INTERNATIONAL COTTON ADVISORY COMMITTEE

ICAC

MAY 2023

WORLD COTTON TRADE UPDATE

2022/23: Lower consumption and trade

Trade currently expected to be 7.7% lower than the previous season at 8.98 million tonnes — lowest in the last six seasons

VARIABLES

inflationary pressures, macroeconomic scenario, declining consumption; issues with the consuming countries and market volatility

TRADE BY COUNTRY

United States will remain the leading exporter and China will remain the leading importer

Table of Contents

INTERNATIONAL COTTON ADVISORY COMMITTEE

AUTHOR'S NOTE

This season's trade update report is a revamped version of the previous trade update reports. With the development of ICAC's Data Dashboard, we moved away from publishing excel sheets and instead, will provide a written update on active economic and market scenarios and the ongoing causes, concerns and variables that are impacting or may impact cotton trade. The report also covers current projections on world trade for this season, unit price analysis, seasonality report, quarter report, and information on the leading exporters, importers and their market share. We have also collected some industry comments from cotton merchants across the globe and you will find them in the report.

Happy reading! We welcome comments and suggestions at parkhi@icac.org.

PARKHI VATS

Commodity Trade Analyst
ICAC

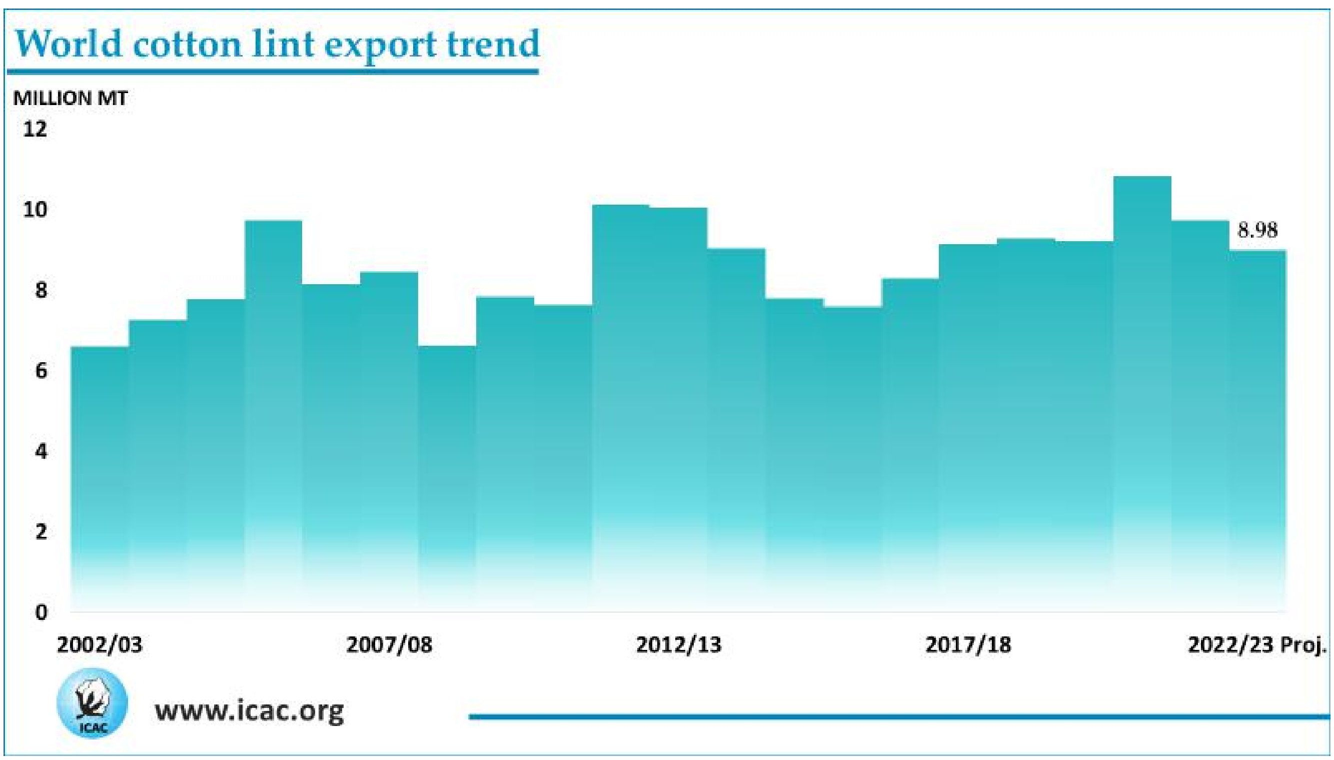
THE STORY SO FAR....

An industry is nothing if there is no consumption for its product. In the cotton industry, all variables are positioned around the signal most important factor — consumption (demand for cotton). This season, we face challenges with cotton demand and that directly impacts trade in cotton.

Cotton lint consumption for the 2022/23 season is currently estimated to be at 23.8 million tonnes, which is about 8% lower than the previous season and a million tonnes lower than the expected production in the season.

This drop in consumption is an indication that the consuming countries likely will decrease their imports, with overall trade currently expected to be 7.7% lower than the previous season at 8.98 million tonnes — lowest in the last six seasons. The reason for poor demand this season is twofold:

1. The macroeconomic situation, and
2. The respective issues with the consuming countries.



In August 2022, the season started with inflationary pressures, an expected decline in both production and consumption and market volatility. The Russian invasion of Ukraine pushed up the energy prices, driving up the cost of fertiliser, and 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 that year, we saw the implementation of the Uyghur Forced Labor Prevention Act (UFLPA) in June 2022, which made trade between US and China more complicated. Finally, on 25 August 2022, a state of emergency was declared by the government of Pakistan due to heavy floods, which killed 1,136 people and affected almost 45% of the country's cotton crop.

By December 2022, the cotton market was also expecting lower production than previous season due to unpredictable weather in almost all the major cotton producing countries. In the USA alone, 66% of cotton production was within the area experiencing drought. There were reports of heat waves in Brazil, China and Uzbekistan, and extreme floods have wiped some portions of Pakistan's cotton crop. India was also experiencing floods and leave curl virus in its northern states.

Even the labour market — which surprisingly has had low unemployment rates so far — marked the beginning of the season of mass layoffs. The employment decline in the retail and transportation sectors were also a cause of concern.

In all this time, the inflation pressure across the globe intensified. All these factors had a direct negative impact on cotton trade and cotton demand. The new year started with the positive news of China's post-pandemic economic recovery, with the manufacturing and services sectors posting gains for the first time in four months, according to Bloomberg. For China, as the world's largest importer of cotton, this signified positive signs for the recovery of both consumption and trade. However, this good news was followed by bad news from the other major consuming countries.

INTERNATIONAL
COTTON
ADVISORY
COMMITTEE

Between February and April 2023, events had multiple serious impacts on consumption outside China:

· Turkey faced devasting earthquakes in the first half of the year, impacting its consumption and driving imports down by about 3% compared to the previous season.

· Cotton shipments to Pakistan continue to be hindered due to the ongoing Foreign Exchange Reserve crises in Pakistan. Both Pakistan and Bangladesh are having problems opening letters of credit to pay for imports.

· In China, trade with USA has come under scrutiny since the implementation of UFLPA. Under the Act, US Customs and Border Protection (CBP) has detained 3,237 shipments worth $961 million under UFLPA and 631 apparel/textile shipments worth $30 million to date. However, the majority of shipments detained are not from China and about a third of them have since been released. Even Vietnam's apparel and footwear exports to the USA are being impacted by the UFLPA law.

· Other countries are taking similar steps; for example, the USMCA (US-Mexico-Canada Agreement) requires all countries to have a forced labour statute.

· Further, federal interest rate hikes had made the US dollar stronger, thus making US cotton exports more expensive on the international market. This made it more difficult for consuming countries to source cotton, and the collapse of two American banks has further deteriorated the situation.

All of these events coincided with declining consumer demand for clothes due to inflation and the looming recession. High inflation and recession fears negatively affected the purchasing power of consumers, who largely treat clothing as a discretionary purchase. Meanwhile, although it no longer commands the headlines the way it did the last few years, Covid-19 has not disappeared. We have seen infections rising again in countries like India and China this season — a grim reminder that the threat is not yet past. While it sometimes seems as though we'll never recover from the pandemic, there is always a ray of hope! Remember that every time consumption falls, it tends to rebound with much stronger intensity — and when demand dropped during the pandemic, the rebound was so great that it lifted the cotton trade to the highest levels we've ever seen.

INDUSTRY QUOTES THAT YOU NEED TO KNOW

Alex von Erlea
CEO & Founder – A1 Commodities

We see a challenging season for the entire cotton market. The higher (and stricter) cost of funds affects the entire chain, making production more expensive and increasing the carrying costs. Besides that, several end users are struggling to have the necessary financial tools to acquire the cotton. Players that provide more complete solutions embedded in their physical deals will have a great opportunity.

Md Imran Ali
CEO, Atlas Cotton

I should say next few months will be crucial to see if demand is coming from brands or not with slim hope. Spinner all over world is running negative margin. Suppliers also struggling to move cotton from warehouse before new crop enter into their warehouse which ultimately creating basis pressure. We must trade cautiously hand to mouth basis in coming days for our survival.

Anees Khawaja
Owner, Mahmood Group

We have been passing through very unprecedented times when we talk about trade and particularly of the textile industry. The matter is not just about the fundamentals of cotton itself; this time, it is a global recession — particularly the financial complications — that have been affecting the trade. I believe the worst is over in terms of demand curtailments, the geo-political scenario, the Covid effect, the winter gas crisis, and peaking interest rates. This should now start pushing the textile trade towards a rebuild and in the Q2 of financial year 2023-24, I believe we should be able to see hope and light.

Jordan Lea
Olam Agri

Hopefully we are seeing demand stabilise and improve. Pakistan looks to working through some liquidity issues and as Turkey rebuilds from the heart breaking tragedy there I hope to see global consumption move back towards the 115-120 million bale level. If these levels of consumption can be realised then we should see prices move a little higher in the 2^{nd} half of 2023 and as a result cotton acreage should increase too. If not we could see supply constraints that will dramatically increase volatility in the 2024/25 crop cycle ; something the industry does not want .

QUATERLY REPORT

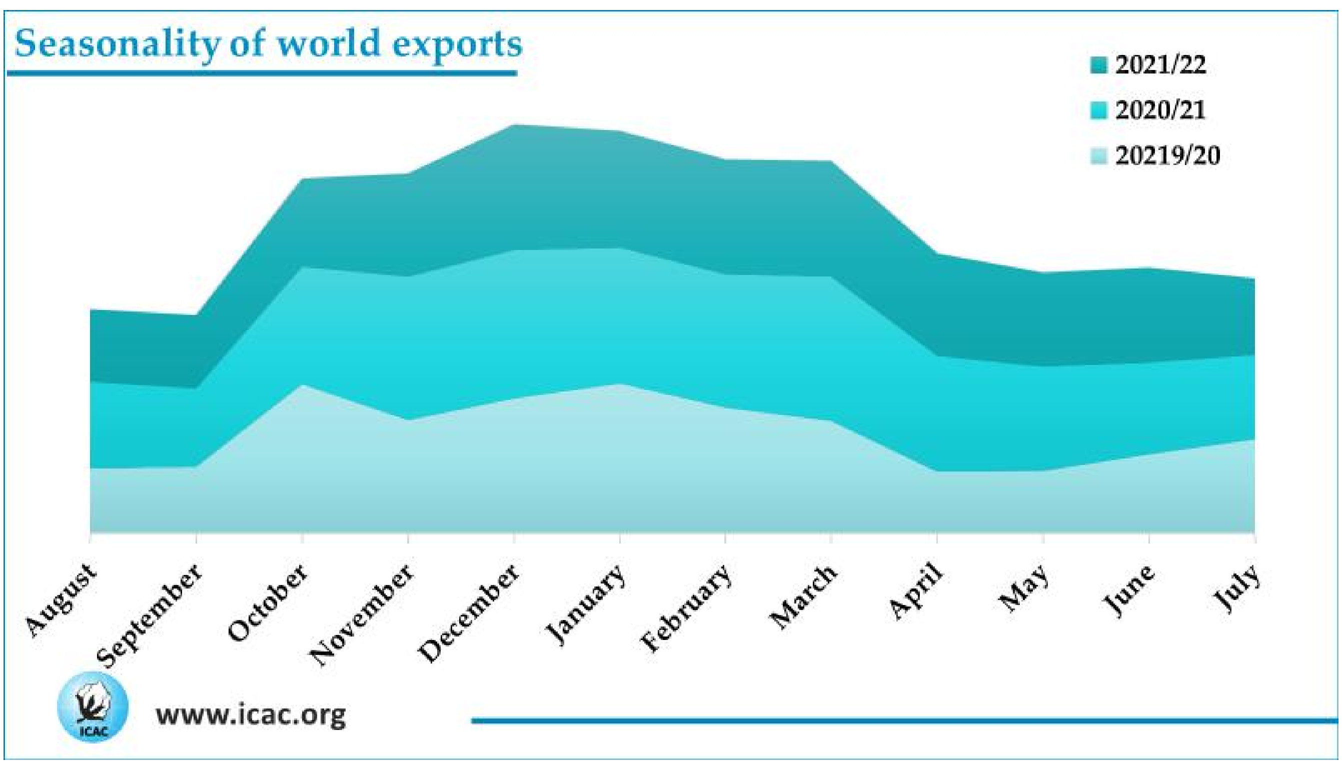
HAS THE COTTON TRADE SLOWED DOWN?

Quarter-wise, Y-O-Y analysis of the calendar year for cotton exports show there was a serious slowdown. The cotton trade posted a negative growth rate in the entire 2021/22 season with negative Y-O-Y growth rate in Q3 and Q4 of 2021, and Q1 and Q2 of 2022. This caused exports in the 2021/22 season to fall by 10% to 9.7 million tonnes. The cotton trade results in Q4 2022 were also negative. The 2023 Q1 export figures haven't been updated for some major exporters but we will be able to present a better picture in the next edition of the trade report.

SEASONALITY REPORT

Even the seasonality trend comparisons with the previous seasons indicate a decrease in trade. Monthly exports matched the seasonality trend from August to November of 2022. However, in December — usually the peak month for cotton exports — cotton trade experienced the lowest levels in the last six seasons that we studied.

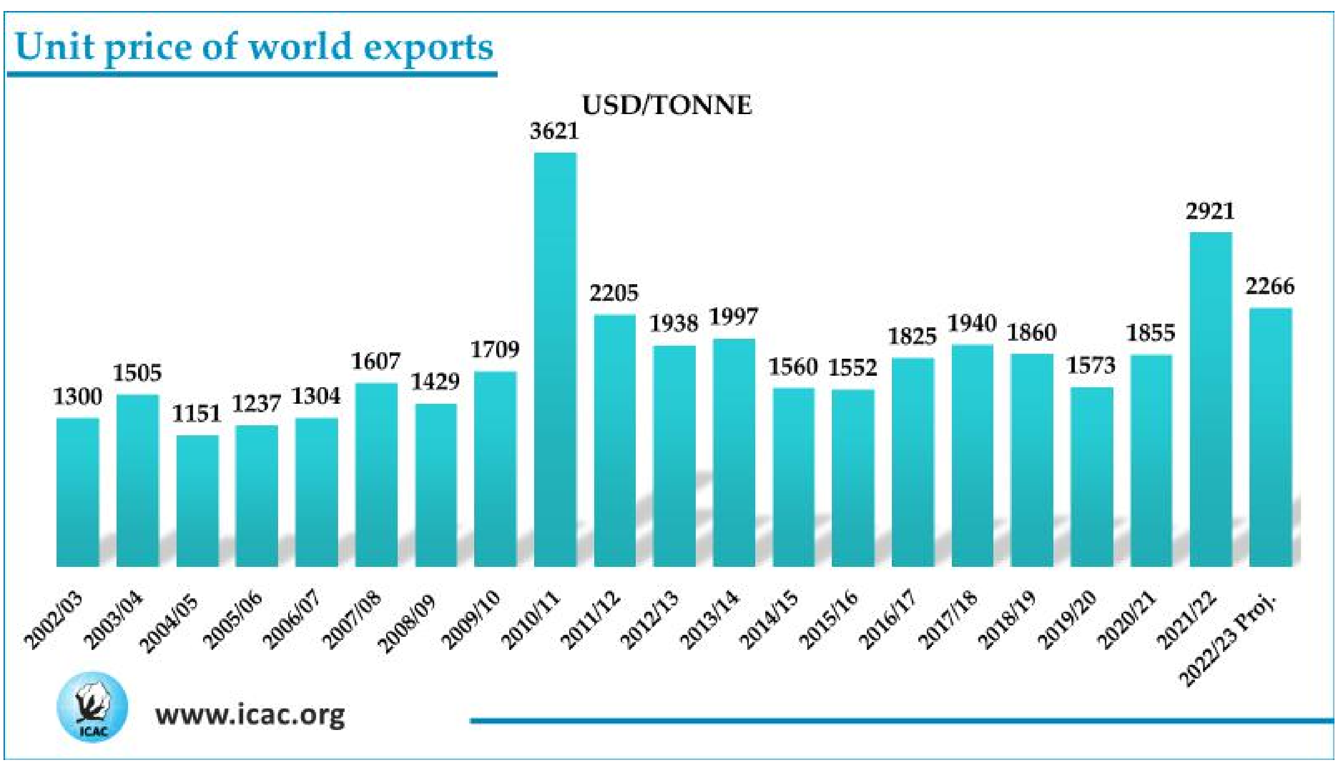
So far, monthly figures for January and February 2023 are also much lower than in previous seasons. However, with updates coming from many of the cotton trading countries, these figures are subject to revision and therefore should not be considered final.



INTERNATIONAL
COTTON
ADVISORY
COMMITTEE

UNIT PRICE ANALYSIS

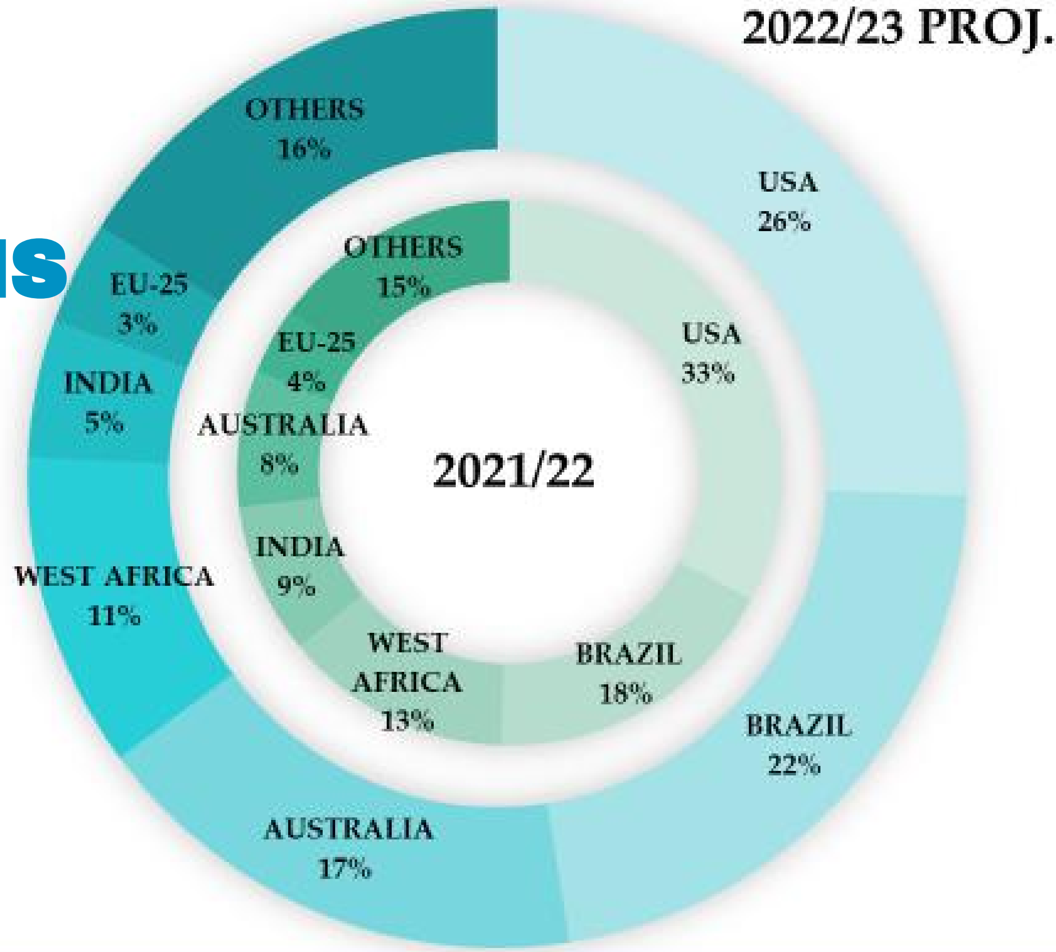
While total world exports fell last season, cotton prices were riding high, driving up the per-unit price of cotton lint exports to $2,921 per tonne, the second highest level ever experienced. A similar trend was seen in 2010/11, when the per-unit price reached $3,621, the highest price ever. For the current season, the unit price for world exports is expected to be $2,266 per tonne, lower than the previous season. This figure is based on ICAC price projections in May of the 2022/23 season. 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.



COUNTRY ANALYSIS

INTERNATIONAL COTTON ADVISORY COMMITTEE

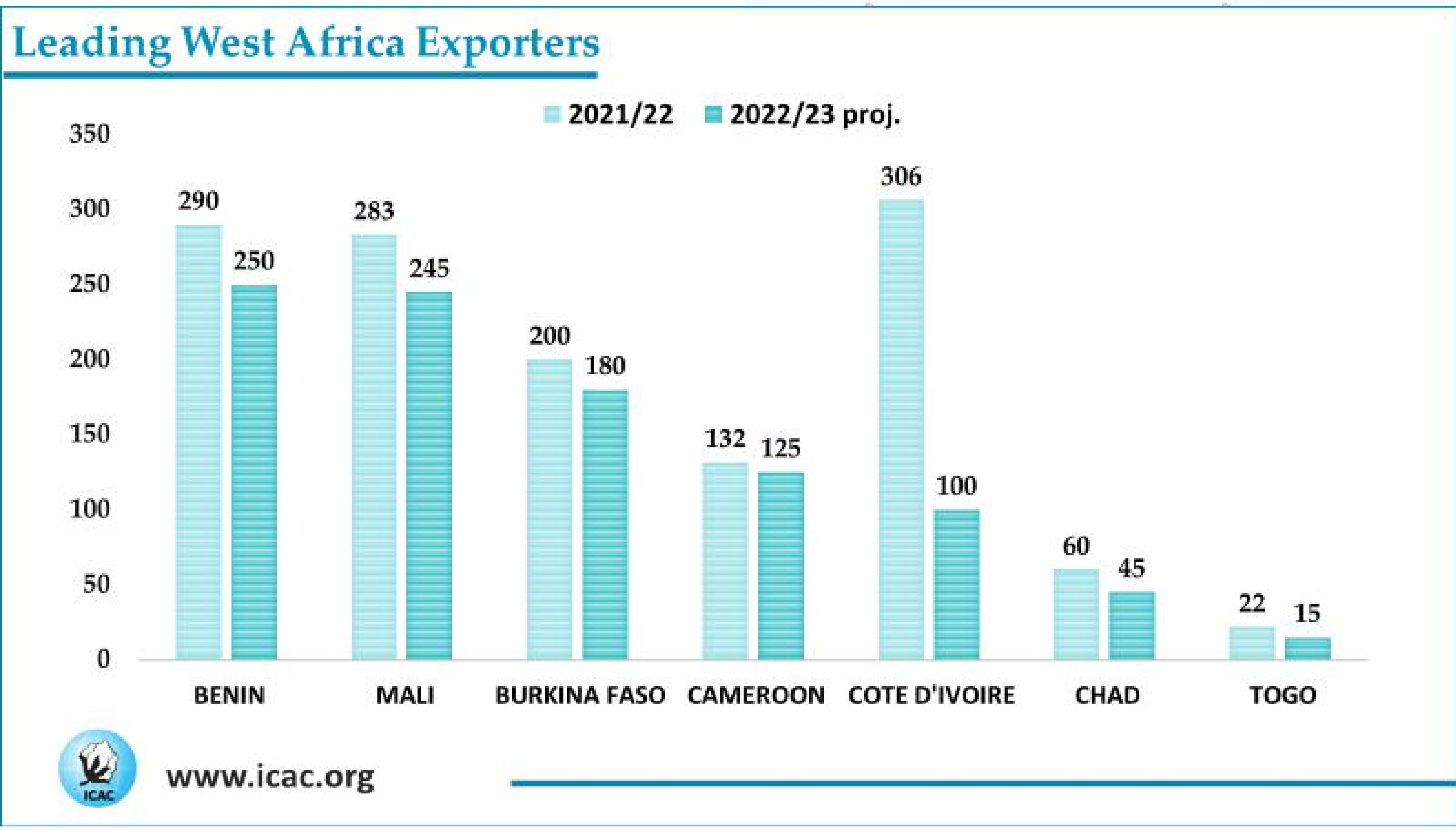
LEADING EXPORTERS AND PROJECTIONS



The world's top exporters are expected to remain the same as in the previous season — but there are changes in their respective market share. While the USA will remain the world's largest exporter, its market share is expected to fall from 33% to 26%. India is also expected to see a decline. On the other side of the coin, the biggest beneficiaries of this fall are Australia, which is expected to increase its market share by 9%, and Brazil, which is expected to increase its market share by 4%.

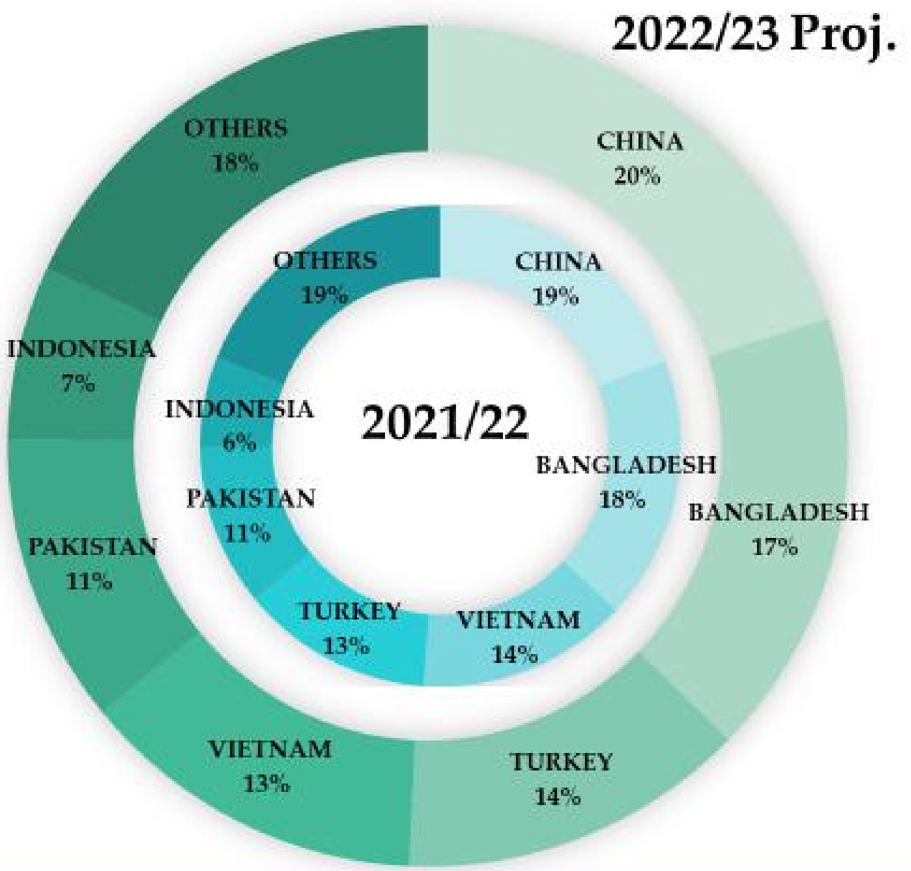
WEST AFRICA

West African exports will be led by Benin, followed by Mali, Burkina Faso and Cameroon. Unfortunately, Côte d'Ivoire is currently expected to post a 67% decline in exports due to a considerable fall in their production this season.



INTERNATIONAL COTTON ADVISORY COMMITTEE

LEADING IMPORTERS AND PROJECTIONS



www.icac.org

The world's leading importers for this season are expected to remain the same as the prior season. Imports will be led by China — which is expected to increase its world market share by 1% — followed by Bangladesh, Turkey, Vietnam and Pakistan. All are expected to maintain their world shares at more or less the same level as the season before.

For more information of ICAC trade figures please visit ICAC Data Dashboard.