COTTON OUTLOOK

NEWS • DATA • ANALYSIS

association cotonnière africaine

african cotton association

May 2024


330 300
Headed to cotton
ICT COTTON LIMITED
www.ictcotton.ch

Published by :
Cotlook Limited,
PO Box 111,
Liverpool,
L19 2WQ,
United Kingdom
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Web : www.cotlook.com

Supporting African cotton since 2001, the ACA confronts the challenges of tomorrow

Established in 2021 in order to defend the interests of African cotton, the African Cotton Association held its first annual meeting in Bamako in March 2003. Since that first gathering, the ACA has assembled in all cotton-producing regions of the continent. In West Africa, in Dakar, Ouagadougou, Lomé, Cotonou, Accra et Abuja. In North Africa in Cairo and Khartoum. In Central Africa in Yaoundé and Ndjamena. Nairobi and Arusha have hosted the event in East Africa and in the south Lusaka and Victoria Falls.

The organisation has come full circle with the re-election of Mr. Ibrahim Malloum, first President of the ACA.

Image: © d-maps.com

African cotton must reinvent itself

Gérald Estur, consultant, former ICAC Statistician and former General Director of Compagnie Cotonnière (COPACO) has participated in all the annual meetings of ACA since its creation

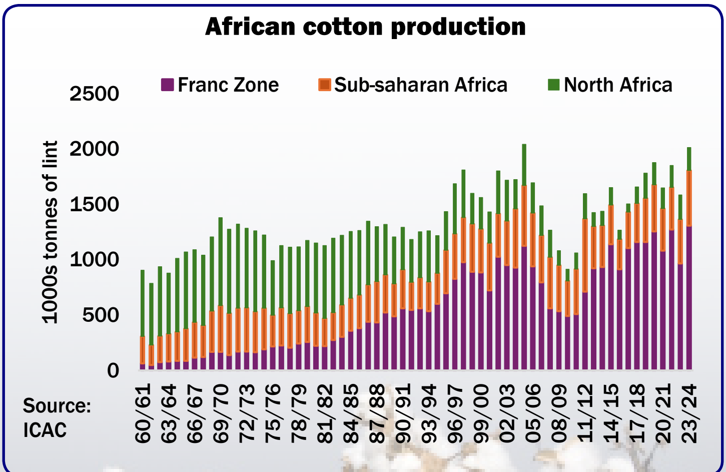
(*The views expressed in this article are the sole responsibility of the author*)

African cotton remains marginal

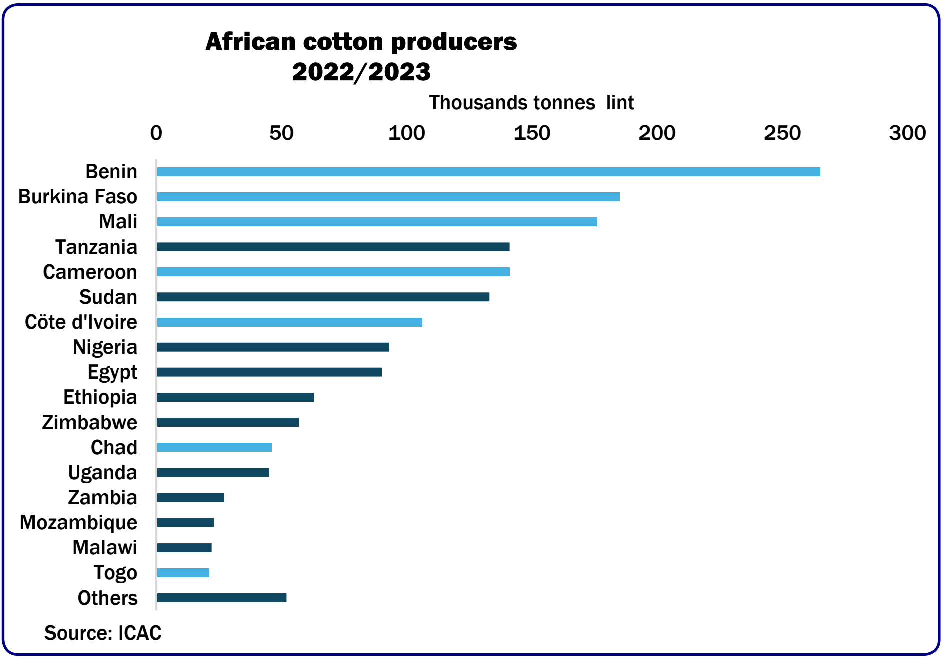
Cotton is produced in more than 30 of the 54 countries in Africa, of which many are LDCs. It constitutes the main source of income for hundreds of thousands of farmers. However, the continent remains a marginal actor in the international cotton market, with seven percent of world production from 15 percent of global area, 17 percent of exports and only 1.5 percent of industrial consumption, according to ICAC figures for the 2022/23 season.

Contrasting regional production trends

The distribution of African production among regions and countries has been subject to major changes over the years, with the Franc Zone the main driver of increased production. In 2021/22, production there rose to nearly 1.3 million tonnes, accounting for about two thirds of the continent's total output.



In the Franc Zone, producers benefit from a certain protection in the form of a minimum purchase price for seed cotton, guaranteed before sowing. That is not

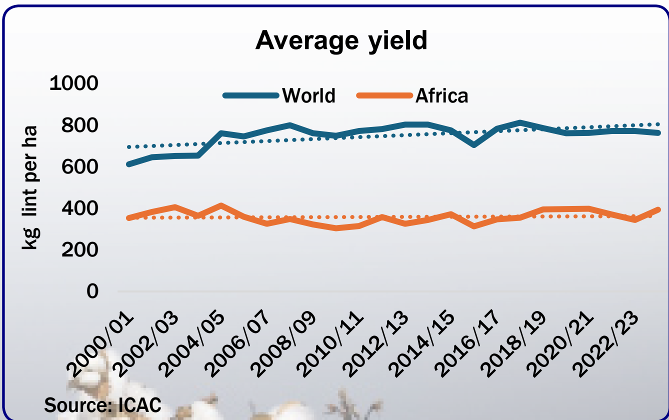


the case in other countries in sub-Saharan Africa, where producers must determine their cotton area in response to the prices received during the previous season, without knowing the price seed cotton will eventually command when it comes to market.

Sub-Saharan African production outside the Franc Zone attained a peak of 650,000 tonnes in 2011/12 following the historic rise of world prices in 2011. The subsequent fall of producer prices coincided with serious weather issues and caused production to decrease to 270,000 tonnes by 2015/16. However, in 2022/23 it recovered to 500,000 tonnes.

Falling productivity

In the 1990s, under the influence of the Bretton Woods institutions, cotton sectors were liberalised to a greater (outside the Franc Zone) or lesser extent, as emphasis was placed on price as opposed to yield, although



the latter is really the essential component of income from cotton.

The growth of production has thus arisen from an expansion of planted area, and not from an improvement in yields as has been the case in the rest of the world. In 1993/94, the average yield in Africa (436 kilos of lint per hectare) was equal to 79 percent of the global average (554 kilos/ha). Eleven years later, in 2004/05, the estimated yield of 413 kgs/ha represented just 54 percent of the global average (761 kilos/ha), despite ginning outturns that were higher than in the rest of the world. Since then, its competitiveness in the global context has continued to deteriorate as the average yield in Africa has fallen below 400 kgs/ha, while it has increased slightly elsewhere (except in 2015/16).

It is not surprising that Africa's average yield should be lower than the global mean, since the crop is essentially raingrown, whereas more than half of world area is irrigated. It is generally estimated that irrigation allows the achievement of yields that are double those that rely on rainfall. In addition, cotton production in Africa uses relatively few inputs.

In fact, the varieties currently cultivated have the potential to produce three tonnes of seed cotton per hectare in a research station and two tonnes per hectare in a real agricultural setting, provided that recommended growing practices are followed. The real-world figure corresponds to a yield above 800 kilos of lint per hectare. However, the average yield in the Franc Zone has fallen progressively from the record of 465 kilos/ha in 1990/91, reaching as low as 345 kilos/ha in 2022/23 (equal to 2015/16) as a result of a sudden infestation of jassids, which proved impossible to control. Cameroon, the country with the highest raingrown yields on the continent, has managed to maintain an average of one and a half tonnes of seed cotton per hectare, corresponding to more than 600 kilos of lint per hectare. Average yields are higher in North Africa (Egypt and Sudan), where the crop is irrigated, and lower outside the Franc Zone, where competition between ginners militates against the secure provision of inputs on credit terms.

The weakness of average yields threatens the survival of African cotton. In a globalised economy, cotton cannot be competitive with yields that are lower than one tonne of seed cotton per hectare.

Photo 37528356 | African Cotton © Gillespaire | Dreamstime.com

The poor productivity can be explained by various factors, which together produce a 'cocktail effect': declining soil fertility, sub-optimal planting density, low application of inputs and under-use of fertiliser, competition from other crops and from gold-panning in place of agricultural work, minimal farm mechanisation, insufficient extension services, and climate change.

The downward trajectory of yields brings with it lower production and thus causes farmers' incomes to fall, as well as those of cotton companies, input suppliers and service providers, crushers and the state itself, all of which reduces the contribution of the cotton sector to the fight against poverty.

Demographic and market trends mean that African cotton faces increasing competition at all stages of the value chain. In an aggressive global economy, the development model that has allowed Franc Zone cotton sectors to increase their production will be difficult to sustain.

Moreover, a socio-economic and rural development model based on an expansion of area is no longer in tune with today's world – either in a sociological or an economic sense. It is completely inappropriate to the new rural context in Africa, which is characterised by:

- the increased pressure of climate change and rainy seasons that have become more and more erratic and unreliable, both in terms of duration and distribution;
- lower soil fertility;
- a shortage of agricultural labour, the consequence of the increase in mining activity, as well as the disintegration of the traditional family unit, which gathered together all family members in the farm, and of the painstaking nature of field work in its present form with only rudimentary tools available;
- increased production costs;

- the perverse effects of the caution solidaire ('solidarity guarantee') in co-operative groupings, which have led to the disaffection of some high-performing producers who are tired of paying the debts incurred by their less efficient counterparts.

Towards a new model for the cotton sector

In this new context, it is vital to ensure the evolution of the monolithic, vertically integrated model towards one adapted to the sociological and demographic changes under way in Africa, one more responsive to new commercial opportunities and allowing greater resilience in the face of new vulnerabilities. The rural development model for cotton regions founded on a 'single menu' for all cotton producers must evolve in the direction of a more selective strategy based on the professionalisation of farmers.

The major challenge in the quest for the long-term viability of the cotton sector in Africa is to increase productivity, while at the same time improving the resilience of the crop to climate change. The cotton plant is vulnerable to the anticipated rise in temperatures, the decrease of soil moisture and more frequent extreme weather events, as well as flooding. Climate breakdown renders rainfall more irregular and unpredictable, while higher temperatures increase the prevalence of cotton pests. The effects of climate change must be mitigated by the selection of varieties and the broad adoption of agricultural practices that are better suited to these conditions.

African cotton production should reach a ceiling

Although it suffers numerous handicaps, African cotton retains some undeniable comparative advantages. In tropical Africa, cotton is in its favoured natural environment, with sun, heat and the alternation of well-defined wet and dry seasons. The plant consumes very little water (since it is essentially raingrown), only small volumes of pesticides or chemical fertilisers, and is probably the cotton that has the most favourable carbon footprint. Manual picking preserves the intrinsic qualities of the cotton fibre better than machine harvesting. Costs of production on the continent are competitive in relation to those in other producing countries.

The expansion of cotton area in Africa is neither feasible nor desirable. However, there is great scope for improvement in terms of productivity and quality.

In 2014, on the occasion of its 12th annual meeting, the ACA adopted the extremely ambitious, not to say unrealistic (since production was then below 1,500,000 tonnes) target of producing five million tonnes of lint by 2019. More reasonably, the theoretical potential output of the continent can be estimated at three million tonnes of lint, based on five million hectares and an agricultural average yield of 1,500 kilos per hectare of seed cotton and an average ginning outturn of 40 percent.

In reality, the necessary transition from mass development to a more selective strategy should reduce the number of producers and take account of the effects of climate breakdown by restricting planted and harvested area. Even if the professionalisation of producers does achieve an improvement in yields, African cotton production can be expected to hit a ceiling of two million tonnes of lint.

Africa faced with a changing world cotton market

Mike Edwards
Editor, Cotton Outlook

The theme chosen by the African Cotton Association for its 2024 meeting alludes to the various challenges that confront African cotton today: amongst others, climate breakdown, competition from other crops, stagnating yields.

Recent developments in the international market also present significant challenges for the sector.

Poor demand

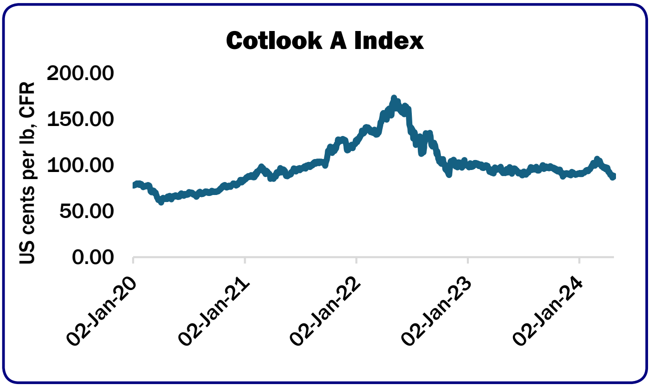
The rapid and brutal collapse in prices between May and November 2022 was followed by a lengthy period of relative stability. Between the start of this season and the end of 2023, we note that the Cotlook A Index (the barometer of world cotton prices) fluctuated in a bracket of 87.55 to 100.10 cents per lb. For the whole of this period, the market lacked a clear and sustained direction.

But it would be wrong to view this as the return to a healthy, more harmonious equilibrium after the exaggerated and unpredictable movements of recent years. Instead, the market has been characterised by weak demand, a reflection of spinners' poor profitability and an unsupportive macro-economic environment. At the same time, in Bangladesh and Pakistan, two important markets for African cotton, banking problems related to the balance of payments deficit and a shortage of dollars have rendered the opening of Letters of Credit a far from straightforward affair. In all, a rather discouraging panorama, even if the nominal value of cotton has remained above historical averages.

Short-lived rally in New York

How should we interpret the behaviour of New York figures since the beginning of 2024? For a second successive season, United States production has been sharply reduced as a result of adverse weather in Texas, the state that normally accounts for about a half of the national crop. In 2023/24, more than fifty percent of the crop was abandoned in the fields. And those that were harvested produced yields among the poorest of this century. At the same time, China has returned as an active buyer of US cotton, claiming about 40 percent of exports in 2023/24.

As a result, the season's projected ending stocks are amongst the lowest of the 21st



century. And since only US cotton can be delivered to the futures market, this prospect has been sufficient to provoke a wave of speculative buying. On February 28, the market (May contract) closed above the threshold of a dollar per lb. The next day, the A Index reached 107.00 cents per lb.

While the movement of the May and July contracts has been fairly exuberant, faced with the US supply and demand position (and supported by fund buying), the December delivery has behaved in a much more measured fashion. In consequence, the structure of the market – December trading at a substantial discount to the nearby contracts during February and March – has increased the pressure on basis levels for non-US cottons. The trade has preferred to reduce its long positions – even at the expense of accepting heavily discounted prices – than to see their value decline.

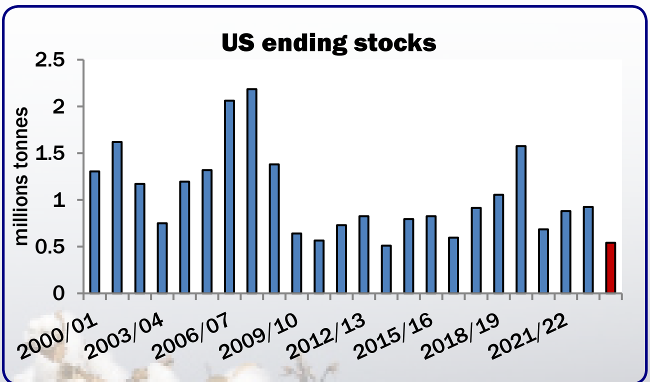
Production in the Southern Hemisphere

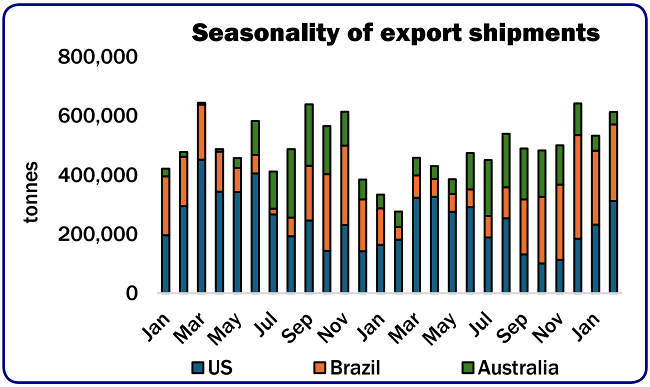
For several months, the expansion of Southern Hemisphere production had been weighing on the basis levels quoted for the cottons in question, and that pressure intensified during February and March. Asking prices for Brazilian suffered the most but virtually all non-US origins were affected and Africa was not spared.

In Brazil, the latest official forecast indicates a record lint outturn of 3.6 million tonnes. For a third consecutive season, Australia will contribute a further one million tonnes or so. Outside the United States, the next few months will therefore see an abundance, not a tightness, of supply.

In the past, it was customary to consider exports from the Southern Hemisphere as a complement to those from the Northern Hemisphere. That is no longer the case at all. Moreover, the movement in bulk of the crop is felt in the case of Australia from May/June and for Brazil from August/September. The *seasonality* of the world market has thus changed. Bearing in mind this transformation, it is not surprising that the Australian and (above all) the Brazilian quotations feature amongst the most competitive of those from which we daily calculate the A Index.

What is more, these cottons cannot be delivered on New York futures, even if they are hedged on the same market. As we have seen, the expansion of production in the Southern Hemisphere is not without consequences for African cotton. The latest rally in the futures market, even though it proved short lived, has thus thrown into relief certain long-term trends and underlying difficulties.





Brazilian competition

For African cotton, by far the most important export market is Bangladesh. In 2022/23, about 700,000 tonnes were shipped from the Franc Zone to that destination.

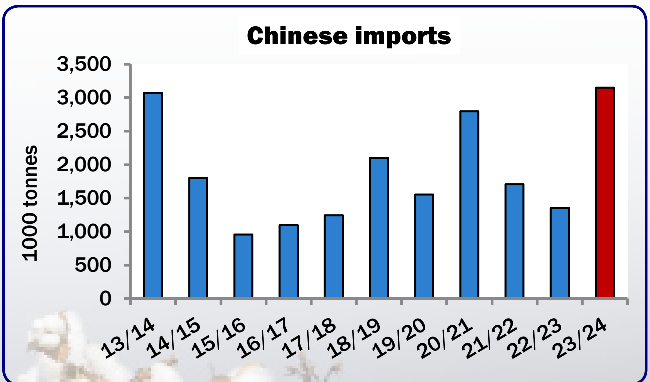
Hitherto, African cotton's main competitor has been India. For the buyer in Bangladesh, the neighbouring supplier clearly offers certain advantages (proximity, short transit times via the land border, easier payments, amongst others).

India will not doubt maintain a presence in Bangladesh but competition from that quarter may be constrained by a number of factors. Seed cotton in India is subject to a minimum price (equivalent to more than 500 CFA francs per kilo) which serves as an obstacle to exports when world prices are below a certain level. It is even possible that if Indian production stagnates and national consumption continues to grow, the country will become a net importer of cotton once again. If so, it would be following the path followed by other erstwhile cotton exporting countries, in which the needs of an expanding textile industry have surpassed domestic cotton production: Turkey, Pakistan and, of course, China.

Chinese imports

The last-mentioned country is never far from our thoughts, as Chinese import demand has frequently been the driver of major bullish trends in the international market. In 2022/23 imports were of modest proportions, the lightest since 2017/18. But in 2023/24, we forecast a total above three million tonnes, a threshold crossed for the last time in 2013/14. Without Chinese buying support, to which we have already made reference in a US context, world prices would no doubt have succumbed to the weakness of demand that has characterised this season.

It is therefore to be hoped that China arrives on cue in 2024/25, bearing in mind not only the outlook in the Southern Hemisphere but also the real possibility of a recovery of United States production in next season.



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