



# **COTTON MARKET REPORT**

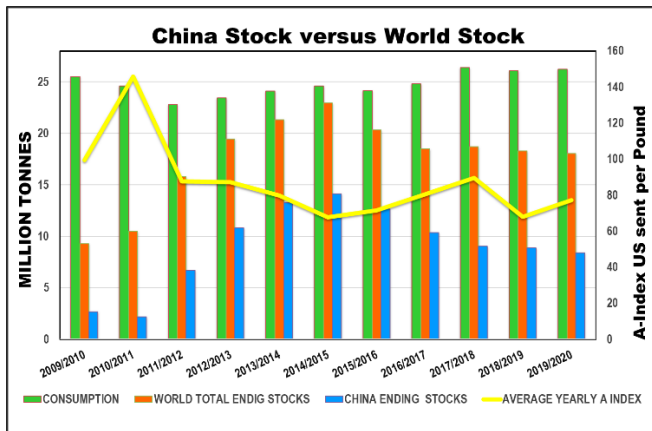
**5 March 2020**

**MARIO BOTHA**



### Global Ending Stocks Expected to Lower in 2019/20

Global ending stocks are projected to decrease by 1% to 18 million tonnes by the end of the 2019/20 season, which would represent approximately 2/3's of the global consumption this season. A fifth consecutive decline in the global ending stocks is predicted, this represents a fifth seasonal consecutive decline since the ultimate high of the 2014/15 season. The balance of stocks held by China and outside of China is expected to continue with a 5.5% reduction of Chinese ending stocks to 8.4 million tonnes and a 3% increase in ending stocks held by all other countries to 9.6 million tonnes. The global reduction in stocks is expected to be driven by the current estimate for steady global consumption amidst a slight 1% increase in global production.



Ongoing trade uncertainties and concerns for economic growth continue to influence the global cotton trade and textile demand. The Covid-19 outbreak in China has provided additional uncertainty to markets manufacturing and supply chains in Asia have slowed. Although the further impact of the coronavirus remains unknown, the potential for a wider global economic slowdown continues to provide additional stress to the sector. Cotton prices have come under pressure, but current projections for global consumption in 2019/20 remain at 26.2 million tonnes, while production is currently projected at 26 million tonnes.

### Impact on the South African cotton industry due to Covid-19 outbreak

Although global financial markets have recovered from the sell-off due to fears around the Wuhan coronavirus, the negative impact on South Africa's real economy has not been seen yet. The view of economists in South Africa is that the real impact of Chinese growth will not be felt immediately locally, but if China's economic growth slows, the demand for exports from South Africa is also likely to decline. The domestic cotton prices declined by 1.9% this week but prices are still 1.8% higher compared to prices a year ago. The uncertainty about the demand effects of the coronavirus weighed on international cotton prices. With SA exporting most of its crops, local cotton prices follow the movement in international cotton prices. The global cotton production is largely unchanged with consumption expected to decline in China due to the coronavirus outbreak. In conclusion, it is unlikely that the South African exports to the Far East will be negatively affected, especially against the backdrop of the fact that local exports only represent 0,2% of the total exports to China.

#### RSA COTTON PRODUCTION

The second official cotton estimate indicates a crop of 146 743 bales or fibre which represents a 30% decrease compared to the previous season. This will be the first drop since the 2014/15 season while the main reasons for the decline can be attributed to unfavorable weather conditions that prevailed before and after planting as well as insufficient seed availability with planting time, and the relatively higher prices of maize.

#### CROP ESTIMATE

	2019/20	2019/20	2018/19
	2nd Forecast	1st Forecast	Final Estimate
<b>RSA Crop</b>			
HA Irrigation	<b>12 300</b>	12 544	24 921
HA Dryland	<b>15 938</b>	16 143	16 792
<b>HA Total</b>	<b>28 238</b>	28 687	41 713
<b>Yield: kg seed cotton per ha</b>			
Irrigation	<b>4 767</b>	4767	4 536
Dryland	<b>1 096</b>	1042	967
<b>200 kg bales of lint</b>	<b>146 743</b>	147 740	238 222

#### Global Demand and Supply

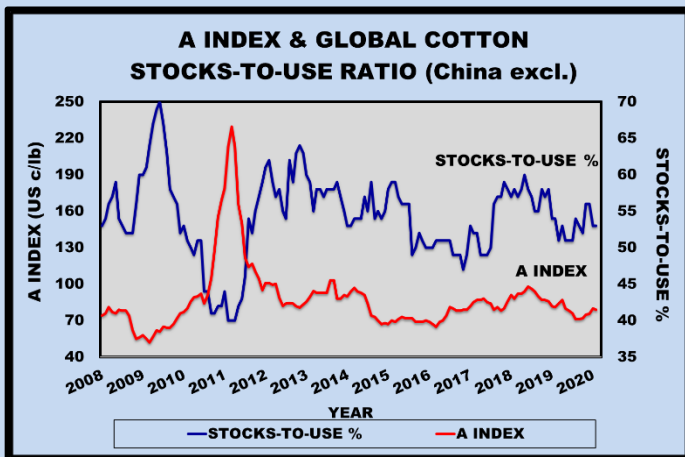
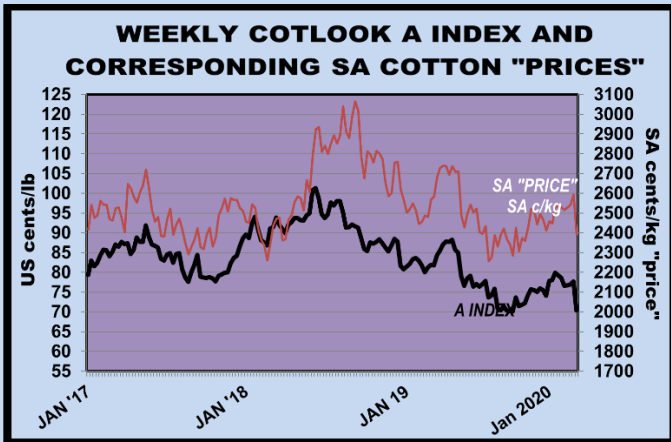
Million Tonnes			
	2017/18	2018/19	2019/20
Beginning Stocks	18,48	18,71	18,27
Production	26,68	25,69	25,98
Consumption	26,34	26,09	26,20
Exports	9,10	9,23	9,41
Ending Stocks	18,71	18,27	18,05



**COTTON PRICE MOVEMENTS**

The ICAC's current price projection for the year-end average of the Cotlook A Index has been revised to 79 US cents per pound. Given the current fundamental global demand and supply factors, it is expected that cotton prices will be under pressure likely because of the uncertainty caused by the Coronavirus outbreak. Prices are expected to remain volatile in the short term before a clear picture emerges. The Cotton A Index decreased by 3.3% week on week over the last month. The 2019/20 world cotton ending stocks are expected to be lower driven by larger consumption.

	A-Index Average US/ Cent per pound	Derivative Price (RSA) Average. SA c/kg fibre
Last week (24/02/2020)	77,70	2591,78
January 2019	78,60	2521,27
<b>Today (02/03/2020)</b>	<b>70,40</b>	<b>2387,20</b>
December 2019	75,00	2417,37
Today a year ago	80,85	2529,28
Today 2 years ago	92,41	2426,39



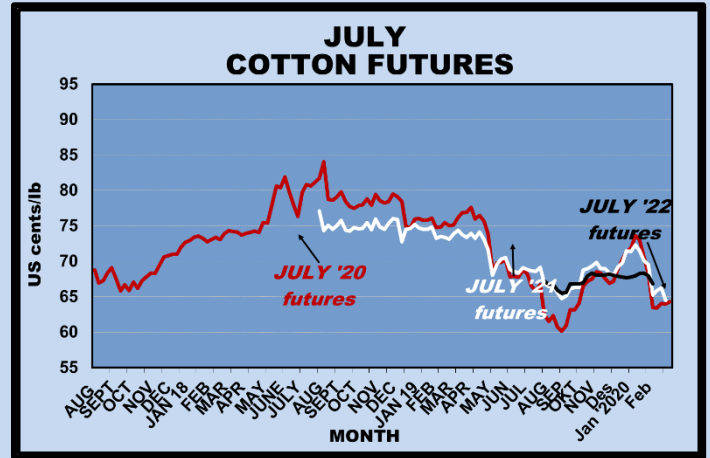
The graph shows the correlation between the Cotlook A Index and world cotton stock-to-consumption ratio, excluding China.

The ICAC's price predictions are mainly based on the world's end stock-to-consumption ratio (excluding China); the relationship between Chinese net imports to global imports as well as on the latest cotton price movements.



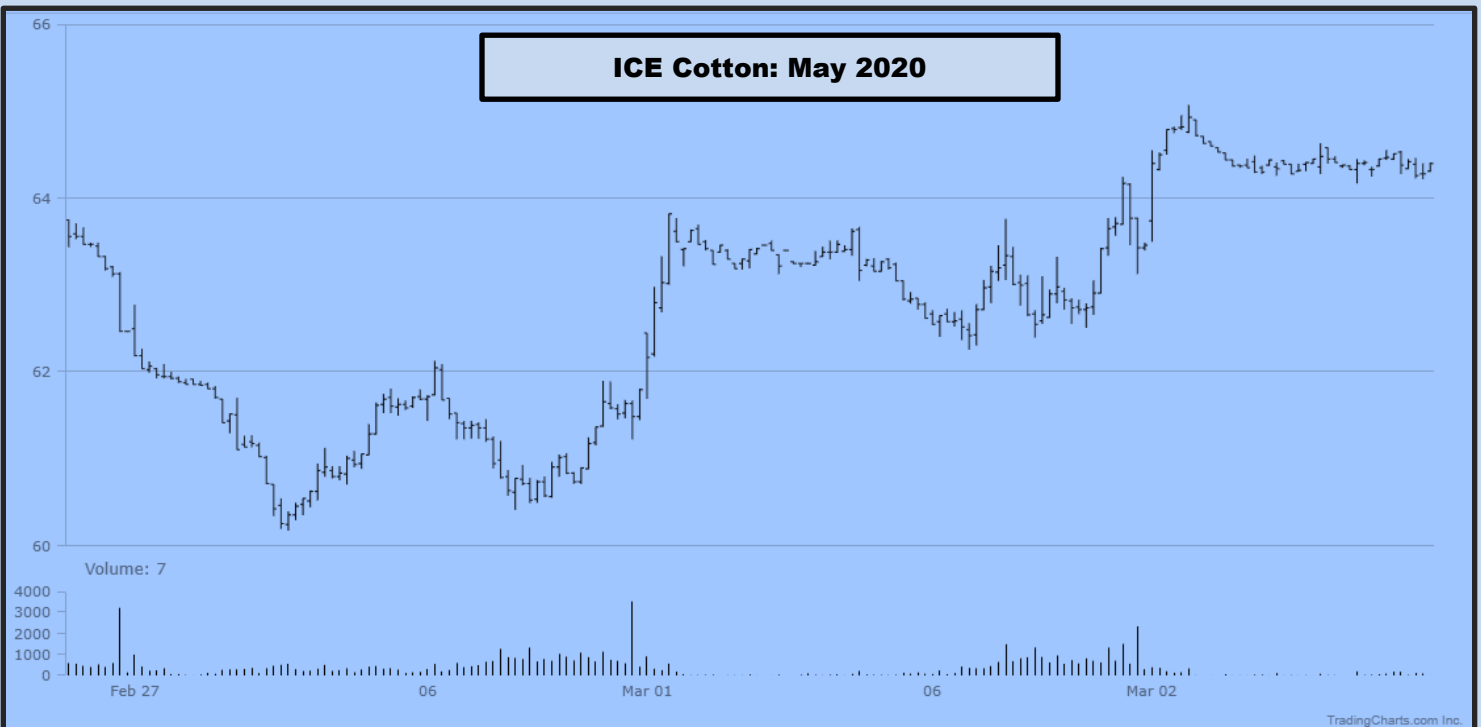
**FUTURE MARKETS**

Even though the market has been channeling higher since the beginning of February, we see no reason for prices to move much higher from current levels. The latest Cotton Futures Contract report showed that speculators have the lowest exposure in the cotton market since last April and given the uncertainty about the coronavirus, this isn't likely to change anytime soon. The trade continues to be a light net buyer of current crop futures, there is still unfixed future markets. The market looks well supported at 67 US cents per pound and unless the virus situation escalates, we see currently no reason for this support to cave in. Most prices have improved slightly in the past month. The New York futures contract for March 2020 has declined to 67,50 US cents/ pound although the A index strengthened



Cotlook A-Index is a daily indicator of international cotton fibre prices based on the average of the 5 cheapest quotes (cost & freight) of the most important cotton types that are traded internationally, destination Far East.

5 March 2020	NY "Futures" US s/lb
March 2020	67,50
May 2020	63,38
July 2020	64,06
October 2020	64,00
December 2020	64,30
March 2021	65,23
May 2021	65,86
July 2021	66,26
October 2021	64,51



**Futures Contracts set out Weekly**

**RSA COTTON CROP ESTIMATE**

29/02/2020

**COTTON CROP REPORT - 2nd ESTIMATE 2019/20 PRODUCTION YEAR**

PRODUCTION REGION	HECTARES IRRIGATION	HECTARES DRYLAND	YIELD IRRIGATION kg seed cotton/ha	YIELD DRYLAND kg seed cotton/ha	PRODUCTION 200 kg bales cotton lint
<b>LIMPOPO PROV.</b>					
Loskop	1815	0	4500	0	14702
North & South Flats	817	7592	4569	600	15004
Koedoeskop/Dwaalboom/Thabaz.	4078	450	5500	750	42118
Limpopo Other	25	548	3000	600	727
Weipe	1000	0	4500	0	8325
<b>NORTHERN CAPE</b>					
Vaalharts	1254	0	5000	0	11600
Lower Orange River	272	0	5463	0	2749
Rest of Northern Cape	989	0	4776	0	9807
<b>NORTH WEST</b>					
Stella/Delareyville/Schweizer/e	99	4472	5000	2302	19963
Taung/Skuinsdrif	892	0	5243	0	8652
<b>KWAZULU-NATAL</b>	68	600	3500	800	1400
<b>MPUMALANGA</b>	501	1836	4000	800	6425
<b>FREE STATE</b>	490	440	5000	1000	5273
<b>RSA TOTAL</b>	<b>12300</b>	<b>15938</b>	<b>4764</b>	<b>1096</b>	<b>146743</b>



## 2019/20 MARKETING SEASON (April to March)

### GINNERS SITUATION \*

	Jan-20 (TON)	SEASON CUMULATIVE TOTAL (TON)
<b><u>SEED COTTON:</u></b>		
OPENING STOCK	23801	14378
<b>PLUS RECEIVED:</b>	3717	113001
- RSA SEED COTTON	3717	111978
- SWAZILAND SEED COTTON	0	1023
- OTHER SEED COTTON	0	0
<b>LESS GINNED</b>	6885	97709
CLOSING STOCK	20633	20633
<b><u>COTTON LINT:</u></b>		
OPENING STOCK	4958	2856
PLUS PRODUCED	2775	40335
LESS SOLD	3615	39083
CLOSING STOCK	4118	4118

### SPINNERS SITUATION \*

	Jan-20 (TON)	SEASON CUMULATIVE TOTAL (TON)
<b><u>COTTON LINT:</u></b>		
OPENING STOCK	3135	2815
<b>PLUS RECEIVED:</b>	1012	16516
- FROM LOCAL GINNERS	165	6088
- ZIMBABWE IMPORTS	22	3063
- ZAMBIA IMPORTS	824	7365
- OTHER IMPORTS	0	0
<b>LESS CONSUMPTION</b>	932	15505
CLOSING STOCK	3213	3213

SOURCE: Ginnery and spinners' monthly statutory returns

\* Includes Swaziland

