



# Cotton Outlook

# LONG STAPLE UPDATE

APRIL 2020

## Welcome to Cotlook's April long staple update

In this edition we advance our tentative projections for production and consumption in the 2020/21 season and consider the relative movements of prices over the past couple of months.

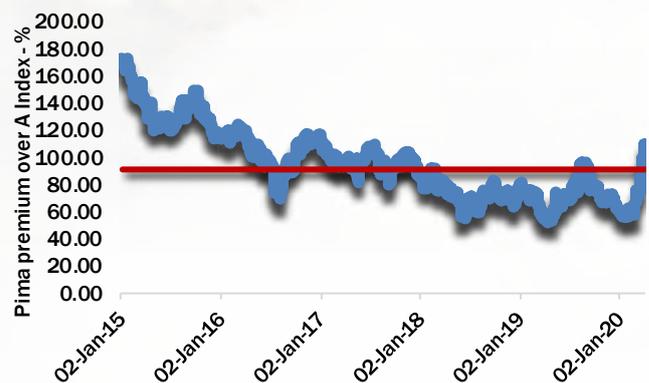
The recent lacklustre demand for long staple cotton has not, of course, been helped by the dramatic contraction of global textile demand as Covid-19 has spread from China to the rest of the world. Producers of fine count yarns and their customers have not escaped the tide of order postponements and cancellations unleashed by the general tightening of retail demand. Even before those developments, early planting projections reflected a dwindling interest in cultivating long staple varieties, given the disappointing premiums available to producers in the past year and the poor profitability in comparison with higher yielding upland varieties of cotton and other crops entirely.

### Prices

Cotlook's benchmark **Pima** price (Grade 2, 1-7/16") has declined marginally over the eight weeks in view to 124 cents per lb. However, the marked fall in upland values during the same period had the (slightly perverse) effect of reversing the declining trend for Pima's premium (i.e., the percentage by which our Pima quotation exceeds the A Index), which by early April had risen sharply to just above its long-term average (just below 91 percent).

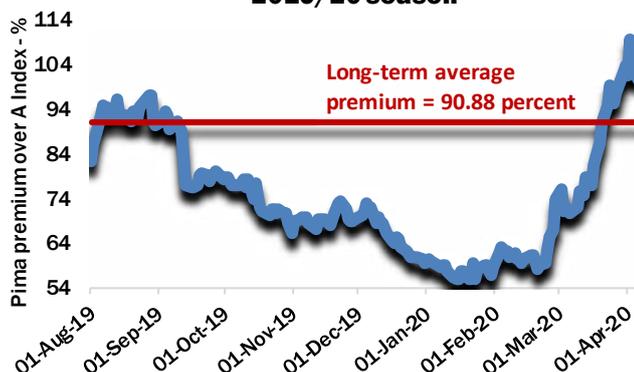
However, this does not of course signify any improvement in the profitability of long staples *per se*. Indeed, a longer term perspective reveals the progressive decline of prices for long staple cotton, relative to upland, over several seasons.

Cotlook long staple premium - five years

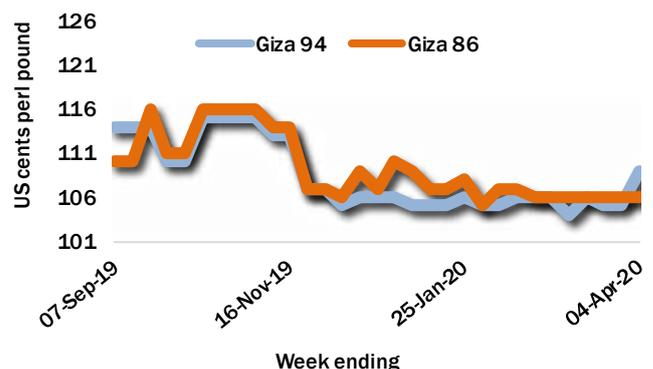


In the period since mid-January, export prices for **Egyptian** cotton have not risen, as some had foreseen, in response to a tightening supply, but have instead registered a steady, if modest, decrease. Exporters are reported to be frustrated by the low price point, not least because they have gained no price advantage for stocks

Cotlook long staple premium 2019/20 season



Egyptian FOB export prices - 2019/20 season



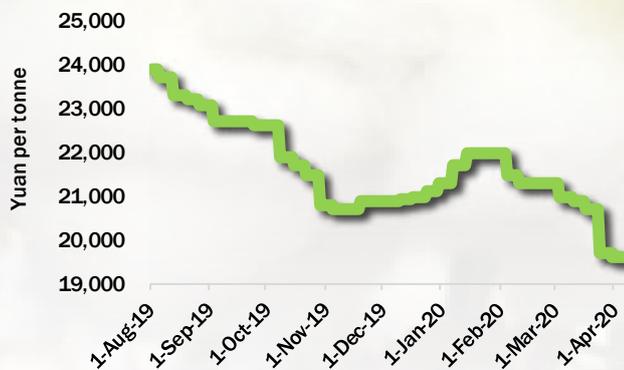
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acquired earlier in the season, but which remain unsold. On the contrary, this inventory is now more expensive than cotton available at the present time.

The price of 22,000 yuan per tonne quoted for **Chinese T137 cotton** in mid-January proved to be the peak of the rally that had been under way since November 2019. In the period since that moment, the T137 price has undergone several successive downward revisions and late in March was recorded as 19,600 yuan per tonne.

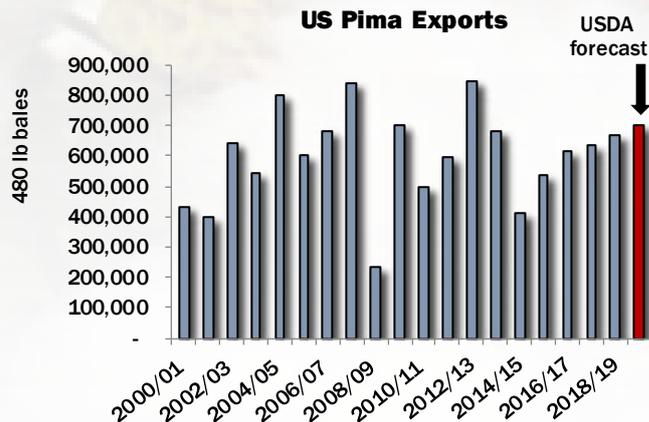
**T-137 price**



seasons from 24 percent in early January to fourteen percent. India remains the largest market for Pima, having increased its market share from 30 percent last season to 35 so far in 2019/20. China has just overtaken Pakistan to become the second most important customer this season, but still shows a drop of almost sixty percent in comparison with the last marketing year.

In its February report, the USDA increased its Pima export estimate to 700,000 bales, a figure that suggests the Department expects the improvement in sales of Pima since their recent low in 2014/15 (410,000 bales) to be consolidated this season. The estimate was retained in March, although the rapid escalation of the Covid-19 crisis is very likely to have a bearing on actual shipments in the coming months. Its effects already appear to have eclipsed any fresh impetus to export business derived from a Pima Competitiveness Payment over recent weeks.

**US Pima Exports**



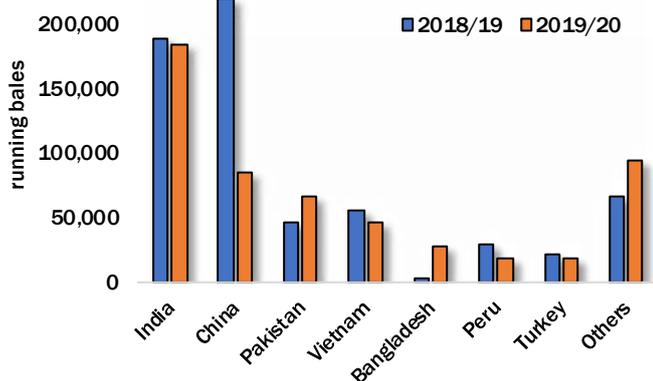
## Trade US Pima

By March 26, the total figure for export sales of US Pima since the start of the season was 540,000 running bales (of which 328,600 had been dispatched, and 211,400 were awaiting shipment), according to USDA data. At the same point a year earlier, total commitments amounted to 631,300 running bales (382,100 shipped).

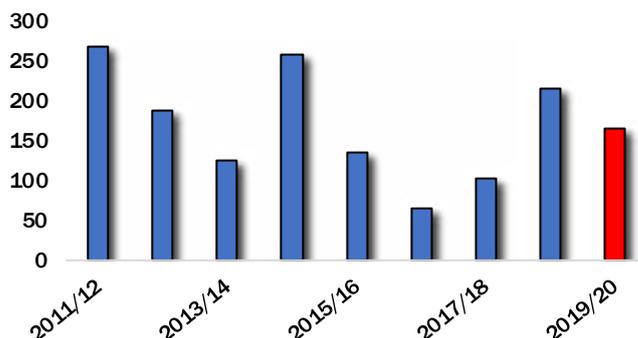
The first three months of the calendar year have therefore seen a reduction of the deficit between the two

The period in view has also seen ending stocks for 2019/20 fall from 241,000 bales to 166,000, partly as a result of the increase to projected sales, but also a function of lower expected output. Thus, the carryover is now forecast to be about 23 percent lower than that recorded at the end of the previous season.

**Pima export sales by destination (March 26, 2020)**



**Pima ending stocks (thous 480-lb bales)**

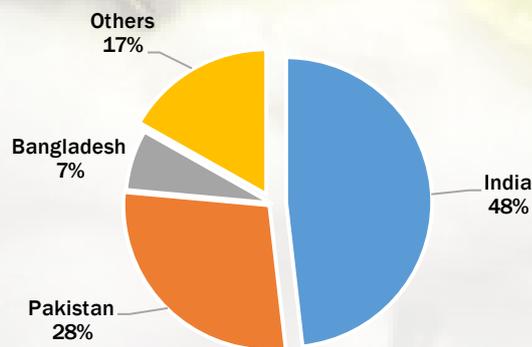


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## Egypt

During the period under review, export sales of Egyptian cotton have slipped further behind last year's cumulative total – from a deficit of 13 percent in January to 20 percent by the end of March. The latest tally (as registered by March 28) is 62,094 tonnes, of which 31,243 have been shipped. Seventy-two percent of sales recorded for export involved Giza 94 and 18 percent were for Giza 86. ELS varieties account for a further 4.4 percent.

**Egypt: major markets in 2019/20**

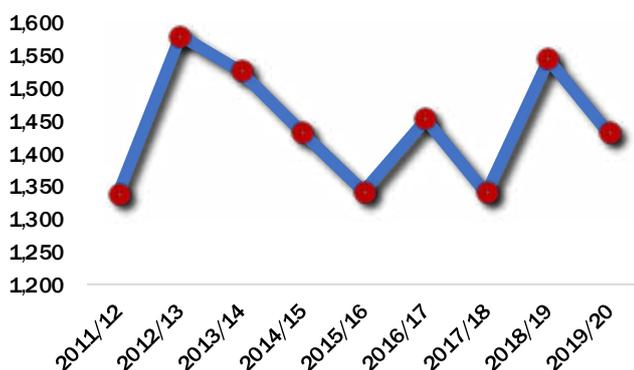


India has taken 48 percent of registered sales so far this season and Pakistan a further 28 percent. Bangladesh is the third most important market for Egyptian cotton, accounting for seven percent of sales since September 2019.

## Production outlook

Heat stress and a lack of water available for irrigation seem to be the causes of a somewhat disappointing outcome for **United States** Pima crop this season. In USDA's March supply and demand report, the figure for harvested area was retained at 225,000 acres (down from 249,000 in 2018/19), but yields were cut from a forecast 1,544 lbs per acre to 1,433.

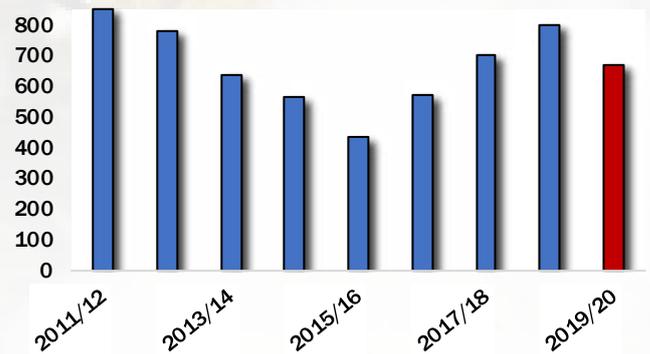
**Pima yields (lbs/acre)**



The result is a decrease in the projected size of the crop by 52,000 bales to 670,000, which would be lower than both of the previous two years.

For 2020/21, the reduced output and prices seen this season in combination with low water levels once again in regional reservoirs suggest that long staple production in the Far West of the US might fall quite considerably. The National Cotton Council's February Planting Intentions survey indicated a decrease in Pima acreage of three percent, and USDA's Prospective Plantings report released at the end of March projected a reduction of less than one percent. Other observers, however, are significantly more pessimistic, especially once the impact of the pandemic is taken into account. Many farmers are thought to be considering switching to corn in search of better remuneration, or even selling their water allocations to farms with permanent crops and letting fields lie fallow.

**Pima production (thous 480 lb bales)**



In **China** too, long staple production appears to be in decline. In October it was reported that the area planted to long staple cotton in Awati County, Xinjiang was estimated to be around 250,000 mu less than the previous year, at 600,000 mu (40,000 ha), while yield was lower by 10/20 kilos per mu, at 240/260 kilos.

Although no detailed forecasts have yet been advanced for 2020/21 (attention was diverted first by the trade tensions with the United States and more recently by the Covid-19 outbreak), the impression gained is that long staple plantings are likely to decline over the coming seasons. It has proved difficult to replicate the productivity gains achieved by upland growers by means of mechanical harvesting, which is advancing season by season in Xinjiang. The continuation of the *status quo* as regards subsidies, announced in late March, offers no fresh incentives to cultivate such varieties - neither of course has the latest decline of prices.

With harvesting and classing now well advanced, local observers have adjusted their estimates of this season's **Egyptian** output to about 70,000 tonnes, down from 73,000. The forecast published by *Alcotexa* is 1,634,833 metric cantars, or 81,742 tonnes.



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Long staple cotton makes up 96 percent of the total, while the small balance is composed of extra-long staples.

Early forecasts for the 2020/21 season circulating in the local market suggest an area of between 180,000 and 200,000 feddan (approximately 75,000 to 85,000 hectares), versus almost 239,000 feddan sown this season, and output between 54,000 and 60,000 tonnes. By March 30, less than 5,000 feddan had been planted, according to the Ministry of Agriculture, versus over 22,000 at the equivalent date a year earlier.

Detailed information from **India**, is lacking but some reports mention a smaller than anticipated crop in Karnataka. Although the country is a significant net importer of long staple cotton, efforts to engineer a rise in the domestic crop have met with little success in recent seasons.

Results from the 2019/20 season reveal that **Israeli** production fell slightly short of expectations, at 7,800 tonnes of lint (previous estimates were in the region of 9,000 tonnes). The total volume consisted of 3,600 tonnes of Pima and 4,200 of Acalpi. Yields from the latter variety were placed at 2,050 kilos per hectare, whereas 1,900 kgs/ha were obtained from Pima.

In terms of quality, the crop again produced excellent results. As in recent years, the entire output was certified by the Better Cotton Initiative.

Expectations for 2020/21 are very similar to the current season. Around 4,000 hectares may be cultivated, suggesting an output in the region of 8,000 tonnes, shared equally between Pima and Acalpi, as well as a very small volume of Acala.

## World production and consumption

At 381,400 tonnes, world long staple production in 2019/20 is estimated to be the lowest since the 2013/14 season. Moreover, no improvement is in sight for 2020/21: in most producing countries, output is expected to plateau or fall, indicating a total figure just below 350,000 tonnes, a decline approaching nine percent year-on-year. The

higher risk represented by the longer growing season of long staple varieties is clearly a less appealing prospect in an environment where profitability is so low relative to competing varieties and crops and where demand is exceptionally uncertain.

**World long staple production (tonnes)**

	2019/20	2020/21
United States	146,000	126,000
Egypt	67,600	45,000
India	70,000	70,000
China	60,000	55,000
Others	37,800	53,950
<b>Total</b>	<b>381,400</b>	<b>349,950</b>

On the demand side of the equation, world consumption also looks likely to fall during the remaining months of this season. As a result, our forecast for 2019/20, at nearly 379,000 tonnes, represents a decline of about ten percent from the previous campaign. In the current circumstances, making any firm prediction about short or even medium term demand is clearly impossible. For now, we suggest that long staple cotton use may decrease by a further seven percent or so in 2020/21, to 351,000 tonnes, which would place production and consumption in a rather precarious equilibrium. The shock to the demand side of the market could of course prove to be more severe than our current forecasts suggest.

**World long staple consumption (tonnes)**

	2019/20	2020/21
India	150,000	140,000
China	120,000	110,000
Pakistan	36,000	35,000
Others	72,855	66,000
<b>Total</b>	<b>378,855</b>	<b>351,000</b>

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