

Explanation of Revisions to the China Cotton Balance Sheet – July 2005 WASDE:

The July supply and demand estimates for China raise the historical residuals that were included in the May 2005 estimates beginning in the 1994/95 marketing year. The accumulation of these adjustments raises estimated 2004/05 beginning stocks by 2.8 million bales from last month; the inclusion of these residuals signals that stocks in China are larger than the level indicated by USDA's estimates of supply less demand. For 2004/05, the change in the residual about offsets a reduction in estimated imports, such that the increase in ending stocks is 2.7 million bales.

This revision is prompted by two developments. The first is that China's import demand continues to fall below expectations, suggesting that domestic stocks are larger than previously thought. The second is recent statements by Chinese officials indicating that cotton already in the national reserve and recent purchases for near-term delivery total at least 3.2 million bales (700,000 tons). Since these stocks are not likely to be available to the market within the next few months, they cannot be included in the pipeline of stocks required for China's mills to continue operating until the new crop becomes available in October. A sizable national reserve, combined with sluggish import demand, is evidence that the previous stock estimate was too low.

The government of China does not provide an official cotton balance sheet. USDA estimates China's supply and demand using China government statistics, to the maximum extent possible. USDA's China production estimate is the final official estimate released by the China National Bureau of Statistics (NBS). USDA's estimates of China's domestic consumption are based on the NBS yarn production data, adjusted to derive domestic use of raw cotton fiber. USDA adopts China customs data for cotton imports and exports. While it is increasingly clear that the data sources and methods used have introduced a discrepancy into the balance sheet, the source of the error is unknown. USDA will continue to investigate this issue, and may make further revisions at a later date.

For 2005/06, USDA is estimating the residual error (negative loss) at 750,000 bales, the same level as 2004/05 and an increase of 400,000 bales from last month. This change combined with a 500,000-bale increase in the production estimate, has prompted a reduction in the import forecast of 1.0 million bales to 14.0 million.

Interagency Cotton Estimates Committee/7-12-05

Revisions to Supply and Demand Estimates for China, July 2005 WASDE:

	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
June 2005 Estimates:												
Beginning stocks	6551	10528	16116	19147	22997	24853	19778	16566	15073	10399	9608	7433
Production	19900	21900	19300	21100	20700	17600	20300	24400	22600	22300	29000	25500
Imports	<u>4060</u>	<u>2908</u>	<u>3491</u>	<u>1725</u>	<u>332</u>	<u>117</u>	<u>230</u>	<u>449</u>	<u>3127</u>	<u>8832</u>	<u>6500</u>	<u>15000</u>
Total supply	30511	35336	38907	41972	44029	42570	40308	41415	40800	41531	45108	47933
Consumption	20000	19400	19950	19150	18700	21300	23500	26250	29900	32000	38000	41000
Exports	<u>183</u>	<u>20</u>	<u>10</u>	<u>25</u>	<u>676</u>	<u>1692</u>	<u>442</u>	<u>342</u>	<u>751</u>	<u>173</u>	<u>25</u>	<u>25</u>
Total use	20183	19420	19960	19175	19376	22992	23942	26592	30651	32173	38025	41025
Loss	-200	-200	-200	-200	-200	-200	-200	-250	-250	-250	-350	-350
Ending stocks	10528	16116	19147	22997	24853	19778	16566	15073	10399	9608	7433	7258
Stocks/use %	52.2	83	95.9	119.9	128.3	86	69.2	56.7	33.9	29.9	23.5	21.3
Revised July 2005 Estimates:												
Beginning stocks	6551	10778	16616	19897	23997	26103	21278	18366	17173	12849	12408	10133
Production	19900	21900	19300	21100	20700	17600	20300	24400	22600	22300	29000	26000
Imports	<u>4060</u>	<u>2908</u>	<u>3491</u>	<u>1725</u>	<u>332</u>	<u>117</u>	<u>230</u>	<u>449</u>	<u>3127</u>	<u>8832</u>	<u>6000</u>	<u>14000</u>
Total supply	30511	35586	39407	42722	45029	43820	41808	43215	42900	43981	47408	50133
Consumption	20000	19400	19950	19150	18700	21300	23500	26250	29900	32000	38000	41000
Exports	<u>183</u>	<u>20</u>	<u>10</u>	<u>25</u>	<u>676</u>	<u>1692</u>	<u>442</u>	<u>342</u>	<u>751</u>	<u>173</u>	<u>25</u>	<u>25</u>
Total use	20183	19420	19960	19175	19376	22992	23942	26592	30651	32173	38025	41025
Loss	-450	-450	-450	-450	-450	-450	-500	-550	-600	-600	-750	-750
Ending stocks	10778	16616	19897	23997	26103	21278	18366	17173	12849	12408	10133	9858
Stocks/use %	53.4	85.6	99.7	125.1	134.7	92.5	76.7	64.6	41.9	38.6	26.6	24
Change in:												
Beginning Stocks	0	250	500	750	1000	1250	1500	1800	2100	2450	2800	2700
Imports	0	0	0	0	0	0	0	0	0	0	-500	-1000
Consumption	0	0	0	0	0	0	0	0	0	0	0	0
Exports	0	0	0	0	0	0	0	0	0	0	0	0
Loss	-250	-250	-250	-250	-250	-250	-300	-300	-350	-350	-400	-400
Ending stocks	250	500	750	1000	1250	1500	1800	2100	2450	2800	2700	2600