

## Is China the solution for a better basis?

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September 2023

Readers may remember Roger Tomkin’s article about the China market in Australian Cotton & Grains Outlook March 2023 edition and talk of the possibility of increased (and strong) demand from Chinese buyers for Australian cotton.

Whilst we are not yet at the point of that “strong demand” from China, a case could be made that we are headed in the right direction in terms of the easing of geopolitical tensions and the restoration of more normalised commercial trading between China and Australia.

2020 saw China roll out tariffs or bans on Australian barley, wine, seafood, coal and timber as well as suspending the import of red meat from six Australian beef suppliers. Whilst the impediment to Australian cotton was not an official ban from China, the resultant lack of (or vastly scaled back) exports of Australian cotton to China for more than two and a half years means that it had a similar result to an official ban.

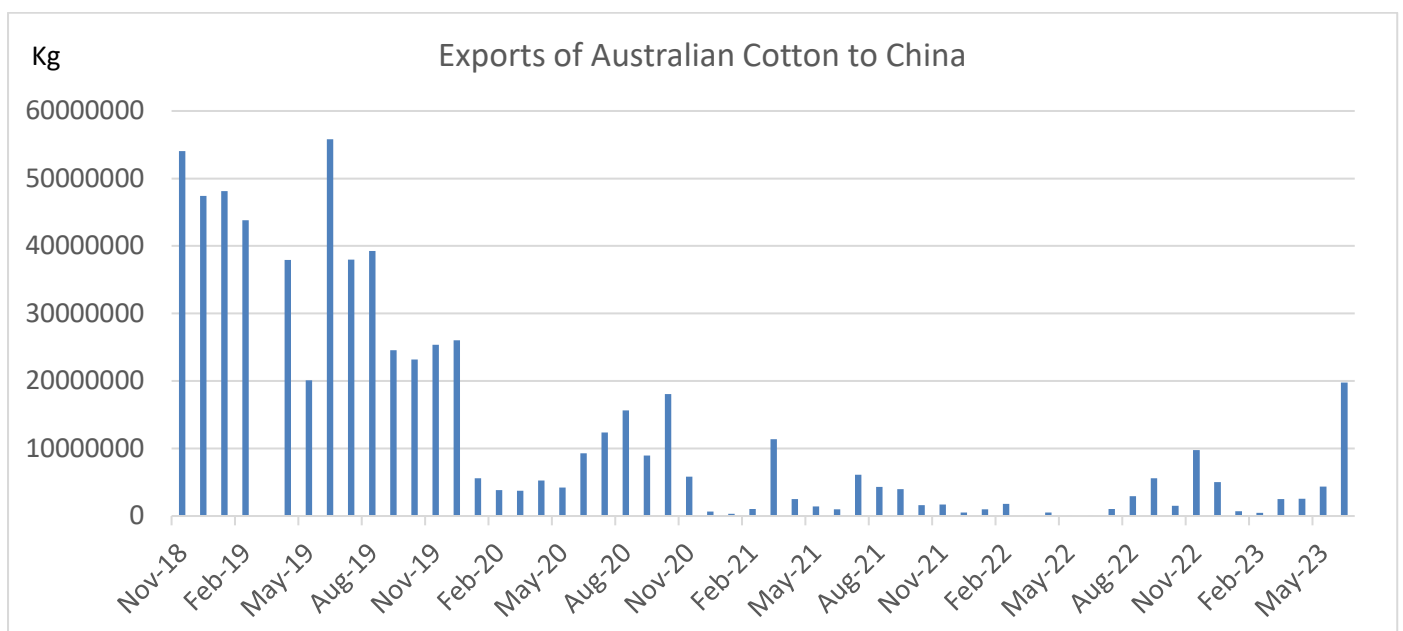
With Australian coal exports in February 2023 amounting to 207,236 tonnes according to data from China’s General Administration of Customs and suggestions of a full recovery of trade between Australian coal exporters and Chinese buyers, hopes were high for improved relations and improved trade numbers as a result.

The export of Australian timber to China was next with trade resuming in February 2023 as well - and as most would know, the 80.5% tariff on Australian barley was also scrapped in early August this year.

China’s Ministry of Commerce made the announcement on August 4<sup>th</sup> that they were scrapping the anti-dumping and anti-subsidy tariffs - effective immediately and putting an end to a circa three year stalemate between the two countries.

China has been the world’s leading cotton consumer since the 1960’s and remains the leading global cotton importer (around 18% of global cotton production). Given that Australia exports 100% of all cotton produced, it is pleasing to see the improvement in Chinese-Australian relations and the resulting effects that this loosening of restrictions has brought to other commodities – and may bring to cotton.

In 2019 China took 65% of Australia’s cotton production – and in 2022 just 2.5%. It will be pleasing to resume an amicable trading relationship with this large consuming country and just as interesting to see what volume of Australian cotton is sold to China over the coming 12 months.



The chart above demonstrates the highs and lows of our trade with China over the past few years and interestingly, the volume reported for June 2023 is the largest single monthly volume of Australian cotton shipped to China since the end of 2019. Many in the industry will be eager to see if this increased volume continues.

Merchandisers of Australian cotton have done extremely well in diversifying markets over this time, re-kindling old relationships and also capitalising on new opportunities to market a couple of significantly sized crops to markets outside of the Middle Kingdom. Diversified demand from more end users is never going to be a bad thing.

With post-Covid shipping rates from Australia to China now coming back to pre-Covid levels (or perhaps even slightly cheaper), now is a perfect time to see opportunities arise to resume raw cotton trading opportunities between these two countries.

On the consumption end for China, data suggests that at the end of August 2023, China had imported 6.238 million bales of lint cotton, of which 53% came from the USA, 31% from Brazil and 4.6% from Australia this marketing year. These numbers suggest that Chinese imports were still approximately 20% less than the previous year and in fact the lowest import number for China since 2017/18.

The Chinese Reserve has recently completed its nineteenth auction of cotton stocks with 100% clearance rate for a total 208,039 tonnes. On August 28th, about 12,000 additional tonnes of reserve cotton will also go to auction.

With current global cotton demand rather constrained for a multitude of reasons including interest rates, fuel and energy costs, housing, the global economy and general cost of living increases, an increase in demand resulting in actual sales of high quality Australian cotton into China might just be the stimulus needed to kick start things on several fronts.

China is the world's second largest economy and there is no doubt that they are also facing their own challenges at present, with weak consumer spending, a worsening property slump and concerns in their banking sector all weighing on their economy.

Despite global and local woes, Chinese spinners certainly appreciate the quality of our cotton and Chinese buyers have told us for years that they like it in their blend/laydown. If we see a resumption of regular trade between China and Australia in the near term, this may lead to an improvement in the basis that merchants achieve as sellers and therefore a positive flow-on effect to growers in terms of ex gin yard pricing. Time will tell.

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