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China Turns Cotton Buyer

After years of stockpiling, country is again big customer of U.S. producers

By JULIE WERNAU

China is re-emerging as a major consumer of U.S. cotton after years of stockpiling the fiber, a shift that together with poor growing conditions in Texas has sent prices surging to a six-year high.

The world's most populous nation has purchased futures contracts covering more than 361,000 bales of U.S. cotton for 2019-20, according to U.S. Department of Agriculture data. That is enough to make 400 million T-shirts. China has never booked that much cotton that far in advance at this time of year, in data going back to 1998.

"It's very unusual to have that many bales in the books," said Peter Egli, risk manager at Plexus Cotton Ltd. "China is the biggest taker of forward sales."

China's return to global cotton markets is likely to mean a period of higher prices for a fiber used in most apparel, textiles and upholstery. It is also a boon to U.S. producers

who have long labored under a market whose prices investors perceived to be capped by China's cotton stores, which for years have accounted for more than half of all global stocks.

China announced this month that it intends to raise cotton import volumes, a move that could increase Chinese purchases of American fiber at a time the Trump administration is calling for more imports from the U.S.

The shift has revived interest in markets that were until recently seen as being overshadowed by Chinese policy. Open interest has reached all-time highs for this time of year, according to data from the U.S. Commodity Futures Trading Commission. July cotton futures on the ICE Futures U.S. exchange closed at 94.94 cents a pound on Friday, the highest level for a front-month contract since February 2012.

Commerzbank said this week that a commitment from China to buy large quantities of U.S. cotton should create a lasting rise in price levels.

China last week offered to purchase nearly \$70 billion of U.S. farm, manufacturing and energy products if the Trump administration abandons threatened tariffs on some \$50 billion in Chinese imports across 1,300 categories of products. President Donald

Trump has pressed China to commit to reduce the \$375 billion U.S. merchandise trade deficit with China by \$200 billion.

Cotton is the latest global commodity market held in sway by Beijing, whose policy decisions as a major purchaser and supplier of the world's commodities often shift global markets.

Chinese strategic cotton reserves are likely to run low by the end of August, according to analysts. China's Ministry of Agriculture and Rural Affairs said in its monthly report on May 10 that while the government self-down of cotton stocks will continue in 2018-19, the domestic supply of high-quality lint is insufficient and cotton imports are expected to increase.

Overbooked auctions and surging futures prices in China recently led the country to limit merchant participation in daily cotton auctions.

China's move to begin hoarding the fiber eight years ago pushed cotton prices above \$2 a pound in 2011, bankrupting some mills and merchants globally. When prices spiked, remaining mills substituted cheaper, synthetic fibers into fabrics. The amount of cotton used in apparel imported to the U.S. dropped 12% between 2010 and 2011—and while prices had fallen back

below 70 cents a pound by 2012, mills didn't increase cotton purchases, according to U.S. trade data.

With China holding half the world's cotton in storage, some speculators were wary to return to a market they knew could see a downturn if China decided to unleash its stockpiles. China began auctioning off cotton in 2013 due to shortages among its mills and increasing global competition. China at one point held 67 million bales of cotton in storage, enough to meet all its needs for about two full years.

Market participants were always wary that China could suddenly unleash those stocks in earnest.

"They kept our prices artificially low as they were selling those bales on our market," said Wayne Roseman, president of Carolinas Cotton Growers Cooperative, Inc.

Demand is starting to spring back. In May, the USDA projected cotton consumption would reach its highest level ever in 2018-19, with global mill use at 125.4 million bales. That is in a year when world production is expected to drop to 121.2 million bales from 122.4 million bales last year. The largest year-over-year changes to cotton imports are forecast for China.

—Lucy Graymer
contributed to this article.