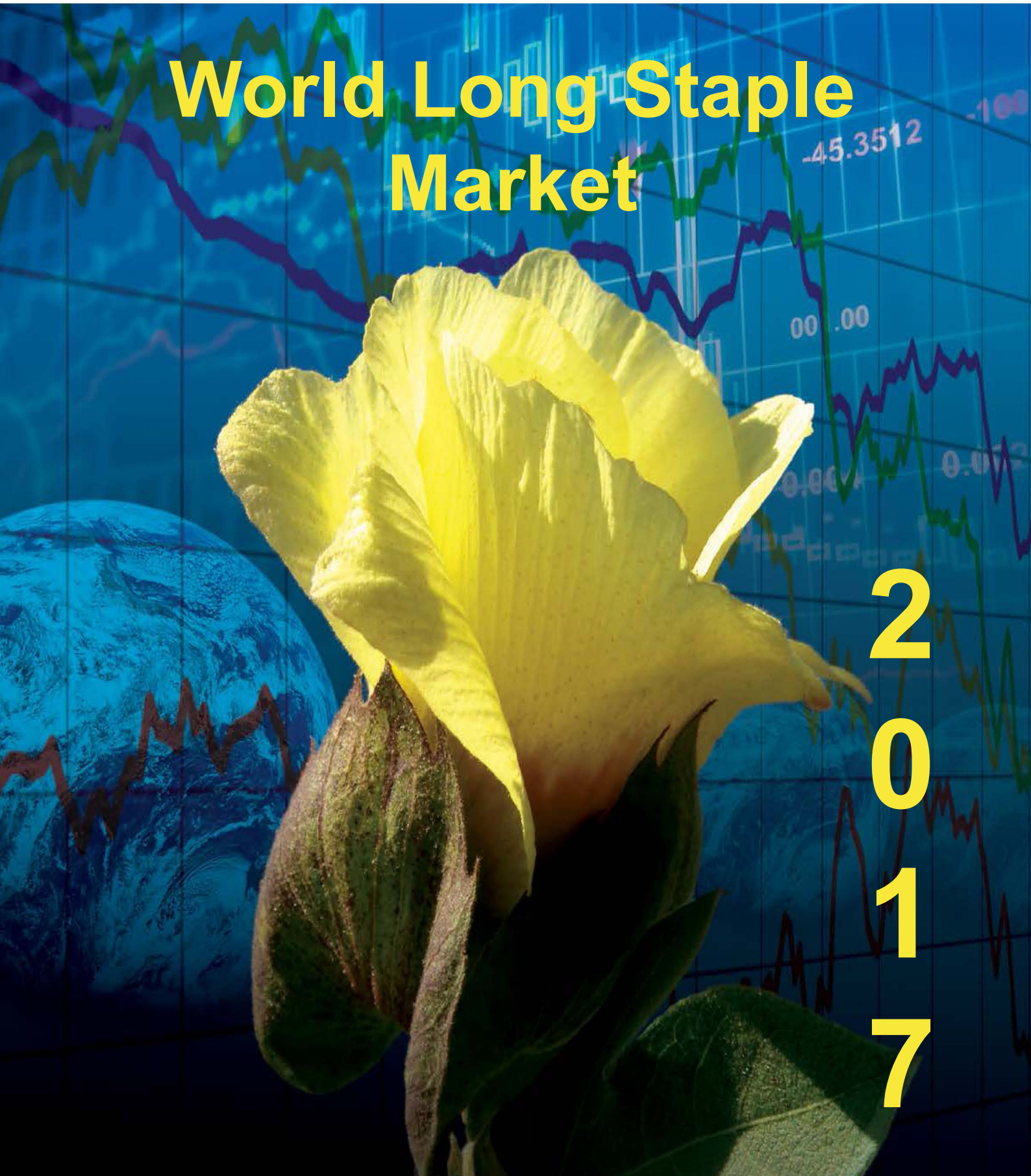
Cotton Outlook

Special Feature

September 2017

World Long Staple Market



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Introduction

This year's Long Staple Special Feature appears at a time of contrasting trends in some important producing countries. In the United States, availability of water has permitted a second, successive increase in the area devoted to California's Pima crop. Plantings in Egypt have also recovered, albeit from a historical low point. In contrast, there has been a sharp fall in the area sown to long staple varieties in China's Xinjiang region, though forecasts continue to diverge quite significantly. The resultant uncertainty is compounded by the likelihood that a substantial volume of Chinese long staple cotton has been carried forward from the previous season.

At the time of writing, the relationship between upland and long staple values – another significant influence on the price outlook for prices of the latter – sends no clear signal. The Cotlook Long Staple Premium is close to its long-term average.

Thus, in contrast to the position twelve months ago, when the higher prices eventually recorded in 2016/17 already seemed a fairly strong probability, the prospects for the season ahead seem much more difficult to predict.

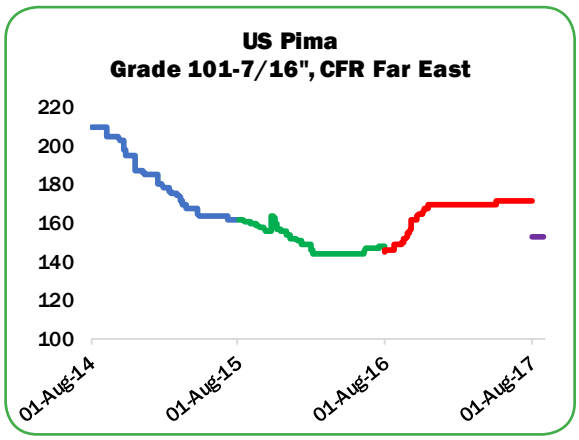
We are indebted to all those who have contributed to this publication for the light they have shed, either on the immediate market outlook, or on the longer-term trends in this specialised sector of the world cotton market.

Long Staple Market Outlook

Mike Edwards, Editor
Cotton Outlook

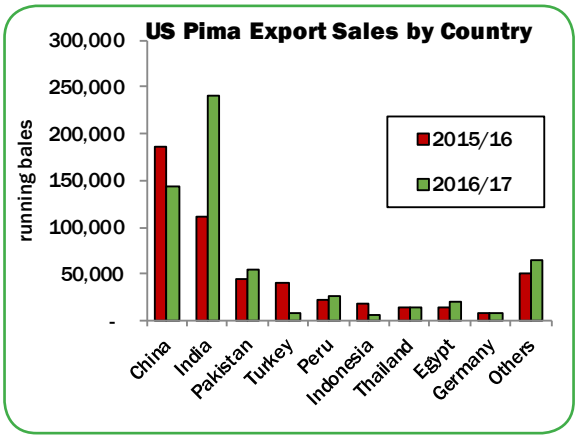
Twelve months ago, we postulated that the 2016/17 season might see an end to the progressive decline of international long staple prices that had begun in September 2014. Since then, our benchmark quotation for American Pima Grade 2, 1-7/16", CFR Far East, had fallen from 210.00 cents per lb, to 144.00 cents per lb in February of last year, before regaining a little ground in the later months of the 2015/16 season, to end the period at 148.00 cents per lb.

The early months of the 2016/17 campaign saw a further strong rise in asking prices, which by mid-November had risen to 170.00 cents per lb. Upward



momentum then stalled, and the quotation ended the season only modestly firmer at 172.00 cents per lb, though in truth trading activity had by then slowed considerably, in face of a tightening supply position, particularly at the upper end of the quality spectrum.

Exports during the season amounted to 614,000 bales (480 lbs), an increase of 15 percent from the previous campaign. A decline in shipments to China was more

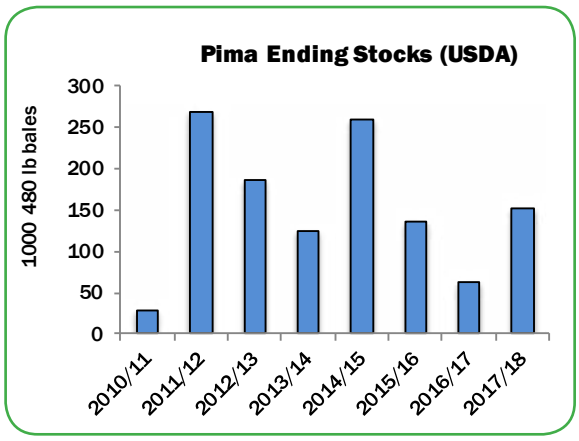


than offset by a striking rise of those to India. Exports to the latter market more than doubled, with the result that India overtook China as comfortably the largest market for American Pima.

The season ended with a carryover of 63,000 bales (480 lb bales), the lowest since the 2010/11 season.

According to the June Planted Acreage report, the area devoted to the 2017/18 Pima crop is the largest since the 2011/12 season. Production is forecast at 770,000 statistical bales (a figure that some local observers believe may err on the side of optimism), domestic use at 30,000 and exports at 650,000, implying a recovery of ending stocks to 153,000 bales.

Despite the tightness of the nearby supply position, and no doubt in recognition of the prospective weight of new crop supply, new crop offers have initially been pitched at an appreciable discount in relation to those prevailing (for 2016/17 crop cotton) in the later stages of the previous season. At 210,500 running bales in late August (including 42,800 carried forward from the previous marketing year), export sales commitments for

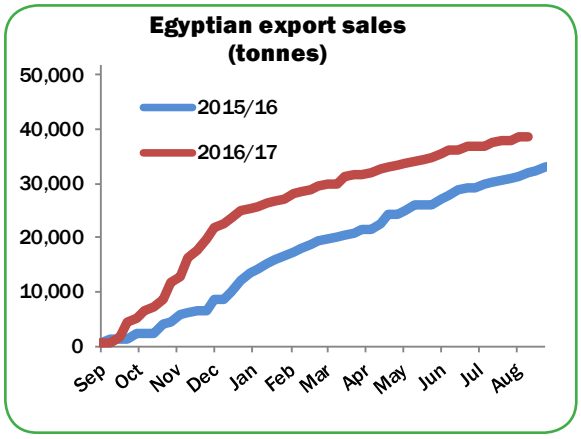


2017/18 were equivalent to approximately one third of USDA's projection for the season.

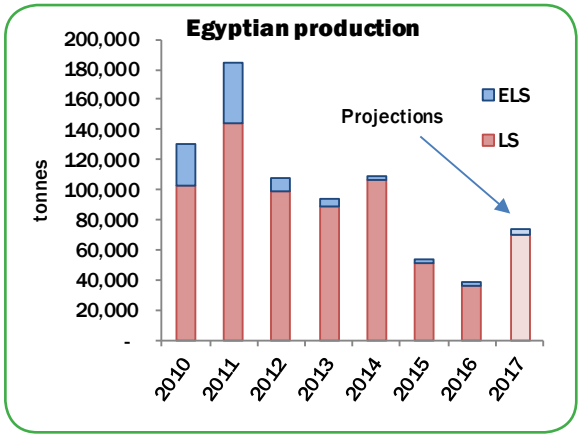
Egyptian exports during the 2016/17 season proceeded at a better pace than a year earlier, and by mid-August had exceeded 38,600 tonnes, an increase of more than 16 percent in respect of the previous season. ELS varieties contributed just 816 tonnes to that total. As in the case of US Pima, the momentum of sales tended to slow during the later months of the season.

During 2016/17, India figured as the largest export market for Egyptian cotton, accounting for over 45 percent of export sales registered by August 26.

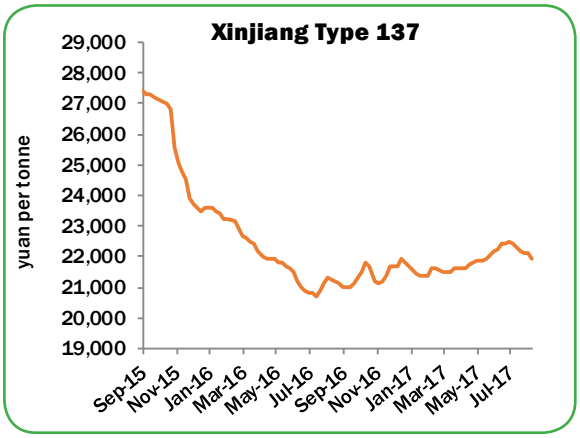
As discussed elsewhere in this publication, production in Egypt is also forecast to recover significantly in 2017/18, albeit from a base that is historically very low.



Despite the overall increase, output of Extra-Long Staple varieties will remain modest, probably at no more than 4,500 tonnes. Within the Long Staple category, a more noteworthy shift will see Giza 94 eclipse Giza 86 as the major variety in terms of output. The market response to this change has by all accounts been rather tentative, but confidence is expressed from the Egyptian side that the newer variety will rapidly gain acceptance, once consuming mills become more familiar with its quality specifications. In the meantime, the relative value of the two varieties has been a matter of some debate.



Production of long staple cotton in China has fluctuated widely in recent seasons, in part in response to price signals but influenced also by changes in government policy. Whereas the regime in force between 2011/12 and 2013/14 offered no particular encouragement to produce long staples, output of which declined sharply in consequence, the target price system in Xinjiang since 2014/15 restored just such an incentive. Plantings therefore rose substantially, and the resultant oversupply saw market prices fall dramatically during the 2015/16 season. A steadier trend has since been observed: for most of the past twelve months, the benchmark Type 137 quotation has fluctuated between 21,000 and 22,500 yuan per tonne.



Plantings in 2017/18 appear to have fallen quite sharply, as indicated by our two contributors from China. Local market sentiment thus appears inclined to the bull side. How well supported a rise in prices might be by spinners is questioned, however, by some observers of the market. Anecdotal reports in recent months have frequently mentioned the openness of certain fine count spinners to substituting ELS styles with longer staple upland cottons (Australian has most frequently been mentioned in this context), when price relationships so dictate. In late August, the mood seemed rather less positive, no doubt in recognition of the large stocks carried into the new season, and the heavy inventories held by fine count spinners.

Indian production of long staple cotton has continued to stagnate, as the returns obtainable from upland varieties are in most circumstances more attractive to farmers. Some additional uncertainty this season arises from the dry conditions that have cast doubt on the production outlook overall in the state of Karnataka, one of a only a handful in which such varieties are cultivated.

During the 2015/16 season, Turkmenistan had successfully disposed of the bulk of accumulated long staple stocks from previous seasons, by dint of obliging international trade buyers to take some of the cotton

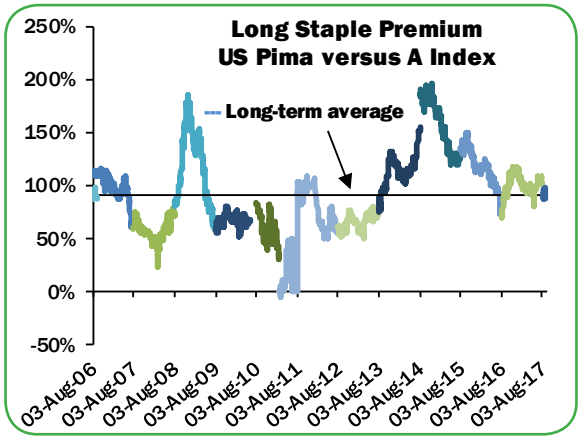
in question when buying current crop upland supplies. Export sales exceeded 40,000 tonnes, more than half of which consisted of cotton from crops prior to 2015/16. That old crop supply was of course not available to the market during the 2016/17 marketing year. It is understood that the bulk of the 2016/17 long staple crop has been sold from origin.

Contrary to some earlier suggestions, it seems that no change in policy has taken place with regard to the area intended for long staples in 2017/18. Turkmen ELS is customarily produced in two provinces, namely Mary and Akhal.

Cotlook Long Staple Premium

During the 2016/17 season, the Cotlook Long Staple Premium, calculated on the basis of the relationship between long staple values (as reflected by our American Pima quotation) and upland values (for which the Cotlook A Index is the benchmark) fluctuated between 70 and 117 percent.

Both Pima values and the A Index have fallen since the beginning of August, at which point the relevant quotations refer to shipments from October onwards,



World LS Output (tonnes)

	2015/16	2016/17	2017/18	2017/18 v 2016/17
United States	94,275	123,885	167,648	35%
Egypt	46,164	32,405	69,125	113%
of which:				
ELS	1,617	2,177	4,375	101%
Giza 86	43,909	20,406	28,000	37%
Giza 94	638	9,821	36,750	274%
Sudan	450	2,500	5,000	100%
Uzbekistan	1,000	1,000	1,000	0%
Tajikistan	500	750	750	0%
Turkmenistan	23,264	26,074	24,000	-8%
India	94,350	90,000	92,000	2%
Peru	3,000	2,000	5,000	150%
China	122,000	200,000	120,000	-40%
Israel	17,300	13,700	12,700	-7%
Spain	4,850	4,400	4,000	-9%
Total	**407,152**	**496,714**	**501,223**	1%

and are therefore influenced by the potentially bearish supply outlook for upland cotton and, perhaps to a lesser extent, the long staple market. At the time of writing the Premium stands at over 94 percent, modestly above the long-term average (just below 91 percent).

Outlook for 2017/18

At just over 500,000 tonnes, our forecast of world long staple production during 2017/18 shows little change from the figure for the previous season. However, that semblance of stability at a global level conceals some major changes. The increases foreseen in the United States and Egypt are effectively offset by the anticipated reduction of output in China. Whether the shortfall in China will prompt a recovery of import demand from that market sufficient to absorb most or all of the increased exportable supply remains to be seen.

No authoritative data are available for long staple consumption, but anecdotal reports and trade data would suggest that demand from fine count spinners around the world has been fairly well maintained over the past twelve months. Our forecast for the season ahead implies some growth, but the behaviour of spinners will of course be sensitive to the movement of prices during the coming months, both in absolute terms, and in relation to upland cotton values. As indicated above, long staple prices do not at present appear unduly expensive, and the supply outlook for the months ahead may serve to limit the scope for a move to the upside. The case for an increase in world long staple prices probably rests mainly on the potential strength of import demand from China, but the bullish argument may be undermined by the apparent size of that country's carryover from the 2016/17 season.

World LS Consumption (tonnes)

	2015/16	2016/17	2017/18	2017/18 v 2016/17
India	145,000	155,000	155,000	0%
China	120,000	140,000	150,000	7%
Pakistan	35,000	36,000	38,000	6%
Egypt (ELS, G86, G94)	24,558	24,954	25,000	0%
United States	5,443	6,532	6,532	0%
Latin America	13,650	9,600	12,600	31%
Bangladesh	11,000	12,000	12,000	0%
Europe (inc. Turkey)	25,800	25,300	21,500	-15%
South East Asia	16,900	19,650	26,150	33%
Others	2,000	2,000	2,000	0%
Total	**397,351**	**429,036**	**446,782**	4%

California Pima - One of the Most Sustainably Grown Cotton Fibers in the World

By Brad Reinhart,
Cotton Marketing Manager,
J G Boswell

Extra-Long Staple (ELS) cotton thrives in hot, arid climates, which is why 90% of its production is limited to just three major growing regions in the world: the Nile River Delta of Egypt, the Xinjiang region of northwest China and the San Joaquin Valley of California.

ELS cotton, or *Gossypium barbadense*, is a special breed of cotton that distinguishes it from *Gossypium hirsutum*, or upland cotton. The most obvious is its superior fiber quality, but perhaps just as important is its reliance on total control of inputs to the crop. Unlike upland cotton, much of which is rain-fed, nearly all ELS cotton is fully irrigated. The three distinct growing regions provide the heat units and dry weather required for their respective ELS cottons to reach their full potential. However, each region is not without its own set of unique challenges that can impact the production of ELS cotton. In Egypt, the government has struggled with maintaining the purity of the genetics of the long and extra-long staple varieties. In China, the cost of handpicking the small plots of its ELS varieties is 40% of the total growing costs, which is often largely offset by government subsidies to the farmers.

The Pima farmers of the San Joaquin Valley of California face their own set of unique challenges that could impact how many acres of Pima they plant in the future. High returns from permanent crops and legislation surrounding the allocation of water are the two biggest threats to Pima acreage in California. However, trends in retail could positively impact the future demand for a sustainably-grown, high-quality fiber like Pima.

To help us understand where the American Pima market could be headed in the future, it's helpful to know where we came from. Ten years ago, there were nearly 300,000 acres of Pima planted in California, and overall growing costs were about half of what they were for the 2016/17 crop. The biggest factor is the higher cost for an acre foot of water, which was significantly cheaper a decade ago. This is largely due to the four-year drought that just ended in California, coupled with environmental regulations related to the Endangered Species Act. However, with last year's Pima crop trading on average at a price about 40% higher than where it was trading in June of 2007, one can reasonably question why farmers grow Pima in California, given all the other crop options available?

The answer lies in the higher yields San Joaquin Valley farmers have been achieving. The average yield 10 years ago was 1,150 to 1,250 pounds per acre. The USDA reports that the average yield over the last three years is 1,539 pounds per acre, which is roughly a 30% increase from 2007 yields. The reason for the yields is two-fold – improved genetics of the Pima varieties grown, and advances in technology that allow agronomists to maximize the production potential of each individual acre.

Farmers are now making informed decisions about seeding and fertilizer application rates down to the square foot of their farm land. We are just now starting to learn what role the soil chemistry plays in production by looking at how the ratios of the various micro-nutrients affect plant vigor and yield. By arming growers with a constant flow of data related to cost inputs relative to the output received (pounds per acre), growers are reducing

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farm waste to near zero. This is the definition of sustainability, which is a very important issue for a large portion of our population and bodes well for the future demand of Pima.

Over the next 5 - 10 years, what are the challenges we can reasonably predict farmers will face that could impact the number of acres of Pima that are grown in the San Joaquin Valley? There are two main factors. First, the return farmers can get from planting other crops, particularly permanent crops like almonds and pistachios, and the increased state governmental regulations, specifically related to the availability of water to farmers.

The loss of Pima acreage to permanent crops in California isn't anything new. There are five main counties where Pima is grown in California: Fresno, Kern, Kings, Tulare and Merced. On average, these five counties have seen acreage devoted to permanent crops increase by 38% over the last 10 years. There's no reason to suspect that this trend will change. Even though the average selling price for the farmer has come off a high of $3.57 per pound for pistachios and $4.00 per pound for almonds, the return to the farmer is still far more than what they would make growing Pima. And once a farmer has taken the leap to plant a permanent crop, they are tied to that crop well into the future. On average, an almond orchard can stay in production for 20 years, while a pistachio orchard can stay in production for 90 years or more.

The new legislation passed by the state of California that will have the biggest impact on farming in the San Joaquin Valley is SGMA, or the Sustainable Groundwater Management Act. The law requires farmers to show that the amount of groundwater pumped out of an aquifer in a certain geographical region is being replaced through recharge basins and other means. This legislation is significant because the water supply available to farmers is already uncertain due to various environmental laws. During the recent drought years, many farmers supplemented the lack of surface water available by pumping ground water to irrigate their crops. The concern is that the new law will make the availability of water to farmers even more uncertain than it is already.

California Pima farmers have faced daunting challenges in the past and each time they have overcome them. There are always rumors circulating of new varieties with incredible fiber parameters and great yield potential. At some point, however, Pima may max out its increased yield potential, and the overall price back to the farmers will need to make up the difference, in order for Pima to compete against other row crops available in the valley.

It's estimated that, by the year 2025, the millennial generation will comprise up to 75% of the US workforce, and they are, by far, the most sustainability-conscious generation. In addition, recent studies from Nielsen and Deloitte show that millennials are also willing to pay more for those products that are viewed as sustainable. California Pima farmers operate in one of the most politically progressive economies in the world. We lead the US in adopting laws that protect the environment, reduce greenhouse emissions, and encourage renewable energy production. These regulations, in conjunction with our cutting-edge technology, make Pima cotton grown in California one of the most sustainably grown cotton fibers in the world.

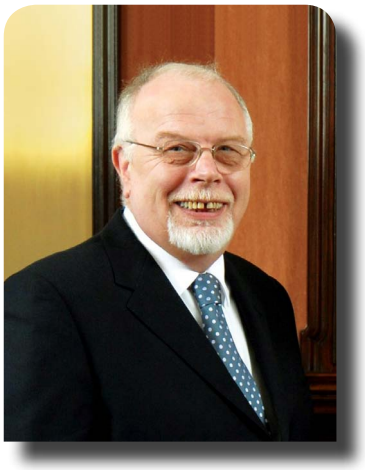
Demand for Supima labeled products is stronger now than it's ever been and we expect that it will continue to grow. Supima marketing efforts have been very effective in explaining how the longer, stronger fibers translate to a superior final product that is not only softer, but also more durable. These intrinsic qualities of Pima are relatively easy to understand and resonate well with the consumers who desire a superior product.

Supima has also been the beneficiary of many of the challenges the Egyptian cotton industry faces, particularly in home textile products. Many major US retailers and brands continue to move various home textile product lines from Egyptian-based cotton to Supima. American Pima fiber has been the leading ELS cotton fiber of choice in the world for decades because of its reliable supply and consistently high quality. The USDA testing of each bale and machine harvesting give the entire supply chain a high level of comfort that's lacking for other growths of ELS. In addition, new technology is now being tested and implemented that analyzes the chemical composition of the fiber to ensure that it's the growth that it's claimed to be. The simplicity of the test is attractive because the test can be performed without the application of any foreign material or solution being added to the fiber that wasn't inherent to the fiber. Many consumers, but particularly millennials, want transparency, and the ability to trace the fiber back to a sustainable farm only becomes more valuable.

The story behind American Pima cotton can only be described as one of success. Pima farmers' embrace of new technologies and innovations has improved yields and fiber quality and helped reduce costs, allowing the fiber to flourish in a very expensive environment. And the Supima organization, founded and funded by Pima growers, has propelled the recognition of the Supima name with major brands, retailers and consumers to new heights.

There are definitely strong head winds that farmers will face due to water restrictions and competition from other crops, but I'm optimistic about Pima's future in California and the overall demand for the fiber in the coming years. I'm proud to be a part of the American Pima cotton story.

Egyptian Plantings Recover



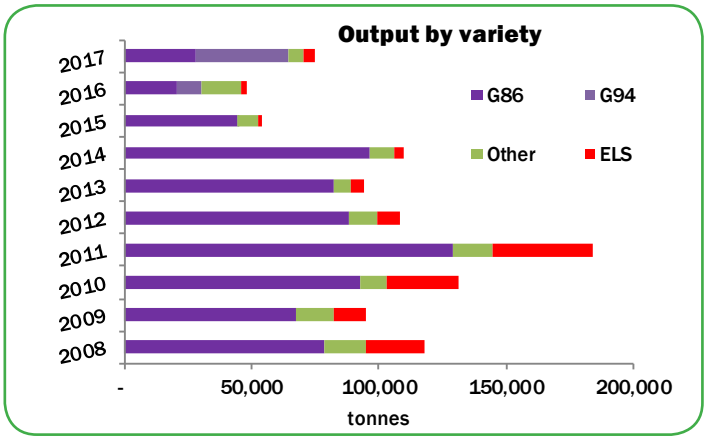
By Ray Butler,
Managing Director,
Cotton Outlook

The figure recorded in the April 2017 Egyptian Cotton Gazette for the area finally cultivated in 2016/17 was 131,605 feddan (virtually acres), which represented a significant shortfall from the hopes expressed early in the season of a recovery to around the 250,000 feddan mark. Production reached 767,350 metric cantar (each of 50 tonnes), of which 408,127 were Giza 86, 196,422 were Giza 94, 43,546 were extra-long staple styles (Giza 45, 87, 88, 92 and 96) and the balance (excluded from our production total in this report) consisted of Upper Egypt varieties (shorter in staple and mostly consumed domestically).

The main change in those figures, compared with the 2015/16 season, was the expansion of Giza 94, first commercialised in 2015, which has taken an increased proportion of sowings in 2017, at the expense mainly of Giza 86. Whereas the latter variety accounted for almost 85 percent of total plantings in the 2015/16 season, its share had fallen to less than two thirds in 2016/17 and the intention this year was for a reduction to below 40 percent. Giza 94's share should prove to be slightly more. By mid-June this year, total planted area had reached 215,987 feddan and a final area seemed probable of below 220,000. Whilst clearly representing an increase on last year, the figure would still represent a shortfall from the intended area of around 261,000 feddan. Once again, the extra-long staple variety area has remained modest.

The 2016/17 lint outturn marked a historical low of less than 37,000 tonnes (32,405, excluding the Upper Egypt varieties). The total should be doubled in 2017/18, based on the area sown and assuming that average yield at least sustains the recovery shown this season for Giza 86, thanks to the use of better quality seed. Based on the planting data, Giza 94 production should exceed that of Giza 86, though there is a limited track record from which to project a yield trend.

Despite the many persisting economic challenges, the textiles industry has been faring better this year. The value of clothing and home textiles exports has increased. In 2015/16, the industry consumed around 33,000 tonnes of domestic lint (including 23,454 of extra-long staples plus Giza 86, as shown in our table, the balance being mainly Giza 90/95) and the total appears likely to be at least matched in 2016/17. The industry's consumption requirement is filled otherwise by imports of upland cottons, mainly from Greece (followed this season by the United States and Sudan). Larger imports are foreseen in 2017/18, given policies from government that recognise both the economic advantage to be gained from exporting higher-value Egyptian cottons and the industry's requirement for access to competitively-priced imported supplies for coarse/medium count yarn spinning.

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Towards restoring the Egyptian White Gold

By Mr. Khaled Schuman.
Executive Director,
Cotton Egypt Association

In last year's article, I had the honour of introducing the Cotton Egypt Association, a not-for-profit organisation exclusively managing, promoting and protecting the Egyptian Cotton logo that is owned by the Egyptian Ministry of Trade and Industry and ALCOTEXA (Alexandria Cotton Exporters Association).

At that time, the Egyptian cotton brand was being seriously damaged by the global distribution of inferior and none genuine products, products claiming to be genuine Egyptian Cotton. It was estimated that 90 percent of products were fake Egyptian cotton.

Today, we are in a much stronger position, thanks to the efforts of the CEA, with full support from the Ministry of Trade and Industry, ALCOTEXA, and of course the cooperation and close relations we have with world class retailers. Our retailers have supported CEA activities in verifying that the products labelled Egyptian cotton are genuine, thus making sure that their distinguished clients are getting the finest quality genuine Egyptian Cotton products.

Our initial programme of work has resulted in a significant decrease in the number of fraudulent products, and this has been supported by the 25% increase in demand for Egyptian cotton compared to the same period last season. Consequently, the price of Egyptian cotton has increased, encouraging Egyptian farmers to plant more cotton: 92,000 hectares versus 55,000 the previous season.

A notable development this year is the newly-established exclusive alliance with Bureau Veritas CPS. The main focus of the alliance is to assist retailers in the detection of falsely-labelled goods and deceitful claims that are made by manufacturers of cotton products. The implemented audit program investigates the traceability of Egyptian cotton across the entire production supply chain process. The protocol is based on both Fibre Traceability Assessment and the requirements relating to raw cotton trading. This includes lot numbering and bale identification.

Overall, the alliance adds global leadership in testing, inspection and certification (TIC) services. It also brings a fully managed solution to Bureau Veritas exclusive DNA testing methodology, accredited by the International Laboratory Accreditation Cooperation (ILAC).

The Cotton Egypt Association is also preparing to launch a global marketing campaign to be implemented in phases, each having a specific goal. The phases include re-establishing Egyptian cotton's credibility, setting Egyptian cotton apart as 'the finest luxury linen' and ultimately increasing consumer demand. Integrated into this plan is the strong presence at international cotton conferences and exhibitions world-wide.

Cotton Egypt Association will spare no efforts, cooperating with all parties concerned throughout the value chain in the public and private sectors, to satisfy the needs of traders and consumers of Egyptian Cotton products globally. We will keep the consumer of Egyptian Cotton and its superior products informed regularly about our updated developments and enhancements.

COMMITTED TO COTTON

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Egyptian Cotton, the White Gold

by Mr. Mohamed Kassem,
Chair, Foreign Trade Committee,
Egyptian Federation of Industries EFI

Egypt has a few things to be proud of: the Pyramids, the Suez Canal and its cotton. Egyptian ELS Cotton has a legendary and unparalleled reputation.

Egypt produced only 36 thousand tons in 2016, this is down from a peak of 550 thousand tons in 1996.

The drop in the Egyptian acreage in 2016 was a painful but necessary step to retain the integrity of the Egyptian cotton varieties, as well as instil discipline in the market.

In a typical year, nearly 50% of the crop is exported as lint and the rest is spun locally, to be exported as yarn and consumer products.

In 2006, the Cotton Egyptian Association CEA was established, with the sole aim of promoting Egyptian cotton and safeguarding its equity as a worldwide household name. Lately, CEA has established an accreditation and traceability program that will ensure the authenticity of the products made of Egyptian cotton.

In 2012, the Egyptian National Council on Textiles (ENCT) updated the country's textile strategy to become "Vision 2025", with an emphasis on revamping the upstream segments of the industry, such as spinning, weaving, dyeing and finishing, in order to reposition Egypt as a major hub and a leading manufacturer of textiles in Africa.

The latest revision of the strategy – which is under way right now - will focus on building an Egyptian Cotton Supply Chain that runs parallel to the mass market. The aim should be to convert the world-renowned Egyptian cotton, not only into yarn and fabrics, but also into a high-end home textiles and clothing, so that the country can reap the benefit of its own white gold.

Egyptian Cotton and its Future Prospects

By Mr. Nabil A.S. El Santaricy,
Agricultural Consultant,
President of Alcotexa

No one can deny the importance of cotton production in Egypt, with its super high quality, durability, length, smoothness and softness. All of this results from the efforts of breeders to produce new varieties and strains, and the appropriate environmental conditions for producing cottons. This high quality cotton is used to produce the yarn and luxurious fabrics needed for specialised uses.

Egyptian cotton, which is grown and harvested by hand, faces some challenges that have limited cultivation and caused some lowering of quality. The most important of these is competition from alternative crops. Labourers' high wages and high input prices directly increase the cost of producing our cotton, compared with those that are grown with greater mechanisation and are machine-picked.

Spinners in Egypt and overseas markets need between 100,000 and 150,000 tonnes of Egyptian long staple and ELS cotton per year. This can be supplied from the agricultural lands currently available, if incentives are provided for producers.

In addition to the above, the spinning and textile industries in Egypt have a requirement for shorter staple cotton and other fibres. This is being met by imports of foreign cottons and yarns, which is costing Egypt millions in foreign currency, in addition to the loss of job opportunities for thousands of Egyptian labourers, and an impact on existing investments.

So we must place greater reliance on mechanised-cotton cultivation in large areas in the new reclamation lands in the south of the Valley and in the desert, in order to produce the shorter staple cotton varieties that are needed by most spinning mills.

Another option is to cultivate long staple and extra-long staple Egyptian cotton varieties using mechanisation along the north-west coast that extends about 500 kilometres from Port Said to Sallum. Large areas are available for agriculture and water can be provided for agriculture by connecting the waters of the Nile to some of these areas, and also by relying on groundwater.

Cotton-producing companies can be established in these areas, and they could be allocated the necessary areas for agricultural, together with any existing spinning mills and trading companies that might be interested in such projects.

The government can encourage these enterprises by allocating the land free of charge, in the knowledge that Egypt imports not only raw cotton but also cotton oil and cotton seed in animal feed.

A country such as Egypt, with a population of ninety million people, made famous by producing the finest cotton varieties in the world, must return to its privileged position by producing high quality cotton and achieving self-sufficiency in cotton. This would allow the needs of existing mills to be met, as well as those of some spinners who unfortunately have stopped production, due to the shortage of Egyptian varieties.

2017 Xinjiang Long Staple Outlook

By Zhang Lei, Manager,
E-commerce Information Department of the Xinjiang Yinlong International Agricultural Cooperation Co., Ltd.

2017 Xinjiang long staple production survey

Planted areas

As in previous years, Aksu (Awati, Wensu, Shaya) and Kashgar (Jiashi and Shache) are the main planting areas of Xinjiang long staples this year. Aksu accounts for around 95 percent of the total area (650,000 mu in Awati County, down by ten percent year-on-year). Cultivated area in 2017 is estimated at 1.2 million mu (80,000ha), down by around one million mu (over 45 percent) from last year's area of 2.2 million, mainly owing to the sharp decline of returns, compared with cultivation of upland cotton. In addition, growers have rationalised their planting policy, with the result that those fields that have been abandoned are mostly those far away from water resources, which produce low yields. It is hard to produce satisfactory output from a long staple crop, if the weather and soil are not favourable.

Planting intentions

In 2016, long staple yields generally reached 280/290 kilo per mu, some 80/90 more than in the previous year. Seed cotton prices were running between 7.5 and 7.6 yuan per kilo, resulting in a rather unsatisfactory net return of around 2,200 yuan per mu. By contrast, upland yields in 2016 were generally around 400 kilos per mu, with a unit price of 7.2/7.4 yuan per kilo. Thus, the net return was around 2,960 yuan per mu. As a result, some growers turned to upland cotton this year and a decline of long staple area was unavoidable.

Crop developments

Plant development this year suffered various misfortunes: low temperatures, excessive rains and gales all impeded the development of seedlings during March and April. Then hailstorms and heavy rain resulted in serious damage to plants, followed by persistent hot weather and drought from mid to late July through early August in southern Xinjiang. However, it turns out that the general development of long staple crops gives some grounds for optimism, owing to effective and timely field management. By July 25, long staple crops in the Aksu Prefecture were generally 80/100 cm in height with seven to eight branches and five full bolls on average. Picking was expected to begin in mid-August, several days earlier than last year, due to dry conditions.

Yield and output

Growers are now more optimistic about this year's long staple output, in contrast to the pessimistic view that seemed justified in the crop's earlier stages, mainly because of the impressive outlook for yields, which are expected to reach at least 230/240 kilo per mu. Although this would be somewhat lower than last year, it would still exceed the figure obtained in 2015 (220 kilo per mu). Some growers are even more optimistic and insist that yields may rise to 260 kilo per mu, if no severe weather occurs in the later stages of development. In the main producing area of Awati, although planted area has declined by around ten percent, year-on-year, lint output is still estimated at 55,000/56,000 tonnes. Total output in Xinjiang is put at 115,000/120,000 tonnes, some 80,000 less than last year.

Quality

Long staple output was around 200,000 tonnes in 2016, whereas domestic consumption was around 130,000/140,000 tonnes, which meant around 60,000/70,000 tonnes of the supply would be carried over into the following season. However, the long staple supply and demand structure imbalance still exists, and 'mainland' spinners have high quality standards, whereas the supply of more desirable long staples is relatively tight. Attracted by more competitive prices for Australian upland cotton of late, many spinners have turned to imported cotton rather than Xinjiang long staples. In other words, since high quality lots such as Type 137 are still in short supply, while medium to lower quality lots are in oversupply and difficult to market, the structural supply deficit in higher grades has worsened. Quality in 2017 will be determined mainly by weather conditions in the later stages of the crop's development.

Costs and returns

The long staple area increased substantially in 2016. In Aksu alone, the area planted reached over two million mu, and resulted in a serious oversupply. As upland cotton prices gradually increased, those for long staples became weaker, and seed cotton prices were almost the same as for upland crops. Despite an appreciable subsidy of 1.11 yuan per kilo, the final return was still less than satisfactory, due to poorer yields compared with upland cotton, which achieved very impressive yield and output figures in 2016 and attracted many growers. Therefore, a year later, long staple area declined sharply (1,140,000 mu in Aksu, down by 45 percent year-on-year) and the land in question was mostly switched to cultivation of upland cotton. Figures, show that the net return from long staple planting in 2016 was 500/600 yuan per tonne lower than that obtained from upland cotton. As a result, machine-picked cotton has gradually found favour in Xinjiang in 2017, so as to save labour costs, and a total of 20,000 mu have been selected to be machine-harvested in Awati County.

Seed cotton price expectation

The oversupply of long staples in 2016 brought huge pressures from a marketing perspective, and the opening price for seed cotton was 6.5 yuan per kilo, only slightly more than the upland cotton price. Currently, we expect the long staple seed cotton yield this year to be 260 kilo per mu on average. Meanwhile, as many growers indicated, planting costs have increased by five to eight percent this year, so their price expectations will be higher, at nine to ten yuan per kilo.

Seed cotton ginning anticipation

This year, ginners' contracting charges in Xinjiang have increased substantially compared with 2016, namely to 1.8/2.0 million yuan per annum in Aksu and Kashgar, which has almost doubled from last year. Besides, credit policy has become stricter and more complicated. Many

ginners from the 'mainland' have shown strong interest in long staples, and ginning capacities are believed to be stronger than last year. The market now predicts that long staple prices will increase in the rest of the year, and ginners expect to benefit from the trend.

Consumption survey

The domestic textile industry started to rebound in 2016, and many spinners reported good business last year. In addition, market demand for long staple cotton has been stable in 2017, on the part of spinners producing mainly high-count and combed yarns. According to survey results, although textile capacity has been increasing rapidly in Xinjiang in recent years (total capacity reached 13.6 million spindles in the first half of 2017, including 4.6 million spindles in Aksu), most spinners are producing regular yarns and have little need of long staples. As a result, although annual consumption of long staples in China is 130,000/140,000 tonnes, most of that volume is consumed by 'mainland' spinners, while consumption of such cottons in Xinjiang is very limited.

Inventory survey

Over 90 percent of long staples had been moved to the 'mainland' by early April, at which time there were no more than 7,000 tonnes (mostly medium to low grades) still held in traders' hand in Aksu. Most of the unsold lots were in warehouses in Shandong, Hebei, Jiangsu and Jiangxi. However, sales pressure has been huge due to spinners' hand-to-mouth buying strategy.

Forecast of the 2017/18 long staple market tendency

The market price of long staples has been very weak in recent months. Some ginners have continued to quote lower asking quotes, which promises to add pressure to the long staple market during the season ahead.

By July 25, traders in Xinjiang were offering preferential prices, so as to clear stocks of Type 237, 337 and 336 styles, at prices of 20,800, 20,000 and 19,500 yuan per tonne, respectively, some 100/150 yuan lower than the previous week. On the same day, 'mainland' traders also lowered their quotations for Xinjiang long staples. Type 137 and 237 were priced at 22,100 and 21,100 yuan per tonne, respectively (ex-warehouse, in rough weight), around 200 yuan per tonne lower than the previous week. Overall, long staple prices have lost 500 yuan per tonne since mid-July.

Ginners are now under pressure on two fronts. On the one hand, there is less than one month left for them to clear stocks before the new crop year; on the other, market sentiment is pessimistic, and ginners are worried about the sharp decline of long staple prices. Thus, they have been anxious to dispose of stocks.

Any forecast of the new season's price trend in long staples must take account not only of the size of this year's output, and prospective demand from the mill sector, but also the outlook for prices of upland cotton in the spot market.

Xinjiang Long Staple Survey

By the China National Cotton Group Corporation

China is the world's largest consumer and importer of long staple cotton, which has a longer fibre than upland cotton and is the critical material in high-count yarn spinning. It can be used to make protective cloth (against chemical and atomic radiation), high-end yarn dye and home textiles, high value-added textile products for export, as well as various sewing thread on cone, embroidery and knitted threads. In recent years, domestic consumption of long staples has been maintained at around 140,000 tonnes annually, of which nearly half were imported lots (owing to the problem of foreign fibres in Xinjiang long staples).

Xinjiang long staples enjoy promising prospects for the future. Aksu Prefecture is the main producing area, with an annual output of around 100,000 tonnes. Xinjiang long staples have good quality parameters, whether in length or strength, which are superior to those of imported long staples. However, foreign fibres have been the biggest issue for Xinjiang long staple cotton, which is also the reason why it is far lower in price than imported counterparts. This has also become a stumbling block for the domestic high-end textile industry.

In 2016, output of Xinjiang long staples increased by nearly 100,000 tonnes, year-on-year. Added to the huge inventories held during the previous two years, the supply and demand imbalance became obvious, and resulted in weak asking prices. By contrast, prices of upland cotton were firmer and attracted more growers to participate in planting.

Long staple seed sales in Aksu in April

Planting areas in the Aksu Prefecture have been divided by rivers and roads.

Planting intentions were as below:

Aksu to Alear area

Most of the area was devoted to long staples last year and sales of long staple seed were active. However, cottonseed sales were only ten percent of the volume last year by April 2017, as local growers indicated, many long staple varieties have been replaced by upland seeds at the sowing stage.

Sluggish sales in the agricultural commodities market in Aksu

According to field visit results, sales of cottonseed during the same period last year consisted almost entirely of long staples, but sales of the latter declined sharply this

year, apart from those in Awati County. Sales of upland seeds have been very active.

Sales in Awati

Uyghur small farmers (typically planting on an area of 30/50 mu) usually buy long staple seed from local markets, while large growers will head to Alear for planting seed. Sales during the same period last year were mostly of long staples, but many local growers decided which varieties to plant only after the release of this year's cotton target price subsidy policy.

Long staple planting intentions in 2017

Aksu to Kashgar area

Field visit results revealed that the area cultivated with long staples may be halved from last year, due to poorer returns and rising labour costs.

Aksu to Alear area

According to the survey, most growers in this area have reported low profits or even losses in long staple planting last year. Besides, labour costs have also been a primary problem. Many growers have therefore reserved only one tenth of their fields for long staple planting, and the area will decline substantially.

Aksu to Awati area

As this is traditionally key area producing Xinjiang long staples, most 'local' growers planned to increase area by 20/40 percent this year, and large Uyghur growers chose to plant upland and long staples on a fifty-fifty basis. However, most Han growers either insisted on planting upland cotton or waited for subsidy details before deciding which varieties to plant. Overall, cultivated area in Awati was expected to decrease by 30/40 percent, year-on-year.

Shaya area

Most large growers in this area claimed they would decrease long staple area and some will produce only to order.

Long staple inventories

According to official statistics, the area cultivated with long staples in 2016 was 1,930,000 mu (128,667 ha). Combined with those areas without subsidies, the total area will rise to around 2,200,000 mu (146,667 ha). By April 30, 2017, a total of 170,000 tonnes of long staples had been inspected. By July 31, 2017, long staple inventories held in ginning mills were around 5,000 tonnes. The bulk of supplies had been moved into the hands of traders and larger spinners.

Domestic long staple market situation during recent years

The long staple price in 2012 was only around 21,000 yuan per tonne. Poor returns had resulted in low output in 2013, with the result that prices soared from 28,000 to 32,000 yuan per tonne. Supported by satisfactory profits, growers had started to expand areas in 2014, when prices fell to 24,000 yuan at the beginning but subsequently recovered to 28,000 yuan, due to poor yields. A year later, growers had expanded areas again and output reached 130,000 tonnes, resulting in a low price tag of 22,000 yuan (at that time, upland cotton was fetching 12,200 yuan). In 2016, the upland seed cotton price reached eight yuan per kilo, while long staples were sold at a lower price of 7.5 yuan. Prices of long staples during July/August 2017 have been running in a range of 21,500/22,500 yuan per tonne, with active transactions, especially since early August, when long staple resources had become sparse. As long staple output is small, and its marketing period can be lengthy, traders normally need to wait for as long as one to two years for its price to surge. We believe output will be decreased sharply this year and prices will move upwards during the arrival of the new crop, and become stronger in May 2018.

Procurement from large spinners

The price spread has been very large between long staples on the domestic and international markets. Owing to spinners' profitable margins, demand for Xinjiang long staples have been increasing in recent years. Prices for high-grade long staple yarn during the past three years or so have been running between 51,000/56,000 yuan per tonne, relatively steady when compared with the price changes recorded by long staple cotton. Recently, long staple cotton yarn prices have been following the price rally of raw cotton.

As the primary consumers of long staples, spinners in China and India account for 29 and 34 percent of global use, respectively. China's consumption has been maintained at around 140,000/150,000 tonnes in the last few years. Because the price of US Pima reached a high level of 30,000 yuan per tonne in 2016, many domestic spinners increased their consumption of Xinjiang long staples instead, and have introduced appropriate technologies so as to deal with the problems of foreign fibres. As a result, Xinjiang's long staple sector should draw lessons from the US Pima industry, and introduce machine picking, in order to lower the proportion of foreign fibres, and consequently to achieve higher end value.

Long staple new crop price forecast

Long staple cotton was excluded from the cotton procurement policy in force from 2011/12 through 2013/14. However, from 2014/15, the domestic cotton market has undergone significantly changes. The previous policy has been abolished, and replaced by the Xinjiang cotton target price reform trial policy. Special types of cotton (including long staples and coloured cottons) have enjoyed 1.3 times the subsidies granted to upland cotton. The price ratio of Type 137 to Type 3128B had been running at a high level, but has since fallen to a record low.

The long staple planted area in 2016 was as high as 2,200,000 mu, some 500,000/600,000 mu more than a year earlier, including 1,160,000 mu in Awati County, which accounted for half of the total cultivated. However, the area planted in the region is estimated to have

decreased by 30 percent. Local growers indicated that the ratio of upland to long staple area last year was 40:60, but the proportion of upland cotton has increased markedly this year. The tendency is more evident in other regions, so the overall decline of this year's long staple area is likely to have been around 55/65 percent.

Open skies had been witnessed during the spring sowing period this year, which was conducive to crop growth, and long staples had initially been developing. However, adverse weather during April and May was negative for cotton seedlings and left a seedling rate of less than 70 percent. Scattered gales and hailstorms in southern Xinjiang have also inflicted damage on long staple crops.

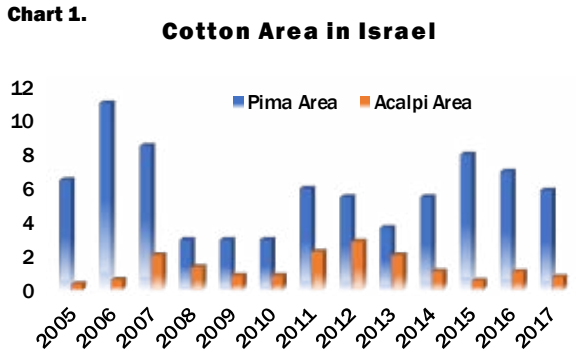
In June, high temperatures in the whole region resulted in a serious drought, following which hailstorms and heavy rains returned, damaging crops that had entered the rapid growth stage. A total of 138,000 mu of crops had been affected in Awati, of which around 100,000 mu were in very serious condition, so long staple output this year might be affected to some extent. Long staple yield was 220/250 kilo per mu last year. Although growers have been trying to increase productivity to a new level by means of effective field management, the adverse weather events described have made them more pessimistic about long staple yield and output this year. If we calculate yield in a range from 200 to 220 kilo per mu, then output this year may be only 70,000/80,000 tonnes. Currently, market expectations of this year's opening buying price of long staple seed cotton are in a range of 8.5/9.5 yuan per kilo. If that proves accurate, the price of long staple lint would be around 23,000/24,000 yuan per tonne.

Extra Long Staple in Israel

By Menahem Yogev,
Israel Cotton Board Ltd

The cotton area in Israel is relatively small, however, only ELS cotton is produced. Plots devoted to cotton range in size from 20 to 350 hectares. Farmers are very flexible in their ability to decide which crop to plant, hence the mixture of crops in fields usually varies from year to year, and total cotton area also fluctuates (Chart 1).

Chart 1.



The traditional strengths of cotton production in Israel are:

- All cotton growers in Israel are organized under the "umbrella" of the Israel Cotton Production & Marketing Board (ICB). ICB undertakes responsibility to provide growers with all their required inputs, either directly or via service providers. These goods and services include planting seed of quality varieties, chemicals, fertilizers, picking, ginning, and the like, and are usually supplied by the commercial sector.
- For cotton growers in Israel, sustainability is not a fad, but a way of life that has been of utmost importance from the very beginning. Regular practices include crop rotations, plant monitoring and water saving, IPM-IRM pest control management, soil and land conservation, soil testing and nutrition control, as well as general awareness of sustainable production and continuous improvement.
- All Israeli cotton is BCI licensed since 2015/16.
- Cotton fields are all drip-irrigated, using recycled water. Israel is located within a semi-arid region. Average annual precipitation, within the agricultural regions, is about 450 mm. The rainy season in Israel lasts from October until February. During the cotton-growing season - between March and September - usually there is no rain. As a result of the water supply constraints experienced in Israel, every drop is metered and water application is controlled and optimized. Farmers have adopted tools that assist them to optimize the amount of water applied to plants. Under the drip irrigation system, the plant receives a water ration once every 2-3 days. The water quantity is determined according to different parameters used by farmers throughout the season.
- Joint Research & Development is managed by a committee, which includes researchers, consultants of the Minister of Agriculture, delegates from ICB and growers. Field experiments are mostly carried out in farmer's fields.

Israel Cotton

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The Israel Cotton Production & Marketing Board Ltd.

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- Implementation of pest control in Israeli cotton is strictly based on IPM-IRM theory. Control strategy is based on the following principles which are realized in the field on a routine basis. Visual scouting by professional entomologists and pest control scouts, and only thereafter intervention according to economic threshold levels specific for each cotton pest. Cultural methods vary and include crop rotations, resistant cotton varieties, pheromone application, avoidance of chemical treatments at times of high beneficial insect levels and tillage regimes to preserve field sanitation.
- High level of professional growers, and of supporting services such as field consultants and extension, picking, ginning, etc.
- The main issue is the understanding that uniting forces and collaboration lead to best results.

All cotton in Israel is: 100% machine picked by John Deere Baling Pickers, 100% roller ginned, 100% mechanized production 100% HVI testing and 100% tested for stickiness.

Quality Parameters 2016-2017

Variety	Length (HVI)	Micronaire	Strength (HVI)
Israel Pima ELS	37-38 mm	3.5-4.5	39-43 GPT
Israel Acalpi LS	33-35 mm	3.4-4.2	34-37 GPT

As of 2015, the Israel Cotton Board (ICB) is a member of the "Better Cotton Initiative" (BCI) and all cotton produced in Israel is certified as BCI cotton, with all Israeli growers committed to the production of "Better Cotton", according to BCI principles and criteria.

The avoidance of stickiness in cotton fibres is one of the issues that is highly emphasized by the production system. Farmers are using the IPM-IRM policy to keep fields free of pests toward the end of season. Mesden CONTEST equipment is used in the Classing Institute to test all bales for stickiness. The result of all these efforts is that Israel is well known for non-sticky cotton.

Israel cotton is – for the last 7 years - exclusively and successfully marketed by Otto Stadtlander GmbH, Germany and consumed by the best and leading spinning mills all over the world; in China, India and Far East as well as in Turkey, Europe and South America.

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Cotton Egypt Association

MOVE FORWARD WITH CONFIDENCE

Cotton Egypt Association and Bureau Veritas CPS have signed an exclusive alliance to help protect retailers against false labelling and claims made by manufacturers of cotton products. The audit program audits the traceability of the Egyptian cotton across the entire production supply chain process.

The alliance adds global leadership in testing, inspection and certification (TIC) services, as well as a fully managed solution for BV exclusive DNA testing methodology.

Egyptian Cotton Logo Licensing

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