

COTTON SA

COTTON MARKET REPORT

5 NOVEMBER 2019

Weakening Consumer Confidence Slows Consumption Demand and Trade

According to the International Cotton Advisory Committee (ICAC), global consumption and trade have been revised downward. The impact of US tariffs on Chinese textile and apparel exports are expected to slow mill-use and imports in China.

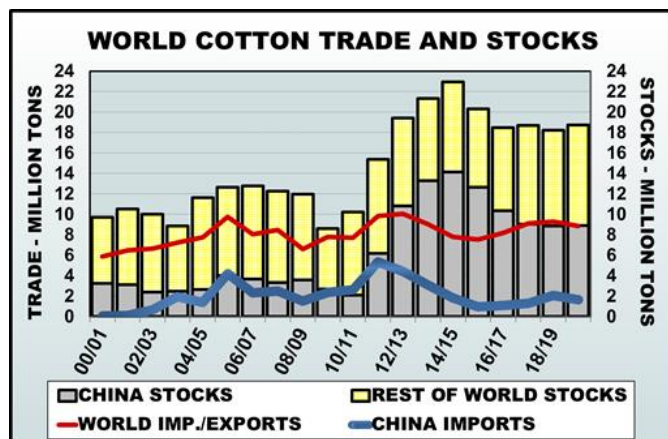
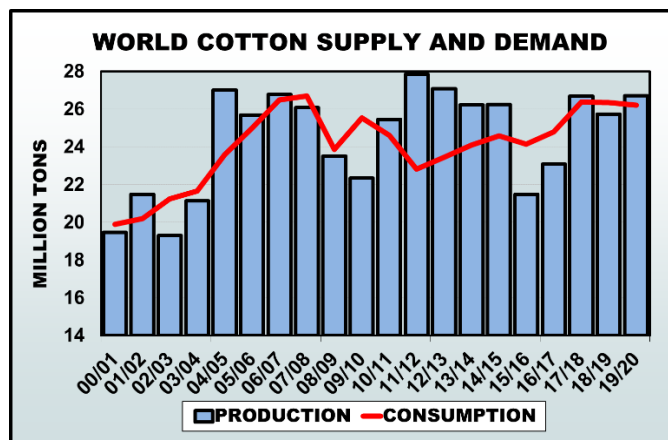
Current projections for global consumption in 2019/20 are at 26.2 million tons with trade projected at 8.8 million tons. Consumption by the world's largest consumer, China, is projected at 8.05 million tons for 2019/20. This decrease of 200 000 tons represents a 2% decrease and the second season of decline. Imports by China are projected at 1.6 million tons, a 22% and 400 000 tons decrease from the previous season's 2.1 million tons.

The impact of US tariffs on Chinese textile and apparel exports have softened consumption demand for not only China but globally as global consumption is currently expected to remain flat with no growth from the previous season.

Global production is currently projected at 26.7 million tons. While India is currently projected to lead global production at 6 million tons, the expected productivity of 440 kg/ha remains amongst the lowest in the world and below the global average of 780 kg/ha. Increased production in India for this season comes as cotton area in the country expands. US production is projected at 4.7 million tons, an 18% increase from the previous season, despite slow exports and increasing ending stock levels in 2018/19. With higher production, exports by India are projected to increase 13% to 900 000 tons with imports remaining stable at 350 000 tons.

Area and production are expected to decrease in Mexico this season, with area contracting 8% to 224 000 hectares due to the lack of availability of cottonseed. Production is expected to decline 11% to 369 000 tons. With consumption projected to remain at 440 000 tons, imports are expected to increase by 48% to 141 000 tons.

Cultivated areas in Pakistan have increased for 2019/20 at high target levels determined by the government. However, inclement weather is likely to reduce output to 1.6 million tons or less.



Monsoon rains have impacted both quantity and quality, with high temperatures lowering potential yield. Amidst lowered expected production, the textile sector in Pakistan has requested the lifting of import duties on cotton.

While tariffs on raw material imports could help the country meet IMF bailout commitments, duties on cotton would also have the potential of hampering textile exports. The textile industry in Pakistan contributes 8.5% of GDP and 57% of exports. With lowered cotton production, imports in Pakistan are currently projected to increase by 8% to 711 000 tons.

World Cotton Supply and Demand

Millions Tons	2017/18	2018/19	2019/20
Starting stock	18.48	18.69	18.22
Production	26.68	25.69	26.70
Consumption	26.35	26.13	26.20
Exports	9.10	9.24	8.84
End Stock	18.69	18.22	18.73

RSA COTTON CROP

RSA Crop (200kg lint bales)	2017/18 Final Estimate (previous season)	2018/19 8th Estimate	2018/19 10th Estimate
HA	19 273	23 502	23 781
Dryland	14 855	20 825	17 192
HA Total	33 628	44 327	40 973

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Yield KG/Seed cotton P/Ha

Irrigation	4 595	4 810	4 781
Dryland	910	957	1 019

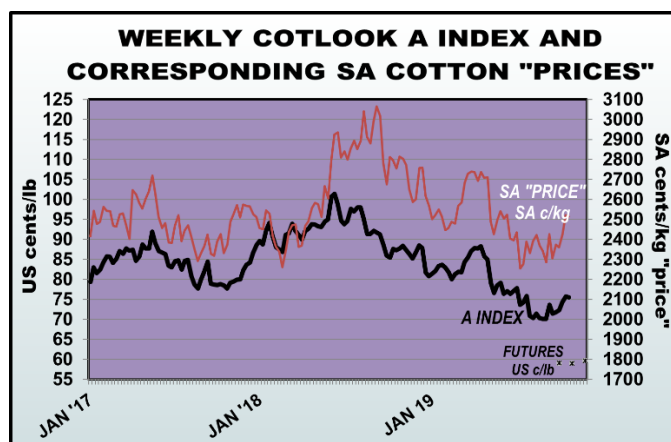
Lint Bales	188 220	244 543	241 484
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The 10th estimate for 2018/19 production years indicates a cotton crop of 241 484 lint bales for RSA. This indicates a decline towards the previous Month's estimate, but still shows a 29% growth compared to the previous season.

The ICAC's price projections are based mainly on the world's end-of-consumption ratio (excluding China), on the relationship between Chinese net imports to world imports as well as on recent cotton price history.

Below graph shows the correlation between the Cotlook A index and the global cotton stock-to-consumption relationship (including China).

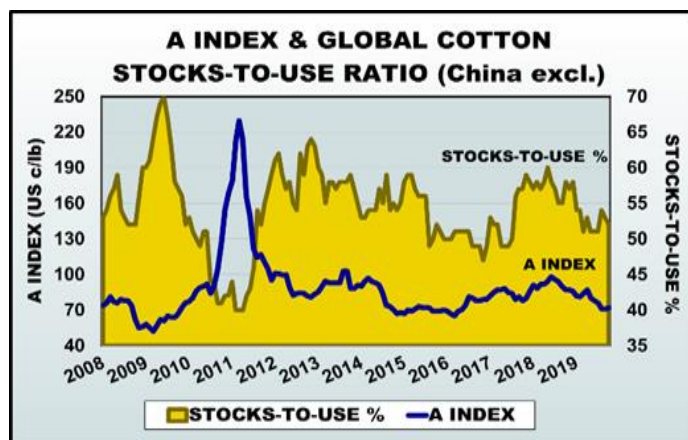
COTTON PRICE MOVEMENTS



The ICAC's latest price projection for the 2019/20 season (from 1 November 2019), indicates a seasonal average Cotlook A index between 63 - 90 US c/lb, with a midpoint of 76 US c/lb (RSA "price" equivalent of approximately R24,50/kg).

The protracted trade war between the world's largest exporter of cotton, the US, and China, the largest consumer, combined with favorable world cotton production prospects as well as increasing world stock levels in 2019/20, continues to put pressure on the prices.

It is expected that prices of consumption will remain low. The global production of 2019/20 of 26.7 million tons would have exceeded the production of the previous season with 1 million tons during a period when consumption was currently projected to remain flat. Rising global ending stock levels will place extra pressure on prices.



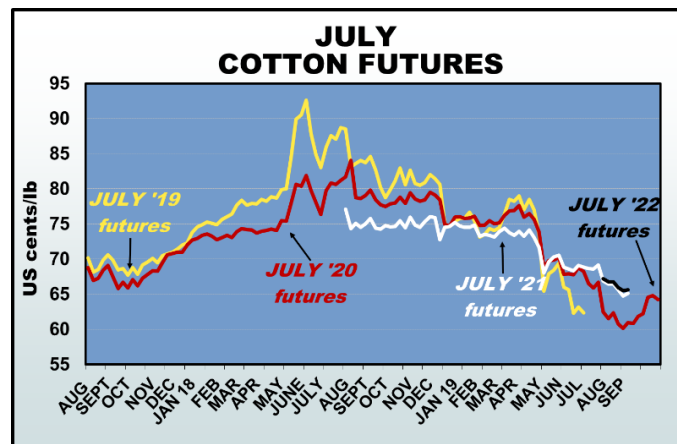
Cotlook A Index towards the derivative price in Rand

	A Index	Derivative Price Rsa
	<i>Average. US C/LB</i>	<i>Average. SA C/kg</i>
Last Week (22/10-25/10)	75.31	2436.29
September 2019	76.45	2285.79
Today (05/11/2019)	75.5	2456.78
August 2019	70.75	2361.34
Today a year ago	86.4	2693.37
Today 2 years ago	79.25	2482.72

**Cotlook A index-a daily indicator for the international cotton lint prices, based on the average of 5 cheapest quotes from a selection of the principal upland cottons traded internationally.*

Futures

Currently the futures market is in 4th consecutive week where cotton is traded above 60 US c/lb and some market analysts feel that despite of the increase in prices, the pace of cotton sales is still slow. China is also increasingly sourcing its cotton from new sources, including Western Africa.



05 November 2019	N FUTURES US C/LB
December 2019	63.81
March 2020	65.47
May 2020	66.49
July 2020	67, 45
October 2020	67.38
Des 2020	67.58
March 2021	68,17
May 2021	68.82
July 2021	69.42

SA COTTON ESTIMATE

COTTON CROP REPORT - 10th ESTIMATE: 2018/19 PRODUCTION YEAR

31/10/2019

PRODUCTION REGION	HECTARES IRRIGATION	HECTARES DRYLAND	YIELD IRRIGATION kg seed cotton/ha	YIELD DRYLAND kg seed cotton/ha	PRODUCTION 200 kg bales cotton lint	% OF CROP HAND PICKED	% OF CROP GINNED SO FAR
LIMPOPO PROV.							
Loskop	4683	0	4300	0	36246	0%	55%
North & South Flats	1236	8912	3000	680	17583	0%	55%
Koedoeskop/Dwaalboom/Thabaz.	7720	0	5699	0	81393	0%	50%
Limpopo Other	636	142	3742	400	4430	0%	72%
Weipe	1100	0	3500	0	7123	0%	100%
NORTHERN CAPE							
Vaalharts	2333	0	4580	0	19768	0%	93%
Lower Orange River	364	0	4000	0	2694	0%	40%
Rest of Northern Cape	4065	0	4858	0	38313	0%	57%
NORTH WEST							
Stella/Delareyville/Schweizer/e	628	3578	4349	2008	18346	0%	65%
Taung/Skuinsdrif	230	0	4000	0	1702	0%	40%
KWAZULU-NATAL	736	1989	4075	800	8722	19%	66%
MPUMALANGA	0	1771	0	755	2474	100%	55%
FREE STATE	50	800	3500	1600	2692	0%	40%
RSA TOTAL	23781	17192	4781	1019	241484	2%	56%
Swaziland*	250	1500	4000	750	3825	100%	60%
Botswana*	0	0	0	0	0		
Namibia*	50	0	0	0	370		0%
Zimbabwe*	0	0	0	0	0		
Mozambique*	0	0	0	0	0		
GRAND TOTAL	24081	18692	4773	997	245679	3%	56%

* Particulars relate to expected purchases of seed cotton by RSA & Swaziland ginners from these countries.