



COTTON OUTLOOK

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February 2024



WORLD LONG STAPLE MARKET UPDATE



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Welcome to Cotlook's February 2024 long staple update

The mid-point of the 2023/24 marketing season is a useful moment to review the progress of the long staple sector since August 1. Much as in the upland market, the mood in this speciality sector has remained fairly muted over the past six months. In the early part of 2023/24, sellers' prices for various LS types tended to rise, supported by the reduced supply this season, but have since drifted lower in response to stagnant demand.

Nevertheless, in terms of trade, international orders for US Pima have improved since 2022/23 – which was a very poor year for Pima exports – especially from China. On the other hand, export sales registrations for Egyptian LS varieties are substantially lower than at the same point last season.

This report will also review the outcomes of this season's various production campaigns and consider the outlook for 2024/25.

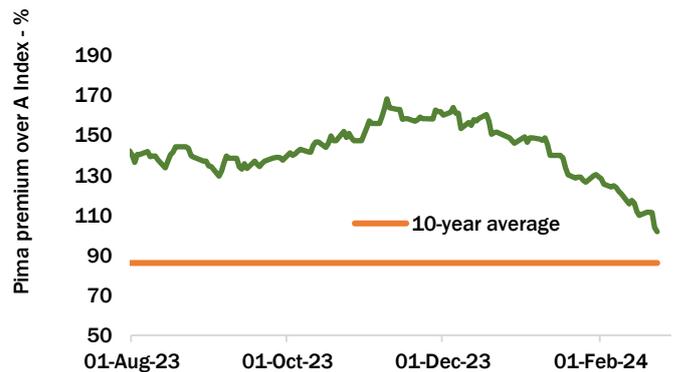
Prices

Following their extraordinary rise during the Covid period and subsequent fall in the aftermath, prices for US Pima have remained fairly static for large stretches of the 2023/24 marketing year. The peak of the season so far (235 cents per lb) was achieved in late September and persisted until just before Christmas. For the past two months, despite the dwindling supply from an already small crop,

diminished demand has caused prices to edge lower – in late February, Cotton Outlook's Pima quotation is 205 cents per lb.

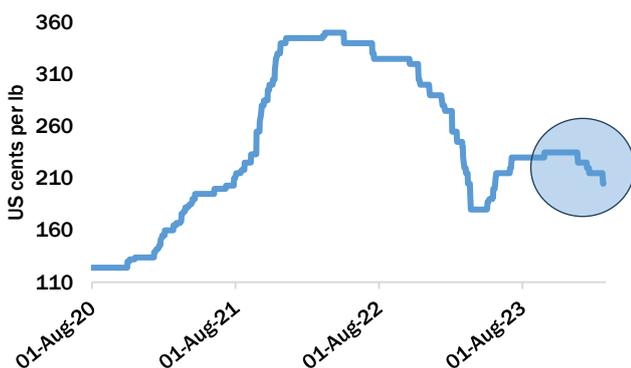
For the entirety of the period since August 1, the premium that US long staple cotton represents (measured in relation to the A Index on the same date) has remained above its long term average of 86.25 percent. However, as upland and Pima prices have moved in opposite directions since the year-end, the differential has been steadily eroded.

Cotlook Long Staple Premium

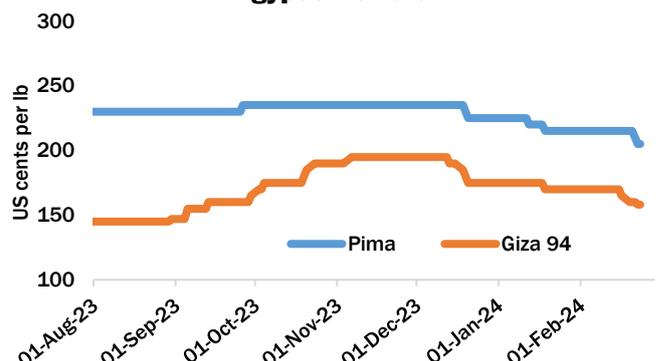


The variation of offering rates for Giza 94 in the same period is more marked, influenced first of all by the high prices paid for seed cotton at the auctions by traders keen to establish a position, but also perhaps by the instability in the Egyptian economy. Inflation and interest rates are extremely

Cotlook Pima quotations



Cotlook quotations for US Pima and Egyptian Giza 94



high. Meanwhile, foreign currency reserves remain low and the differential between the official dollar exchange rate and that achievable in the open market is pronounced. The high-water mark for Giza 94 prices during the six months in view was 195 cents per lb, reached between mid-November and mid-December. The top of the market for the Egyptian variety also coincided with its smallest differential in respect of Pima for the season to date: 40 cents per lb. As this issue goes the press, the margin stands at 47 cents, having started the season at 85 cents.

In China, the rise in offering rates for the benchmark Type 137 in the early part of the season amounted to around 50 cents per lb, similar to that observed in Egypt, and stimulated once again by the emergence of a much smaller domestic crop. Since late November, however, the pattern has been for prices to drift downwards as lacklustre demand has caused a lull in purchasing. The most recently announced price of 31,000 yuan per tonne (equivalent to around 195.5 cents per lb) has been steady for more than six weeks as ginnerers strive to

maintain a margin in the face of weak sales. Notably, too, break-even rates for new crop supplies are higher than older stocks in view of increased prices for inputs during the most recent growing period.

Trade policy developments

In early November, export registrations for Egyptian 2023/24-crop cotton were suspended by Alcotexa in advance of an imposition of a cap on overseas sales, set at 40,000 tonnes. The aim of the policy is to ensure a sufficient supply to domestic mills. At a meeting of the Alcotexa General Assembly on November 23, it was agreed that quotas from the 40,000-tonne export allocation would be distributed as follows:

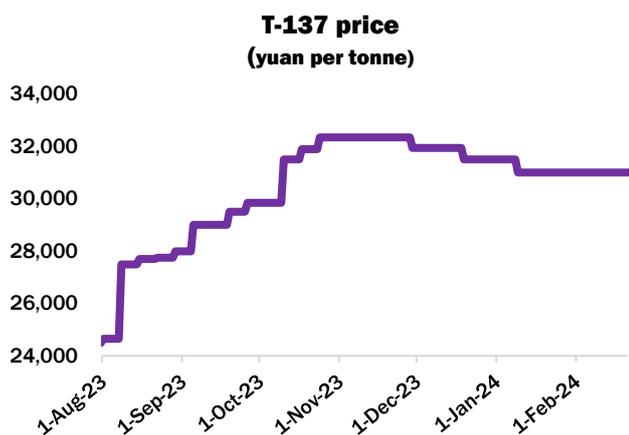
- 30,000 tonnes to be shared amongst the most active shippers over the past five years (thought to amount to 31 organisations)
- 10,000 tonnes to be shared amongst all registered shippers (numbering 69).

Meanwhile, in February, the Indian government bowed to pressure from the textiles industry to remove the 11-percent duty on long staple cotton. Trade bodies have long argued that the tax, which is intended primarily to protect the interests of domestic cotton farmers, is ineffective in this case because consumption of LS varieties always outstrips the local supply.

Exports

US Pima

By February 8, export registrations of US Pima for shipment in 2023/24 amounted to 227,600 running bales (of which 74 percent had been dispatched),



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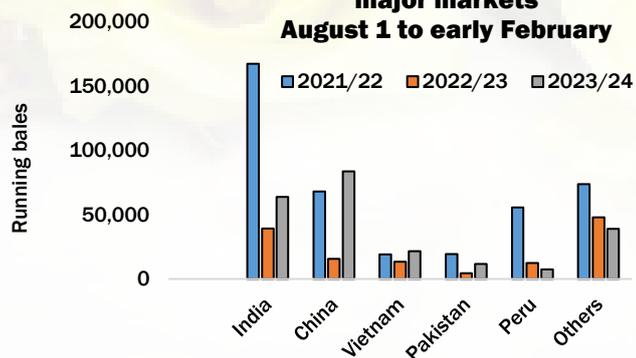


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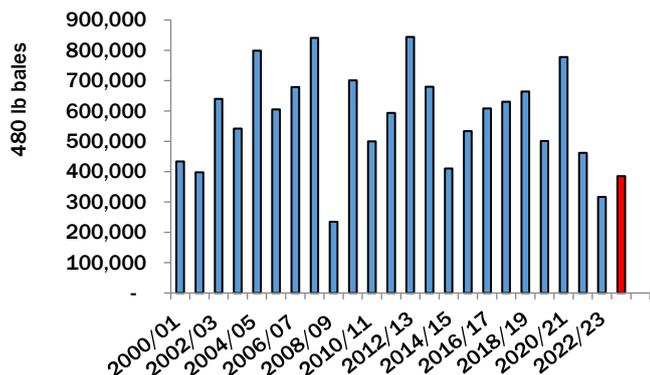
according to USDA data. The total figure is 70 percent higher than at the same moment last season, when registrations totalled just 133,600 bales.

US Pima export registrations to major markets August 1 to early February



India, in recent years the largest market for US long staple cotton, has given way to China in the first half of the season. Together, the two countries represent 65 percent of total sales. India's purchases are 62 percent greater than this time last year, while China has increased its orders by a factor of five.

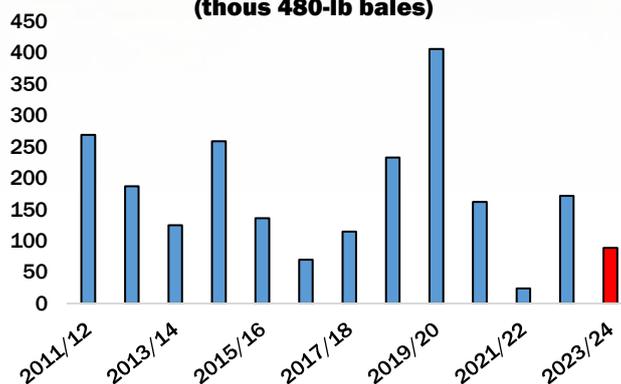
US Pima Exports



USDA has held its forecast for Pima exports steady for most of the season, increasing it in the September WASDE report to 385,000 bales, where it remains. That figure would represent a recovery of more than 20 percent from the disappointing performance in 2022/23, but would still be low by historical comparison. Shipments to February 8 amounted to 169,386 running bales, which is roughly equivalent to 175,000 480-lb bales.

The Department's estimate for ending stocks (89,000 bales) is at the lower end of the range for volumes carried over in the past decade and a half.

Pima ending stocks (thous 480-lb bales)



Egypt

According to Alcotexa, export registrations for Extra Giza (Giza 45, 93, 92 and 96) and Super Giza cottons (Giza 94, 86 and 97) totalled around 25,000 tonnes by mid-February – 13,900 from the 2022/23 crop and 11,140 from 2023/24. The total compares to just over 51,700 at the same moment in 2023. Demand from all three principal markets



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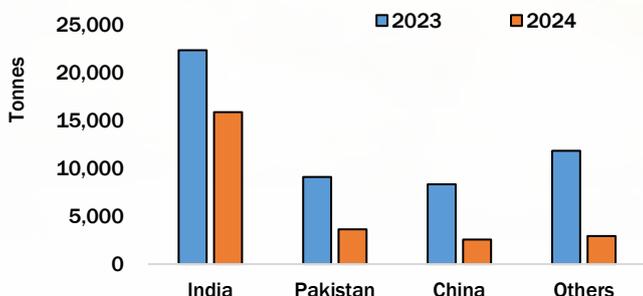
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has been lower this year, although India has held up most strongly, with a 29-percent reduction. Sales to Pakistan are down by 60 percent and to China by more than two thirds. Other markets including Vietnam and Bangladesh have made minimal commitments this season.

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



Giza 94 accounts for 88 percent of LS/ELS sales recorded for export to date, Giza 86 for two percent and Extra Giza (92 and 96) for five percent.

According to Catgo, 5,915 tonnes of ELS lint remained uncommitted by February 18 and just over 55,714 of Super Giza varieties.

Statistical position of Egyptian cotton by 18/2/24					
(figures in tonnes)	Extra Giza (45/87/93/96/92)	Super Giza (97/94/86)	Giza (95/98)	Others	Total
2023/24 beginning stocks	689	17,698	105	0.4	18,493
Estimated crop	7,055	66,783	9,104	1,069	84,012
Total supply	7,745	84,481	9,209	1,070	102,504
Distribution to local mills	522	5,078	617	-	6,217
Export commitments	1,308	23,690	5,244	217	30,459
Actual export shipments	495	16,737	3,288	217	20,737
Total uncommitted	5,915	55,714	3,348	853	65,829

Source: Catgo

Production in 2023/24

In August, USDA's estimate for 2023/24 Pima fell as low as 268,000 bales, reflecting the very poor growing conditions in the early season and flooding in large parts of the San Joaquin Valley. Subsequently, that figure was revised higher as a greater area was estimated. However, the Department's assessments of yields have tended to fade again recently, and the February figure is just 307,000 bales, which would be 35 percent less than last season and the lowest output for several years. By February 15, over 295,000 running bales (approximately 304,000 statistical bales) had been classed. Ginning by February 1 amounted to 292,300 running bales (301,000 statistical bales).

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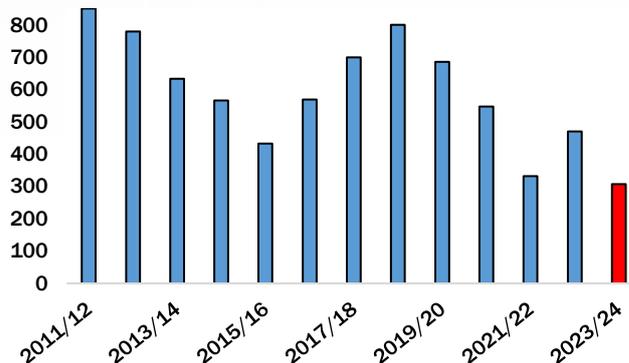


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Pima production (thous 480 lb bales)



Difficult growing conditions also affected the long staple campaign in **China** last year. However, farmers' disaffection for the crop and the sharp fall in price in 2022/23 appear just as much to blame for the substantially reduced output in 2023/24. The area planted to LS varieties (some of which had to be resown following adverse weather) is estimated at 250,000 mu (less than 17,000 hectares) compared to around 80,000 mu in 2022/23. The final assessment of outcome is likely to be below 30,000 tonnes.

Likewise, in **Egypt**, many farmers were reported to be disappointed with the seed cotton prices realised at the state-run auctions in 2022/23, resulting in a diversion of land to other crops, such as rice or vegetables. The final area planted (255,000 feddan/107,000 hectares) fell far short of government intentions and was 24 percent smaller than the year before. Catgo's latest assessment of ELS and LS output is 73,840 tonnes, compared to 108,250 in 2022/23. By February 13, almost 70 percent of seed cotton (all varieties) had been classed.

In the 2022/23 season, the extraordinary prices achieved for long staple cotton between 2021 and mid-2022 swelled production figures. However, in the current season the opposite is true: the volatility and rapidly falling rates seen from late 2022 to spring 2023 deterred farmers in most of the main producing centres from investing time and energy into the

World LS Output (tonnes)			
	2021/22	2022/23	2023/24
Egypt	70,000	108,300	73,000
United States	72,300	102,300	67,000
India	70,000	75,000	75,000
China	40,000	85,000	27,500
Israel	4,900	16,000	15,750
Turkmenistan	20,000	15,000	15,000
Uzbekistan	4,000	4,000	4,000
Peru	4,000	4,000	4,000
Tajikistan	1,000	1,000	1,000
Spain	1,500	1,500	1,000
Greece	2,500	1,000	1,000
Total	290,200	413,100	284,250

cultivation of long staple cotton, the costs of which are significantly higher than for upland cotton and returns more vulnerable on account of the longer growing period.

Thus, after an impressive recovery in 2022/23, production in the current season has fallen back to the level seen in 2021/22, and the final results may prove to be slightly lower.

Meanwhile, market observers have scaled back their assessments of global LS consumption, as prices that are still high by historical comparison have failed to find favour in a market struggling with low downstream demand from brands, retailers and final consumers. Since the turn of the year, there has been a slight shift in the mood in the market overall, with

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indications of improved orders and better consumer confidence, at least in the US. However, whether that upturn will be strong enough and will have come soon enough to reverse the damage done to LS consumption in the season so far seems doubtful.

six percent, such that global stocks of long and extra-long staple cotton may fall by a small margin of around 18,000 tonnes over the course of the 2023/24 season.

Outlook for 2024/25

In recent years it has appeared that production of long staple cotton might be in structural decline, in the face of strong competition from upland varieties that cost less to produce and enjoy a shorter growing period with less inherent risk, but also from cellulosic fibres (sometimes blended with longer staple upland cotton to produce fine-count yarn) and of course oil-based synthetics. In 2022/23, it was refreshing to observe a certain recovery of output in China, Egypt and the US especially. However, renewed pressure has again come to bear on farmers in 2023/24 and output is back to the low level seen two seasons ago. Now, the question must be whether another turnaround in fortunes is likely, and how great the increase might be if that were indeed to come to pass.

Early indications from the US offer some cause for modest optimism in that quarter. The National Cotton Council of America's recent assessment of farmers' planting intentions proposes a 38-percent increase in total ELS area to 202,000 acres, while output could rise by twice that margin to 538,000 bales, on the basis of good water availability and the

World LS Consumption (tonnes)			
	2021/22	2022/23	2023/24
India	155,000	138,000	135,000
China	120,000	110,000	80,000
Egypt	12,000	15,000	17,000
Pakistan	21,500	22,000	15,000
South East Asia	12,000	18,000	15,000
CIS	12,000	15,000	15,000
Latin America	18,000	10,000	10,000
Europe (inc. Turkey)	16,000	10,000	10,000
United States	3,000	1,800	2,200
Bangladesh	9,000	4,000	2,000
Others	2,500	1,500	1,300
Total	381,000	345,300	302,500

Changes in world stocks

Cotton Outlook's updated estimates show a modestly improved production figure compared to the projection made in August, and a lower figure for consumption, the reduction attributed in large part to a decline in the expectations for China. Nevertheless, demand is still forecast to outstrip supply by perhaps

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assumption that last year's flooding in the San Joaquin Valley will not be repeated. Local observers incline to a similar view and also highlight the disadvantageous prices available for competing crops such as maize and tomatoes.

In China, opinions are more mixed. Some commentators favour a recovery in the area dedicated to long staple production in Awati County, Aksu, noting that while prices have declined recently, they remain high from a historical standpoint. Other voices are more circumspect: they suggest that it might be difficult to persuade farmers to increase LS planted area to, say, 300,000 mu just because the economics are so

unfavourable (bearing in mind that, despite recent developments, much long staple cultivation still relies on hand-picking which is significantly more expensive).

In Egypt, planting begins in earnest in mid to late April. At this early juncture, there is a feeling that cotton area may not increase substantially this year. Despite achieving seed cotton prices that merchants and their overseas customers consider high when they are translated into export offers, farmers appear generally discontented with their returns. The costs of production for cotton, which are magnified by punitive interest rates, are still rising. Meanwhile, other crops – such as rice and vegetables – offer strong competition.

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