

The China Cotton Index – A tool for government and industry

With the continuous deepening of China's cotton trading and distributing systems and the complete opening of the cotton market, China's cotton price are now determined by the market instead of government. In order to reflect Chinese cotton price in a timely and realistic fashion, China National Cotton Exchange (CNCE), after more than one year's research and preparation, received approval of the method of calculation from the Economic Construction Service of Ministry of Finance, Economic Circulation Service of the National Development and Reformation Commission, the Research Center for Rural Economy of Ministry of Agriculture, the Cotton and Jute Bureau of All China Federation of Supply and Marketing Cooperatives, to formally establish a Chinese Cotton Price Index, known as the CC Index, in June 2002. Publication of the CC Index has been broadly welcomed. The Index has commanded attention from domestic and overseas cotton interests, and also has become an important basis used by the national macro adjustment and control department to follow the trend of the domestic cotton price.

The CC Index is calculated from the prices at which cotton is offered to the final consumers, i.e. mills, and is published at 9:00 a.m. every working day. The quotations are intended to reflect the competitive level of offering prices, not the level at which business has been arranged.

Development of China Cotton Index

At the beginning of June 2002, the CNCE calculated average prices by collecting daily offers received by 105 mills. From June 2003 onward, the CC Index was published every Monday and Thursday before 10 am and more than 180 mills began to submit offering price information to the CNCE. In order to ensure its authority and impartiality, the CC Index began to be monitored by China Cotton Association and was published on the websites of the CCA and Cottonchina.org. In order to reflect the trend of Chinese cotton price after the complete opening of domestic cotton market, the Price-Monitoring Center of the National Development and Reform Commission, the CCA and the CNCE jointly traced back the CC Index. The CC Index was supplemented on basis of historical data that had been preserved in the Price-Monitoring Center of the National Development and Reform Commission, and 33 values were added covering the period from September 1999 to May 2002. At present, the CC Index is published daily, and offering prices received by 200 mills are taken into consideration.

Meaning of the CC Index :

The CC Index represents the price level of Type 328, delivered to mill, on the day proceeding the date of publication.

Detailed explanation of the CC Index :

Average delivered mill offering prices of Type 129, 229, 329, 328, 429 and 527 are calculated for each grade in each province. Using the ratio of the spinning production of each province (calculated by reference to data of the previous season published by the National Bureau of Statistics) against the national total as a weighting factor, a national, weighted-average price is obtained for each type. Finally, the Type 329 weighted-average price is converted to a 328 value based on a 1% value difference. This value, along with the 328 weighted-average price, is averaged to produce the CC Index. In addition, average prices are also established for Types 129, 229, 329, 429 and 527 in the major cotton locations, and weighted national averages

compiled, which give an indication of the typical quality differentials. At the time of writing, the premium for Type 129 over the base quality is slightly over 8 percent, and the discount for Type 527 is over 7 percent.

Management and update of the CC Index:

The CC Index is monitored by China Cotton Association and published every morning before 9 am on the websites of China Cotton Association (<http://www.china-cotton.org>) and Beijing Cotton Outlook (<http://www.cottonchina.org>).

How is the China Cotton Index used?

- * The price basis for China Cotton Association to apply the policy support from the state macro-adjusting sectors.
 - * The price reference for the Warehouse Receipt Mortgage business of the China National Cotton Exchange.
 - * The basis for establishing the premium and discount of forward trading on the China National Cotton Exchange.
 - * The price basis for banks lending money to cotton system enterprises.
 - * The reference for the People's Bank of China, the central bank, to monitor the domestic cotton market.
 - * Reported by CCTV (Central China Television Station) Agricultural Channel 7 every day.
 - * The general guide price for the industry at large.
- The foregoing are only a few examples of how the China Cotton Index is used. Several other institutions and organizations employ the CC Index in one way or another.