

World Cotton Situation

564 Meeting of the Standing Committee
April 16, 2020

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Statistician

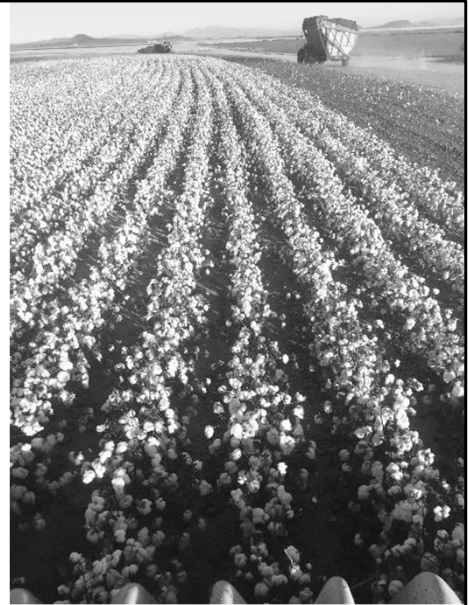


INTERNATIONAL COTTON
ADVISORY COMMITTEE



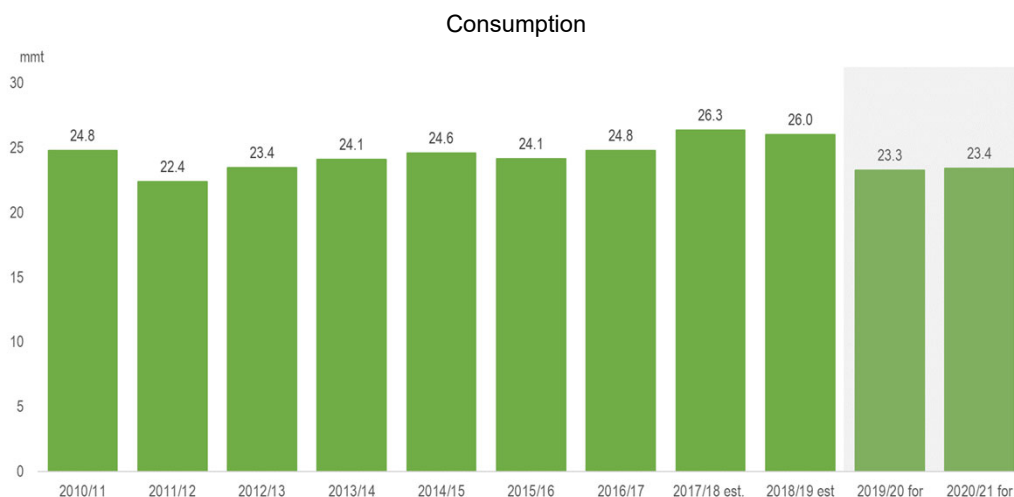
Overview

- Impact of Covid19
- 20/21 estimates
- Prices



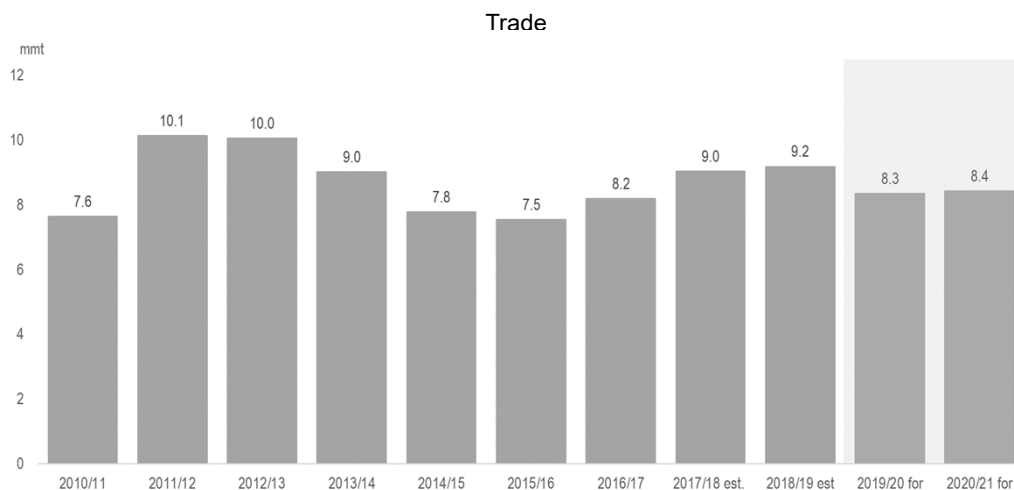
I'll be presenting our current estimates on the impact of Covid19 on the cotton sector as well as our 20/21 season forecast which we released on April 1 and revised yesterday for our mid-month report. For the 2020/21 season, the Secretariat's projections attempt to reflect this unprecedented environment including current developments in the Covid-19 pandemic that have already impacted the sector with further and full impact remaining unknown. Then, we'll look at prices.

Impact of Covid-19 on Cotton Consumption, Trade and Stocks



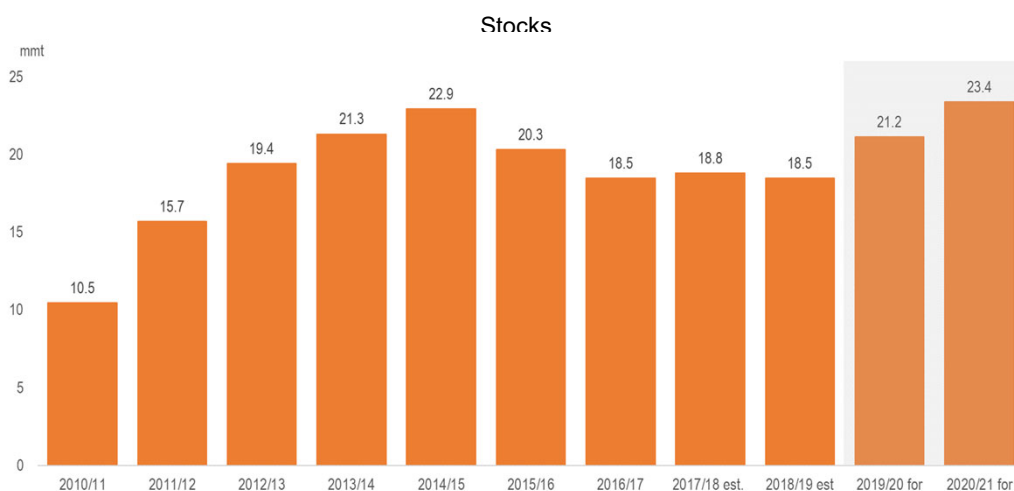
As many businesses have been required to slowdown or close for the consideration of public health, manufacturing and supply chain activity around the world has decelerated as orders have slowed or have been cancelled. Although the full impact is not yet known, the potential for a further slowdown in global economic growth is expected with the IMF forecasting a 3% contraction of the global economy for 2020. Consumption in Asian and Southeast Asian manufacturing countries have been revised down sharply as demand has slowed dramatically from retailers in Europe, North America and China. Consumption or mill-use of cotton lint in China – the leading country for cotton lint consumption - had already been revised down for 2019/20 season considering the trade dispute with the United States and slowing economic growth. The current estimate for 23.3 million tonnes for consumption represents a 10.6% decrease from the previous season and the lowest level in a decade. For the 20/21 season, the forecast is currently at 23.4 million tonnes, however much remains to be seen as to how our economies will recover from the effects of the pandemic. Keeping in mind that economic recovery from Covid19 will likely occur within the trade tensions between the US and China that had already affected the cotton market.

Impact of Covid-19 on Cotton Consumption, Trade and Stocks



Trade has been revised to 8.3 million tonnes representing a 9% decrease from the previous season. Government interventions for recovery and reinvestment due to the pandemic are needed as well as eventual trade resolutions for a broader economic recovery, including the cotton market. During this unprecedented global pandemic which emerged as global economic growth had already begun to slow, the uncertainty in markets has increased as countries struggle to manage the spread of Covid-19. The WTO has projected that trade will fall steeply in every region of the world and across all sectors of the economy with an estimate that the volume of global trade could fall by 13% in 2020.

Impact of Covid-19 on Cotton Consumption, Trade and Stocks



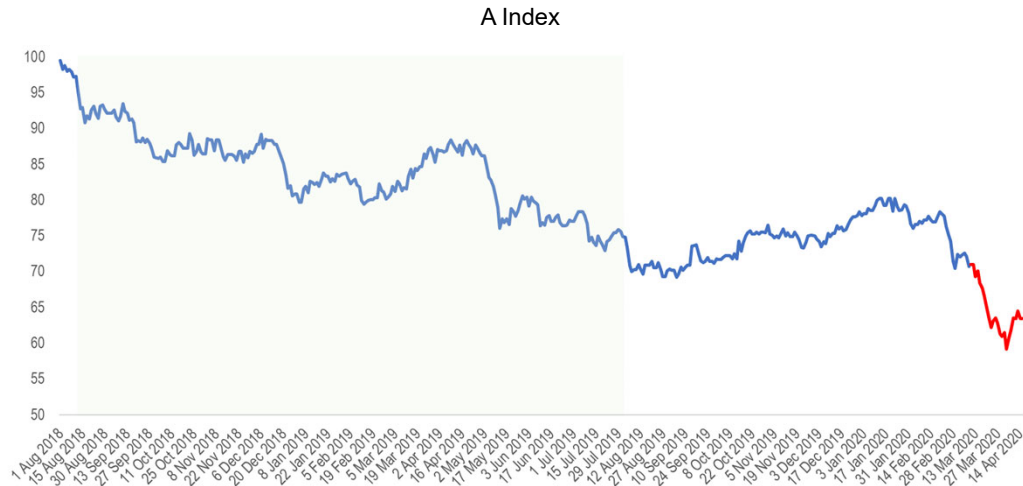
Ending stock levels are expected to rise for the 19/20 season with our current estimate at 21.2 million tonnes and a stocks to use ratio of 0.91.

Prior to the Covid-19 pandemic, the global cotton sector had already been under stress, lowering prices. While the impacts are likely greater for consumption than production, the Secretariat's global production estimate for the 2020/21 season is currently at 25.6 million tonnes, a 1% decrease from the current season's estimate. Planting intentions remain under pressure from falling prices and possible competition for food crops in a crisis scenario.

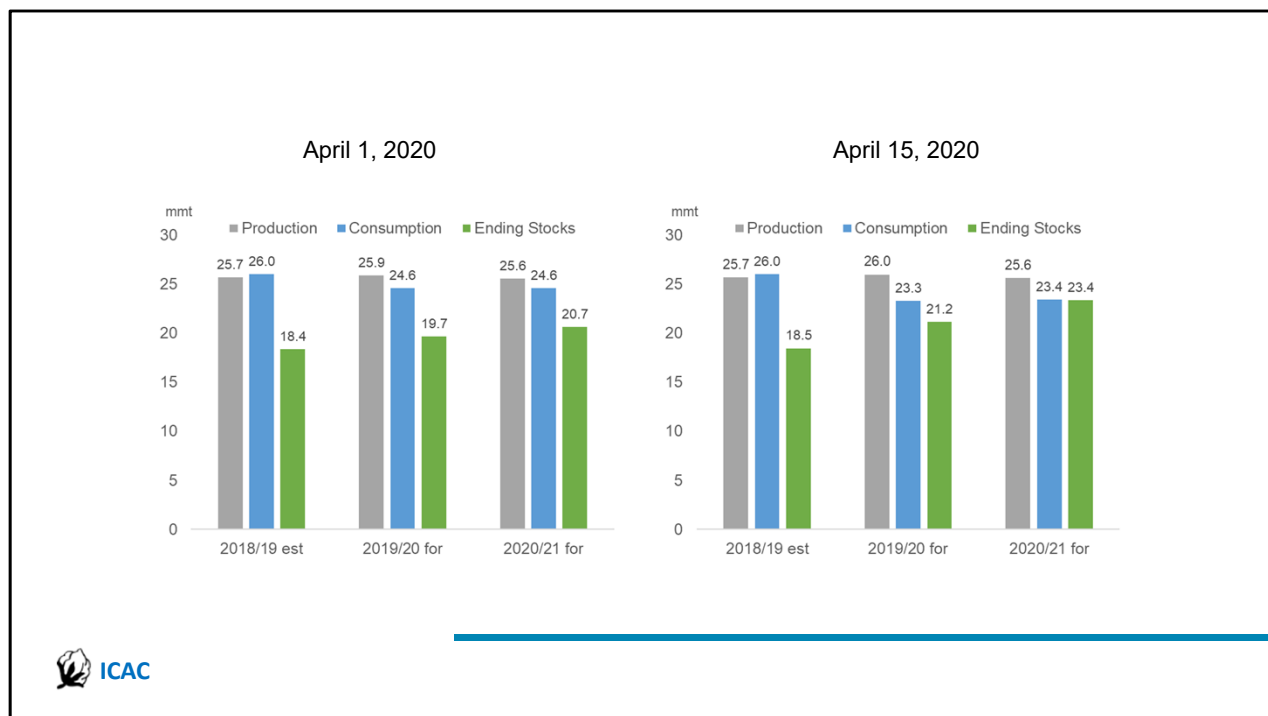
Containment measures in countries intended to slow the spread of Covid-19 may impact labour and supply chains for seeds and inputs for the 2020/21 season as physical business slows or halts in many countries.

Under our current production and consumption estimates for the 2020/21 season global ending stock levels could then be expected at 23.4 million tonnes – a record high level - with the stock-to-use ratio at 1, meaning that stock levels are sufficient to supply to a full season of consumption.

A Index Fall - Trade Disputes and a Global Health Crises



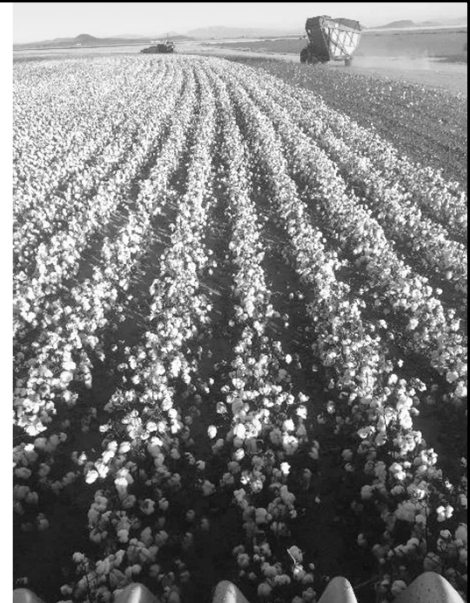
The A index – the international reference price of cotton has fallen steeply in the past few months, but had already been under pressure from the trade environment beginning in 2018. The portion in gray represents the 18/19 season. While the red line represents the fall of the A Index since early March when the pandemic was declared.



Here at the ICAC we continue to monitor events and collect information during the evolving current pandemic and provide updates and revisions to estimates on a bi-monthly basis. Again we provided our first estimates to the coming season on April 1st while we were trying to assess the impacts of Covid19 to the current season. The response to the pandemic has developed rapidly in the past several weeks with borders closing and countries putting in place containment measures that have shut down economic activity.

Summary

- Consumption for 19/20
- Prices remain under pressure
- 2020/21 remains difficult to forecast



Containment measures to limit the spread of disease and protect human health have effectively shut down the global economy. Cotton consumption is a function of textile and apparel trends which are income elastic. As business activity has come to a halt, consumption of cotton lint is expected to fall sharply. The current estimate for 23.3 million tonnes for consumption represents a 10.6% decrease from the previous season and the lowest level in a decade.

Prices which were already under pressure, are now under even more pressure. The A index has fallen to below 60 cents per pound in early April. Production will exceed consumption and result in high ending stock levels which will put additional pressure on prices. The Secretariat's next price projection will be released on May 1.

We are in the process looking at both demand side and supply side shocks in the cotton supply chain in order to provide more analysis to better understand the impact of the pandemic on the global cotton sector and recovery scenarios for the 2020/21 season or beyond. We believe that recovery to the sector as well as the global economy relies on policy responses and have requested this information from your governments. Economic recovery can occur once the pandemic is brought under control.

Cotton Supply Chain

