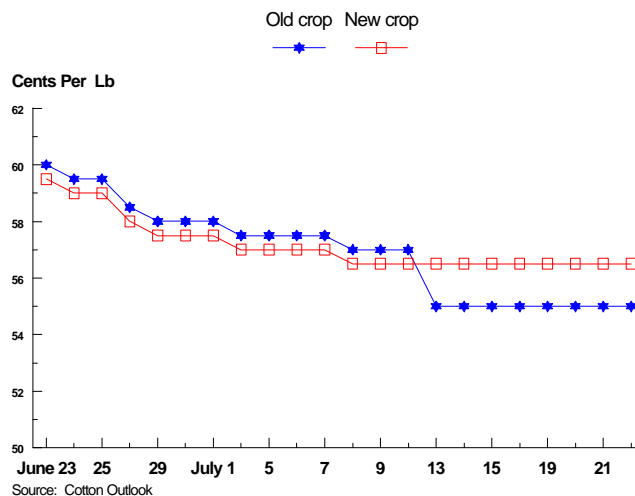
China continues to restructure its cotton industry to reduce excess cotton stocks. The government recently lowered the 1999 state purchase price 3 cents to 55 cents per pound. With lower prices, China is expected to export 1 million bales of cotton in 1999/2000. China's aggressive pricing and emergence as a net cotton exporter has dampened world cotton prices, which have fallen nearly 15 cents since the beginning of the year.

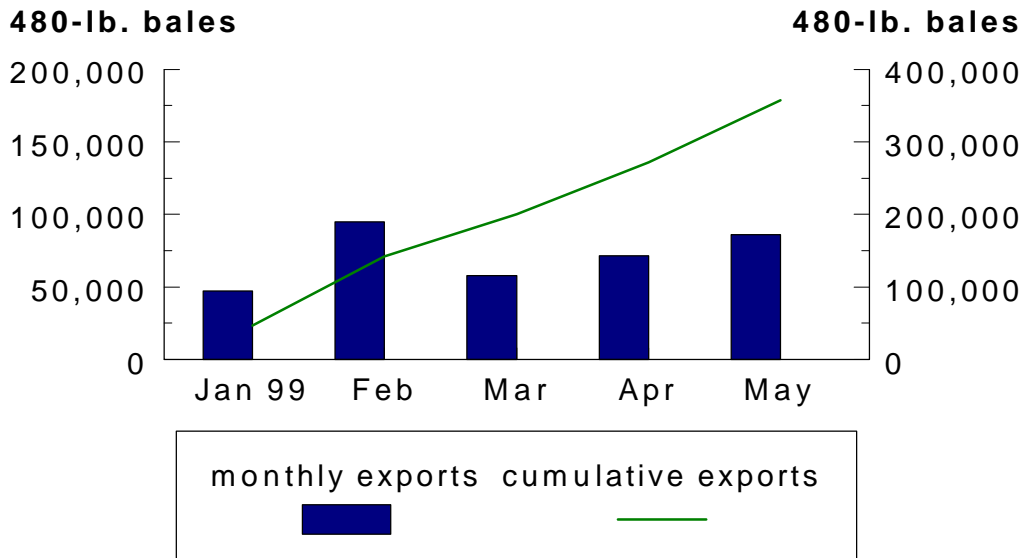
Discussion

Last week China's Ministry of Agriculture stated that it will allow market forces to determine cotton prices, and announced a reduction in its state procurement price by 19 percent to 55 cents per pound.

Quotes for old crop China cotton (CIF N Europe) fell an average of 1 cent per pound for each of the 3 weeks ending July 9, and an additional 2 cents in the week ending July 16, falling to 55.00 cents per pound.

China Cotton Quote: CIF N. Europe





Source: Chinese Customs

As a result of the decrease in domestic price support, USDA estimates that China cotton production in 1999/2000 will decline by 1.2 million bales from the previous year.

While China was the world's largest importer of cotton (mostly U.S.) in the mid-90's, it is now a net cotton exporter. Exports are estimated to have been 700,000 bales in 1998/1999. This is a tremendous increase from total exports of 65,000 bales from 1995/96-97/98.

In the first five months of 1999, China exported 358,362 bales of cotton. The U.S. was the largest importer of 88,632 bales, followed by Korea, Indonesia and Hong Kong, which together comprised approximately three-quarters of Chinese cotton exports. Despite a recovery of U.S. production in 1999/2000, U.S. cotton exports are not expected to fully rebound due in part to China's re-emergence as a cotton exporter.

In addition to pricing policies which are designed to reduce planting area and reduce stocks, the Chinese government plans to slash staff at state cotton firms over the next 3 years to 330,000 from 530,000. China had for decades bought cotton at high state-set prices, which stimulated production and resulted in stocks of over 17 million bales in 1998/99, comprising 42 percent of the world's total.

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