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Report Highlights:

Despite negative effects of the COVID-19 pandemic, Vietnam's spinning mills have successfully managed their operations and captured China's increasing demand for cotton yarn. Vietnam's cotton yarn exports to China in marketing year (MY) 2020/21 increased 13 percent to 984 TMT year on year. Vietnam's cotton imports also increased 12 percent in MY 2020/21 to meet with the larger production and exports, reaching roughly 7.3 million bales [or 1.59 million metric tons (MMT)]. However, U.S. cotton exports to Vietnam in MY20/21 decreased 20 percent in volume, to 673 thousand metric tons (TMT), due to larger purchases from China and tough competition from Brazil and Australia. Post estimates that Vietnam's cotton imports for MY21/22 to increase 7 percent over the previous year, to 7.8 million bales or about 1.7 MMT.

SITUATION AND OUTLOOK

Textile Industry

The COVID-19 outbreaks in 2021 have severely hit Vietnam's key economic sectors, particularly the manufacturing sectors where there's an intense concentration of workers including textile and garment, footwear, furniture, and seafood. The fourth and largest wave of COVID-19 that started on April 27, 2021, has spread to 62 cities and provinces with more than 1,050,185 new registered cases and over 23,000 deaths (as of November 18, 2021, by Vietnam's Ministry of Health).

The Vietnam textile and garment industry has been heavily affected by numerous negative effects of the pandemic. While the outbreaks in 2020 caused disruptions in imports of materials from China and affected exports due to falling demand from major markets including the United States and EU, resulting in the first-ever 10-percent decline in exports, the outbreaks in 2021 have severely hit the industry's production and exports again.

To contain the spread of the corona virus, the Government of Vietnam (GVN) has applied restrictive measures that differ among cities and provinces depending on their own COVID-19 outbreak situation.

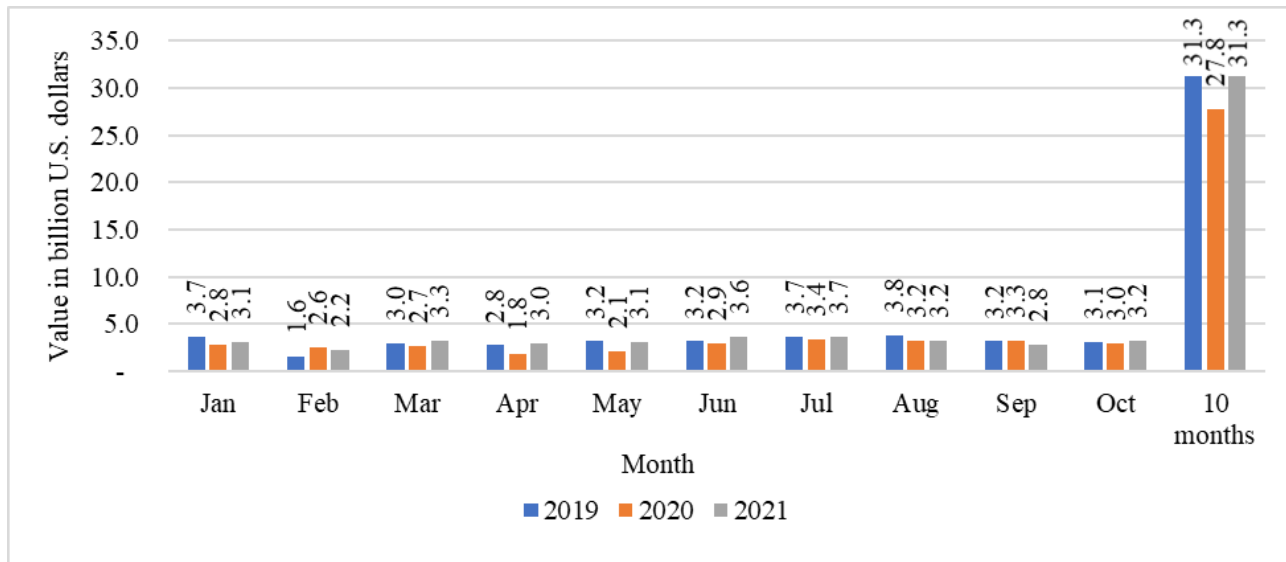
HCMC, Binh Duong, Dong Nai, and Long An, which are home to textile and garment industry, initially required all production establishments and factories, including textile and garment producers, to house their employees in their premises, or provide secured accommodations and shuttle services for their workers and conduct frequent tests as a requisite condition to continue operation. When the confirmed cases and death tally sharply increased in mid-July, Ho Chi Minh City and Binh Duong also ordered full lockdowns with a 6:00 p.m. curfew.

Such aggressive requirements have forced a significant number of factories, particularly textile and garment enterprises which employ an intensive quantity of workers as their nature of business, to temporarily shut down or reduce their operations to minimal levels. This has resulted in serious disruptions to the entire production and supply chain, including exports. Exports in the first seven months partly offset the decline starting from August but will unlikely help Vietnam's textile and garment achieve the 2019 level. (See Figure 1).

The Vietnam Textile and Garment Association (VITAS) estimated that Vietnam's total textile and garment exports in 2021 would stand at \$36 - \$36.5 billion, slightly up 3 – 4 percent over 2020 but still down 7 – 8 percent over 2019. Post will update this trade data on the annual report.

Additionally, the ongoing worldwide container shortage crisis, resulting from COVID-19's negative effects on global trade, continues to impact Vietnam's textile and garment industry (see [GAIN report VM2021-0029](#))

Figure 1: Vietnam's Exports of Textile and Apparel Products to the Global Market



Source: Vietnam Customs

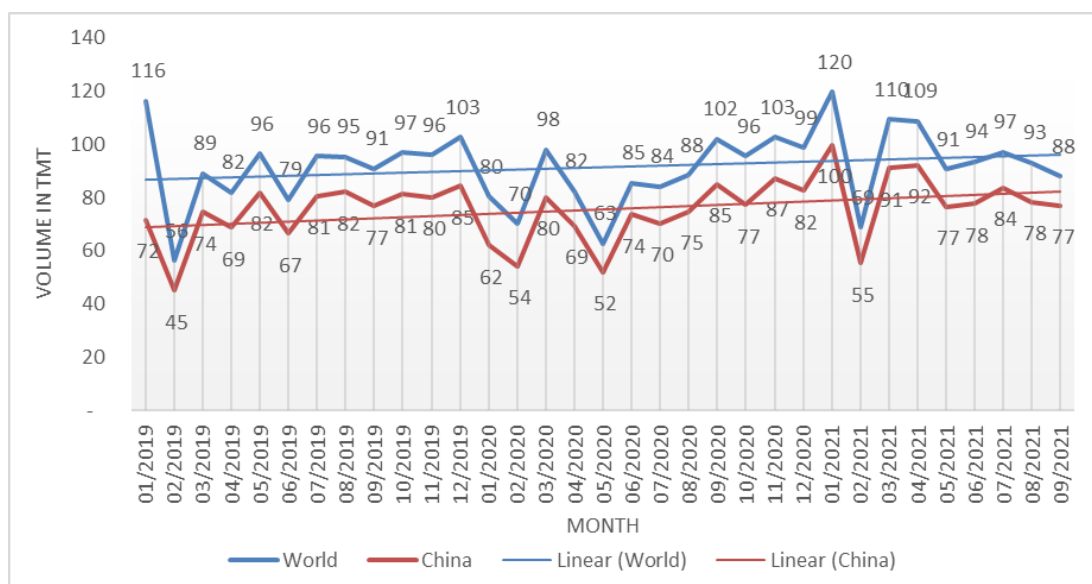
Yarn

Fortunately, Vietnamese spinning mills have not been as badly affected by COVID-19 as garment producers. Using fewer workers, more machinery, and large property, almost all spinning mills can comply with the government's social distancing requirements and therefore, remain operational with no shutdowns recorded so far.

While garment producers have been struggling with COVID-19, such as social distancing requirements, shortage of workers and increasing production costs, Vietnam's spinning mills are likely gaining a successful year in 2021 due to higher demand from China and increasing global yarn prices. According to Vietnam Customs' preliminary data, Vietnam's global exports of yarn of all types in the first ten months of 2021, were 1.6 million metric tons (MMT), valued at \$4.6 billion, up 16.4 percent in volume and 55 percent in value over the same period last year. Industry contacts estimated that Vietnam's all-type yarn exports could touch the record 2 MMT, value at over \$5.5 billion in CY 2021.

Vietnam's cotton yarn exports under harmonized system (HS) code 5205 and HS code 5206 in the first 9 months of CY2021 surged 14 percent to 861 thousand metric tons (TMT), valued at \$2.5 billion, up 40 percent year on year, according to Trade Monitor Data. Key factors supporting this significant growth include capability of maintaining production, strong demand from China starting from June 2020 (Figure 2) and rising global cotton yarn prices.

Figure 2: Vietnam's Cotton Yarn Monthly Exports to Global Market and China

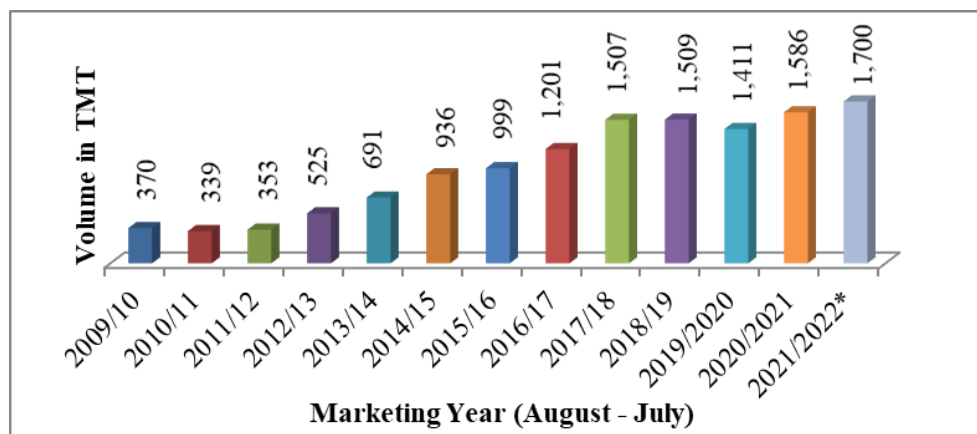


Source: Vietnam Customs

TRADE

In light with the steadily strong increase in cotton yarn exports to China, Vietnamese cotton imports in marketing year (MY) 20/21 went up 12 percent to roughly 1.6 MMT or 7.3 million bales, exceeding Post estimate in the Vietnam Cotton Annual Report 2021. Despite the volatility of cotton prices, local spinners pull out all the stops to capture the Chinese market demand for cotton yarns. Based on this positive trend, the recovery of global demand for clothing and the recent COVID-19 developments in Vietnam, Post revises its preliminary forecast for Vietnam's cotton imports in MY21/22 that will increase 7 percent to 7.8 million bales or about 1.7 MMT (Figure 3). Again, this forecasted recovery is subject to change based on COVID-19 developments and trade tensions between the United States and China.

Figure 3: Vietnam's Cotton Imports by Marketing Year (TMT)



Source: Customs Vietnam, *Post estimate

The United States continues to be Vietnam's largest supplier of cotton, but U.S. cotton exports to Vietnam in MY20/21 dropped by 20 percent over MY19/20, to 3.1 million bales or 673 thousand metric tons (TMT) year on year due to numerous factors including 1) Vietnamese spinners are encountering difficulties in buying U.S. cotton due to major purchases by China and 2) tough competition from Brazilian and Australian cotton (Table 1).

Table 1: Vietnam Cotton Imports by Marketing Year (TMT)

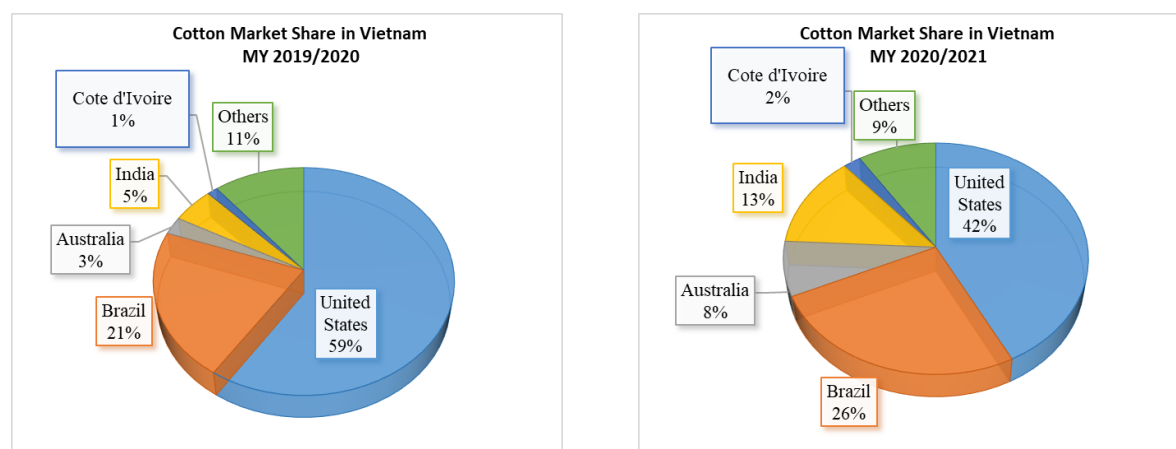
Reporter	Marketing Year (August - July)			% change 2020/2021 vs 2019/2020	Market Share(%)		
	2018/2019	2019/2020	2020/2021		2018/2019	2019/2020	2020/2021
United States	834	837	673	-20%	55%	59%	42%
Brazil	177	299	409	37%	12%	21%	26%
India	102	71	205	189%	7%	5%	13%
Australia	103	35	121	246%	7%	2%	8%
Cote d'Ivoire	25	17	33	94%	2%	1%	2%
Others	268	152	145	-5%	18%	11%	9%
Total	1,509	1,411	1,586	12%	100%	100%	100%

Source: Trade Data Monitor; Vietnam Customs; Post's calculations

Brazil continues to rapidly expand its cotton market share in Vietnam, from 12 percent in MY18/19 to 26 percent in MY20/21 (Figure 4). Key drivers for such impressive growth remain abundant supply, competitive prices, and improving quality. Brazil is on the way to catch up to the United States in cotton exports in the Vietnam market.

Australia's cotton exports sharply increased in almost all major markets, including Vietnam with 246 percent increase year on year, but significantly decreased in China. Spinning mills noted that they have received more offers of Australian cotton at more reasonable prices than before. Industry contacts assumed that this trend has happened due to the ongoing tension between Australia and China.

Figure 4: Cotton Market Share in Vietnam



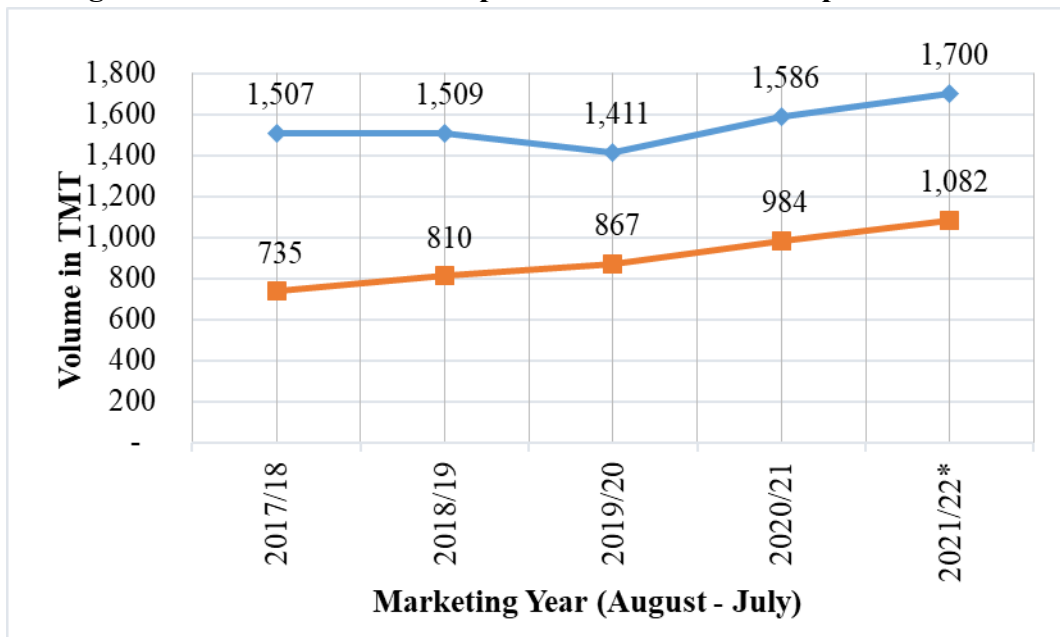
Source: Trade Data Monitor; Vietnam Customs; Post's calculations

CONSUMPTION

Vietnam's cotton consumption, reflected by cotton imports and cotton yarn exports, has remained robust, mainly due to healthy spinning mills, strong demand for cotton yarn from China, possible effects of international sanctions on Xinjiang cotton, and rising global cotton yarn prices.

China's cotton yarn imports from Vietnam in MY20/21 were 984 TMT, up 13 percent year on year. The increase in cotton yarn exports results in higher demand for cotton. Post therefore revises its estimate for Vietnam's cotton consumption in MY2021/2022 at approximately 7.8 million bales or 1.7 MMT, up 7 percent over MY 2020/2021 (see Figure 5 and Table 2).

Figure 5: Vietnam's Cotton imports vs. Cotton Yarn Exports to China



Source: Trade Data Monitor; Vietnam Customs; Post's estimate

PRICES

Vietnam's average cotton import prices have steadily increased since August 2020, from \$1.43 per kg to \$2.04 in September 2021 (See Figure 6). Industry experts noted that the rising cotton prices often contain potential risks. Spinning mills usually order cotton way in advance, so when the prices turn around, they will suffer. Nevertheless, spinning mills have kept purchasing cotton despite rising prices to meet the increasing market demand for cotton yarn.

Figure 6: Cotton Average Import Price (USD/kg)



Source: Vietnam Customs

STOCKS

The global logistics issue has resulted in delays in cotton shipments. Local spinners noted that stocks are getting smaller. Post estimates the stocks-to-use ratio in MY20/21 at around 15 percent.

MARKETING/ POLICY

Tariffs on cotton

Cotton fiber (HS codes 5201, 5203) has a zero tariff, and a 5 percent value added tax.

Tariff on cotton yarn

Cotton yarn (HS codes 5204, 5205, 5207) has a 5 percent tariff, and a 10 percent value added tax.

Table 2: Production, Supply, and Demand Data Statistics

Cotton	2019/2020		2020/2021		2021/2022		
Market Begin Year	Aug 2019		Aug 2020		Aug 2021		
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
							(Units)
Area Planted	-	-	-	-	-	-	(1000 HA)
Area Harvested	1	-	1	-	1	-	(1000 HA)
Beginning Stocks	1,228	1,228	1,111	1,100	1,124	1,076	1000 480 lb. Bales
Production	3	-	3	-	3	-	1000 480 lb. Bales
Imports	6,480	6,472	7,310	7,276	7,300	7,800	1000 480 lb. Bales
MY Imports from U.S.	-	3,839	-	3,087	-	3,500	1000 480 lb. Bales
Total Supply	7,711	7,700	8,424	8,376	8,427	8,876	1000 480 lb. Bales
Exports	-	-	-	-	-	-	1000 480 lb. Bales
Use	6,600	6,600	7,300	7,300	7,300	7,600	1000 480 lb. Bales
Loss	-	-	-	-	-	-	1000 480 lb. Bales
Total Dom. Cons.	6,600	6,600	7,300	7,300	7,300	7,600	1000 480 lb. Bales
Ending Stocks	1,111	1,100	1,124	1,076	1,127	1,276	1000 480 lb. Bales
Total Distribution	7,711	7,700	8,424	8,376	8,427	8,876	1000 480 lb. Bales
Stock to Use %	17	17	15	15	15	17	(PERCENT)
Yield	653	-	653	-	653	-	(KG/HA)

Attachments:

No Attachments