



COTTON MARKET REPORT

5 April 2020

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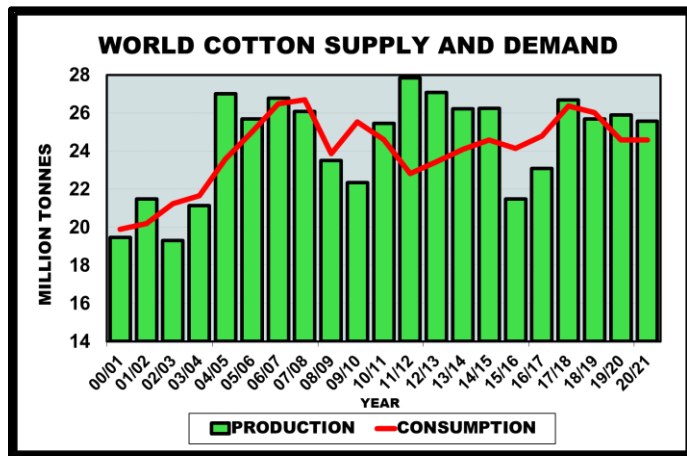




The negative impacts of Covid-19 lead to uncertainty in trade, supply chains, and forecasts

The full impacts and consequences of the coronavirus pandemic on human well-being and the global economy remain to be seen, the situation continues to develop rapidly. As countries adopt severe containment measures to limit the spread of disease and protect human health, business activity and many other facets of life have come to a halt. The stringent containment measures to slow the spread of Covid-19 have and will continue to have important social and economic costs.

As many businesses have been required to slow down or close for the consideration of public health, manufacturing and supply chain activity in Asia and Southeast Asia have decelerated as orders have slowed or have been cancelled. Although the full impact is not yet known, the potential for a further slowdown in global economic growth can be expected and thus provide additional stress to the sector. Prices continue to fall under the pressure of the current environment. The ICAC’s (International Cotton Advisory Committee) global production estimate for the 2019/20 season remains unchanged at 25.9 million tonnes as their consumption estimate has been revised downward to 24.6 million tonnes.



Consumption in Asian and Southeast Asian manufacturing countries has been revised down as demand has slowed dramatically from retailers in Europe, North America, and China. Consumption or mill-use of cotton lint in China had already been revised down for the 2019/20 season considering the trade dispute with the United States and slowing economic growth. For the current season, the consumption estimate for China is now 7.1 million tonnes, a 14% decrease from the previous season. Government interventions for recovery and reinvestment due to the pandemic are needed as well as eventual trade resolutions for a broader economic recovery, including the cotton market. During this unprecedented global pandemic which emerged as global economic growth had already begun to slow, the uncertainty in markets has increased as countries struggle to manage the spread of Covid-19. ICAC estimates that the initial impacts on GDP (Gross

Domestic Product) in many major economies to be significant in the short term. For the 2020/21 season, projections attempt to reflect this unprecedented environment including current developments in the Covid-19 pandemic that have already impacted the sector with further and full impact remaining unknown. Before the Covid-19 pandemic, the global cotton sector had already been under stress, lowering prices.

While the impacts are likely greater for consumption than production, the global production estimate for the 2020/21 season is at 25.6 million tonnes, a 1% decrease from the current season’s estimate. Planting intentions are likely to remain under pressure from falling prices and possible competition for food crops in a crisis scenario. Containment measures in countries intended to slow the spread of Covid-19 may impact supply chains for seeds and inputs for the 2020/21 season as physical business slows or halts in many countries.

Million Tonnes			
	2018/19	2019/20	2020/21
Beginning Stocks	18,74	18,37	19,68
Production	25,68	25,89	25,57
Consumption	26,02	24,59	24,59
Exports	9,23	9,29	8,62
Ending Stocks	18,37	19,68	20,65

As a result of containment against the advance of coronavirus, the global textile industry is almost at a standstill and cotton is no longer sold. Fibre prices are at their lowest level since the 2008 crisis. The textile industry is “wiped out” by the Coronavirus, as the trading of cotton and other raw materials is at a standstill. Retailers refused to take up the delivery of cotton for the manufacturing thereof. A lot of cotton cannot be traded, and is still at the ports, meaning it loses value. Trading is caught between the hammer and the nail, between producing countries that need to ship their fibre and customers who do not want to take delivery of cotton. Some trading companies could disappear, as the economic impact is so strong in the futures market. In African countries that have not sold their entire crop, cotton companies should be forced to lower the price to the producer for the next season.



RSA COTTON PRODUCTION

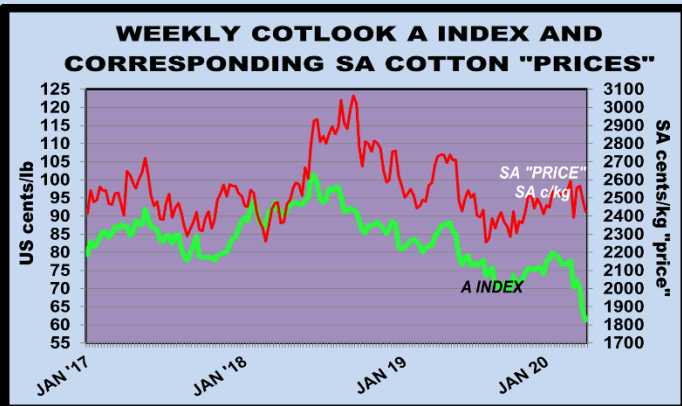
The third official cotton estimate indicates a crop of 142 829 bales of fibre which represents a 3% decrease compared to the previous month. This decline can be attributed to hail damage which occurred in some of the production areas.

CROP ESTIMATE

	2019/20	2019/20	2018/19
	3rd Forecast	2nd Forecast	Final Estimate
RSA Crop			
HA Irrigation	11 884	12 300	24 921
HA Dryland	15 966	15 938	16 792
HA Total	27 850	28 238	41 713
Yield: kg seed cotton per ha			
Irrigation	4 752	4 767	4 536
Dryland	1 095	1 096	967
200 kg bales of lint	142 829	146 743	238 222

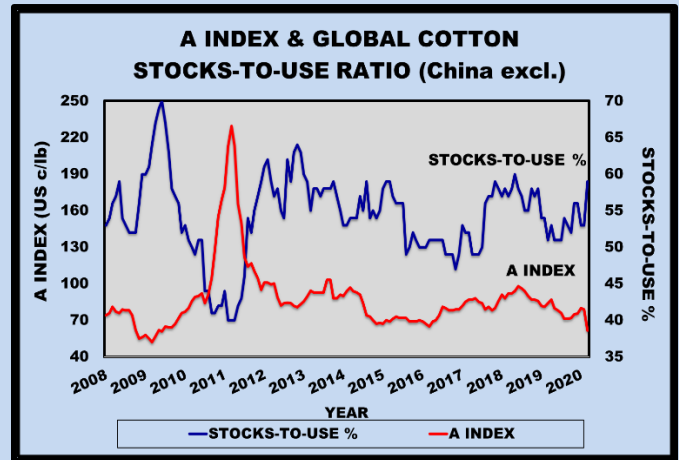
COTTON PRICE MOVEMENTS

The ICAC's current price projection for the year-end 2019/20 average of the Cotlook A Index has been revised to 72.2 cents per pound this month. Their first price projection for the year-end 2020/21 average of the Cotlook A Index is 64 cents per pound this month. Fibre prices are at their lowest level since the 2008 crisis.



	A-Index Average US/ Cent per pound	Derivative Price (RSA) Average. SA c/kg fibre
Last week (25/03/2020)	63,05	2403,34
February 2020	77,70	2591,78
Today (01/04/2020)	61,50	2447,27
January 2019	78,60	2521,27
Today a year ago	87.05	2782,73
Today 2 years ago	90.20	2350,49

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



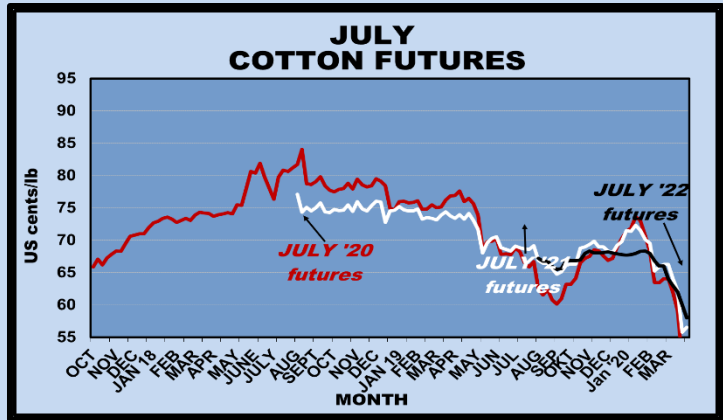
The ICAC's price predictions are mainly based on the world's end stock-to-consumption ratio (excluding China); the relationship between Chinese net imports to global imports as well as on the latest cotton price movements.

Cotlook A-Index is a daily indicator of international cotton fiber 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.



FUTURE MARKETS

May-20 was limit down at 50.68 earlier in the session overnight, but then recovered half of its losses and May-20 closed 153 points. The CFTC (Commodity Futures Trading Commission) report for various commodities showed that hedge funds were liquidating a lot of long futures positions last week to raise cash levels. From a cotton perspective, this is good news, because big speculative traders had just 1.9 million bales in outright longs left as of last Tuesday, which means that's all they can liquidate. The biggest driver on ongoing selling would, therefore, have to be the trade. In other words, even though the trade may be under-hedged, it will probably wait for a bounce into the mid 50's before putting on more downside protection. This could give the market a bit of a break from selling and give it some room to bounce. (IMAC QLD, 2020)



1 April 2020	NY "Futures" US s/lb
May 2020	51,13
July 2020	50,90
October 2020	53,21
December 2020	53,41
March 2021	54,66
May 2021	55,66
July 2021	56,59
October 2021	56,84
December 2021	56,69



Future contracts set out weekly

RSA COTTON CROP ESTIMATE

31/03/2020

COTTON CROP REPORT - 3rd 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
LIMPOPO PROV.					
Loskop	1797	0	4500	0	14556
North & South Flats	822	7525	4566	600	14968
Koedoeskop/Dwaalboom/Thabaz.	4078	450	5500	750	42118
Limpopo Other	25	643	3000	600	829
Weipe	1000	0	4500	0	8325
NORTHERN CAPE					
Vaalharts	961	0	5000	0	8885
Lower Orange River	272	0	5463	0	2749
Rest of Northern Cape	879	0	4707	0	8688
NORTH WEST					
Stella/Delareyville/Schweizer/e	99	4472	5000	2302	19963
Taung/Skuinsdrif	892	0	5243	0	8652
KWAZULU-NATAL	68	600	3500	800	1400
MPUMALANGA	501	1836	4000	800	6425
FREE STATE	490	440	5000	1000	5273
RSA TOTAL	11884	15966	4752	1095	142829

