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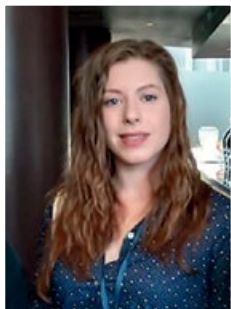
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Supply and demand outlook in 2022/23



Alice Robinson,
Market Analyst, Cotton Outlook

Since the last time delegates were able to gather in person for the Bremen Cotton Exchange's International Cotton Conference in 2018, the entire globe has experienced some profound changes to our regular ways of working, not least the cotton industry. Three years later, the 35th Bremen conference broke new ground as the first that could be accessed entirely online, and in the interim, world cotton prices, as measured by the Cotlook A Index, have fluctuated within a near unprecedented range. The A Index crossed the threshold of its long-term average (the mid-70s cents per lb) in October 2020, and remained largely on an upward trajectory until May of this year, when it reached a height not seen since the historic 2010/11 season.

There were of course setbacks to the sustained rise of cotton prices, most notably during the first quarter of 2021, when Covid restrictions were in place across much of the globe. However, international asking rates proved to be remarkably resilient during most of the period in view, until the tide turned in dramatic fashion: the ICE No. 2 cotton contract reversed direction in May 2022 and the A Index followed suit, losing roughly 30 percent of its value by early August, as various factors including macro-economic concerns, spiralling inflation and fears of demand destruction at the consumer level coalesced to put considerable pressure on some of the most commonly traded commodity prices, cotton among them.

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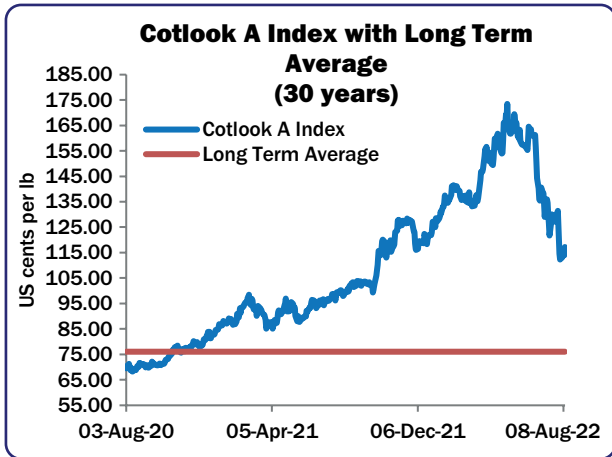
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began their precipitous fall at the same moment that serious concerns regarding the United States cotton crop were taking shape. New York futures prices normally take their direction primarily from the implications of the US balance sheet. From around the middle of July, futures at last began to strengthen as the scale of potential losses became apparent. When USDA made a greater than anticipated reduction to its US production forecast in August the upward trend

Notwithstanding the prevailing economic headwinds, from a fundamental perspective, a convincing argument could be made that the price outlook for the 2022/23 season presents a bullish picture. It therefore seemed curious that futures

in New York was given additional strong momentum.

A closer look at Cotlook's global balance sheet is warranted, to glean a clearer picture of potential supply and



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demand developments in the major markets during the coming months.

Since our initial estimates of supply and demand in the 2022/23 season were issued in February of this year, some major adjustments have been made. At that time, Cotlook pitched world production at over 26.9 million tonnes, second only to the 27,644,000 estimated to have been produced in 2011/12, as the historically high level of prices looked set to provide farmers with a compelling incentive to plant cotton. By late July, the number had been reduced to less than 25.2 million tonnes, still indicating a modest increase from the previous season, but considerably below the scale that had been envisaged at the beginning of 2022.

The most significant change to our production number has concerned the downward revision of output in the United

States, the world's largest exporter of raw cotton. An extremely severe drought, even harsher than the conditions experienced in the infamous 2011/12 season, has blighted the major West Texas growing region this year (that state is usually responsible for around half of the country's planted area). Dryland stands have been devastated by the hot, dry weather and even the viability of some irrigated fields has been placed in doubt as wells have run dry. As a result, Texas abandonment is expected to be the highest on record, while harvested acres in the state are estimated to decline by 60 percent from 2021. In Washington's August supply and demand report, the first of the season based on actual field surveys, national output was reduced to 12.6 million 480-lb bales (2.74 million tonnes), the lowest since the 2009/10 season, with less than a quarter of the total coming from Texas.



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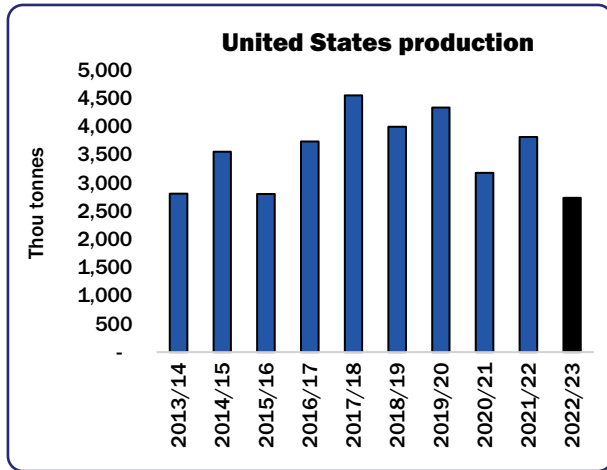


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export therefore looks likely to be severely reduced compared with recent seasons, even if US cotton stocks are allowed to become so depleted.

Elsewhere in the Northern Hemisphere, production in the Subcontinent is estimated to be rather more robust than last year: field work has advanced rapidly in India, facilitated by plentiful Monsoon rains, and record planted area is within touching distance. Whether yields can recover to the

As a result of the dire crop situation USDA's assessment of ending stocks was placed at just 1.8 million bales (around 414,000 tonnes), the lowest in many decades. The availability of cotton for

levels seen before the 2021/22 season's setback remains to be seen, but regardless the increased area would appear sufficient to push output back above the 6,000,000 tonnes mark.

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In Pakistan, a recovery from last season appeared likely earlier in the year, owing to a greater planted area. However, summer brought torrential downpours over some areas and with them an increased pressure from pest infestations. Early seed cotton arrivals, many of them rain-touched, varied widely in quality. Hence, a modest reduction from 2021/22 is now posited.

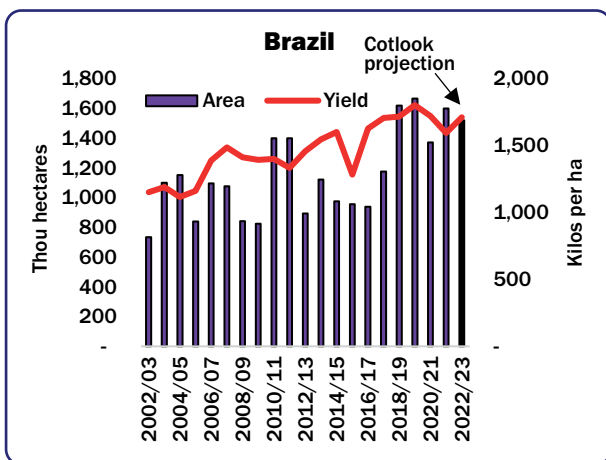
The outlook for production in the Southern Hemisphere is just beginning to take shape. In Brazil, the recent collapse of international prices, coupled with rising production costs, may result in a lower area devoted to the next crop. The production model in Brazil depends on high yields and an intensive use of inputs to achieve those results, while the recent Russia/Ukraine conflict has of course disrupted fertiliser supply, leading to firmer prices. Nevertheless, our estimates indicate a likelihood that growers will achieve higher yields and hence greater output from a modestly smaller area than in the 2021/22 season. An exportable surplus in the region of 1.9 million tonnes thus appears in prospect, with the caveat that numbers will remain subject to revision as farmers' intentions crystallise, perhaps influenced by developments in the US and the associated rally in futures.

In Australia, another bumper crop is forecast in the next campaign, supported by persistent, heavy rainfall which has replenished reservoirs and made ample the supply of irrigation water. For now, a modest increase from 2021/22 is posited.

Meanwhile field reports from China, the country that vies with India for the title of world's largest producer, have been positive despite some

high temperatures, and generally plant development progressed ahead of the pace of last year. Yields are not expected to match the historic levels witnessed in 2020/21, but a larger planted area and continuous investment in the sector should result in a robust output of more than 5.9 million tonnes.

Of greater significance though is the outlook for Chinese consumption. During the early stages of the 2021/22 campaign, spinners endured elevated raw cotton replacement costs as ginners in the important Xinjiang region, where the vast majority of the crop is produced, had paid firm rates for seed cotton. Later in the season, local prices collapsed, much to the distress of the ginning sector, but demand for the local crop has slowed significantly, impacted by the economic impact of Covid-related restrictions and a desire from retail brands to avoid association with Xinjiang cotton in the face of the United States' Uyghur Forced Labour Prevention Act, which came into effect in June. As a result of the poor pace of domestic sales, 'commercial' or free market stocks at the end of June were reported to be more than 3.7 million tonnes, the highest on record for that point of the season.

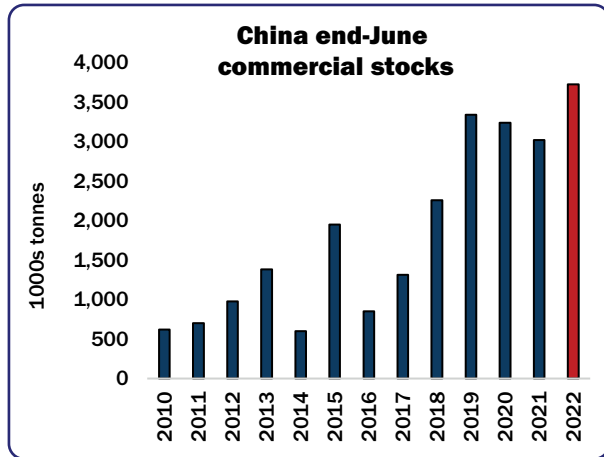


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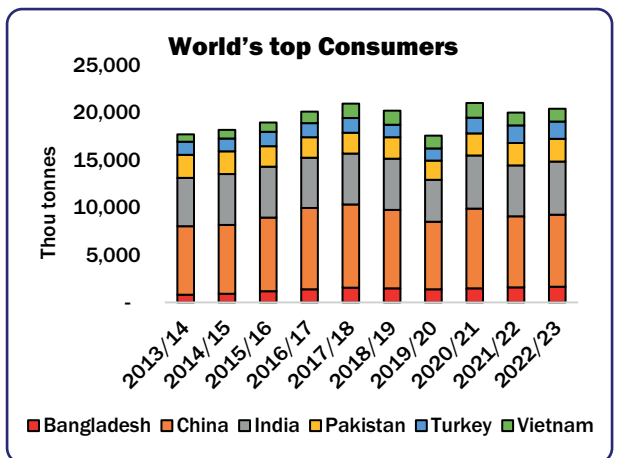
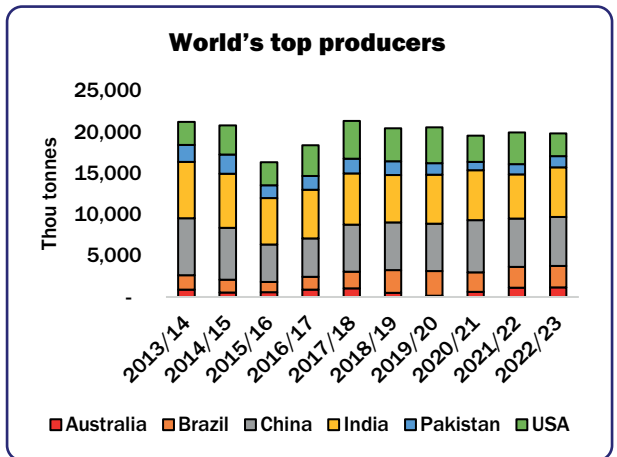
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tonnes by the end of July. While China accounted for much of the adjustment, some other major changes were made as the year progressed and the outlook for mill use came into clearer focus. The above-mentioned supply chain disruption, rising energy costs and deepening pessimism with regard to the macro-economic outlook have informed the lower figure, which would mark an increase of slightly more than one percent from the 2021/22 season.

China's import requirement in 2022/23 is placed at the time of writing at around two million tonnes. Mills will no doubt wish to use their import allocations lest they lose out when quota is issued next year, while those textile enterprises whose exports to the US are threatened by legislation now in force may find it prudent to turn exclusively to usage of imported cotton. For the time being, Chinese consumption in 2022/23 is placed at 7.6 million tonnes, a slight increase from the season just ended, as local sources indicate that the revival of domestic demand following the lifting of Covid restrictions will slightly outweigh the negative impact of the US legislation.

Globally, Cotlook's estimate of consumption in 2022/23 has been lowered considerably from our initial figure (26,738,000 tonnes), which would have presented a new record, to 24,737,000





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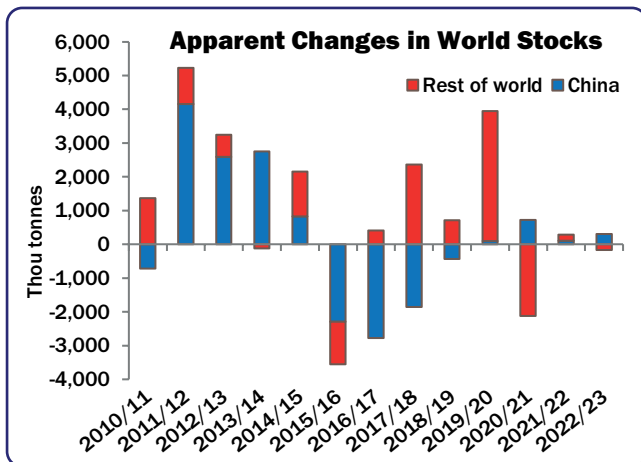
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Major consumers in the subcontinent are expected to suffer from the strong inflationary pressures which look set to impact textile demand in the season ahead. Spinners in Bangladesh have for some time complained of lower electricity generation and a resultant limiting of factory production. While earnings from ready-made garments in the 2021/22 financial year recorded a very robust increase, the trade deficit is deepening

as the cost of energy imports escalates, leading to a shortage of dollars and downward pressure on the local currency. Consumption forecasts in India and Pakistan have also been adjusted downwards, as yarn exports and textiles demand have begun to show signs of faltering in recent months.

The outlook for consumption in Vietnam has also been affected by a lack of downstream demand and slow yarn orders, particularly from the major export markets China and the US, which are not expected to improve greatly in 2022/23. Faced with unworkable raw



cotton replacement costs, mills have reduced their operations in recent months. Cotlook envisages a flat rate of consumption in Vietnam, versus an increase of almost five percent put forward in February.

As a result of the above numbers, the anticipated excess of output over consumption in 2022/23 stood in mid-August at a very modest 138,000 tonnes, compared with 165,000 tonnes in our initial estimates. An increase of stocks in China is forecast to be partially offset by a modest net decline in the rest of the world.



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150 years of the Bremen Cotton Exchange

**Experience, networks, expertise.
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By Stephanie Silber,
President of the Bremen Cotton Exchange

After 150 years, the Bremen Cotton Exchange today stands on a solid foundation with its comprehensive package of services for members and the international cotton market. The prerequisite for this has always been provident action on the part of its presidents and board of directors, as well as sufficient financial strength. Only thus could and can necessary changes be brought about.

Cotton sparked a revolution in the 18th century, when it set in motion the first wave of industrialisation in the textile sector. Bremen, as a traditional trading and port city, benefited from the associated dynamics in the procurement network of raw cotton in continental Europe.

On 1 October 1872, a merger of merchants involved in the cotton trade resulted in the establishment of the Bremen Cotton Exchange. Jointly drawn up “Conditions for the Bremen Cotton Trade” were established. These conditions defined a set of rules that reflected the conventions of doing business in cotton, combined with procedures for settling disputes. The aim was to protect contracting partners and at the same time reconcile conflicting interests fairly. Thus, our systems for the arbitration of quality and other disputes

were established. In principle, Bremen conditions are still valid today, even after the adoption of the Liverpool Rules in 2006.

Soon after its foundation, the work of the Bremen Cotton Exchange attracted international attention, not least because of its market influence. In 1876, the first International Cotton Convention was held in Liverpool. The Bremen Cotton Exchange was given one of just 16 seats on the international delegation.



A House of Its Own

Because of the rapid expansion in the Exchange's operations and in order to maintain independence, the General Assembly of the Bremen Cotton Exchange decided in 1887 to build its own business premises on Wachtstraße, in the historic centre of the Hanseatic City of Bremen. When the building was designed, great importance was attached to creating a functional room layout. The fourth floor and attic area were specially designed for classification purposes, in order to facilitate quality arbitrage and arbitration functions. In April 1902, the ceremonial inauguration of the new Bremen Cotton Exchange building took place.

In 1923, the US Department of Agriculture launched the "US Cotton Standard Agreement". Thirteen leading cotton organisations from ten importing countries joined the Agreement. The Bremen Cotton Exchange was among these "Signatory Associations". From then on, US cotton standards were regarded as the most important benchmark in the international cotton trade.

Cornerstone for Testing Expertise

Soon after the Second World War, cotton purchase contracts began to include values derived not only from conventional quality specifications, but



also new parameters determined by physical methods such as Micronaire Arbitrages and the Pressley test. The Bremen Cotton Exchange reacted to this by opening its own scientifically managed testing laboratory in 1955.

From its very beginning, the laboratory at the Bremen Cotton Exchange has been working to standardise and harmonise testing methods for cotton. Against this background, the first international Bremen Round Test was launched as early as 1956.

On 5 February 1965, the Cotton Exchange invited delegates to a laboratory managers' meeting, where participants from the Bremen Round Test were also present. Fifty experts from seven European countries attended the meeting. The laboratory managers' meeting proved to be the initial spark for today's International Cotton Conference, which takes place every two years and will be held for the 36th time in 2022, from 29 to 30 September.

Bremen has always been involved in international networks. As a result of the increase in non-performing contracts in the global business, the "Committee for International Cooperation between Cotton Associations" (CICCA) was founded in 1975. The Bremen Cotton Exchange played an active role in its creation. From then on, CICCA has been regarded as a representative and influential organisation in which members follow the principles of the inviolability of contracts and good trading practices.

In times of major structural market change, such as the continuous relocation of production that started in the early seventies, it has been a central task of the cotton trading organisations to keep business flowing through orderly channels, in compliance not



Cotlook's Ray Butler (then ICA President) and Jens Lukaczik (BBB President) at the founding of ICA Bremen in 2011.

only with national or European, but also internationally standardised trading rules.

Founding of ICA Bremen

A milestone in recent history is without question the founding of ICA Bremen. After the Bremen Cotton Exchange adopted the Liverpool Trading Rules into its regulations in 2006, the Exchange held further talks with the International Cotton Association (ICA), with the aim of bringing about an intensive cooperation between the two organisations on the basis of their respective strengths.

On 4 October 2011, a joint subsidiary company was founded under the corporate name International Cotton Association Quality and Research Center Bremen GmbH, or "ICA Bremen" for short. Through a cooperation agreement with the Fibre Institute Bremen e.V. (FIBRE), which enjoys a high reputation in the field of fibre and textile research,

ICA Bremen was able to provide excellent services in cotton quality testing for the international cotton and textile world.

In October 2021, ICA Bremen celebrated its tenth anniversary. From its founding aim of combining competencies from two institutions, a jointly supported and internationally oriented centre for cotton testing, research, quality training, and certification has emerged.

Staying on Course for Success

Looking back, the Bremen Cotton Exchange has faced major challenges again and again during its history. These included not only global economic crises and world wars, but above all changes in international trade structures. Today, most cotton is no longer processed into textiles in Europe, but in Asia.

It is therefore important that we continue to be perceived as a valuable partner within the international cotton

supply chain network. Whereas in the past the focus was on the relationship between the cotton trade and the spinning mills as primary processors, today and also tomorrow the focus is and will be on the various segments of the entire supply chain, from the cotton field to the finished textile product.

The year 2022 marks a milestone in the 150-year history of the Bremen Cotton Exchange. The course for a successful future has been set. The 120-year-old Kontorhaus, protected as an historic monument, remains the permanent home of the Bremen Cotton Exchange. It is a guarantee of the preservation of independence. In the cotton world, everyone – from the farmer in Brazil to the trader in Singapore to the spinner in Pakistan – knows what Bremen is: a centre of quality expertise.

To mark the 150th anniversary of the Bremen Cotton Exchange, a special book has been published in English and German that vividly describes the work of the association and its achievements for the industry from the perspectives of past, present and future in textual and richly illustrated form.



We are looking forward this year to an anniversary conference held in the beautiful Bremen Chamber of Commerce, to a wonderful exhibition on the cultural history of cotton at the Übersee-Museum (Overseas Museum), which will open on occasion of the conference, and to the gala dinner at the Town Hall, which will conclude the festivities in our week of celebration.



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