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Outlook

FEBRUARY 2023



**WORLD LONG STAPLE
MARKET UPDATE**

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Welcome to Cotlook's February 2023 long staple update

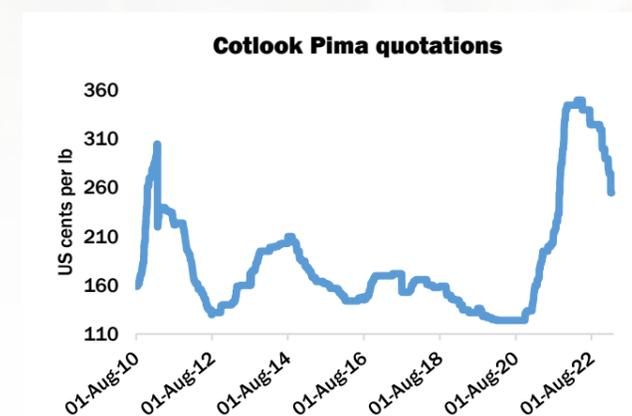
We are now midway through the 2022/23 marketing season, an ideal moment to take stock of developments in the long staple sector since August. In the intervening six months, the price attrition that began in early May 2022 has continued, bringing long staple offering rates in China and Egypt in particular to much more typical levels. Pima prices have begun to fall quite rapidly too, though they remain high by historical comparison. The fall has of course been prompted by slower than expected demand in light of the global economic conditions. Trade figures for the season so far bear this out to a certain extent. Pima commitments are substantially lower than last year. However, sales of Egyptian cotton (from a larger crop) are notably ahead of the same moment in 2022.

We also review the achievements in production this growing season and take a provisional look at the prospects for 2023/24, given the disappointment felt by some farmers at the direction of prices, while water allocations in California look likely to be better than for several years.

Prices

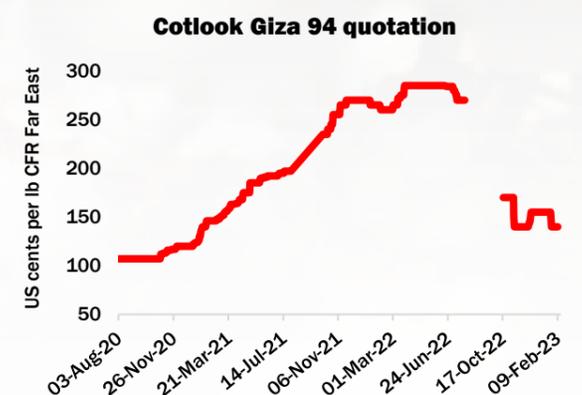
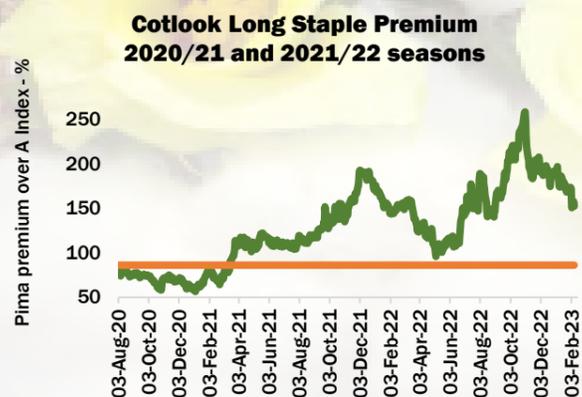
In the fourth quarter of the 2021/22 season, Pima prices had already begun to succumb to the pressures on the global economy arising from inflation and the interest rate rises implemented by central banks in an effort to temper it. In the first half of 2022/23, this trend has continued, and the decline so far has been almost as steep as the extraordinary rise registered since the Covid-related nadir in the middle of 2020. By early February 2023, Cotlook's benchmark price

for Pima (Grade 2, 1-7/16") had given up over 40 percent of the increase registered between October 2020 and April 2022.



Nevertheless, for the first half of the period under review in this edition, that is to say August to October 2022, the Cotlook Long Staple Premium (measured by our Pima quotation in relation to the A Index on the same date) actually rose above 250 percent as the upland price (always more responsive to day-to-day fluctuations in futures) fell sharply, while the decline for Pima was more leisurely. In November to January, however, this trend was reversed: in the more recent period, the A Index was range bound in a band between the high 90s up to around 105 cents per lb, while Pima saw a reduction of around 40 cents per lb, resulting in an erosion of the premium to around 180 percent – back to the level it was at in mid-September. All the while, though, it should be remembered that the premium remains far above its ten-year average of 86.25 percent. Indeed, this has been the case for almost two years under the influence of smaller than average production for the past three seasons resulting

most recently in extremely low ending stocks (effectively exhausted) in 2021/22 and therefore no carryover into 2022/23.



As the 2021/22 season closed, Cotlook's Giza 94 quotation was also at a near-record high of 270 cents per lb. However, a dearth of market evidence for new crop offering rates arising in part from a hiatus in the seed cotton

auction system (farmers refused to take part in sales, unhappy at the proposed prices) meant that the quotation for 2022/23 stocks was not introduced until mid-October. By that time the prevailing price had fallen by an entire dollar, and then proceeded to decline further before a modest improvement in December. The result is an unusually wide gap between offering rates for US and Egyptian long staple supplies that cannot be accounted for on the grounds of availability alone. Certainly, the Egyptian crop is larger this year, while Pima output has fallen; however, there are other forces at play as well.

While consumption rates of all cottons have been hit by economic uncertainty affecting consumer demand at a global level, Pima enjoys a somewhat protected position thanks to the Supima licensing system, under the terms of which participating mills are committed to purchase and use a certain quantity of Pima cotton every year. This gives producers and merchants some confidence in demand throughout any given season and has encouraged them to hold prices relatively firm even though sales for the first half of this season have been distinctly slow.

In Egypt, on the other hand, the country's particular economic position has led to a shortage of US dollars with which to conduct international business. Traders seeking dollar revenue in order to service imports and other costs have been persuaded to agree sales at much lower levels than they might otherwise entertain. At the turn of the year, there were signs

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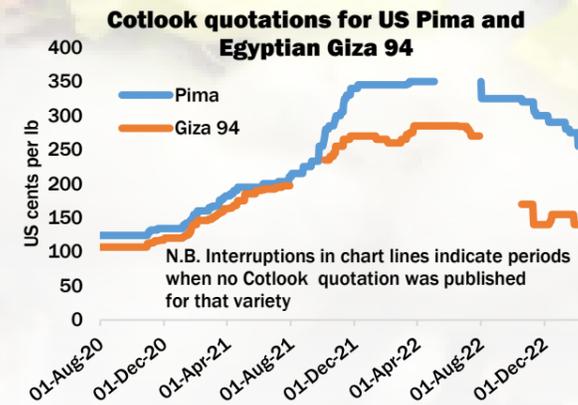
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that international demand for Giza cottons was improving, and thus offering rates briefly showed a little more stability before succumbing once again to downward pressure. However, the wide discount in respect of Pima persists, as shown in the accompanying chart.



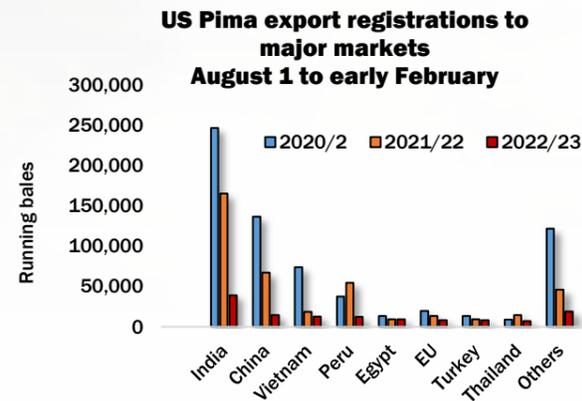
In China, the fall in offering rates for the benchmark Type 137 quality since their peak in early April 2022 has completely erased the nine-month escalation from around 23,000 yuan per tonne to a record 55,000 yuan. By January, the prevailing price had returned to a much more typical 23,000 yuan per tonne, a level at which local demand is said to have been stimulated, prompting a modest increase in estimates of LS consumption this season.



Trade

US Pima

By early February, export registrations of US Pima for shipment in 2022/23 amounted to 131,622 running bales (of which 37 percent had



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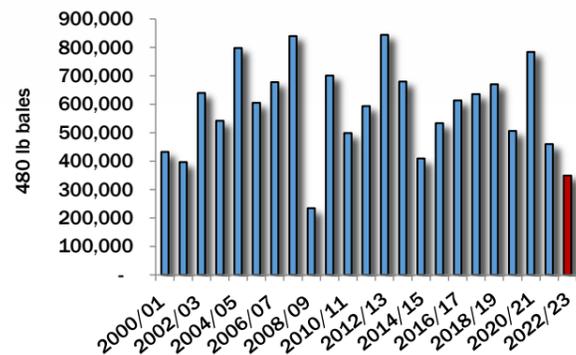


been dispatched), according to USDA data. The total figure represents a reduction of 67 percent from the same moment last season, when registrations amounted to just under 400,000 bales, underlining just how slow demand has been in the first half of the season. (It is worth bearing in mind, too, that the latter figure was itself 40 percent lower than the season before.)

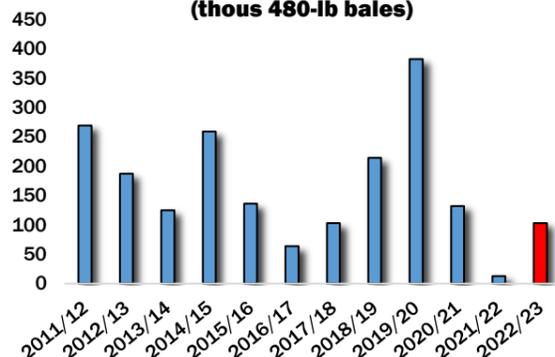
India, in recent years the largest market for US long staple cotton, retains this position, but with a vastly reduced total of less than a quarter of last season's commitment at the same moment (and only 20 percent of the final total). Last year's other most significant markets, China and Peru, show reductions of similar proportions.

USDA's forecast for Pima exports for the whole season fluctuated throughout the period in view, but was reduced in February's report to 350,000 480-lb bales. Shipments to that date amount to approximately 85,500 bales, so there is some ground to make up in the remaining 25 weeks of the marketing year. In any case, exports for 2022/23 are expected to be lower than every other season of the 21st century with the exception of 2008/09, when demand was severely affected by the global financial crisis.

US Pima Exports



Pima ending stocks (thous 480-lb bales)



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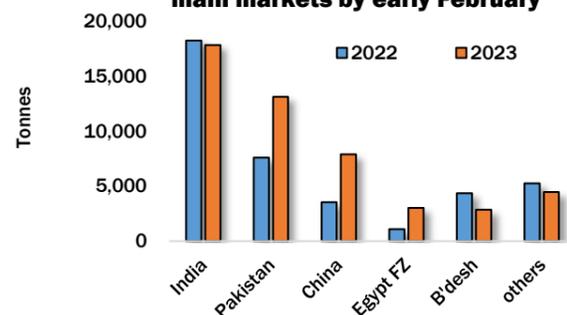
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In that context, despite the season's smaller crop and extremely low carry-in, ending stocks on July 31, 2023 are projected to number over 100,000 bales.

Egypt

As intimated above, trading conditions in the Egyptian market have been challenging this season. Nevertheless, Alcotexa's reported export registrations for Extra Giza and Super Giza cottons (comprising, respectively, the categories of Giza 45, 93, 92 and 96, and Giza 94, 86 and 97) totalled just over 46,000 tonnes by the beginning of February. This was 38 percent higher than at the same point a year earlier, thanks to a recovery in demand for ELS and LS varieties in China (which has more than doubled its purchases this year) and Pakistan (73 percent higher). Sales to India, the largest customer, have been more or less steady so far (-2 percent).

Egyptian LS and ELS export registrations - main markets by early February



Giza 94 accounts for 77.5 percent of LS/ELS sales recorded for export to date, Giza 86 for 12 percent, Giza 97 for three percent and ELS varieties for the remaining eight percent.

Statistical position of Egyptian cotton by 29/1/23 (figures in tonnes)

	Extra Giza (45/87/93/96/92)	Super Giza (97/94/86)	Giza (95)	Others
Beginning stocks	1,608	8,781	83	39
Estimated crop	5,943	95,558	8,514	500
Total supply	7,551	104,339	8,597	539
Distribution to local mills	574	4,204	3,974	-
Export commitments	3,524	42,357	2,893	83
Actual export shipments	2,025	23,087	1,227	83
Total uncommitted	3,453	57,778	1,730	456

Source: Catgo

According to Catgo, 61,231 tonnes of long staple lint remained uncommitted by January 29.

Production in 2022/23

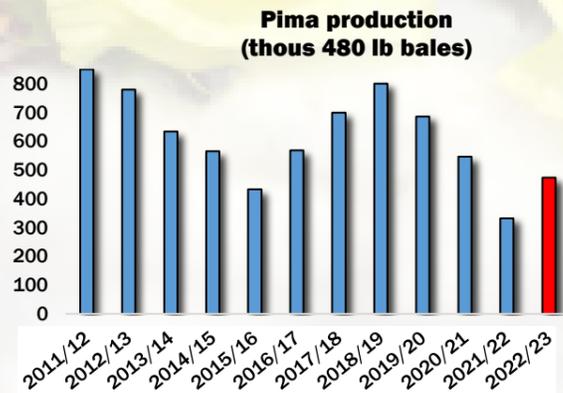
In August, USDA forecast a year-on-year increase in harvested Pima area of around 23 percent. In the event, the outcome has been better than that: the latest estimate published in February showed a 44-percent rise to 178,000 acres. Admittedly, output has been tempered by lower yields in a season that has again been severely affected by

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drought. Nevertheless, USDA's latest estimate of the Pima crop is 474,000 bales, compared to 332,000 in 2021/22. By February 1, a total of 429,600 running bales (approximately 442,500 statistical bales) had been ginned.



The long staple growing season in **China** has been less problematic than in 2021/22, when excessively heavy spring rains necessitated widespread replanting and brought about lower yields. A planted area of around 800,000 mu has produced a crop in the region of 75,000

tonnes according to local producers located mainly in Aksu, where seed cotton sales were almost complete by mid-January. This marks a substantial recovery from last season, and perhaps the highest LS output since cultivation of the varieties in question was revived in 2019/20.

Last season's record prices for Giza cottons stimulated an increase in the planting of cotton in the spring in **Egypt**. Here too, the growing season has been relatively untroubled and output of ELS and LS lint is placed by Catgo at 101,500 tonnes, compared to just under 70,000 tonnes the year before. Long staple varieties make up 94 percent of the total, with extra-long staples accounting for the balance. By February 8, around 94 percent of seed cotton had been inspected and almost two thirds had been ginned.

According to the **Israeli** Cotton Board, total output this year is in the region of 16,000 tonnes, Meanwhile, the Indian long staple crop is estimated at around 85,000 tonnes.

Thus, it seems that despite several important factors mitigating against a recovery in LS production in 2022/23 – including the extreme

World LS Output (tonnes)			
	2020/21	2021/22	2022/23
Egypt	58,000	70,000	101,500
United States	119,000	72,300	103,200
India	85,000	70,000	85,000
China	65,000	40,000	75,000
Israel	5,000	4,900	16,000
Turkmenistan	15,000	20,000	15,000
Uzbekistan	1,000	4,000	4,000
Peru	4,000	4,000	4,000
Tajikistan	-	1,000	1,000
Spain	3,500	1,500	1,000
Greece	-	2,500	1,000
Sudan	1,000	-	-
Total	356,500	290,200	406,700

water shortage in the US Far West and changing spinner preferences thanks to technological developments allowing fine count yarns to be spun with longer staple upland varieties – the overriding influence on the sector has been the extraordinary prices available since mid-2020. Output has increased in most major production centres, which appear collectively to have achieved a total on par with pre-pandemic levels.

Meanwhile, market observers are still fairly sanguine about the state of global LS consumption, despite the seizure of demand in some manufacturing sectors due to inflation and interest rate rises, because recent lower

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World LS Consumption (tonnes)			
	2020/21	2021/22	2022/23
India	175,000	155,000	145,000
China	125,000	120,000	130,000
Pakistan	35,000	21,500	25,000
Egypt	13,000	12,000	10,000
United States	3,300	3,000	2,200
Bangladesh	13,000	9,000	4,000
Latin America	18,000	18,000	10,000
Europe (inc. Turkey)	15,000	16,000	14,000
South East Asia	25,000	12,000	8,000
CIS		12,000	10,000
Others	3,000	2,500	2,000
Total	425,300	381,000	360,200

prices have stimulated some unanticipated demand, especially in China and to a lesser extent Pakistan. On the other hand, it must be acknowledged that sales during the first half of the marketing year in the US and Egypt have been markedly slow and/or faltering. It remains to be seen whether the reductions in price already undertaken by traders will be sufficient to encourage an improvement over the remainder of the season, or if further concessions will be required in order to meet expectations by July 31.

Changes in world stocks

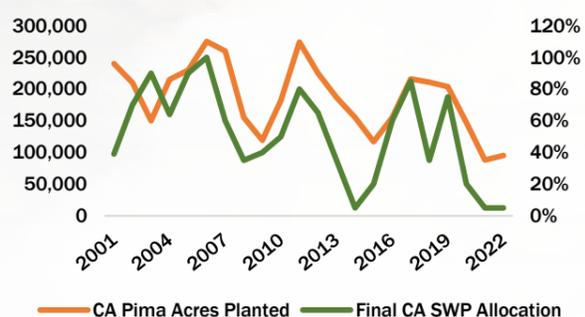
Cotton Outlook's updated estimates show a fairly substantial increase in production from the projection made in August, and a lower aggregate figure for consumption. New supply is forecast to outstrip demand by a margin of 13 percent, such that global stocks of long and extra-long staple cotton may increase by around 46,500 tonnes over the course of the 2022/23 season.

Outlook for 2023/24

The question of whether the improved production of LS and ELS cottons achieved in 2022/23 can be sustained in the face of a global economic downturn and dwindling prices of course has different responses depending on the region in focus. In the US, some analysts propose that Pima acreage in California, which accounts for the majority of planting of that variety, should recover to around 150,000 or more in 2023/23, after falling as low as 88,000 in 2021/22 and 95,000 in 2022/23. Prices, of course, will be key in the decision-making of farmers, but so will the state's allocation of water for agriculture. Historically, Pima production has

been closely correlated to the water available for irrigation, and this winter has seen a significant rise in the levels in storage facilities and of the Sierra Nevada snowpack, which provides meltwater for reservoirs and lakes, thanks to a series of 'atmospheric rivers' received in January. Moreover, there are reports that some farmers disenchanted with the prices achievable for alternative produce such as tomatoes, and even permanent crops such as almonds and pistachios, will divert land to cotton production this year. So, all told, it seems that some recovery in US Pima output may be anticipated at this juncture.

Correlation to CA Pima Acres and SWP Allocation



On the other hand, producers in Egypt are less than satisfied with their returns from cotton in the current season, and those observers of that market who are prepared to venture an opinion at this stage moot a 10/15-percent fall in planted area in the spring.

Meanwhile, for a long time in China, the costs of handpicking LS cotton have been cited as an impediment in the expansion of cultivation of that variety. However, this year, all of the area planted to long staples in Alar City (3,000 mu) was harvested by machine, which may bode well for the large-scale mechanisation of long staple production in the future.

In India, a substantial structural deficit persists in the LS cotton sector – demand for fine count yarns for use in garments marketed to domestic consumers especially still outstrips supply by a substantial margin. On that basis, we posit that the area cultivated with India's own long staple strains will remain at least stable in the season to come. Finally, in Israel, an area and output similar to this season's improved performance are envisaged, at least for now, in 2023/24.

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