

COTTON MARKET REPORT AUGUST 2023



International situation

The weather will take front and centre stage again this season. Of the top five cotton-producing countries in the 2023/24 season, four are having significant problems with the weather. So far, China, India, Pakistan, and the United States are all experiencing adverse weather conditions that will have an impact on cotton production. China has been experiencing extremely hot and dry conditions in its largest cotton-growing region, Xinjiang. The Xinjiang region accounts for 90% of all cotton produced in China, so a problem in this specific region spells big trouble for Chinese cotton.

In addition, both India and to a lesser extent, Pakistan, are suffering from a rainfall shortage. These shortages have come at a time when the crop in both countries needs water for continued boll development. If rain does not materialise, it could decrease yields and affect quality. The United States region of West Texas is once again suffering from a lack of rainfall. While this region did receive sufficient early-season rains, no significant rain has fallen since early planting. To make matters worse, very high temperatures have sucked much of the accumulated moisture out of the soil, leaving sub-soil moisture low. This may not be as dire as last season because the early and significant rainfall did help with plant development and encouraged deep tap roots.

Still, if dry conditions continue to persist, yields and quality will suffer. The USDA dropped the estimated cotton production this season by nearly 550,000 tonnes. Depending on weather conditions over the next few months, it might drop a bit lower, but a drop of more than 100,000 tonnes over what has already occurred, is not expected. This could put the United States' total production at 2.95 million tonnes. This amount of production in the United States, puts Brazil within striking distance of overtaking the USA in overall cotton production, a stated goal of the Brazilian cotton industry.

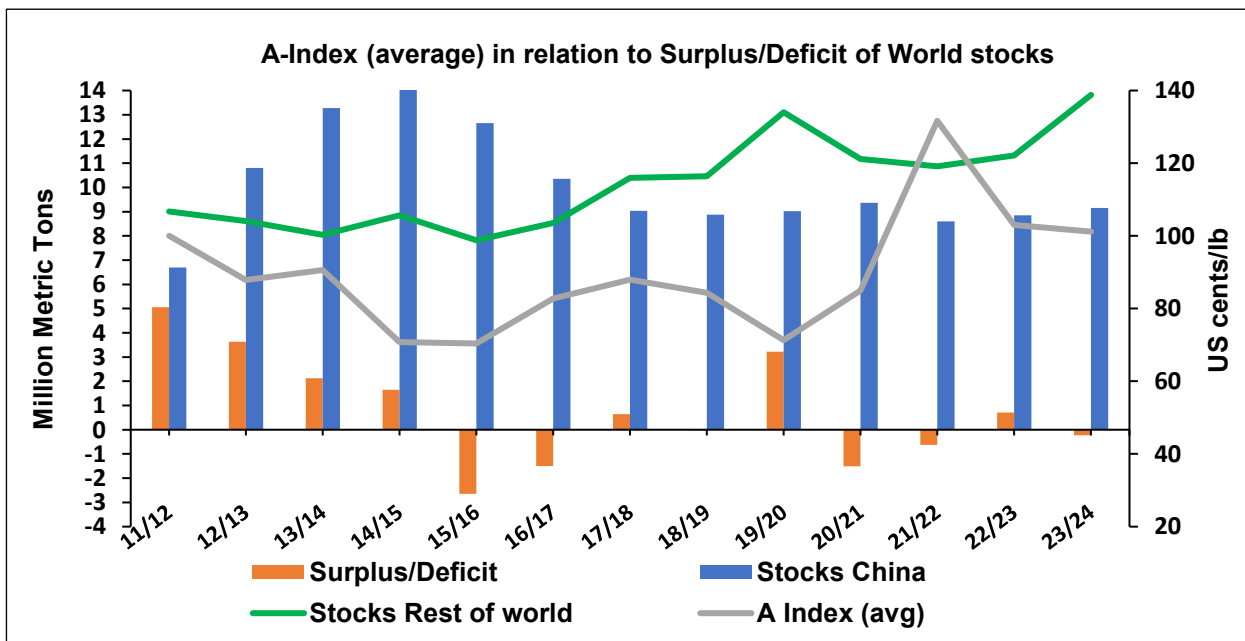
Weather concerns are not the only potential story this season. For the past year, there have been reports on the impending global recession and inflation in many countries. While the recession has not occurred as many had feared, and inflation in most of the developed countries has been reduced, troubling news is received out of China. Disinflation has taken hold in China, and this could spell trouble for the world in the long term. Deflation is a sustained decrease in the general price level of goods and services in an economy. While many people might assume that falling prices are always a good thing, deflation can have several negative effects on an economy. The impacts on cotton from this situation are complicated. If the yuan depreciates rapidly, it



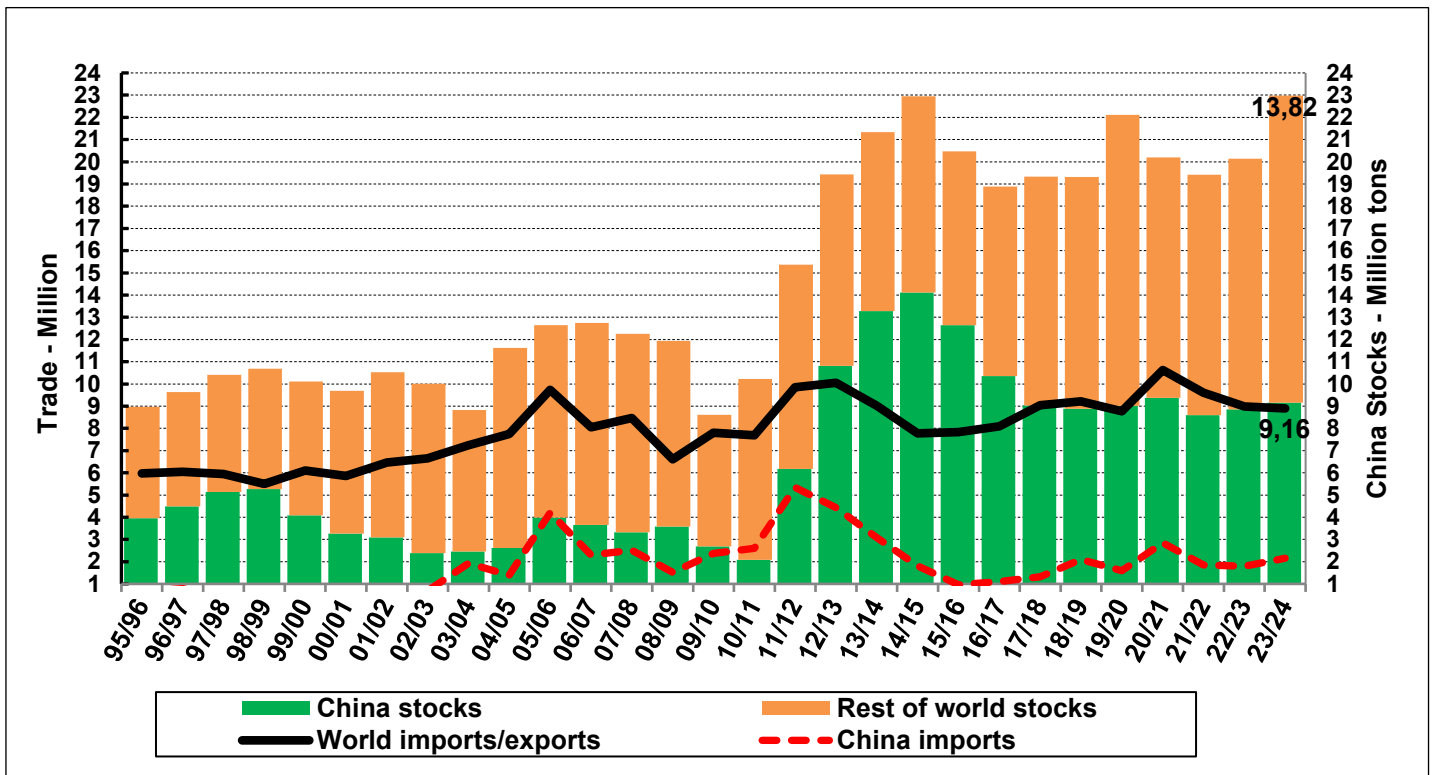
will give Chinese exports an advantage in the global marketplace, including cotton. In terms of cotton imports into China, a devalued yuan may severely curb these transactions. The three largest cotton exporters to China in the 2022/23 season were the United States, Brazil, and Australia. China is the manufacturing base for much of the world. China is expected to produce 5 600 000 tonnes, India, 5 450 000 tonnes, the USA 3 046 000 tonnes, Brazil, 2800 000 and Pakistan, 1 628 000 tonnes. This could spell trouble for cotton exports in these three countries, especially since cotton exports from the United States to China last season were the lowest since the pandemic season of 2019/20.

In addition, if the situation in China is not corrected quickly enough, it could spill over globally in the form of a recession. China is the second-largest economy in the world and remains the manufacturing base for much of the world. A slowdown in China's industrial production would bring about a global slowdown on the consumption side of the equation, either as a matter of course or through weakened consumer sentiment spilling out of China into the rest of the world's economies.

In other words, consumer sentiment is contagious. While disinflation does not lead to a recession by itself, it can be a contributing factor under certain circumstances — and all signs are pointing in that direction if Beijing does not course correct soon. As a result of the two situations detailed above, we have lowered our production and consumption numbers for the 2023/24 season. Production remains ahead of last season and is currently estimated at 25.06 million tonnes. Consumption has been reduced by 1.2 million tonnes since last month and is currently sitting at 23.21 million tonnes. This is below last season's consumption numbers, and the potential remains for a further drop as the season unfolds. The good news is that production remains above consumption and barring any drastic and unforeseen situations, the gap remains large enough that there will be sufficient cotton to supply the markets. This also implies that prices are likely to remain around the current level and it would not be surprising if they hovered in the mid 80-90 cent per pound range for the 2023/24 season. The A-Index is currently reporting 98.05 cents per pound.



World Trade versus China



Source: www.icac.com

(Quoted in US cents per pound)	01/09/23	Season Low	Season High	1 Year ago	2 Years ago
Cotlook A-Index	98.05	88.7	135.20	131.60	102.15
NY Futures Nearby Contract ^a	88.10	72.00	122.20	113.29	94.15
Basis ^b	9.95	6.40	N/A ^c	13.31	8.24
2022/23 average to date	101.13				
2021/22 average	131.68				

^a Previous day's close.

^b Current A-Index minus Nearby NY (previous close)

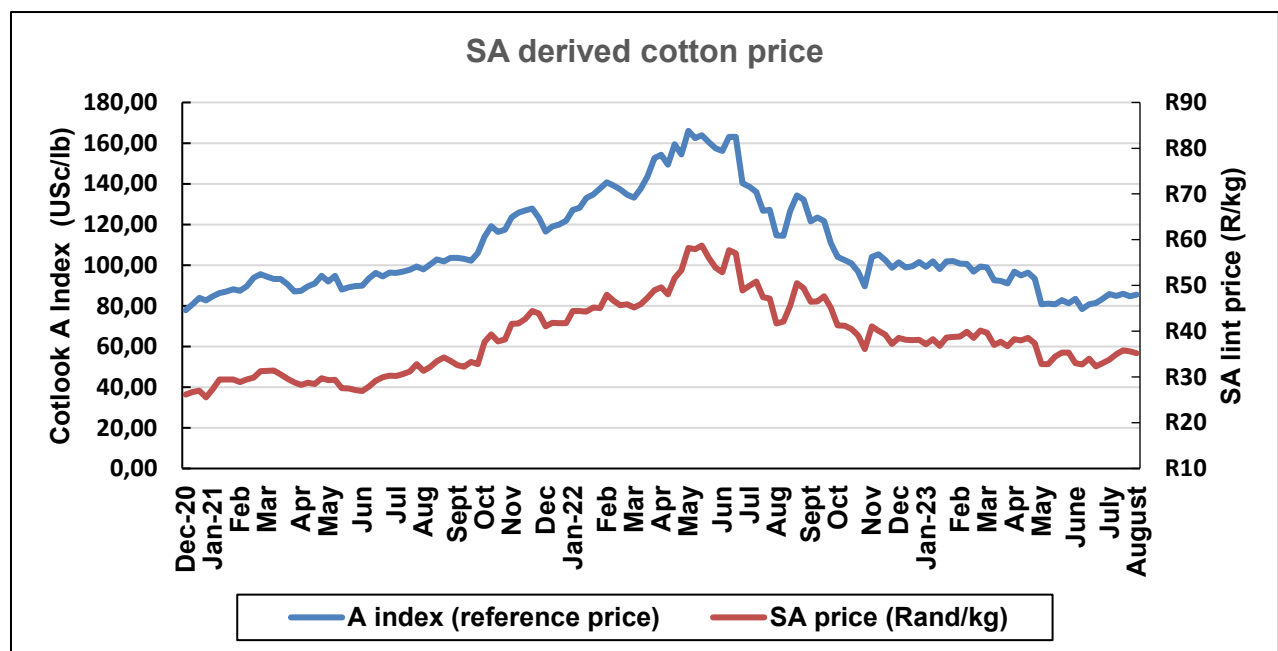
^c N/A: Not available



Local outlook:

The local lint price is derived from the international price, the December 2023 NY Futures prices for SLM 1 $\frac{1}{16}$ ", and quoted in US cents per pound. The price is converted to ZAR price, and an average weekly price is provided to farmers via WhatsApp on a weekly basis. The closing price for the farmers' lint will depend on the marketing model he has chosen, the quality of the lint,

and after the deduction of other relevant costs like transport, ginning fees, grading fees, levies, storage, interest, etc. The lint price for South African farmers has increased to reach an average reference price of R35,16 per kg lint for Strict Low Middling 1 $\frac{1}{16}$ " (for the last week in August), the week ending on 28/08/2023.



The 8th crop estimate indicated that hectares planted under irrigation have increased, as well as the hectares planted under dryland conditions. The total expected hectareage is just over 20 000 hectares, which makes up the volume of the crop to give a higher estimated number of lint bales achieved. The possible effect of the floods on crop yield can be seen in the figures on the estimated average yield obtained under irrigation is a bit lower than the 7th estimate, of 4 436 kg seed cotton/ha, while under dryland conditions, it is 1 331 kg seed cotton/ha.

The larger proportion of the total lint bales (n ≈ 88 425) is estimated to originate from the Limpopo Province, which includes dryland and irrigation areas (51 221 bales), while the North West Province is estimated to produce 11 769 bales, mostly dryland, the Mpumalanga

Province, 2 475 bales, the Northern Cape Province, 16 234 bales from irrigated fields only, KwaZulu-Natal Province, 6 624 bales and Gauteng Province, 102, that originated from dryland production.

The fibre quality of the crop to date (1/04/2023 to 1/09/2023) for the 2023 production year, for a total of 49 829 samples analysed thus far, represents 36,7% of the season's samples being leaf grade 1; 20,8% were leaf grade 2, and 21,1 % of the samples analysed were leaf grade 3, with the minority of the samples falling in the lower leaf grades.

Percentages achieved for USDA grade have also improved from the previous season, to include 28,1 % of samples falling within GOOD MIDDLING; 19,1 % within STRICT MIDDLING, and 26 % were MIDDLING, with the smaller portion of the crop, falling in the less acceptable grades.



The current value for the past season for average fibre length is 1,14 HVI length (1" ⁵/₃₂), the average micronaire is 4,06; fibre strength is 29.41 grams/tex, and the average uniformity index for the season, up to the end of August, is 80,97. It is

encouraging that the number of lint bales has increased, and producers are requested to plant at least 20% more than the past season, to facilitate research and services rendered to the industry.

RSA CROP	2022/23 7th Estimate	2022/2023 8th Estimate	2021/22 Final Estimate
Ha Irrigation	6 818	6 988	7 195
Ha Dryland	11 139	13 682	10 823
Total Ha	17 957	20 670	18 018
Yield Irrigation (Kg seed cotton/ha)	4 525	4 436	4 306
Yield Dryland (Kg seed cotton/ha)	1 476	1 331	1 103
Total no. lint bales (@ 200kg/bale)	85 253	88 425	76 659

Inquiries: Dr Annette Bennett

Tel no: 012 804 1462

