COTTON MARKET REPORT JULY 2023

International situation

The final production number for the closing season of 2022/2023 is 24.68 million tonnes of cotton lint, about 2% below the 2021/22 season. Global demand for cotton (consumption) remains below production and will close the season at 23.88 million tonnes — 7.55% below the 2021/22 season, which is a significant drop. Trade numbers are also lower than in the previous season. Overall, imports are down 12.13% and exports are down 13.34%. With low consumption and trade numbers, one would expect to see an increase in the ending stocks — and one can, with the balance sheet for ending stock increasing 4% over the 2021/22 season and now sitting at 20.21 million tonnes.

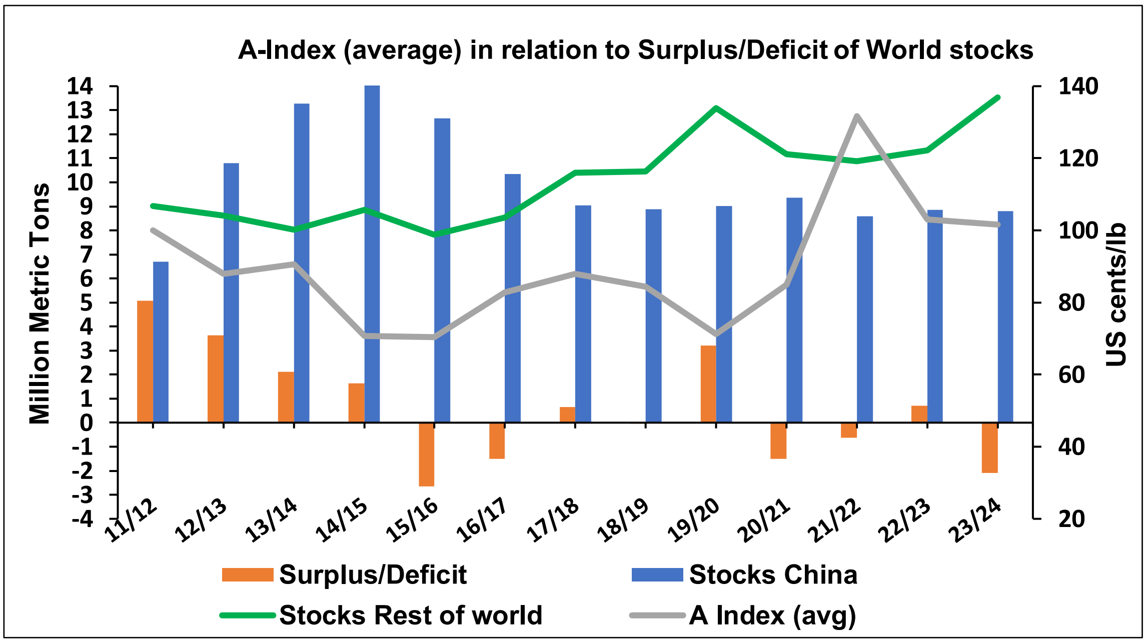
There were several primary factors that played into this season's overall lower performance. Pakistan experienced early season flooding which caused catastrophic damage to the crop. The United States experienced a severe drought in its largest cotton-growing region (West Texas) that wiped out a non-trivial amount of the crop. Between these two large producing countries alone, the cotton industry lost 1.1 million tonnes compared to the previous season. In addition to weather-related issues, the world was — and still is — dealing with complicated geopolitical issues in Europe and recession fears across the globe.

The central banks in all the developed nations initiated a campaign of raising interest rates to tame inflation and it has largely been successful. Inflation in many of the developed nations has subsided and the central banks have avoided pushing the economies into recession so far. The only developed nation that is officially in recession is Germany, and theirs is a very mild recession. These recession fears drove down consumer sentiment which slowed spending on cotton-related items. This was clearly seen in the data with lower consumption and trade in the 2022/23 season.

According to the current balance sheets processed by the ICAC, the season looks very promising. Each variable considered is above the 2022/23 season: area, yield, production, consumption, trade, and stocks are all up, but figures will be adjusted as the season progresses. The top five producers, i.e., India, China, USA, Brazil & Pakistan are likely to show some difficulty in reaching the desired production numbers for 2023/2024. Consumption is reported to be 24.41 million tonnes of lint, about 30 000 tonnes more than in the previous season. Consumer confidence remains low in, leading to a decrease in demand for cotton goods and a subsequent reduction in mill use.

Low mill use can translate into lower levels of trade, both for imports and exports of lint. While higher trade numbers are reported for the 2023/2024 season, it is expected that these numbers will fall. The general sense is that trade will land somewhere in the range of 8.3 million to 8.6 million tonnes of lint. The current price of the season 2022/23-average-to-date (August 1 of 2022 to 31 July 2023) is 101.58 US cents per pound.

Cotlook A-Index today (2 August 2023) was 97.25 US cents per pound with a season-low of 88.7 and a season-high of 135.2 US cents per pound. China's consumption is 7.43 million metric tonnes of the total world consumption of 24,41 metric tonnes of lint. The surplus/deficit, the Cotlook A-Index average in relation to world stocks versus China can be seen in the graph below.



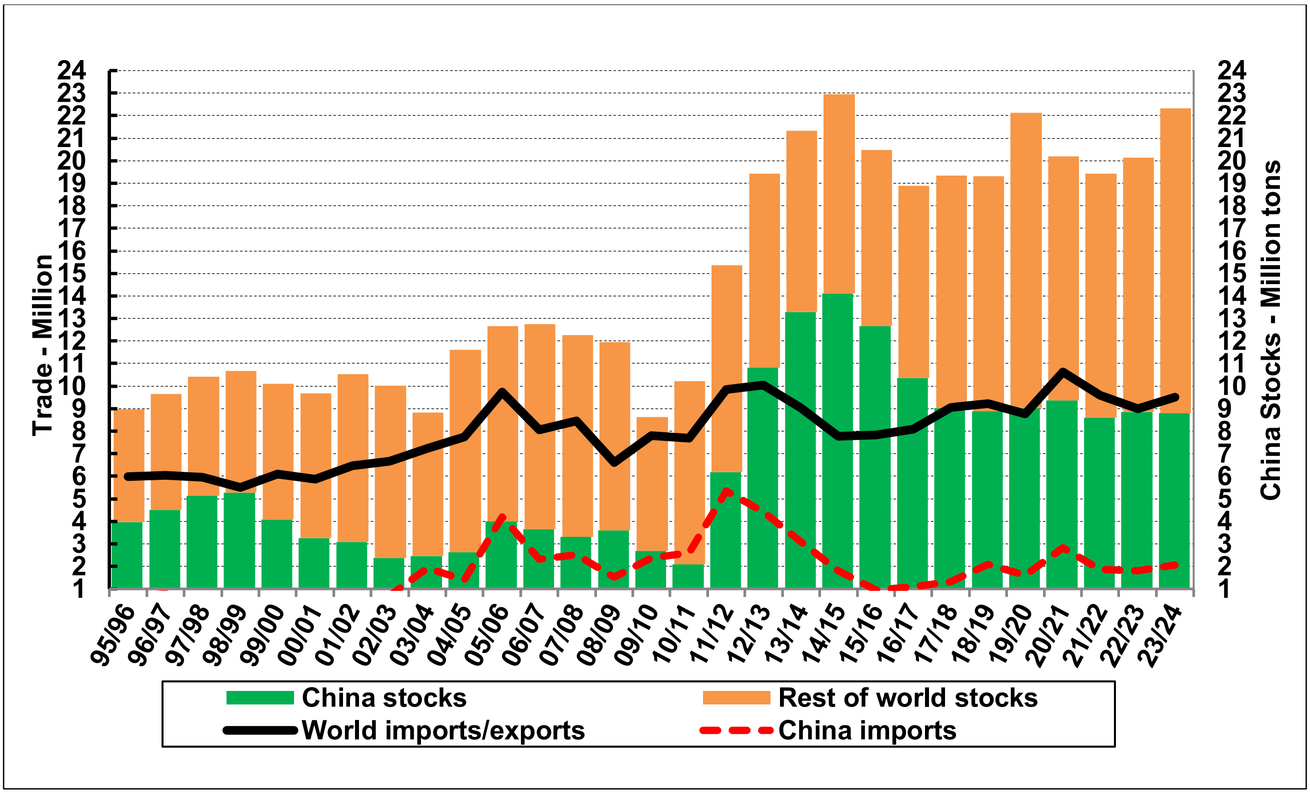
(Quoted in US cents per pound)	02/08/23	Season Low	Season High	1 Year ago	2 Years ago,
Cotlook A-Index	97.25	88.7	135.20	112.30	97.90
NY Futures Nearby Contract [a]	86.87	72.00	122.20	100.87	90.07
Basis[b]	10.38	6.40	N/A[c]	12.01	8.07
2022/23 average to date	101.58				
2021/22 average	131.68				

[a] *Previous day's close.*

[b] *Current A-Index minus Nearby NY (previous close)*

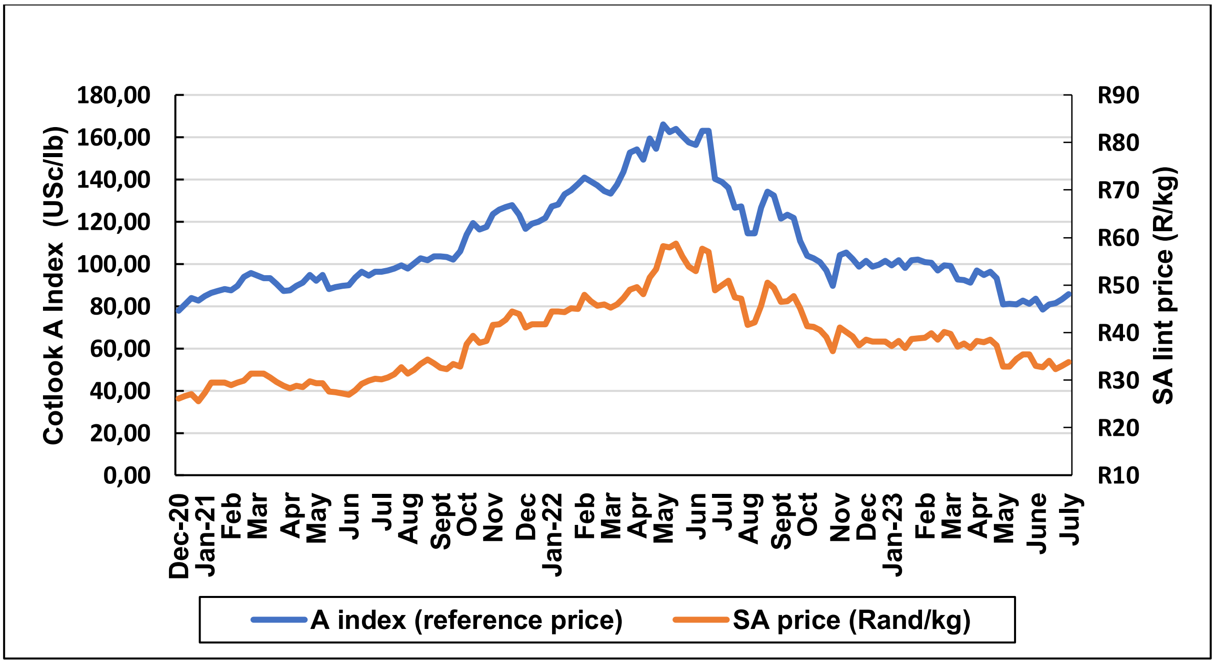
[C] *N/A: Not available*

World Trade versus China



Source: www.icac.com

Local outlook:



Local outlook

The lint price for South African farmers has increased to reach an average reference price of R33,79 per kg lint for Strict Low Middling 1 $^{1}/_{16}$” (for the last week in July), the week ending on 28/07/2023. The 7th crop estimate indicated that hectares planted under irrigation have decreased slightly, while dryland hectares have increased with over 1000 ha. The average yield obtained under irrigation is 4 525 kg seed cotton per ha, while under dryland conditions, a yield of 1 476 kg seed cotton per hectare was achieved. The average seed cotton yield, planted under irrigation in the Northern Cape (Lower-Orange River) is 5,6 tonnes of seed cotton/ha. Yields as high as 6,5 tonnes can be obtained, and some producers have reported seed cotton yields of over 7 tonnes/ha from the area. For dryland farming in the North-West, an average seed cotton yield of 3 707 kg/ha was realized. Farmers from the Schweizer-Reneke area, which is the most prominent area, have reached seed cotton yields of 4 000 kg/ha, focussing on precision farming techniques to refine planting, germination, growth regulation of plants and harvesting. This is an exceptional achievement for production under dryland conditions.

The quality of fibre for the 2023 production year, for a total of 40 032 samples analysed thus far, represents on average a good leaf grade 2, in comparison with an average leaf grade 3 for the 2021/2022 production year. Percentages achieved for USDA grade has also improved from the previous season, to include 32,3 % of samples falling within GOOD MIDDLING; 20,9% within STRICT MIDDLING, and 26,6% were MIDDLING, with the smaller portions of the crop in the less acceptable grades. The current value for the past season for average fibre length is 1,15 HVI length (1” $^{5}/_{32}$), the average micronaire is 4,08; fibre strength is 29.64 grams/tex, and the average uniformity index for the season is 81,13. Producers are congratulated with a good harvest so far and the hope is that the no. of bales will still increase as ginning continue.

RSA CROP	2022/23 6th Estimate	2022/23 7th Estimate	2021/22 Final Estimate
Ha Irrigation	6 937	6 818	7 195
Ha Dryland	10 829	11 139	10 823
Total Ha	17 766	17 957	18 018
Yield Irrigation (Kg seed cotton/ha)	4 386	4 525	4 306
Yield Dryland (Kg seed cotton/ha)	1 187	1 476	1 103
Total no. lint bales (@ 200kg/bale)	**78 121**	**85 253**	**76 659**

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