INTERNATIONAL COTTON ADVISORY COMMITTEE

ICAC

DECEMBER 2022

WORLD COTTON TRADE

2021/22: The unkept promise

global cotton lint exports, ended 8.68% lower than the 2020/21 season at 9.7 million tonnes

VARIABLES

Pandemic, supply chain disruptions, the Russia-Ukraine conflict, climatic impacts, ongoing inflation and the expected incoming recession

TRADE BY COUNTRY

United States remained the leading exporter and China remained the leading importer. While the volume of their trade fell

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AUTHOR'S NOTE

A QUICK LOOK AT WHAT THE WORLD COTTON TRADE DID IN THE LAST SEASON AND WHAT CAN WE EXPECT IN FUTURE

This season's report is a revamp of the annual ICAC trade reports published previously. The report has expanded its scope to include information on trade data on all the cotton trading countries, on all the partner countries for each reporting country and information on value of cotton lint traded. All the trade data will be available on ICAC's data dashboard.

Hope you enjoy reading this report and we welcome comments and suggestions from you at parkhi@icac.org

PARKHI VATS

Commodity Trade Analyst
ICAC

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RECAP: TRADE STORY OF THE 2020/21 SEASON

The outbreak of the Covid-19 pandemic in early 2020 was the onset of a chain of events that would ultimately halt the global economy, affect consumption and decrease the global cotton export to 9 million tonnes. The markets were devastated by an unusual slowdown due to pandemic-induced lockdowns, business closures and shipment and transport restrictions, in a way that was never experienced before. The continuous rise in cases and future uncertainties affected the demand for textiles and apparel and global cotton consumption in 2019/20 fell by 13%, reducing imports by 6% to 8.7 million tonnes by the end of the season. The first quarter of 2021 witnessed the rollout of vaccines which helped mitigate the public health crises and assisted with the global economic recovery. Eventually the market witnessed a demand rebound. With the revival in consumer demand for non-durable goods, cotton lint demand also rebounded. Backlogs from the previous season, extra savings and the fresh boost in consumption combined to increase exports by stronger-than-expected margins to reach 10.7 million tonnes by the end of the 2020/21 season, its highest level ever.

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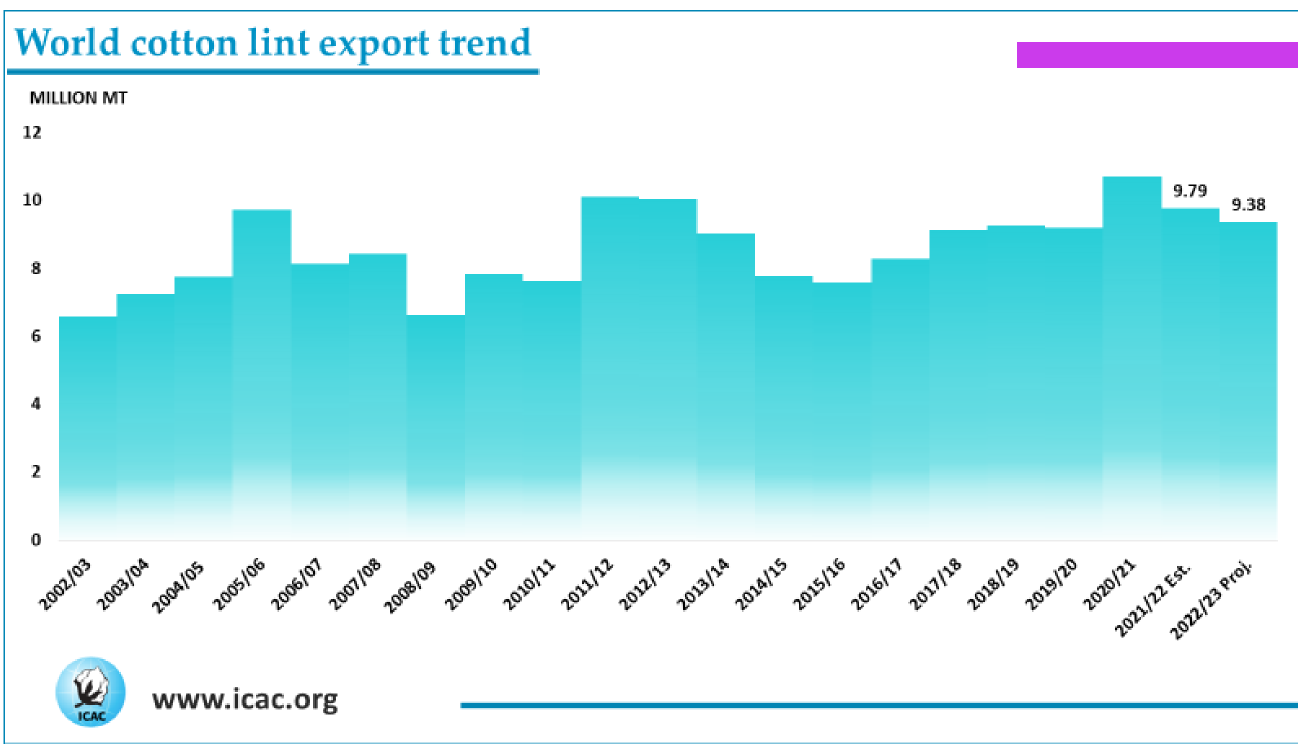
2021/22 SEASON

Last cotton season started with the promise of a bull market. While the season started with high expectations, it fell short on its promise. The season experienced extreme twists and turns due to market variables being pushed and pulled by extreme factors like the pandemic, supply chain disruptions, the Russia-Ukraine conflict, climatic impacts, ongoing inflation and the expected incoming recession. These variables were so diverse, extreme and numerous that the snapshot of the last season seems tougher than others.

At the end of the 2021 calendar year, the US-China Phase One Trade Agreement, which included trade in cotton, came to an end. Given that the USA is the top exporter and China is the top importer, any changes In the trade policies of these countries have a significant impact on world cotton trade.

February 2022 saw the beginning of the conflict between Russia and Ukraine, which had several indirect impacts on cotton, such as rising energy prices pushing up the cost of fertilizers for cotton production and rising oil prices pushing up the price of polyester, a substitute for cotton lint in textile production. Also, cotton acreage is now expected to face competition from food crops, whose prices continue to rise. In March 2022, logistics companies warned of higher transportation costs and more delays, with the city of Shanghai in the midst of a two-phase lockdown.

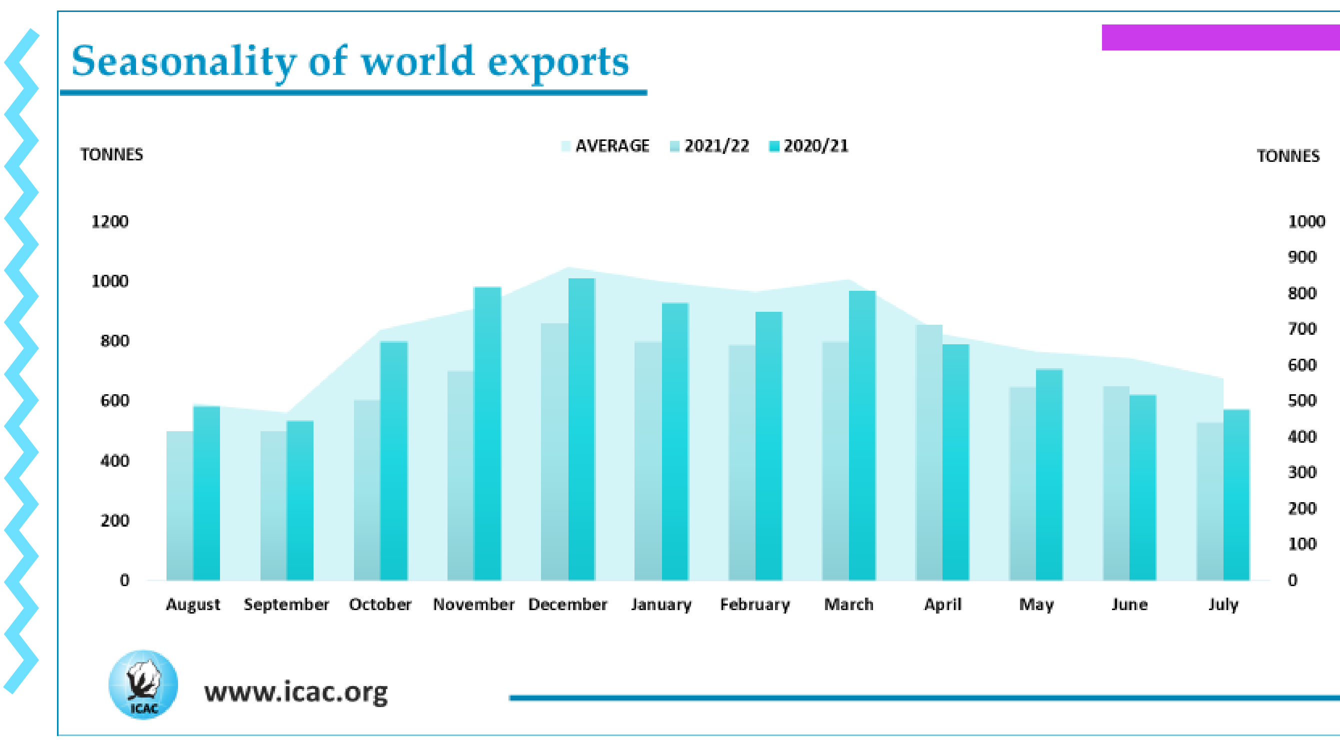
Later in summer, the market started receiving reports of extreme weather in almost all of the major cotton producing countries. Apart from this, The Uyghur Forced Labor Prevention Act (UFLPA) came into effect on 21 June 2022 and gives US authorities increased powers to block the import of goods linked to forced labor in China. It will remain in effect for eight years or until the USA is satisfied that China has ended human rights abuses in Xinjiang. Adding to this, we had a rebound of Covid-19 infections in China. These factors impacted global cotton lint exports, which ended 8.68% lower than the 2020/21 season at 9.7 million tonnes. However, that is still higher than its 20-year average.



SEASONALITY

The shaded area plots average world exports by month from the last five seasons. The bars indicate the monthly exports in the last two seasons. World exports usually peak from October to March, especially December and March. Cotton trade is slower from April to September, with September being the slowest. This coincides with the end of harvesting season for some major cotton lint exporting countries including :- USA (world's largest exporter), which harvests its crop in October and November, Northern India, which finishes harvesting in November, West African countries like Burkina Faso, Cameroon, Chad, mali and Togo, which harvest in November And December.

While the seasonality of the cotton lint trade in 2021/22 remained the same as in 2020/21, the volume of trade in the former was lower than the latter. The highest volume of trade during those seasons was in December but in terms of volume, the trade last season was lower than the 2020/21 season and also lower than its last five-season average. In seven out of 12 months, the volume of trade in 2021/22 was lower than the last five-season average which is reflected in the overall trade numbers.



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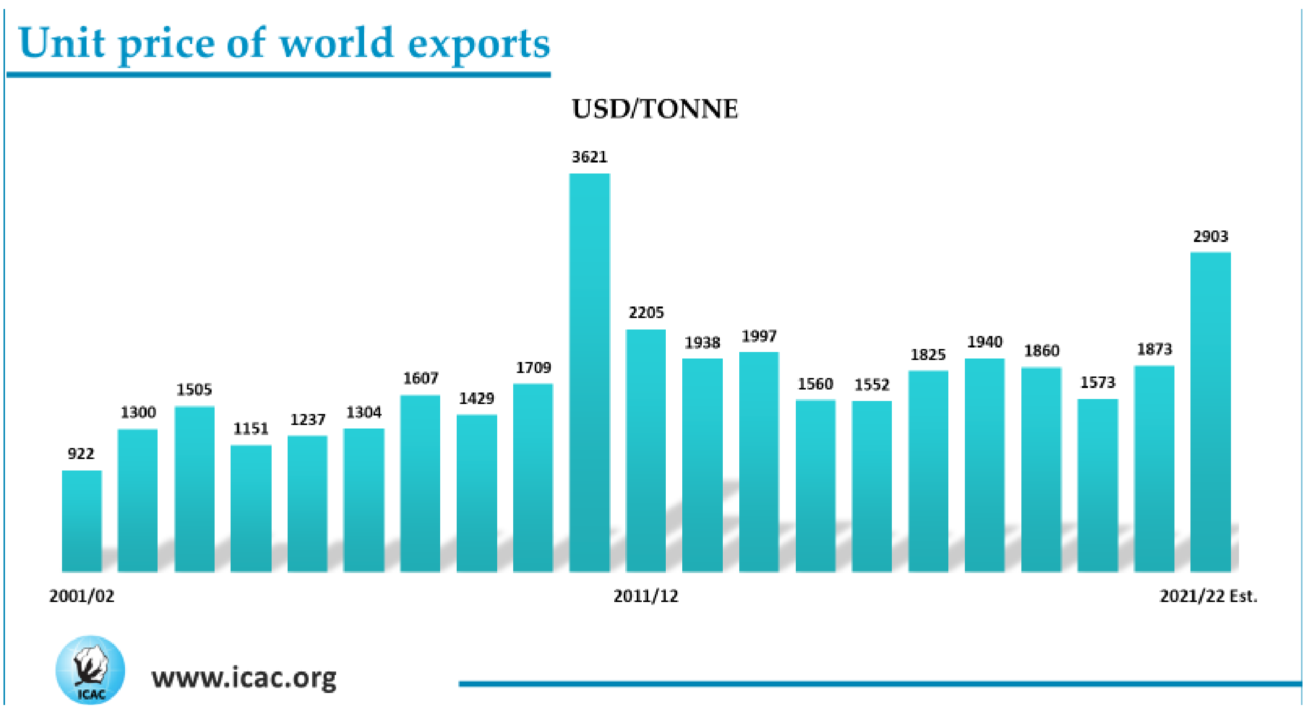
UNIT PRICE OF WORLD EXPORTS

While the total world exports fell last season, cotton prices were riding high, shooting up the per-unit price of exports. The per-unit price of cotton lint rose to $2903 per tonne, the secound-highest ever experienced. A similar trend was seen in 2010/11, when the per-unit price reached $3621, which was the highest price ever. The graph on unit price of world exports plots the per-unit export price for cotton lint from the last two decades. The unit price calculates the cost of cotton lint per tonne. The value approximations were drawn after taking into consideration the Cotlook A index average for each respective season.



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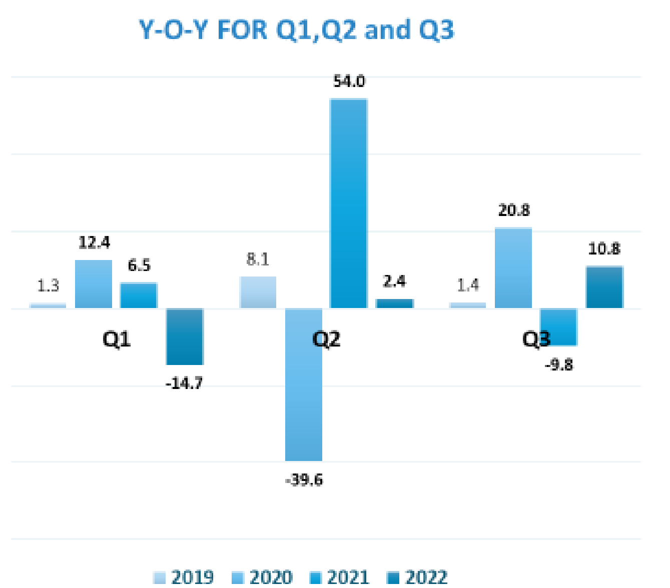
CURRENT SCENERIO AND FUTURE EXPECTATIONS

A GOOD QUESTION TO ASK, CONSIDERING THE CURRENT ECONOMIC SCENARIO, IS WHETHER THE COTTON TRADE HAS STARTED SLOWING DOWN.

The Q1 and Q2 comparisons from the last four seasons indicate a serious slowdown in Q1 2022, which could be as a consequence of the Russia Ukraine conflict and logistical issues at China's ports. However, Q2 and Q3 trade numbers are positive when compared to the previous year. While this is encouraging and indicates that we are currently not in slowdown, the Q4 numbers will indicate the true story. These numbers will be heavily impacted by the current economic situation. While there are many variables that affect cotton trade daily, some will have a greater impact than others, such as the level of cotton production in the 2022/23 season, supply chain issues, the never-ending pandemic, impact on consumption and any major policy changes made

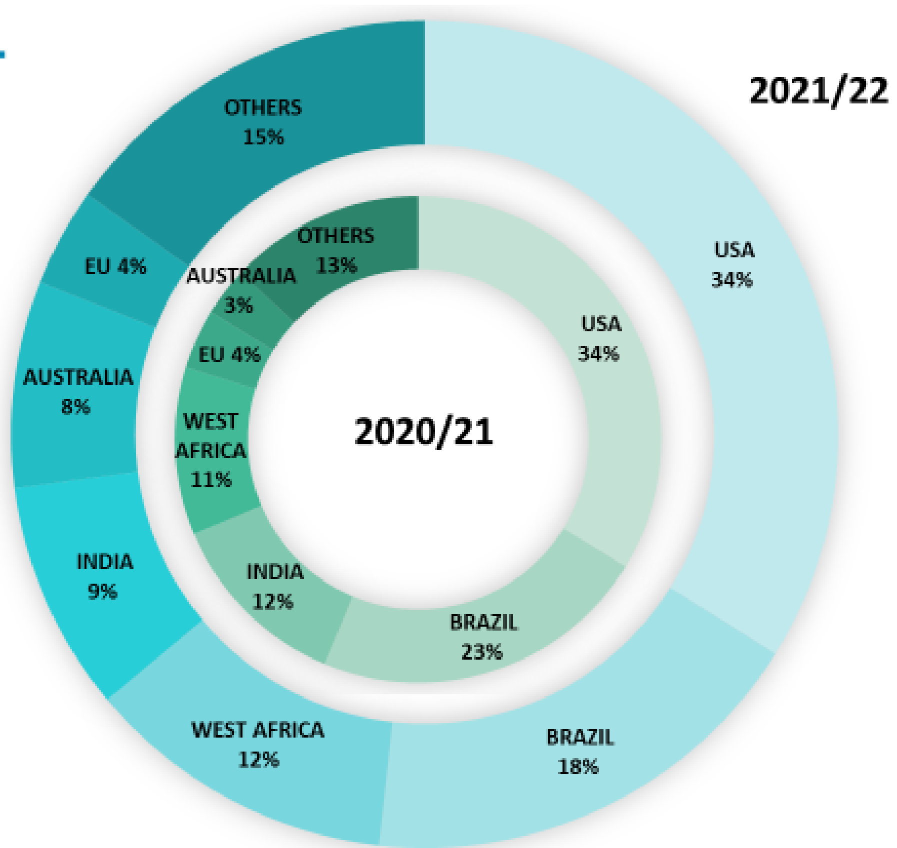


World cotton production for 2022/23 is currently projected at 25 million tonnes. However, this figure might drop even lower due to the extreme weather conditions experienced by almost all of the major cotton producing countries. In the USA alone, 66% of cotton production is within the area experiencing draught. There are reports of heat waves in Brazil, China and Uzbekistan, and extreme floods have wiped out almost 45% of Pakistan's cotton crop. India is also experiencing floods and leave curl virus in its northern states.

Cotton consumption is currently projected to fall by 7.22% in the 2022/23 season to remain lower than production. However there are other factors that may further impact *consumption* and therefore the overall cotton trade. For example, high inflation and fears of a recession negatively affect the purchasing power of consumers, who often consider clothing as a discretionary product and may opt to cut back on purchases. In addition, forced closures due to Covid-19 affect the textiles production capacity. While these factors are looming in the market, we will just have to wait and see what their ultimate impact is.

EXPORT BY COUNTRY

Leading cotton lint exporters

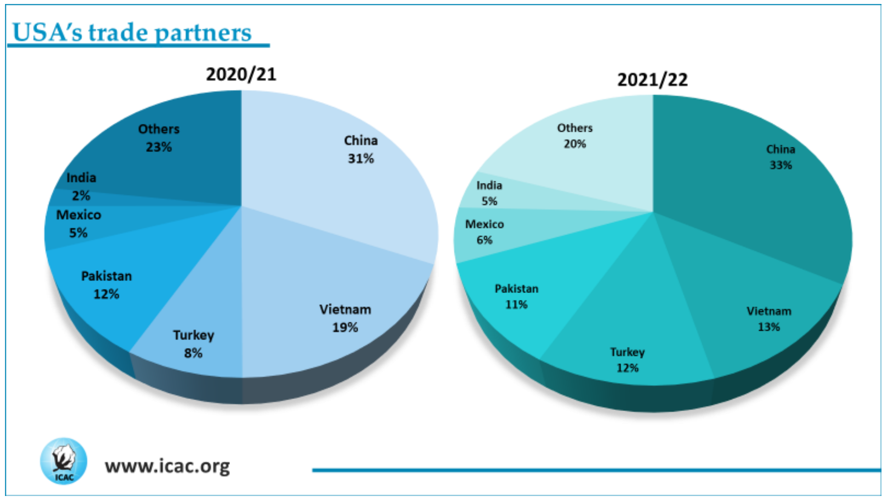


The top five exporters at the end of 2020/21 were USA, Brazil, India, West Africa and EU. By the end of the 2021/22 season, Australia replaced EU to regain its position amongst the top five world cotton exporters due to an outstanding 110% increase in production compared to the prior season. The United States remained the leading exporter of cotton lint, although its exports have dropped by 8% since 2020/21. Brazil also witnessed a drop of 28% in exports, causing it to lose 5% of its world market share.

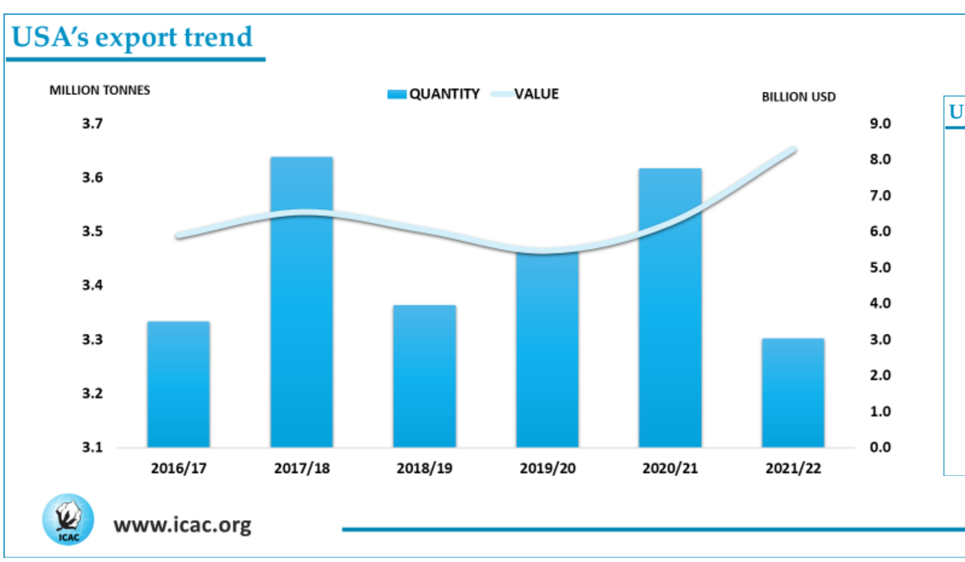
USA

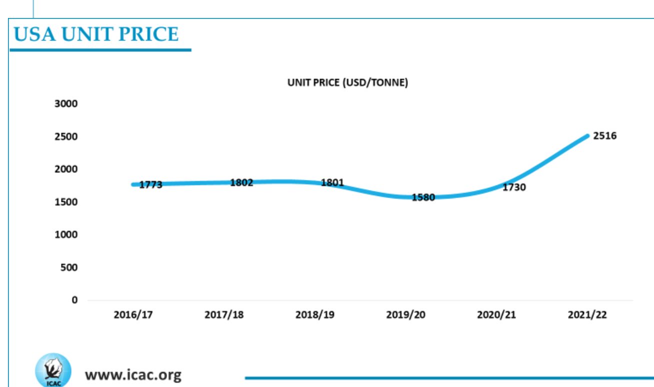
While USA remained the largest exporter of cotton lint in the world, it experienced a decrease in its exported quantity. Although USA recorded an 8.7% decline to about 3.3 million tonnes, the value of its exports rose by 32% to reach $8 billion. In other words, it sold less cotton lint but at a comparatively higher price compared with the 2020/21 season, thus pushing up the average per-unit cost of cotton Lint exports from $1730 per tonne in 2020/21 to $2516 per tonne by the end of 2021/22 season, the highest per unit price in at least the last six seasons.

With respect to major trade partners, in 2020/21, about 77% of US exports went to China, Vietnam, Turkey, Pakistan, Mexico and India. By the end of the 2021/22 season, USA exported about 80% of its total exports to the same countries.



Although the US-China Phase One Economic and Trade Agreement came to an end in December 2021, US exports to China increased in 2021/22 when compared to 2020/21 season. China's overall share of USA's total exports increased by 3% to reach 33%. In June 2022, the Uyghur Forced Labor Prevention Act (UFLPA) came into effect which gave US authorities increased powers to block the import of goods linked to forced labour in China. It was assumed that this would impact US cotton lint exports to China, but monthly trade figures of US exports to China indicate that although the exports to China have been falling since July 2022, the decrease is in line with the export seasonality. Furthermore, the volume is much higher than it was during the same months in 2021 and in the baseline year of 2017. In conclusion, based on the current trade numbers, there is no decline in US cotton lint exports to China. US exports to Vietnam declined in 2021/22 compared to the previous season, costing the country almost 6% of its market share in US total exports, mostly due to price volatility and logistical issues. US exports to Turkey increased in the same season, following the removal of a 3% anti-dumping duty imposed on US cotton by the government of Turkey in April 2021. Other trade partners maintained their shares in US total cotton lint exports.



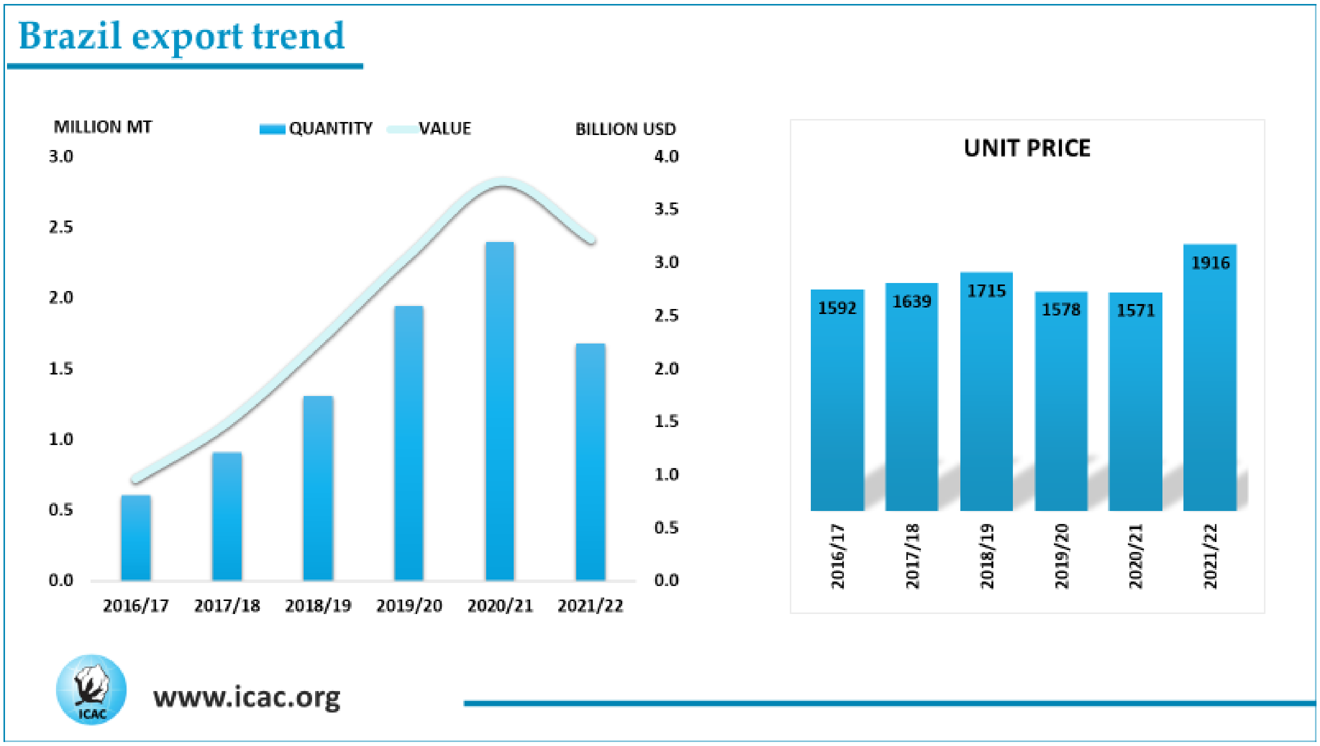


BRAZIL

BRAZIL'S COTTON LINT EXPORTS DROPPED BY 28% TO 1.7 MILLION TONNES AT THE END OF THE 2021/22 SEASON WHEN COMPARED TO 2020/21

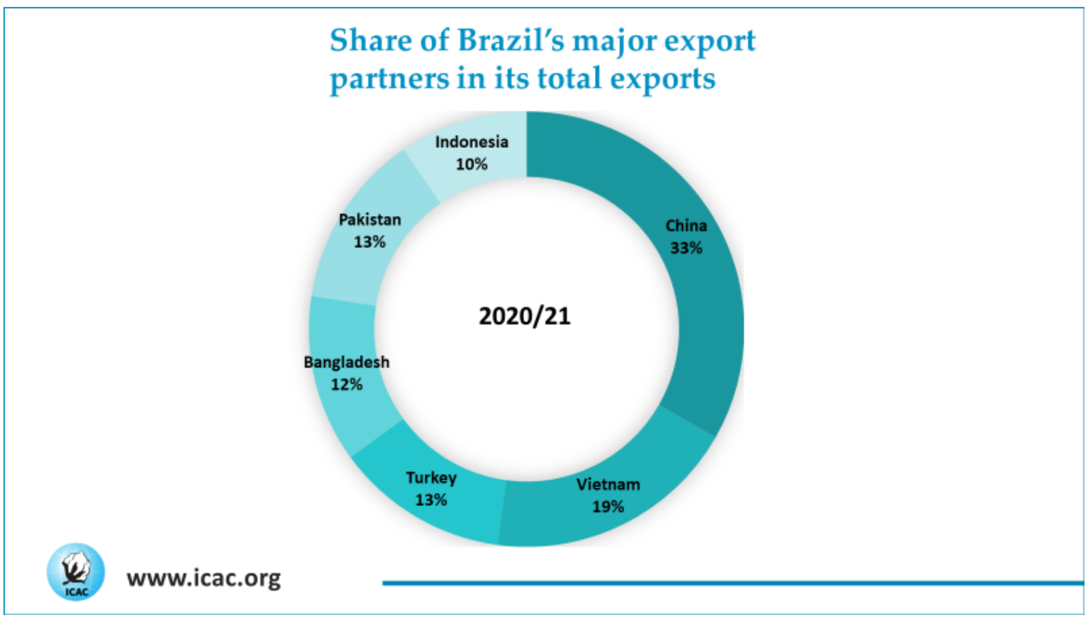
While there was no decline in production, the stocks at the beginning of the 2021/22 season were 27% lower than the previous season. The reduction in exports could be due mainly to low demand, especially from its major consumer: China, which faced multiple disruptions including policy sanctions and Covid 19 pandemic related closures.

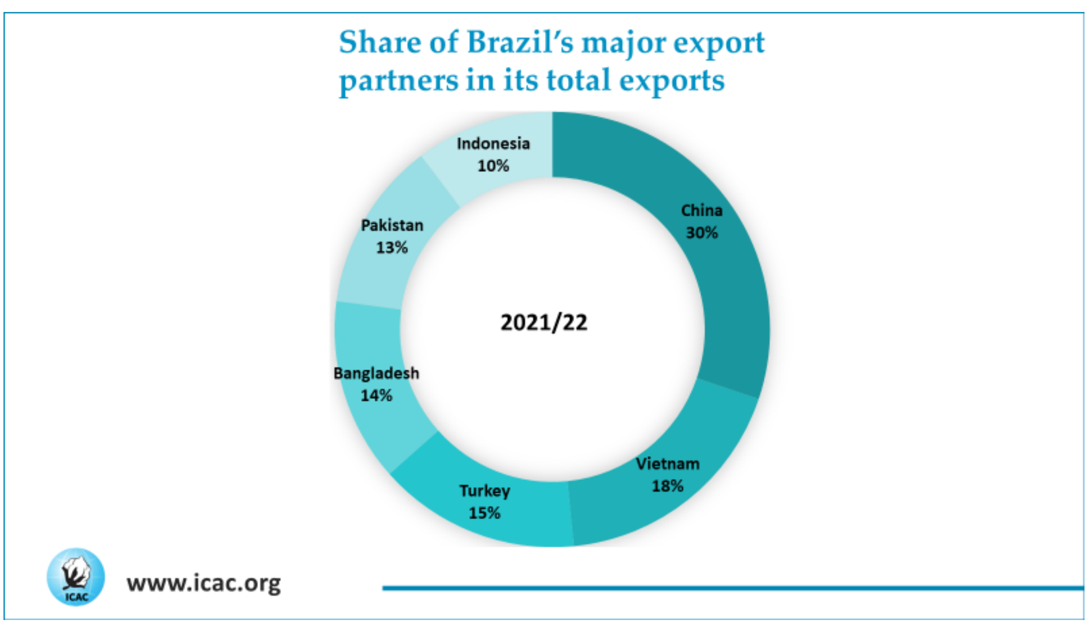
Not only did Brazil's export quantity drop but it also experienced a 14% decline in value to $3.2 billion when compared to the 2020/21 season. Even when the export quantity and value dropped, the per-unit price for Brazilian exports rose from $1571 in 2020/21 season to $1916 in 2021/22 season.



Brazilian exports are constantly competing with those of the USA, and both have China as their most important trade partner. While both countries will be impacted by the ongoing economic environment and pandemic related policy announcements by China, Brazil's exports may benefit from the rising value of the US dollar.

It is almost hard to believe that back in the 1990s, Brazil was a net importer of cotton. In the last two decades, Brazil has emerged as one of leaders in cotton lint exports. Even in the 2019/20 season, when world exports declined due to the Covid-19 related lockdown and shipment delays, Brazil managed to increase its level of cotton lint exports. Brazil has demonstrated itself to be exceptionally good in gaining and retaining trade partners. As an example, in the 2018/19 season, Brazil became the major beneficiary of the tariff dispute between the USA and China and was able to increase exports to China sharply, replacing US.





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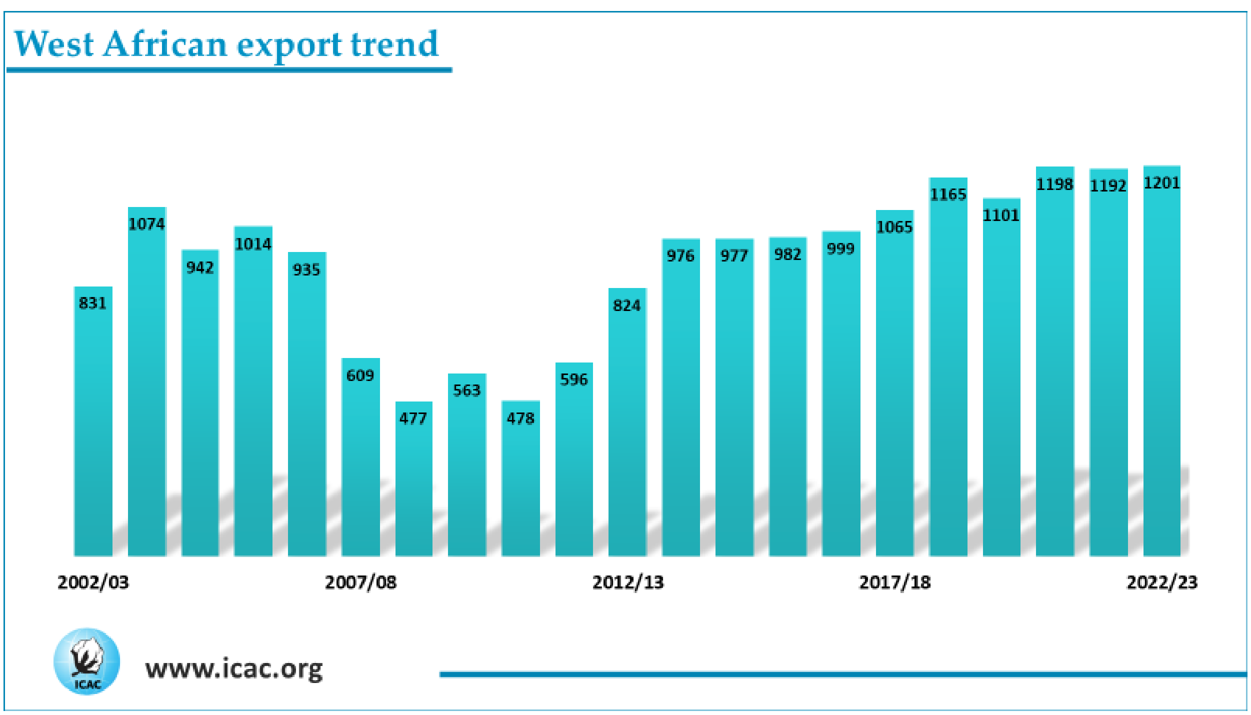
WEST AFRICA

West African cotton lint exports have shown healthy growth in the last decade, averaging about 1 million tonnes and reaching their highest levels in the 2020/21 season at 1.19 million tonnes. They have maintained their levels of exports in the 2021/22 season. West Africa has very little consumption capacity and therefore, it mainly produces cotton lint to export, which makes their production and exports directly correlated and any obstruction in their production is reflected in their levels of exports.



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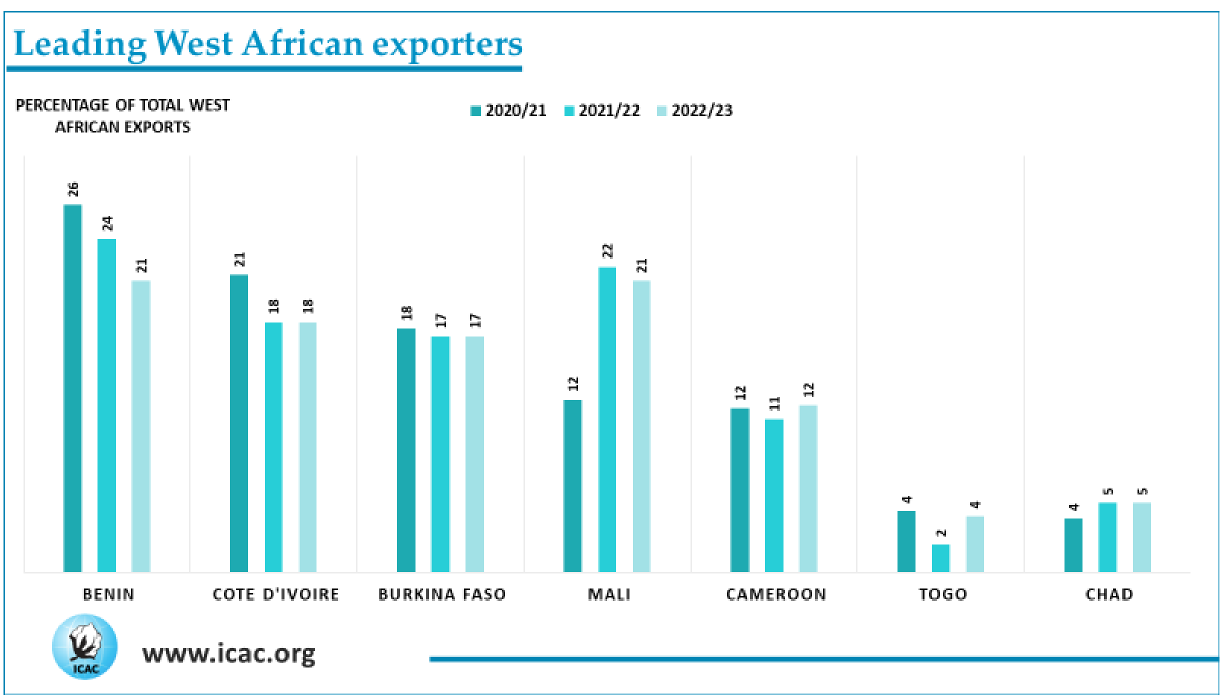
Benin is the largest exporter from this region, having exported around 290,000 tonnes in the 2021/22 season, followed by Mali, Cote d'Ivoire, Burkina Faso and Cameron. Among the top 5 exporters from this region, only Mali had recorded an increase in its exports this season compared to the last season. Benin exports on an average 95% or more of their total production every season. Benin's cotton lint exports were 9% lower in 2021/22 compared to the previous season, mostly because they started the season with 1% lower beginning stocks and faced 3% lower production in 2021/22 compared to the previous season. Cote d'Ivoire's exports were 17% lower in 2021/22 compared to 2020/21, mainly because its production was 9% lower than the previous season.

The country also started the season with 16% lower beginning stocks than the previous season. Burkina Faso also suffered a loss in its production, this was reflected in its exports which were 5% lower at 200000 tonnes for the 2021/22 season. Mali was the only country amongst the top five West African exporters to experience a rise in its production and exports. Mali's export in the 2021/22 season increased by 74% to reach 259000 tonnes. This phenomenal increase in its exports is attributed to its 337% increase in its production in 2021/22 compared to the previous season. Cameroon and Togo also experienced fall in production which led to a fall in their exports in the 2021/22 season compared to the previous season.



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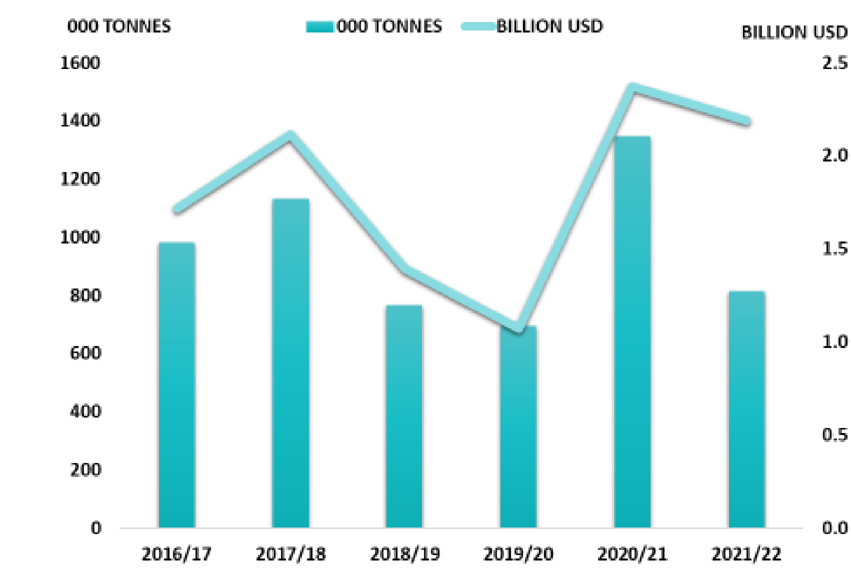
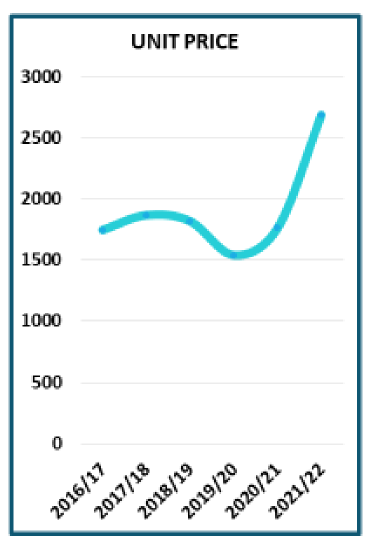
INDIA

In 2021/22, India experienced a 39.5% drop in its exports to about 815000 tonnes. The value of these exports also dropped by 7.8% to reach $2.2 billion when compared to the 2020/21 season. This could be a consequence of a drop in production. The per-unit price for these exports rose from $1763 in 2020/21 season to $2686 in 2021/22 season. While most of the trade partners maintained their shares, China and Bangladesh were outliers but for different reasons. While China lost a significant portion in India's total cotton lint exports, Bangladesh gained. India's exports to China dropped significantly in 2021/22 season primarily due to weakening in Chinese import demand and a shift in China's imports towards partner like USA and Brazil. This made China lose almost 32% market share in India's total exports in 2021/22 season compared to 2020/21. In the same season, more than 70% on India's total exports went to Bangladesh. India and Bangladesh are close trade partners when it comes to cotton lint, taking advantage of their geographical proximity and shorter, cheaper shipment and transportation times. Once a relevant trading partner, Pakistan again didn't record any imports from India, in light of Pakistan's decision to suspend bilateral trade with India in August 2019 (which was a repercussion of India's decision to apply 200% tariff on Pakistani imports after India revoked Pakistan's Most Favoured Nation (MFN) status earlier the same year). India continues to export about 97% of its total exports to Asia, keeping it as its most import destination.

Indian export trend





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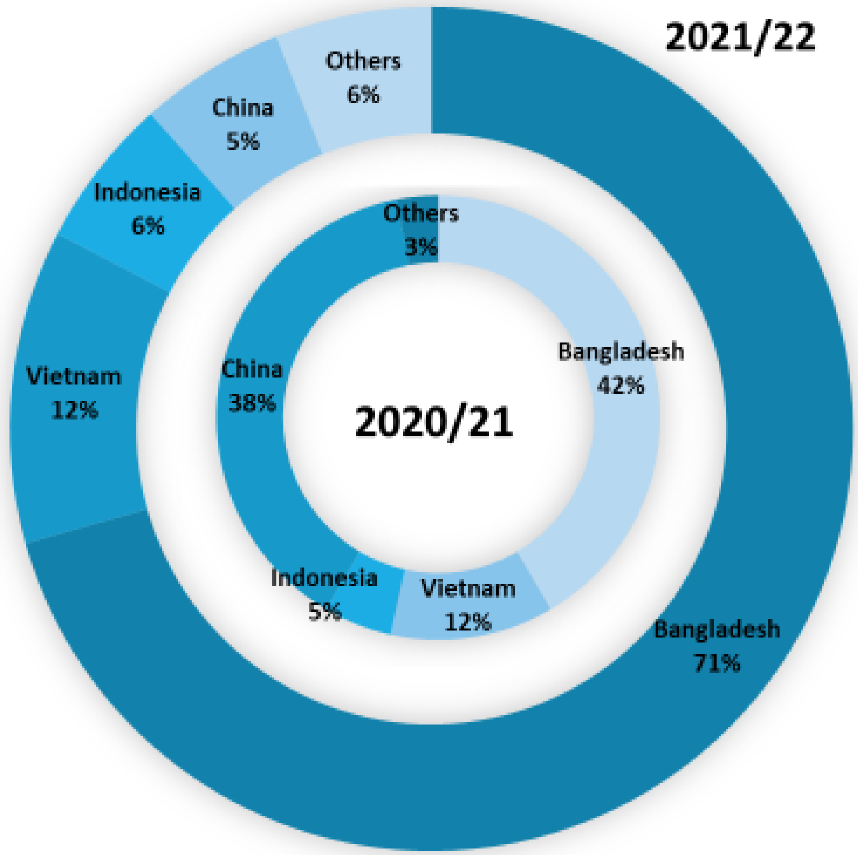
INDIA'S TRADING PARTNERS

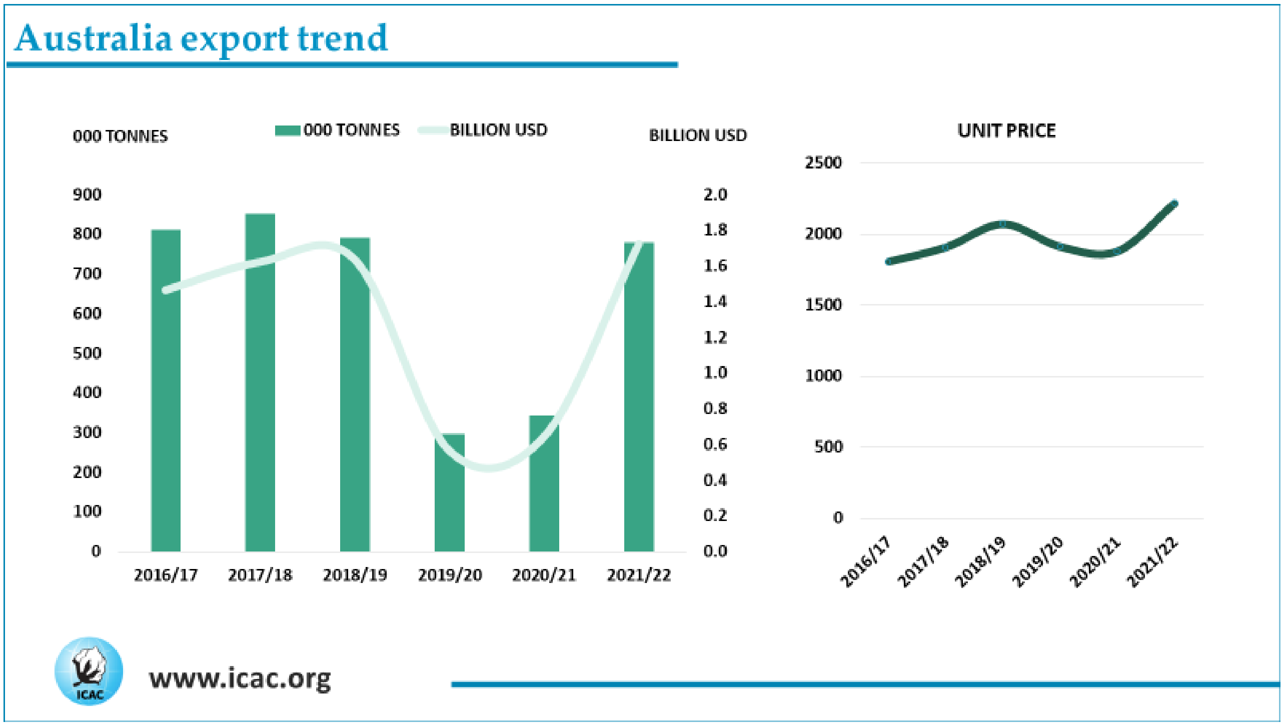


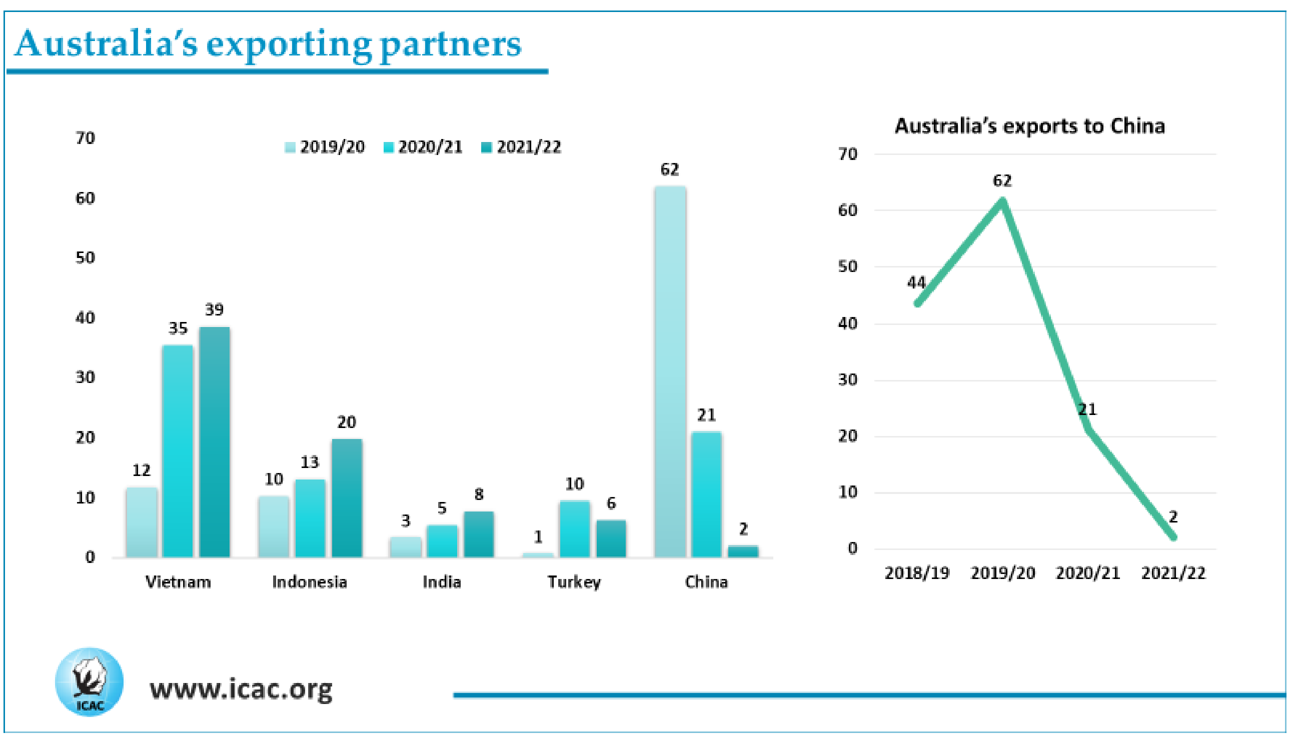
AUSTRALIA

After falling in 2018/19 and 2019/20, Australia's cotton exports grew by 15% in 2020/21 and by the end of the 2021/22 season, exports increased by 127% to reach 792000 tonnes, the highest levels in the last four seasons. This was because of an incredible 110% increase in cotton lint production in 2021/22 compared to the previous season. The value of these exports also increased in 2021/22 season by 167% to reach $1.7 billion. The unit price for these exports also increased from $1879 in 2020/21 season to $2217 in 2021/22 season.

With respect to trading partners, Australia has seen a shift in its trade in the last three seasons, shifting away from China and toward other countries in Asia. In 2019/20, more than 60% of Australia's total exports went to China, however this changed in the following two seasons, amounting to only 2% in Australia's total share in 2021/22 season. Although no legal restrictions were imposed on the cotton trade between these countries, some of the reasons that may have led to this could have been Australia's call for an international inquiry into China's handling of the coronavirus outbreak.

Another reason, stated by China, was the availability of quality cotton domestically. Following this, Australia has diversified its export markets to Vietnam, Indonesia and India





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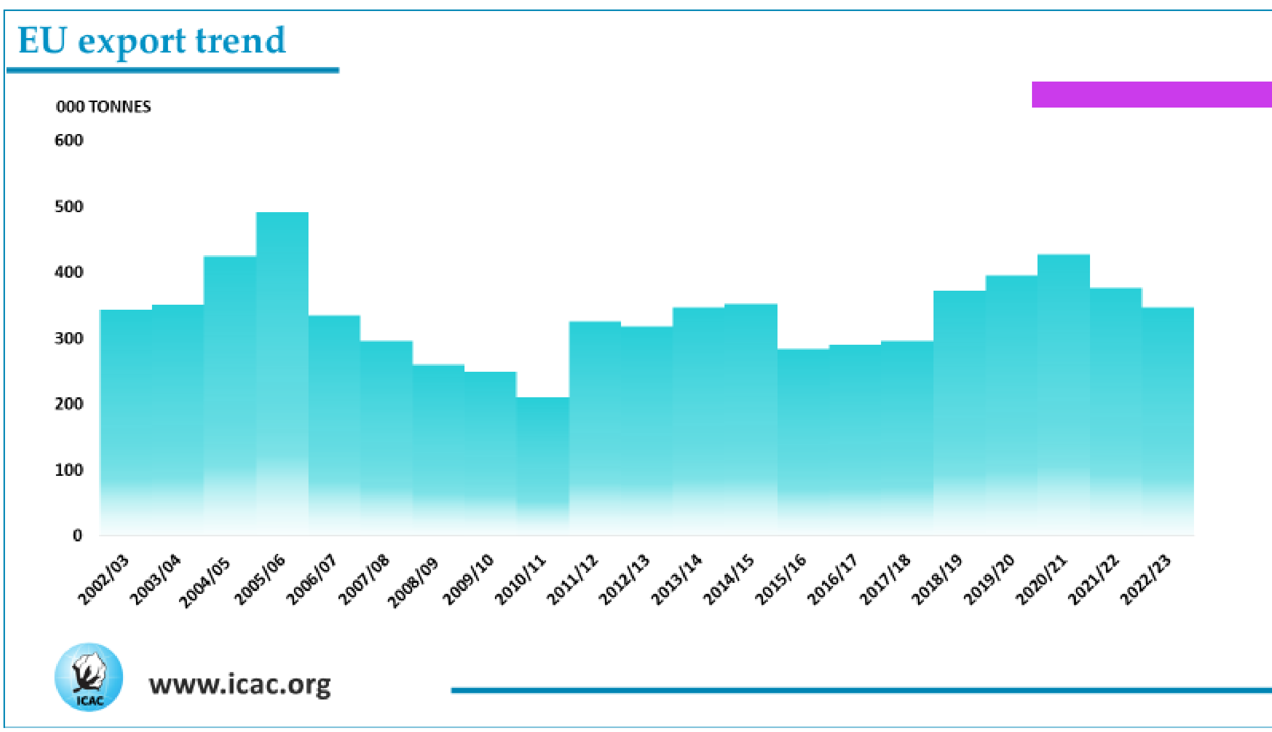
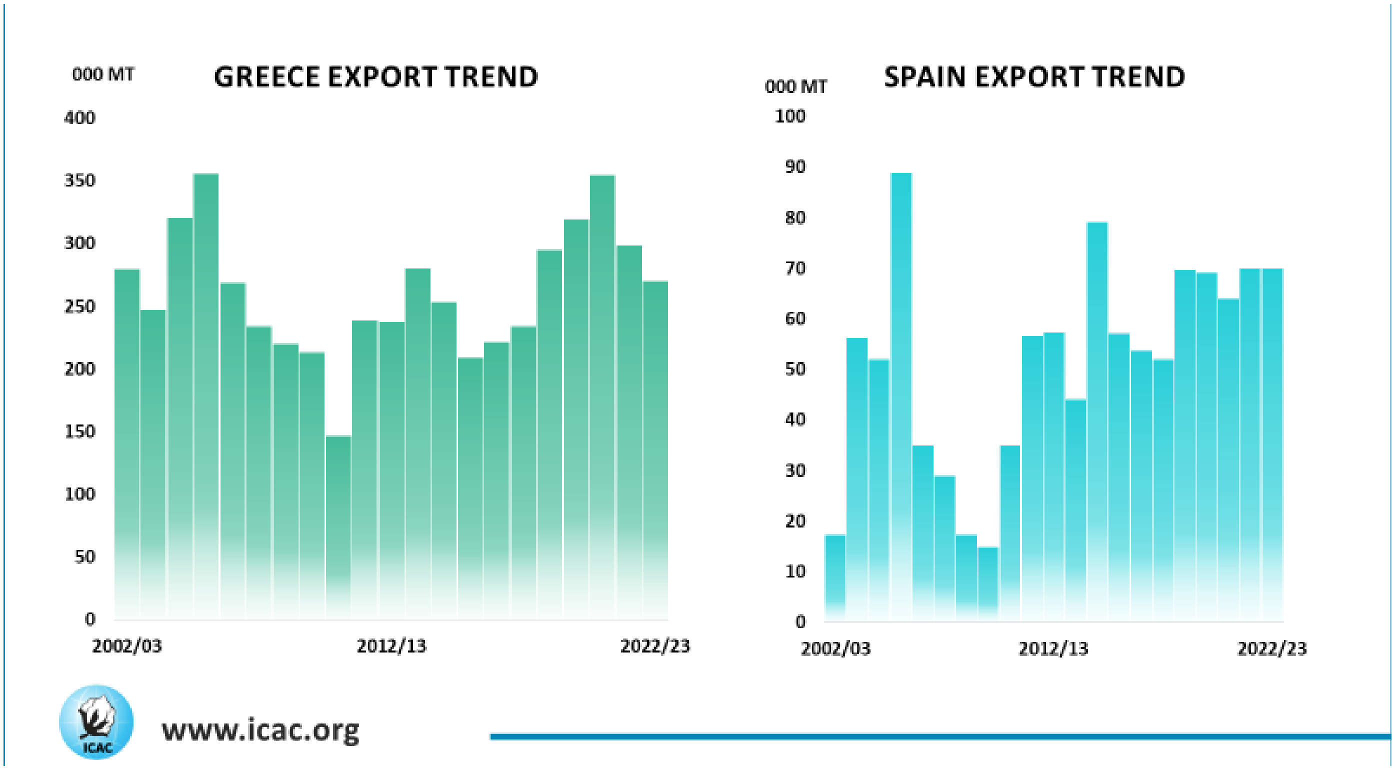
EUROPEAN UNION

In the 1980s, the European Union was as a major importer of cotton, but over the decades mill use fell sharply, mostly due to cheaper and readily available textiles outside the EU

In the last decade, cotton lint consumption and imports by the EU have fallen consistently, while exports have been moderately increasing. However, exports from Europe reduced to reach 377000 tonnes in 2021/22 season compared to the previous season. In 2021/22, the major exporter from this region was Greece, which exported 299000 tonnes followed by Spain, Germany and Italy. Greece has remained the major exporter from the EU region in the past decade, although it did experience a decline in its exports in 2021/22 compared to the previous season. Spain, the other major exporter from the EU region, maintained its levels of exports in 2021/22 compared to the previous season, exporting around 70000 tonnes. Very small levels of exports were also recorded by Germany and Italy.

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IMPORT BY COUNTRY

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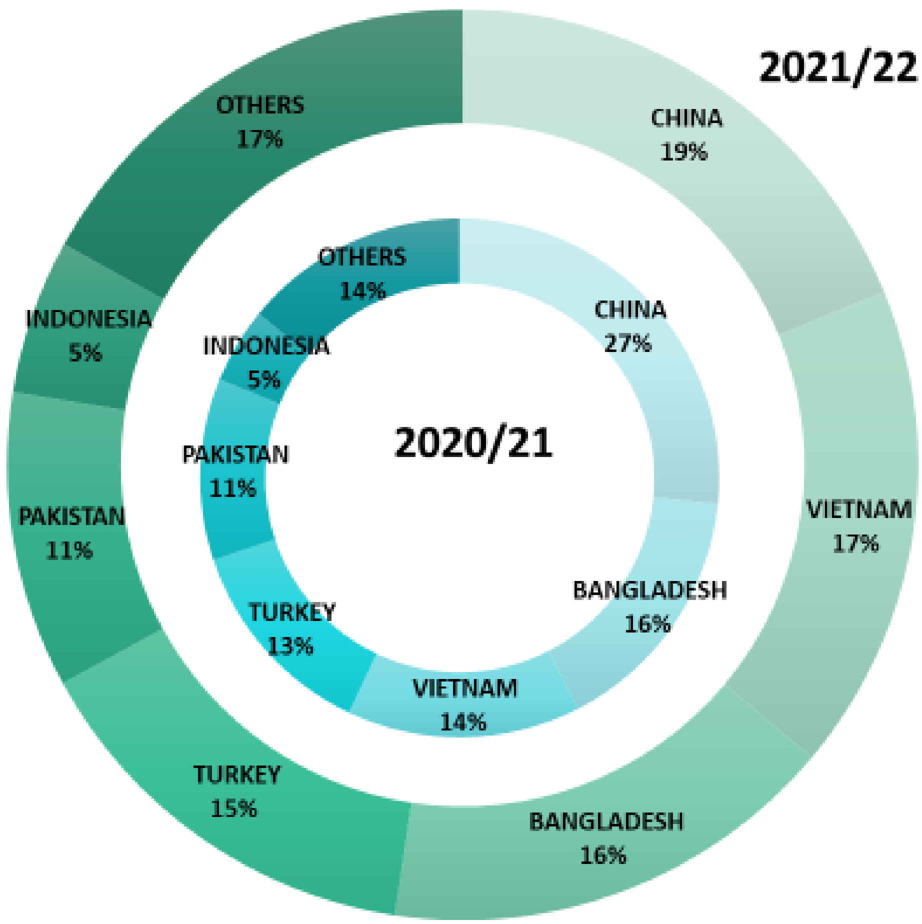
IMPORTS BY COUNTRY



The top five importers in 2021/22 have remained the same as the season before. While China remains the top importer, its imports declined by 35% in 2020/21 to 1.8 million tonnes, losing 8% of its world market share, mostly because of Covid-19 pandemic related factory closures and lockdowns in the first quarter of 2022, which caused supply chain disruptions. Other major importers have maintained their levels and market shares of imports.

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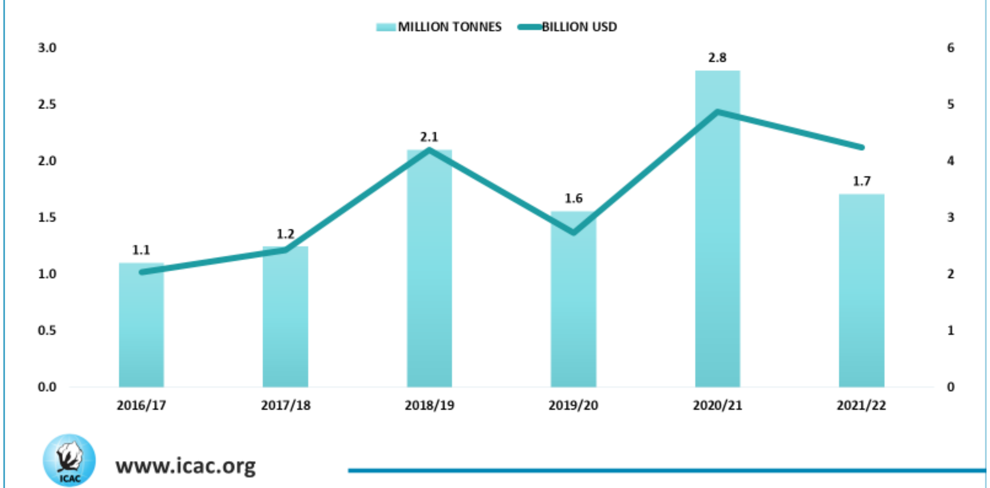
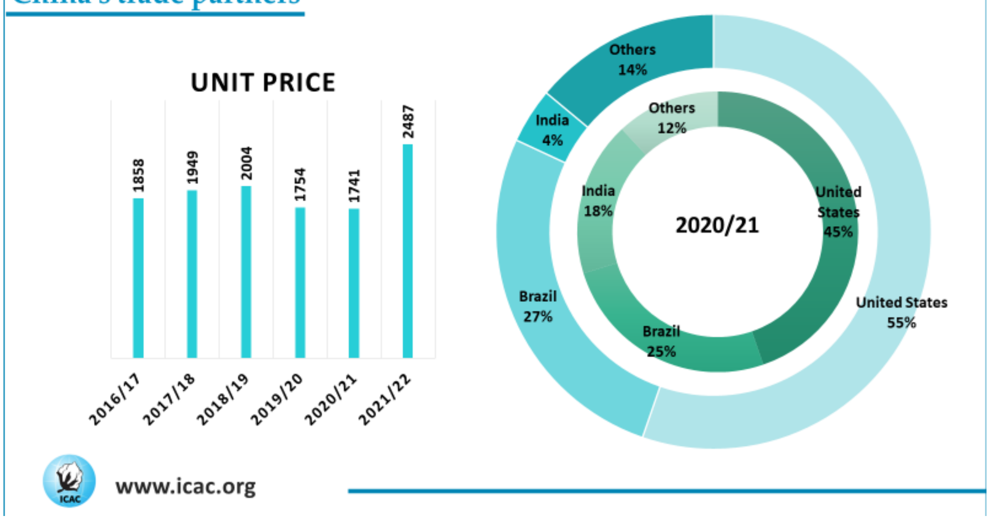
CHINA

China is the world's largest importer of cotton lint having brought in about 2.8 million tonnes of cotton lint in 2020/21. However, in the 2021/22 season, China faced multiple issues including multiple spikes in Covid-19 infections, which led to serious lockdowns due to its Covid policies, the end of the US-China trade agreement and sanctions by the US government on Chinese imports from Xinjiang region. Consequently, China recorded a 35% decline in imports to 1.84 million tonnes at the end of 2021/22 compared to the prior season. The value of these imports also fell in 2021/22 by 13% to $4.2 billion. The per-unit price of these imports rose from $1741 in 2020/21 season to $2487 in 2021/22. The United States, Brazil and India accounted for 86% of China's overall imports.

China's import trend



China's trade partners



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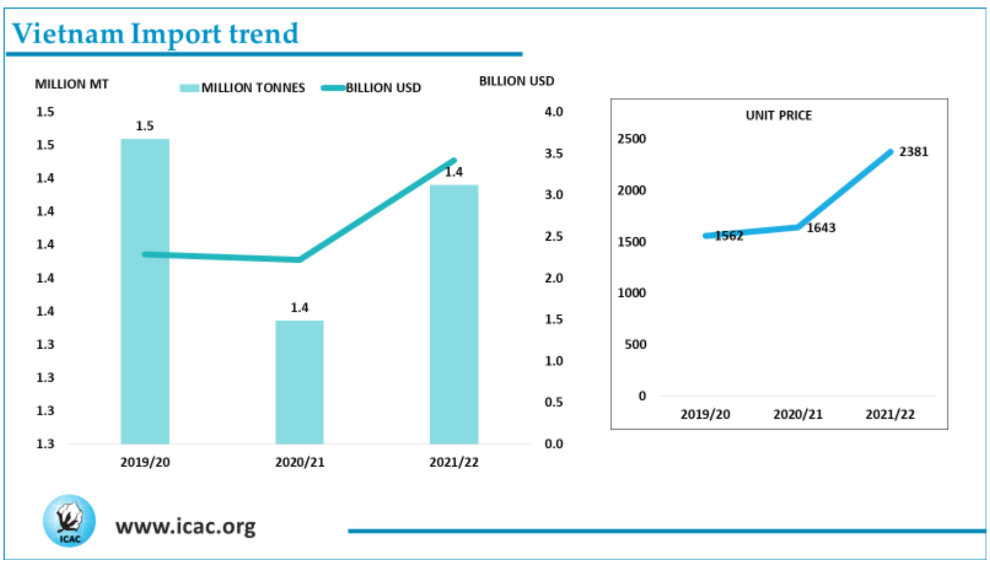
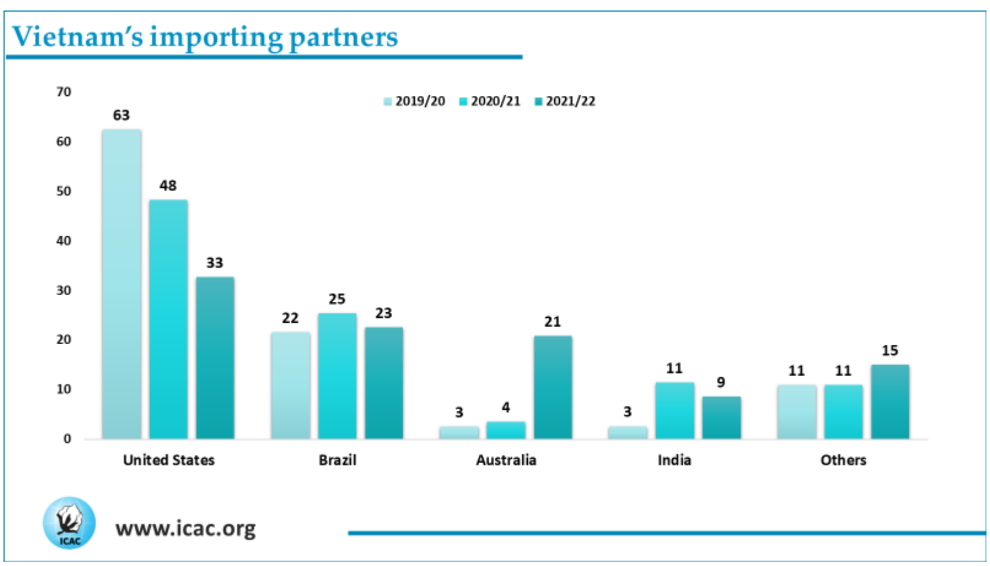
VIETNAM

In 2021/22, Vietnam became the 2nd largest cotton lint importer in the world. The country recorded a 9% increase in cotton lint imports to 1.7 million tonnes in 2021/22 compared to the previous season. The value of these imports also increased to $3.4 billion. The per-unit price of these imports rose from $1643 in 2020/21 to $2381 in 2021/22. Vietnam, which has held Most Favored Nation (MFN) status since 2001, imported the largest amount of cotton lint from USA, which accounted for about 33% of its total imports. USA is followed by Brazil, Australia and India. In the 2021/22 season, Vietnam dramatically increased its imports from Australia, giving it a 17% share of Vietnam's total imports.

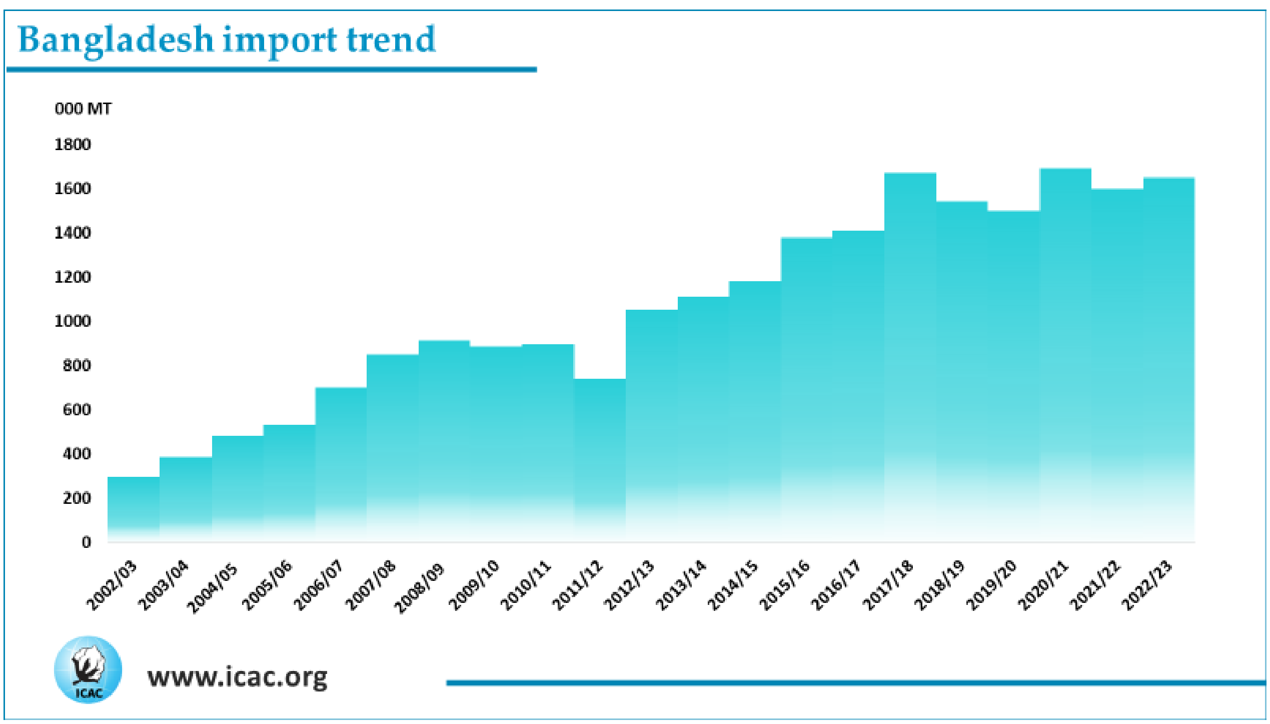




BANGLADESH

In 2021/22, Bangladesh slipped from the 2nd to the 3rd largest cotton lint importer in the world. Textiles and textile-related products generate more than 12% of the country's GDP and account for 81% of export earnings. The industry employs nearly 5 million people, with women accounting for 80% of the workforce.

Cotton is an important cash crop in Bangladesh as well as the primary raw material for the textile industry. However, Bangladesh produces very low levels of cotton lint to feed their mill demand and thus must rely on imports. In the 2021/22 season, Bangladesh produced 36000 tonnes of cotton lint against its demand of 1.7 million tonnes, making it necessary to import 1.6 million tonnes, 6% lower than the 2020/21 season. Looking forward, high cotton prices and economic uncertainities result in a reduction of cotton lint imports. Bangladesh imports most of its cotton from India, taking advantage of their close geographical proximity, followed by Brazil, USA, Cote d'Ivoire and Australia.



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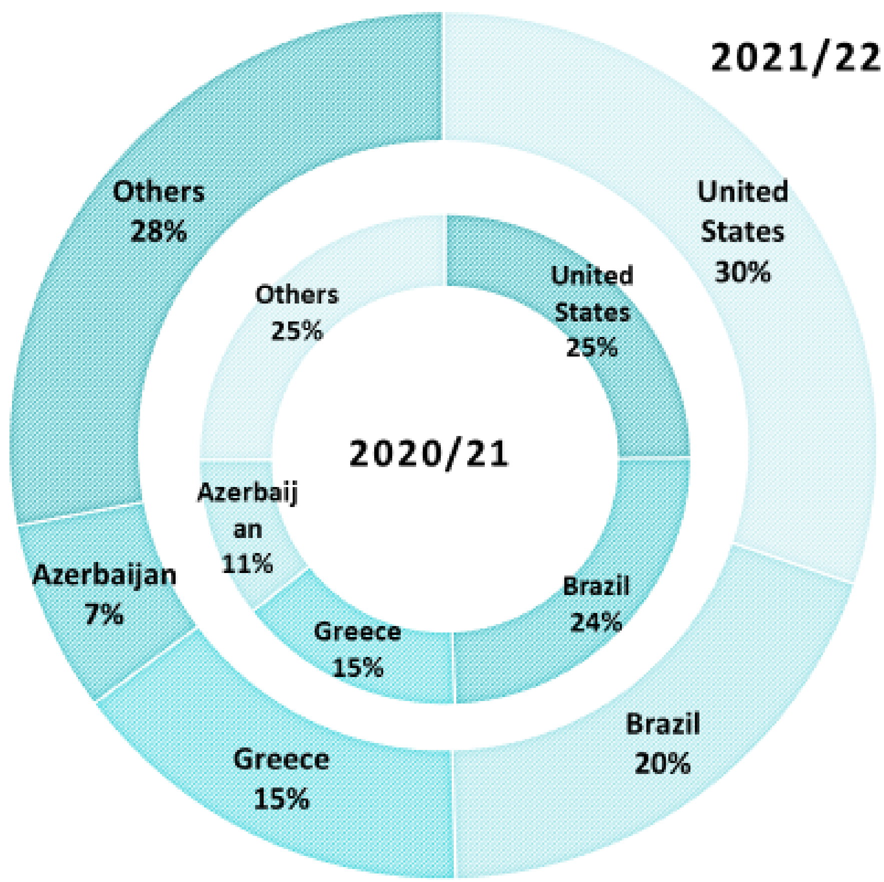
TURKEY

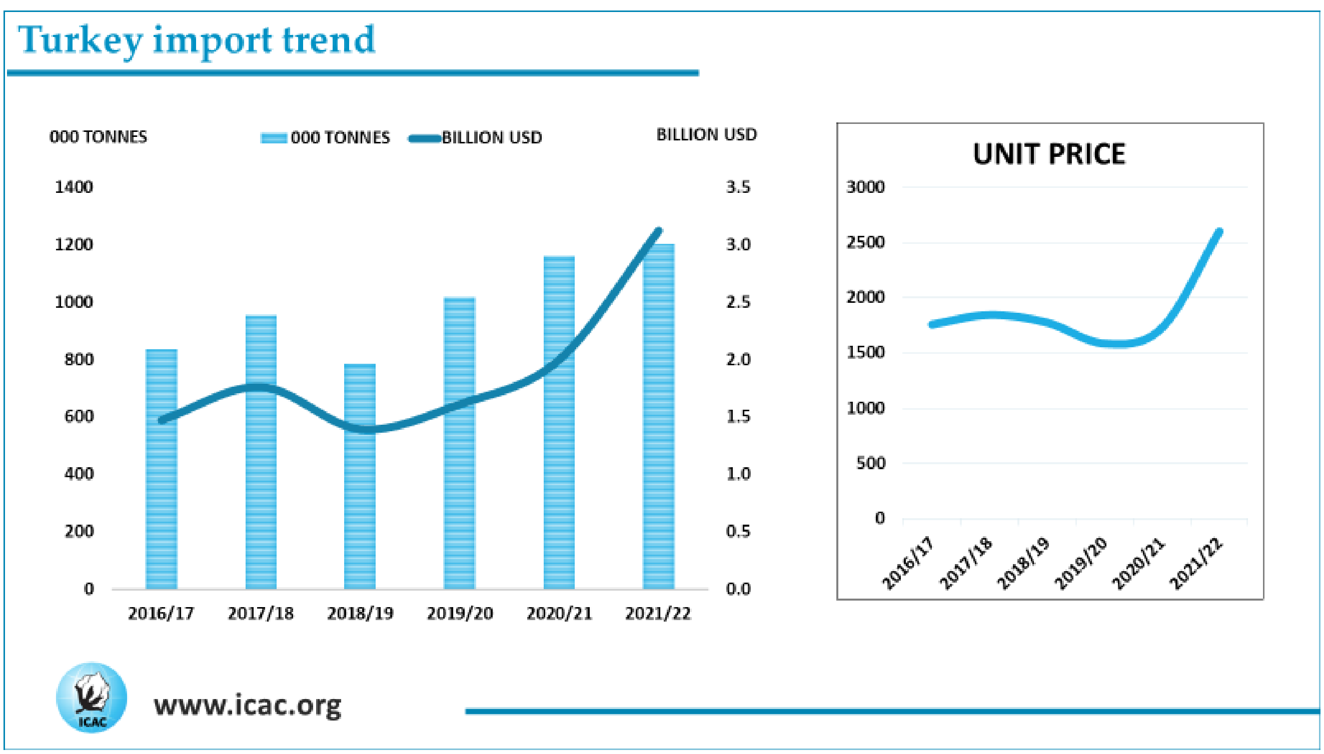
TURKEY'S COTTON LINT DEMAND EXCEED ITS PRODUCTION SO AND IT RELIES ON IMPORTS TO FEED ITS MILLS. TURKEY'S MILL USE HAS BEEN INCREASING SINCE THE 1950S AND HAS BEEN ABOVE 1 MILLION TONNES SINCE 1960S.

Turkey wants to be Europe's textile and apparel alternative to China, given its fully developed supply chain that can provide European retailers with just-in-time deliveries. Its consumption was strong in 2021/22 at 1.61 million tonnes, which was 3% higher than the previous season.

Turkey's imports increased by 5% to 1.4 million tonnes in the same season, its highest level in at least the last two decades. The value of the imports also increased to $3.1 billion in 2021/22. The unit price of these imports also rose from $1725 in 2020/21 to $2599 in 2021/22. Turkey imported the most cotton from USA, after the removal of a 3% anti-dumping duty on US cotton by the government of Turkey in April 2021. The other major trade partners are Brazil, Greece, Azerbaijan and Australia.



Turkey has a fully liberalized cotton trading market since the 1990s, with no quantitative restrictions in exports or imports. There is no duty or levy charged to exports or imports of cotton, which is freely traded and prices are determined by domestic and international supply and demand conditions, reflected by the Cotlook A indices, New York ICE futures contract prices and other related exchanges, such as the Indian and China Forward or Futures quotations.



INTERNATIONAL
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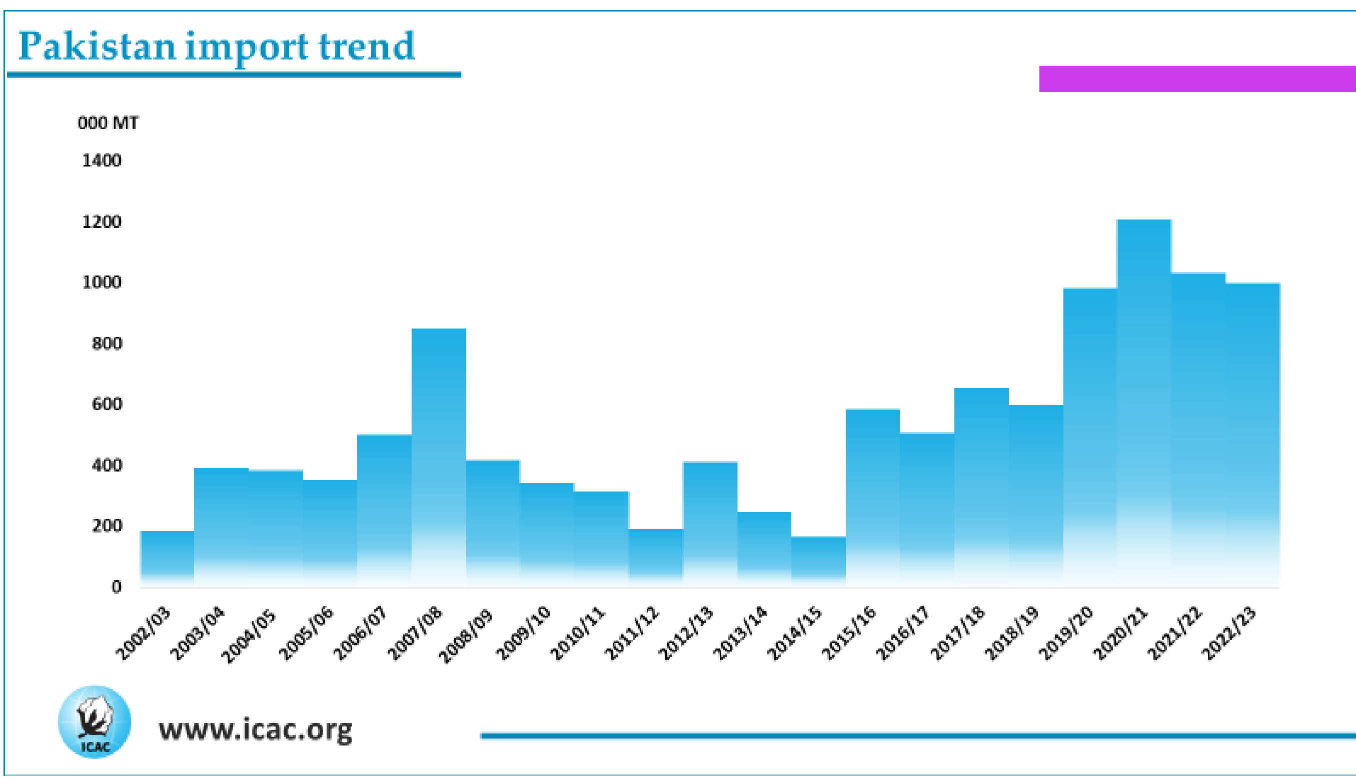
PAKISTAN

IN 2021/22, PAKISTAN IMPORTED 1 MILLION TONNES OF COTTON LINT, 15% LESS THAN THE PRIOR SEASON. PAKISTAN'S COTTON CONSUMPTION STAYED STRONG AT 2.4 MILLION TONNES THAT SEASON.

The high consumption is mainly due to significant demand for cotton yarn, especially from China. Increasing demand for textiles — as a resul of the European Union's granting of duty-free status for Pakistan's textile exports under the Generalised System of Preferences (GSP) — continue to support cotton mill use in Pakistan. In 2021/22, Pakistan's leading trade partners were USA, Brazil, Cote d'Ivoire and Argentina in that order. Pakistan didn't import cotton lint from India in the 2020/21 season, in the light of the country's decision to suspend bilateral trade with India in August 2019. Earlier that year, India had also applied a 200% tariff on Pakistan imports after India revoked Pakistan's Most Favoured Nation (MFN) status.

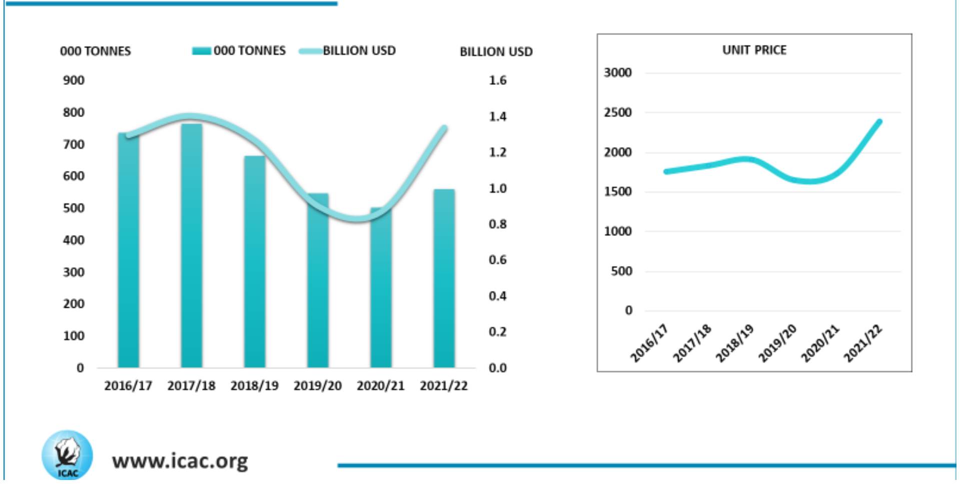


INTERNATIONAL COTTON ADVISORY COMMITTEE

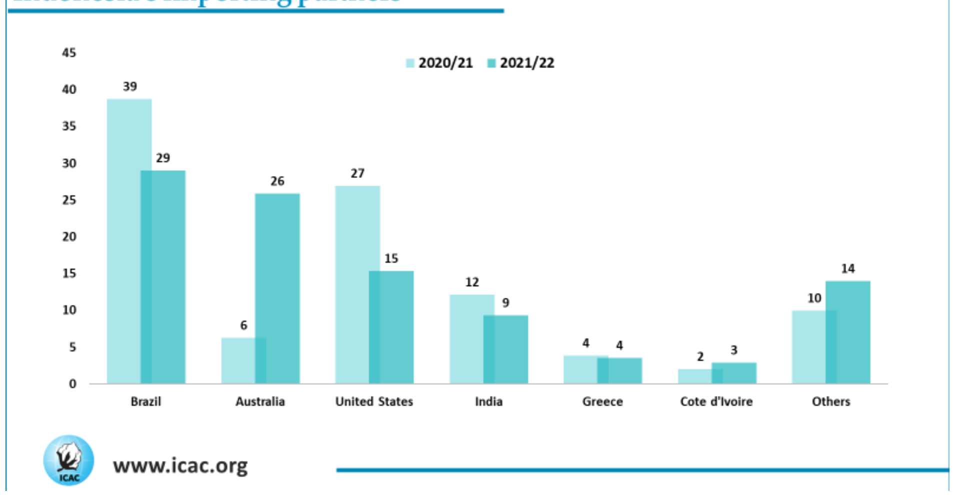
INDONESIA

Indonesia has been importing cotton since the early 1970s, consistently increasing the level of imports and reaching its highest level of 765000 tonnes in 2017/18. Indonesia's imports increased in the 2021/22 season to reach 539000 tonnes. The value of these imports also increased to reach \$1.34 Billion. The per unit price of these imports also increased from \$1736 in 2020/21 season to \$2388 in 2021/22 season. In 2021/22, Indonesia's leading importing partners were Brazil, Australia, Unites States, India and Greece, respectively. There were major changes in the market shares of Brazil, USA and Australia, in Indonesia's total imports, with the first two losing market share and Australia gaining it. The imports from Australia increased from about 32000 tonnes in 2020/21 to 145000 tonnes in 2021/22.

Indonesia import trend



Indonesia's importing partners



TRADE PROJECTIONS

INTERNATIONAL COTTON ADVISORY COMMITTEE

TRADE PROJECTIONS

FOR THE 2022/23 SEASON, THE COTTON LINT TRADE IS CURRENTLY ESTIMATED TO DECLINE BY 4% TO 9.37 MILLION TONNES.

While it is projected that USA will remain the world's leading exporter, its exports will decline by 32% to 2.2 million tonnes, which could result in losing as much as 10% of its world market share. Another country that is projected to suffer a decline in exports is India, with both countries' crops suffering from adverse weather. Other countries are projected to perform better. For this season, world imports will be led by China, despite an expected 2.59% fall in this season — the consequence of the economic environment and US sanctions against China that came into effect in June 2022. It is also expected that Pakistan will considerably increase its imports this season to offset its fall in production.