

# AGRICULTURAL OUTLOOK FORUM

## Smart Agriculture in the 21st Century

A Discussion on Innovation, Biotechnology, and Big Data

February 19-20, 2015 — Crystal Gateway Marriott Hotel, Arlington, Virginia

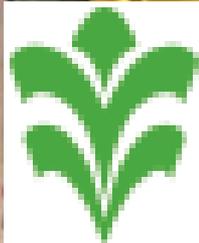


TRANSCENDING BOUNDRIES  
FOR 25 YEARS

## Chinas' Cotton Sector Outlook and New Policy Regime

Dale Cougot | 20 February 2015





# OLAM

TRANSCENDING  
BOUNDARIES

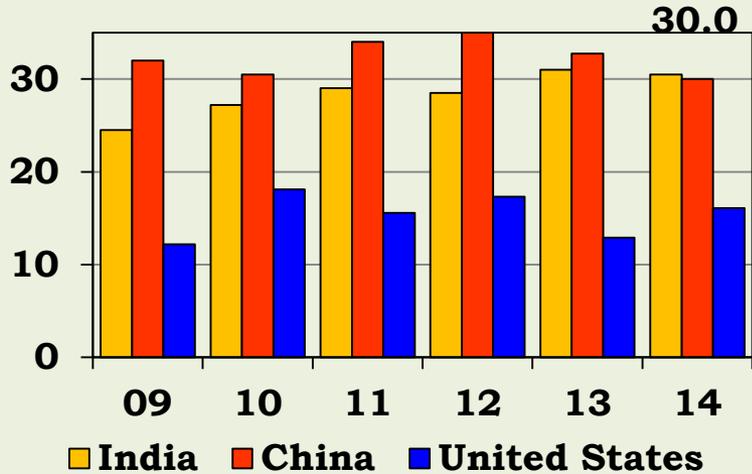


25  
YEARS

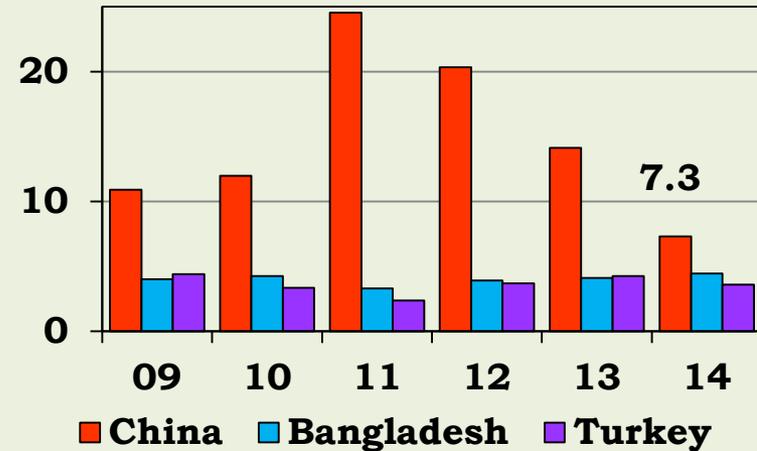
# China Holds Dominant World Cotton Position

*Current policies are shifting world S&D dynamics*

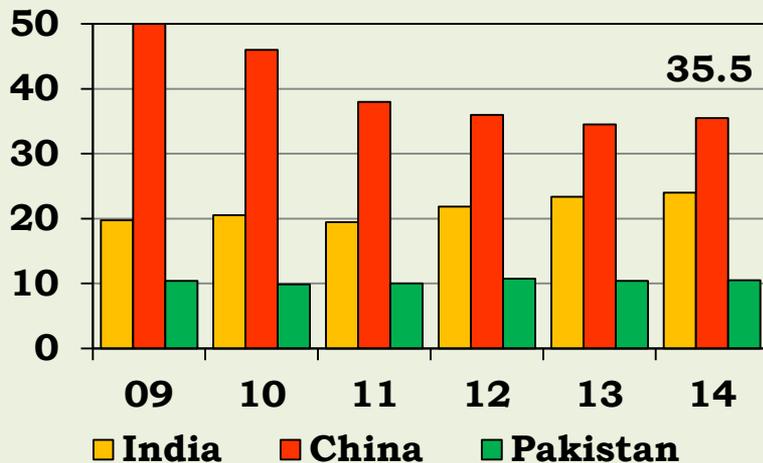
## Cotton Production



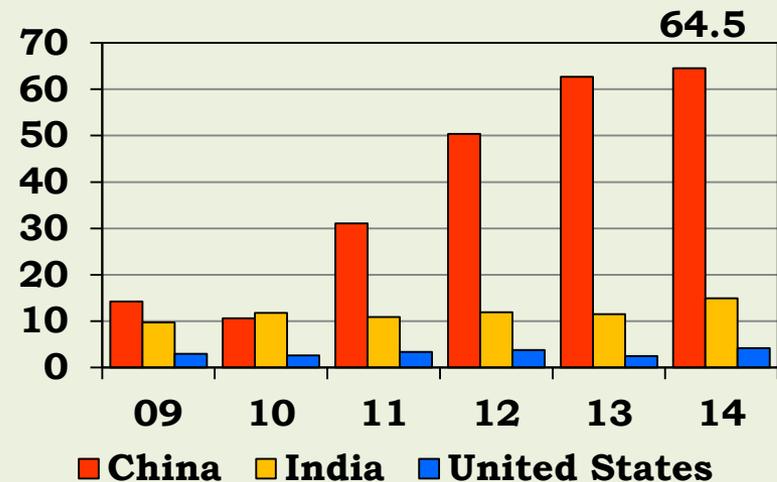
## Cotton Imports



## Cotton Mill Use

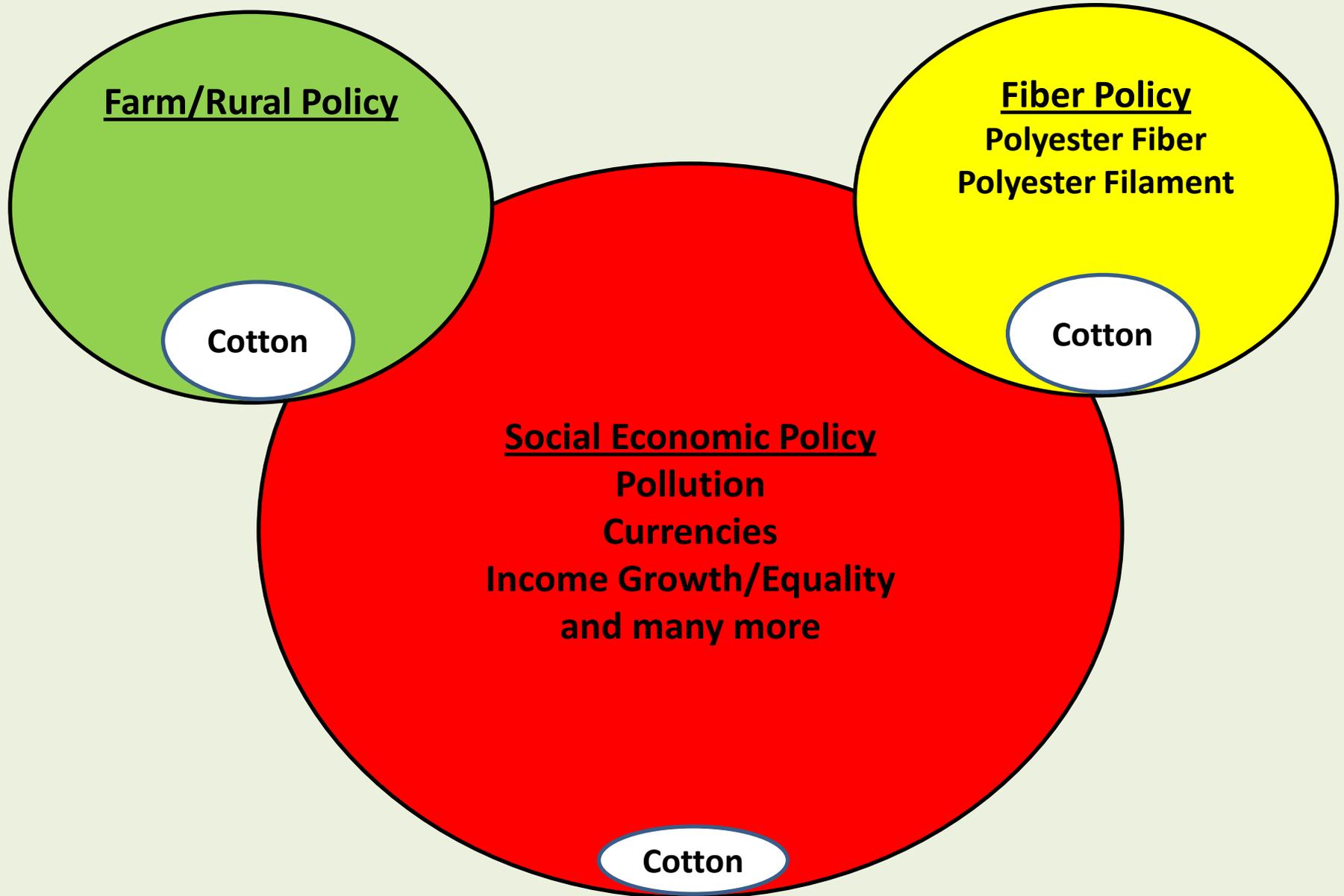


## Cotton Stocks



Source: USDA World Agricultural Supply and Demand Estimates (million 480 Lb. Bales)

# We must all think bigger than COTTON!!!



# China National Policy Overview China Fiber Outlook 2015/16

- Direct subsidies to Farmers
- National Strategic Reserve Activities
- Import Policies
  - WTO 1% Tariff-Rate Quotas
  - Sliding Scale Quotas
  - Processing Quotas
  - WTO 40% Tariff Rate Duty
- Agricultural Policies
  - Rural Infrastructure and Social Welfare
  - Support for Alternative Crops
- Textile Policies
  - Export Vat Rebates
  - Tax Exemptions, Refunds & Reductions
- Economic Policies
  - Exchange Rates
  - Monetary Policies
  - Macro Policies
  - Preferential Lending/Debt Forgiveness

\*Provincial Policies\*

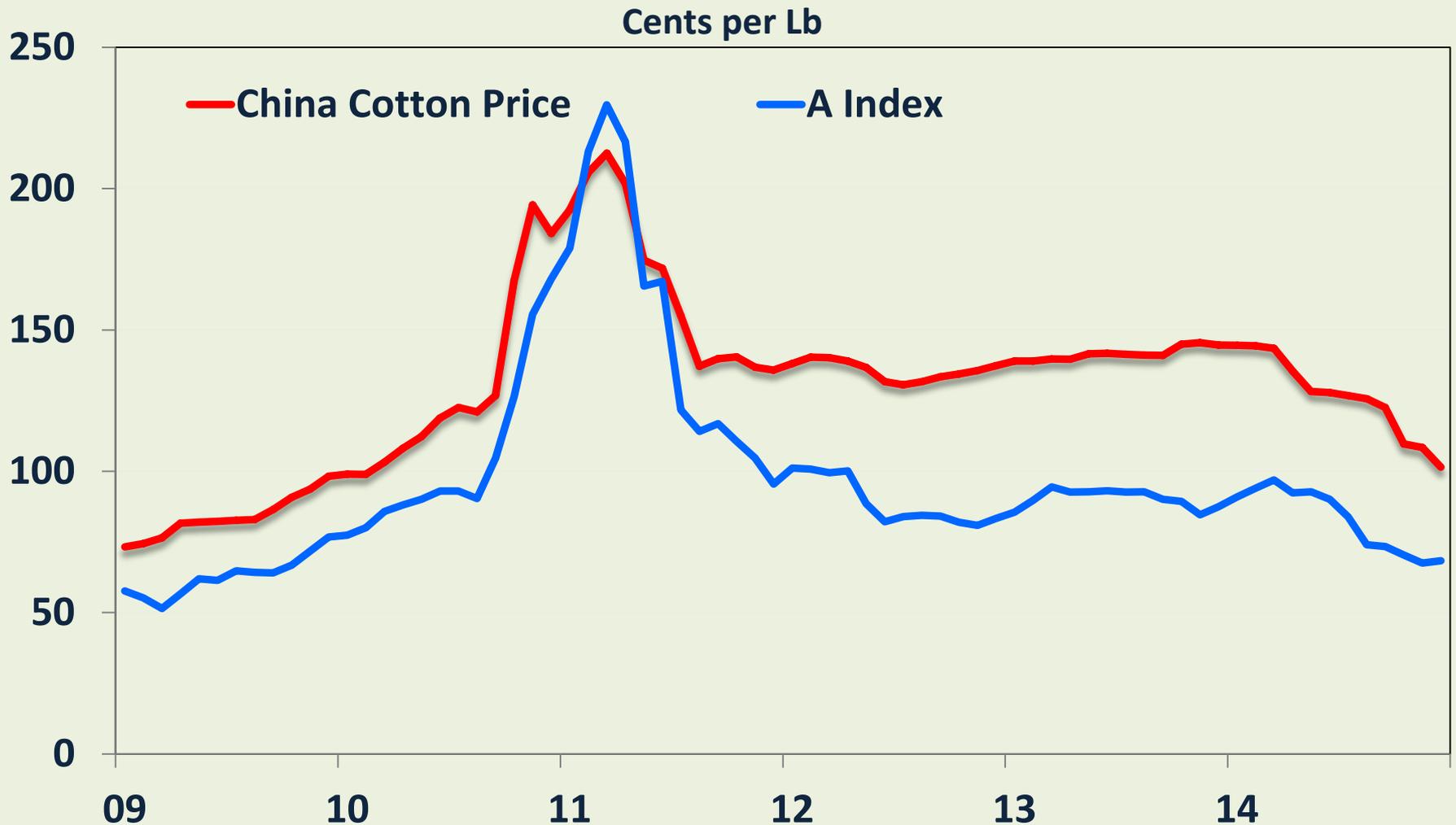
- Cotton Production Prospects
  - Xinjiang
  - Interior Region
- Cotton Yarn Demand
  - Domestic Mill Use
  - Imports of Yarn
- Cotton Lint Imports
  - Quota
  - Non-Quota
- Textile Fiber Demand
  - Cotton
  - Polyester
- Reserve Stock
  - Purchases & Releases
  - Overview
- Ending Stock
  - Impact to the World
  - Impact to Prices and Cotton Demand

# Central Committee of the Communist Party and State Council

- 1) To better control **scale and rhythm** of importing agricultural products.
- 2) To improve **management of import/export tariff and quota** of important agricultural products such as grain, cotton, sugar etc.
- 3) To strictly implement cotton sliding duty quota policy. To **crack down smuggling** of agricultural products.
- 4) To **improve the formation of the pricing mechanism** of agricultural products. To increase the income of farmers by maintaining reasonable prices of agricultural products.
- 5) To **improve the direct subsidy** mechanism based on the experience of subsidizing Xinjiang cotton, northeast and Inner Mongolia soybean under target prices. Aim to reduce operating costs and ensure timely and full payment of subsidy to farmers.
- 6) To promote agricultural products **insurance system**.
- 7) To **regulate reasonable size of reserve scale** for important agricultural products like grain, cotton, sugar, meat etc.

# Fiber Prices

*China's current situation stems from 2010/11, spike to over \$2.00!*



# China's cotton imports are under control?



**Well how about:  
40% duty,  
Free Trade zones,  
Yarn imports,  
smuggling,  
etc**

# China Reserve Policy Overview

Million Bales	Beginning Stocks	Reserve Domestic Purchase	Reserve Import Purchase	Release Local Cotton	Release Import Cotton	Reserve Ending Stocks	Total China Stocks	Target Price
08/09	5.49	12.87	0.00	3.14	2.43	12.79	21.37	NA
09/10	12.79	0.00	0.00	4.33	.82	7.63	14.25	NA
10/11	7.63	0.00	0.00	4.78	0.00	2.85	10.60	NA
11/12	2.85	14.42	3.67	1.20	0.38	19.38	31.08	\$1.40
12/13	19.38	31.41	3.45	14.97	4.42	34.57	50.36	\$1.45
13/14	34.57	30.22	0.62	10.19	0.68	54.55	62.71	\$145
14/15	54.55	0.00	0.00	1.43	0.32	52.80	64.46	NA
11 to 14		76.05	7.74	27.79	5.80	49.95	53.86	\$1.40+

**2011** - Announce intent to support farmers at 19,800 yuan/ton (\$1.35 to \$1.40 per lb)

**2012** - Increases support price to 20,400 yuan/ton (\$1.40 per lb.)

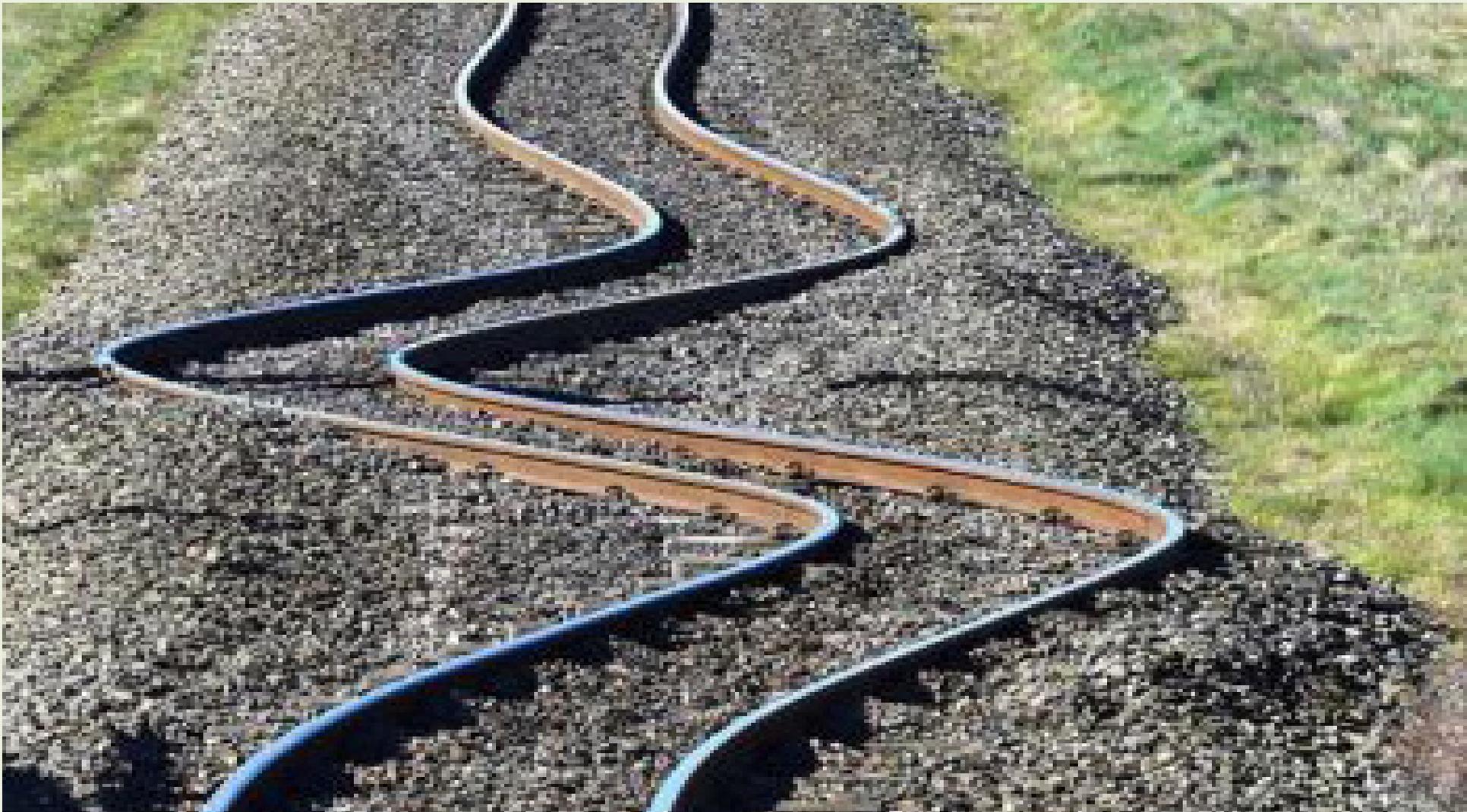
**2013** - Held support at 20,400 yuan/ton

**2014** - Change of strategy to direct farm subsidies, Target Price for Xinjiang at 19,800

- Other provinces, direct support at 2,000 yuan/ton (\$0.15 cents/lb)

**2015** – No release of reserve until the local crop is consumed and no damage to local prices.

**China's price support structure have derailed several times over the last several years.**

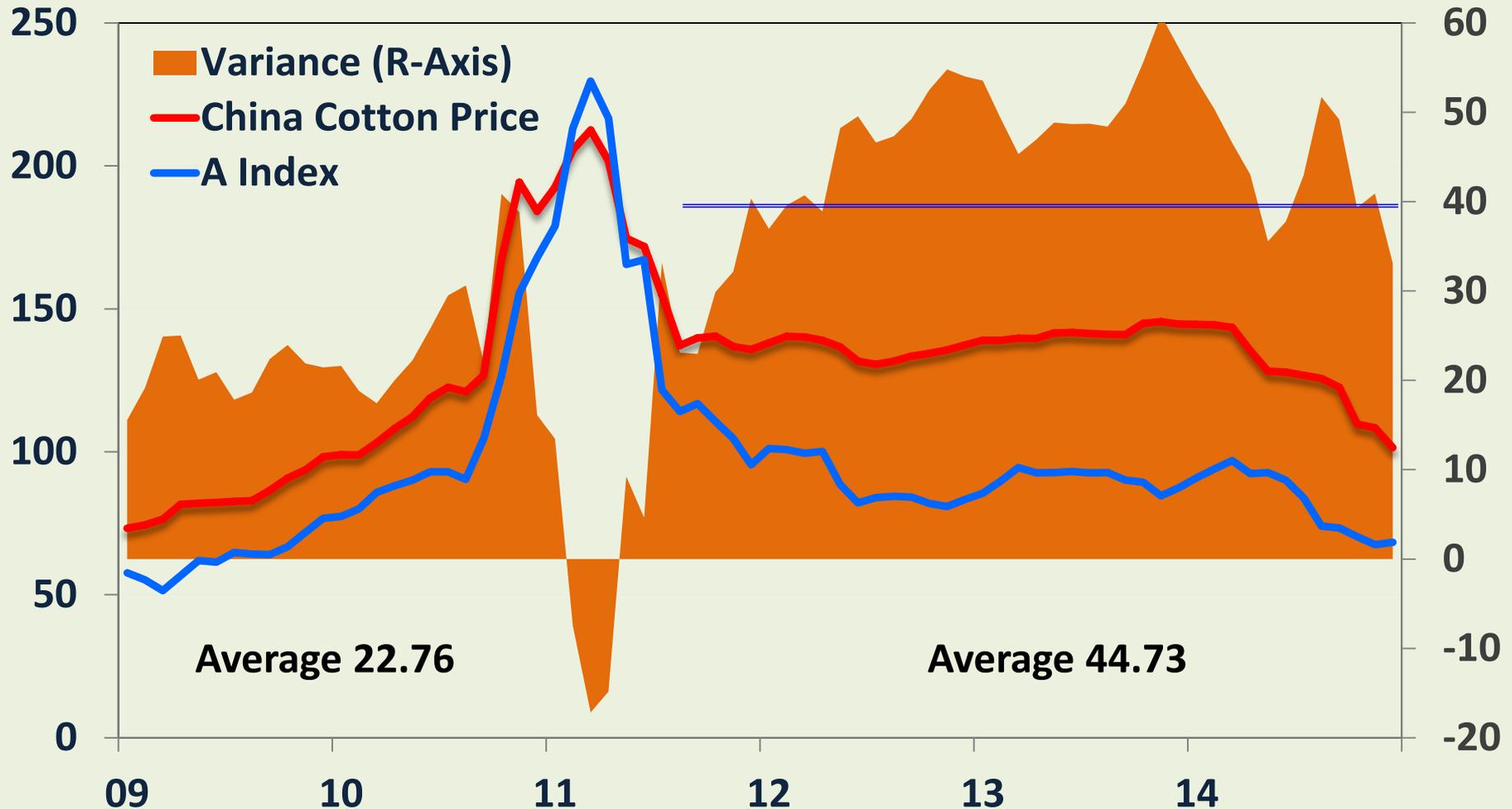


# Fiber Prices

*The shaded area shows that China had several opportunities to buy using the 40% duty.*

Cents per Lb

Percentage



# Supplies Around the Globe React

*2014/15 China stocks flat, rest of world rising!*

	Crop less Use Outside China	China's Imports	Change in China's Stocks	Change in Stocks Outside China	SUR Outside China	Annual A-Index
2009/10	1.53	10.90	<b>-7.12</b>	<b>-7.73</b>	47%	78
2010/11	17.31	11.98	<b>-3.64</b>	<b>6.85</b>	57%	164
2011/12	27.44	24.53	<b>20.49</b>	<b>2.75</b>	65%	100
2012/13	16.80	20.33	<b>19.28</b>	<b>-3.11</b>	55%	88
2013/14	13.09	14.12	<b>12.35</b>	<b>-0.66</b>	52%	91
2014/15	13.616	7.30	<b>1.75</b>	<b>6.42</b>	60%	70 ↓
<b>2015/16</b>	<b>7.40</b>	<b>7.00</b>	<b>-2.60</b>	<b>-0.40</b>	<b>57%</b>	<b>?? ↓</b>

# China Policy Impact

	Non-China Supply Surplus	Non-China World Supply Deficit
China Supply Surplus (Excluding Reserve Stocks)	<p><b>2011/12/13/14</b></p> <ul style="list-style-type: none"> <li>• Limited import cotton demand</li> <li>• Local price under pressure</li> <li>• Int'l price under pressure</li> <li>• Yarn imports growth flattened</li> <li>• Slim chance for reserve release</li> </ul>	<ul style="list-style-type: none"> <li>• Weak import cotton demand</li> <li>• Local prices under pressure</li> <li>• Int'l prices on the rise</li> <li>• Yarn exports on the rise</li> <li>• Limited use of reserve stock</li> </ul>
China Supply Deficit (Excluding Reserve Stocks)	<p><b>2014/15</b></p> <ul style="list-style-type: none"> <li>• Good import cotton demand</li> <li>• Local price Elevated (reserve action)</li> <li>• Int'l price down (40% duty dependent)</li> <li>• Yarn imports in high demand</li> <li>• Good chance for release of reserve</li> </ul>	<p><b>2015/16</b></p> <ul style="list-style-type: none"> <li>• Weak import cotton demand</li> <li>• Local prices supported</li> <li>• Int'l prices on the rise</li> <li>• Yarn imports limited</li> <li>• Best chance to release reserve</li> </ul>

# The reserve may be able to release in 15/16.....

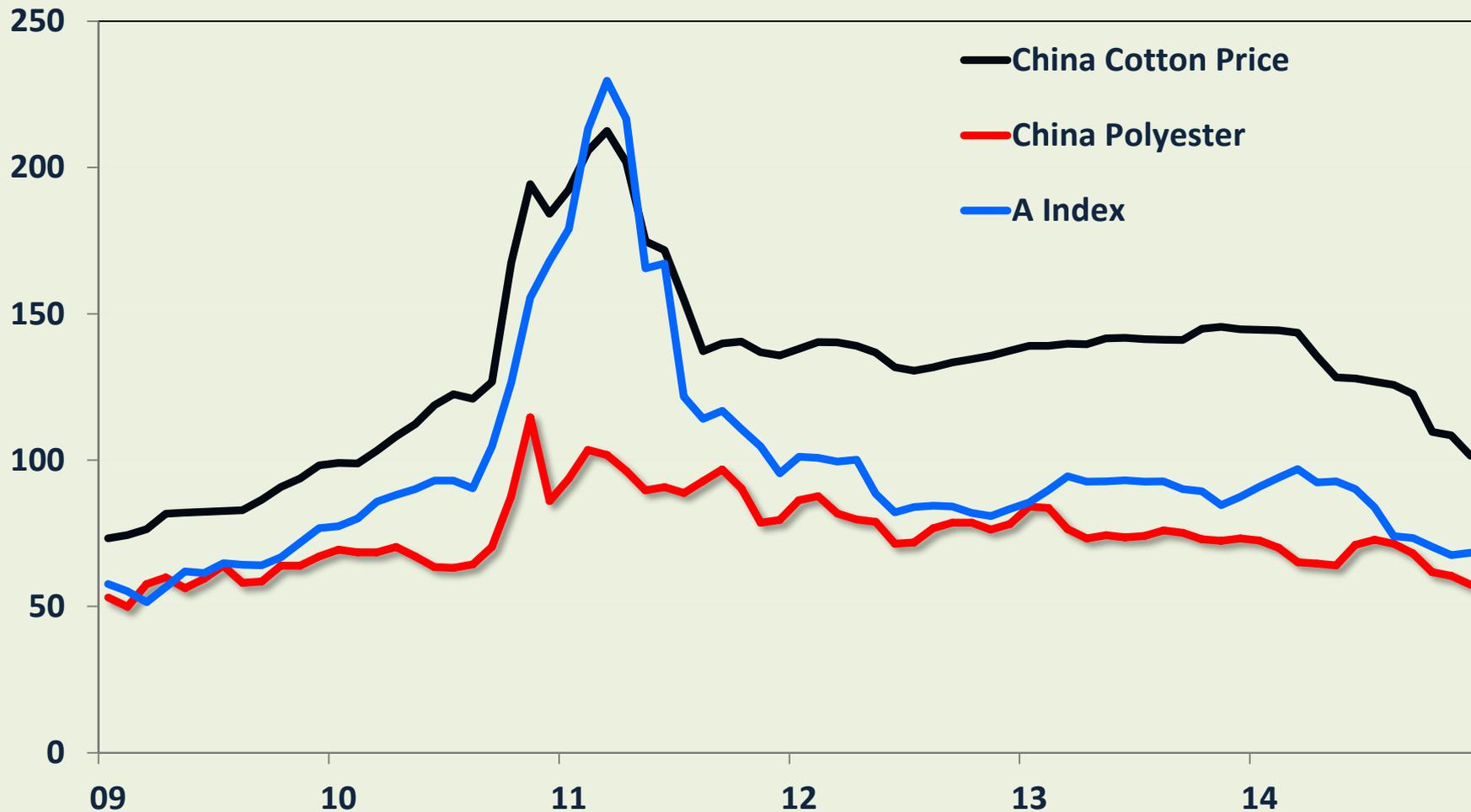


**BUT, wait did anyone think about polyester...**



# China Poly versus China Cotton Prices

Cents per Lb

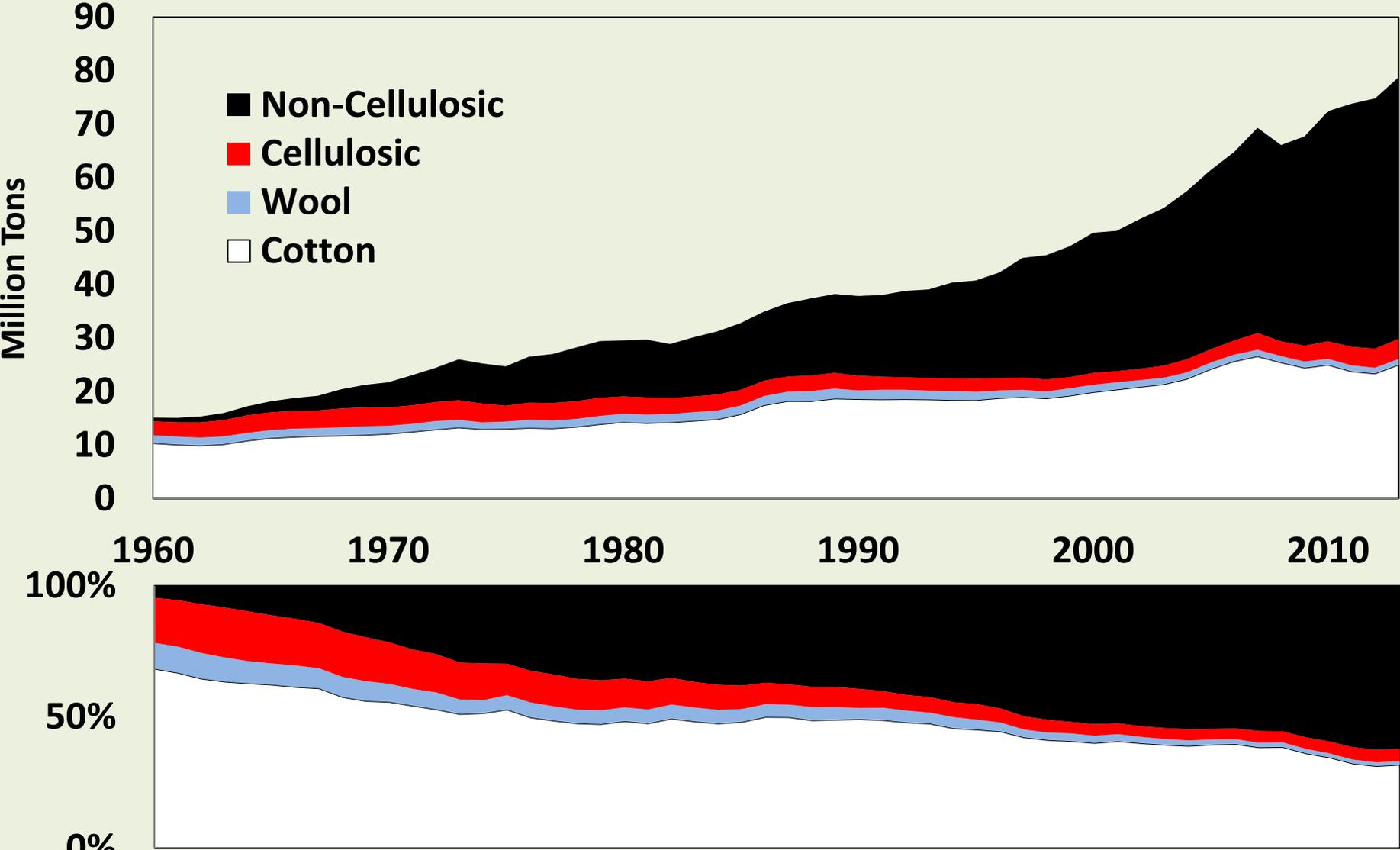


Source: Cotlook Price Series



Creating value is our business

# World Consumption of Textile Fibers



Source: PCI data



Creating value is our business

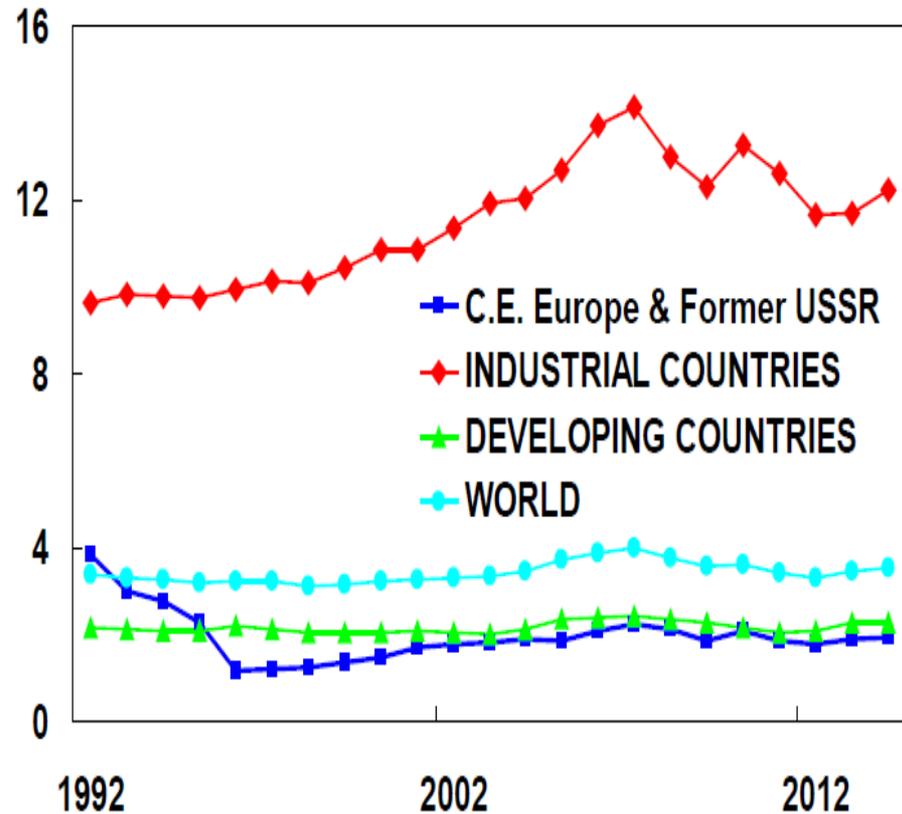
# Wait the China Economy will build demand



# Growing Emerging Markets will save demand?

## END USE COTTON CONSUMPTION

Kg/capita



A 1% increase in GDP per capita generates, on average, a higher increase in demand for each fiber than a 1% decline in (relative) prices.

World cotton use reached new high at 3.9 kg in 2006 and 4.0 kg in 2007, it then declined into 2012 falling to 3.3 kg, the lowest in over a decade.

Source: International Cotton Advisory Committee

# World Synthetic Fibers continues to be dominated by Asia, specifically China!

- 1) Asia accounts for more than three quarters of the world ManMade fiber production.
- 2) When one refers to Asia, they mean China.
- 3) China the largest market, saw one of the largest gains from 2012 to 2013, +7.7%.
- 4) Global production of all manufactured fibers increased 5.0% in 2014 e.

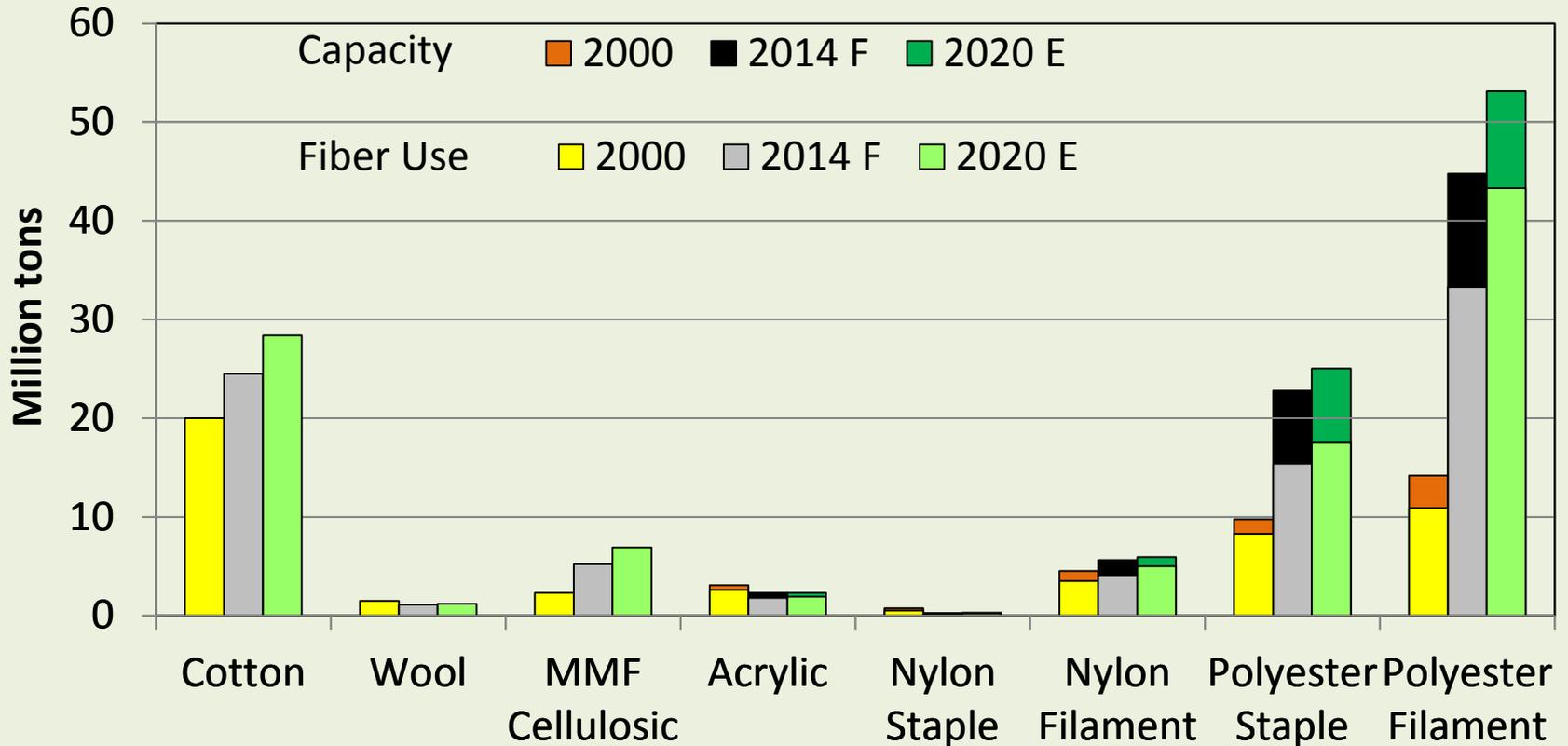
Global % Share	2012	2013	Subtotal
China	67.1%	68.3%	
Taiwan	3.9%	3.6%	
South Korea	3.1%	2.9%	
Malaysia	2.4%	2.4%	77.2%
India	7.2%	6.9%	
Pakistan	0.8%	0.7%	7.6%
USA	3.8%	3.7%	
Mexico	0.4%	0.4%	
Brazil	0.6%	0.6%	4.7%
Western Europe	2.3%	2.0%	
Turkey	1.6%	1.5%	3.5%
Other	6.8%	7.0%	7.0%

Source: Fiber Organon 2014

Million tons	2000	2014 F	2020 e
Cotton	20.0	24.5	28.4
Wool	1.5	1.1	1.2
MMF Cellulosic	2.3	5.2	6.9
Subtotal	23.8	30.8	36.5
Acrylic	2.6	1.8	1.9
Nylon Staple	0.5	0.1	0.2
Nylon Filament	3.5	4	5
Polyester Staple	8.3	15.4	17.5
Polyester Filament	10.9	33.3	43.3
Subtotal	25.8	54.6	67.9
Total	49.6	85.4	104.4

Source: PCI / Redbook & Fibre Organon 2014

# 2020 Polyester Filament and Staple accounts for over 77% of MMF and 56% of total fibers.



## Compound Annual Growth Rates

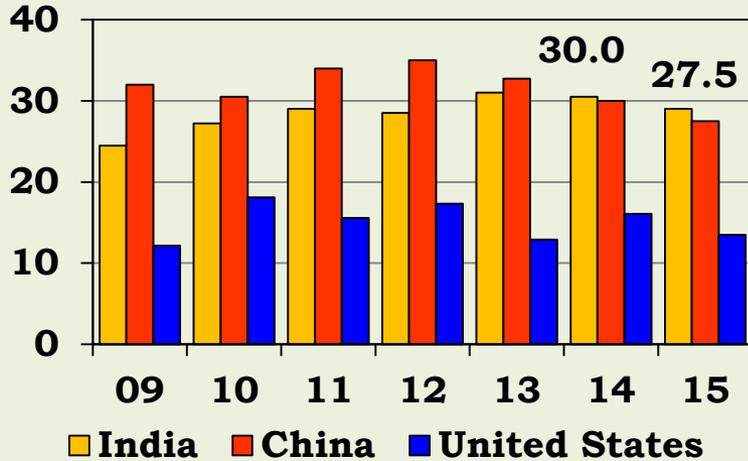
2000-2014	1.5	-2.2	6.0	-2.6	-10.9	1.0	4.5	8.3
2014-2020	2.5	1.5	4.8	0.9	12.2	3.8	2.2	4.5

Source: PCI / Redbook

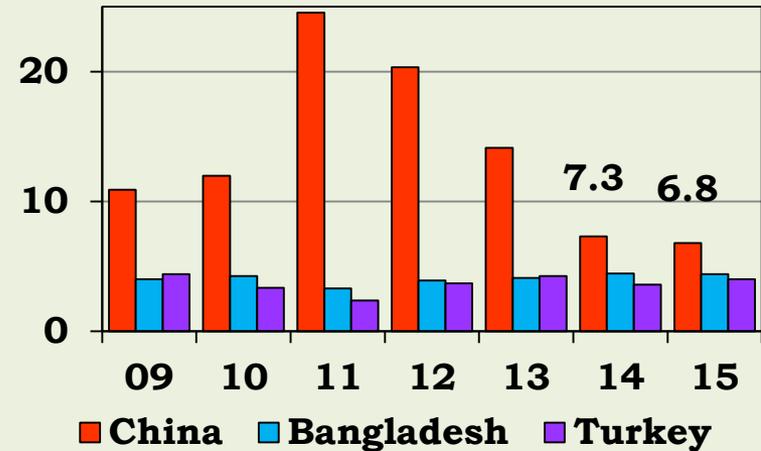
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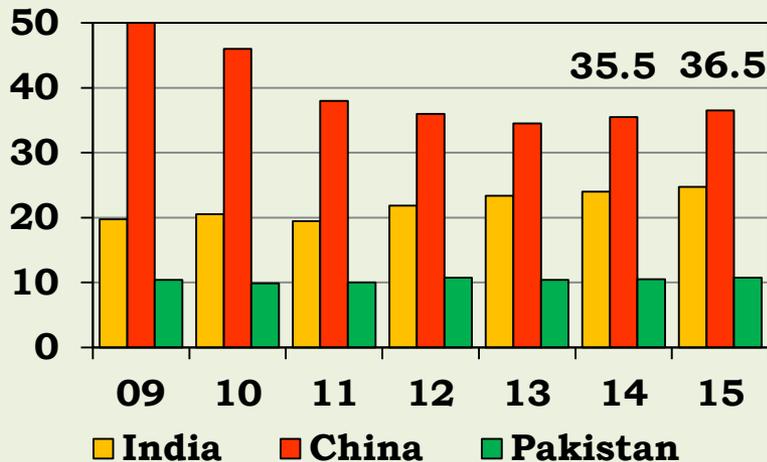
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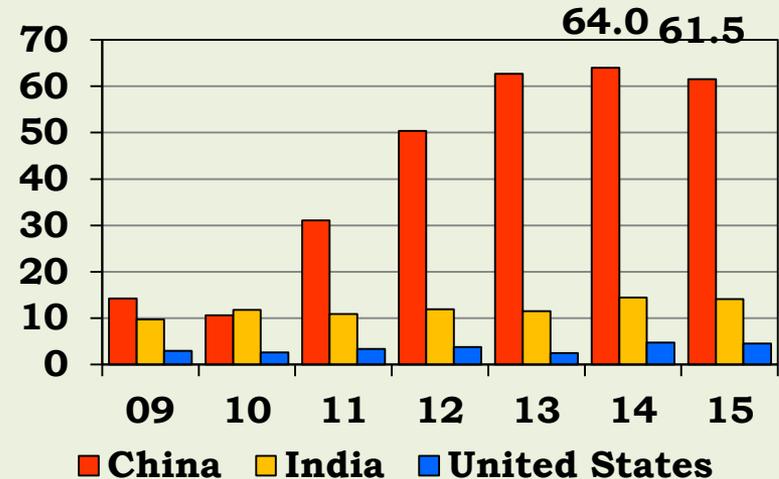
## Cotton Imports



## Cotton Mill Use



## Cotton Stocks



Source: USDA World Agricultural Supply and Demand Estimates (million 480 Lb. Bales)

# Conclusions

**China cotton production** down (8 to 9%) in the interior and flat in XJ.

**China farm subsidy** tested again in 2015/16 on a wider basis

**China crop insurance** programs are tested in 2015/16

**China cotton consumption** grows (3%) modestly in the coming years.

**China imports** exceed the WTO level by 2 to 3 million bales

**China yarn imports** grow (investment in neighboring markets)

**China cotton per capita** continues to fade to new MMF materials

**World cotton demand** returns to long-term growth rate (2.5 to 3.0%).

**Non-China cotton demand** returns back to pre WTO markets

**Non-China cotton supplies** falls (specifically US, Australia and Brazil)

**Cotton supplies** are destined to remain high for several years.

**China reserves** fall modestly by 2 million bales

**Cotton prices** influenced by the large stocks, and limits growths.

**Biggest cotton price influencer**, China's Policy changes.

- Short-term India's stock policy.

# Thank you



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