COTTON OUTLOOK

NEWS • DATA • ANALYSIS

2024 China Cotton Industry Development Summit

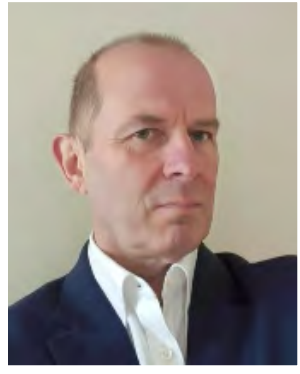# Guilin 2023 to Xi'an 2024 – stagnation in the market

Mike Edwards,
Editor, Cotton Outlook

As delegates meet for the 2024 China Cotton Industry Development Summit in Xi'an, they may reflect on the course of world prices over the twelve months or so since the last major international cotton gathering took place in Guilin in June 2023. Between that meeting and the end of the year, world prices showed no clear direction. The Cotlook A Index fluctuated within a modest range of less than 13 cents per lb, in marked contrast to the extreme price movements of the preceding three years.

However, the mood has changed somewhat since the turn of the year, and the context in which the 2024 conference will take place is now quite different. A speculative rally in New York futures began in January and gathered pace in February but at the time of writing in early April shows clear signs of having passed its peak. The fall-out from the sharp rise – originally triggered by a tightening US balance sheet but sustained above all by the actions of speculative investors ploughing funds into cotton futures and acquiring a very sizeable long position – has affected various sectors of the market in a negative manner. It has also exposed some structural issues affecting the global cotton industry.

For some considerable time, spinners around the world have been complaining of poor demand for yarn and negligible – or negative – margins on sales. Meanwhile, the abundance of supply outside the United States, and notably in the Southern Hemisphere – cotton that cannot be delivered against the New York contract – has meant that shippers' basis levels for non-US origins have come under considerable pressure as futures have risen. Volatility has on occasion been extreme.

Lacking so far are convincing signs that global raw cotton consumption is recovering strongly. Indeed, without the resurgence of Chinese import demand during the 2023/24 season, world prices would no doubt have been more vulnerable to downward pressure. Competition from synthetic fibres remains intense, while innovative technologies are being developed to produce artificial fibres compatible with new recycling and circularity requirements in the textile sector.

This year's Industry Development Summit thus provides a timely forum in which to debate the challenges confronting our natural fibre and the role of recent technological advances in addressing those challenges. Conference delegates will look for more tangible signs that the post-Covid era offers a stable and prosperous future for cotton.

Promoting cotton's industrial sustainability via 'New Quality Productive Forces'

Wang Jianhong
Executive Vice Director and Secretary General of the China Cotton Association

As an important agricultural bulk commodity and raw material in the textile industry, cotton's industrial chain involves many market players. China is a major cotton producer, consumer, and exporter of textiles and apparel. With the recent improvement of retail demand and consumers' enhanced awareness of environmental factors, China's cotton industry has increased its focus on high-quality and sustainable development. As a relatively traditional industry, there are historical issues such as the imbalance of supply and demand and quality of output. New challenges are also present, like the mismatch between the long-standing upstream model and technological innovation in the downstream, together with brands' growing green and low-carbon requirements.

At present, global economic growth is still insufficient, and the international division of labour is undergoing profound adjustments. External risks and uncertainties are increasing, and the pace of the rise in market share for chemical fibres is accelerating. Together, these factors place greater requirements on the development of the cotton industry. How to retain a place amid the competition in the face of many emerging industries and a wave of various new technologies, and achieve long-term sustainable development, has become a confronting problem for each cotton industry participant.

'New Quality Productive Forces' is defined as: advanced productive quality that plays a leading role in innovation, gets rid of the traditional economic growth model, has the characteristics of high technology, high efficiency and high quality, and conforms to a new development concept. Essentially it means the upgrading of workers and labour materials, and their optimal combination, characterised by innovation. The key is high quality. The essence of New Quality Productive Forces is the advancement of productivity, which reflects the evolution of the Chinese economy from a focus on 'quan-

tity' to 'quality'. This concept also provides the future direction of China's cotton industry.

The cotton industry benefited from reform and opening-up in the late 20th century, as well as institutional innovation, which allowed for greater development. Nearly 17 million people now form part of China's cotton value chain, including farmers, textile workers, and service personnel. Cotton output, consumption, and textile exports are the highest of any country in the world, but the impending problems are, how to continue to improve quality, and how to shape a brand? This requires us to further liberate and develop productive forces in the new landscape, to transform the growth model that relies simply on land, labour, and capital, and to focus on New Quality Productive Forces for the sustainable development of the cotton industry. The establishment of New Quality Productive Forces in cotton should include the following aspects:

Firstly, speed up innovation. Innovation is the core element of New Quality Productive Forces. In today's world, scientific and technological revolution and industrial transformation are deepening, the digital economy and real economy are closely integrated, and the competition among countries around industries and technologies, especially key core technologies, is becoming increasingly fierce. Innovation is not just for high-end industries - traditional industries also need to innovate to open up new tracks, discover new values, and establish new advantages.

In the field of standards and technology, the cotton industry should give full play to the advantages of scale, information technology and high standardisation, as well as increase scientific and technological research efforts in key areas such as the selection of high-quality machine-picked cotton varieties, key processing equipment, and cotton pickers. We should further expand the potential of high-quality machine-picked cotton,

increase the research and development of independent standards in all areas, and promote the application of these standards to achieve international recognition.

In the field of products and services, attention should be on new functions and applications for cotton in addition to textiles and clothing, to increase consumption. Planting, circulation, and trade should focus on high-quality cotton supply, an efficient supply chain,

and acceleration of the development and application of products, business types, and service models.

Independent innovation must also be promoted, in coordination with open innovation. We should not only make good use of global resources, actively introducing advanced technology and experience, but also have our own 'special skills' to avoid being controlled by our competitors.

中国棉花可持续发展项目 (CCSD) 主题发布活动
Cotton China Sustainable Development Programme

Secondly, upgrading industries. Industry is the concrete manifestation of productivity, and traditional industries can become an important part of New Quality Productive Forces through transformation and upgrading. At present, big data, artificial intelligence, and the Internet of Things are all developing rapidly.

As the importance of big data is increasing in terms of production, we need to seize the opportunity to make full use of digital intelligence in the cotton industry. On the basis of the existing digitalisation of the industry, further promotion of industrial data could solve the mismatch between supply and demand, better control risks through digital enabling, promote intelligent construction and upgrading of production facilities, and stimulate more new forms of production and circulation.

In the case of digital industrialisation, data can become a commodity that creates value, improves the operation of big data centres and transaction service platforms, and further taps into the functional value of big data in serving the whole value chain. By upgrading the industry, New Quality Productive Forces will become the driver of new industrialisation, urbanisation and agricultural modernisation, creating greater profits.

Thirdly, green transformation. Green development is the backdrop for high-quality expansion, and is one of the most promising fields in the new round of technological revolutions. The 'Quality' in New Quality Productive Forces largely concerns green development. With the wide application of sustainable concepts such as 'environmental, social, and governance' and 'dual carbon' targets in global production, trade and investment, more and more enterprises have realised that the pursuit of profit maximisation is only the most basic goal. If they want to obtain long-term, stable and sustainable competitiveness in a larger market, they need green development and greater sustainability. In order to promote domestic cotton consumption and the sustainable development of the industry, the China Cotton Association, together with four textile industry associations, launched the 'China Cotton Sustainable Development Programme', to accelerate the establishment of China's independent cotton standards, including a certification

and evaluation system focused on environmental friendliness, good quality, respect for labour and traceability. This is in order to meet consumer demand for quality and environmentally friendly cotton products, while shaping Chinese cotton's brand image. In the future, we hope to promote the extension of the cotton and textile industry chain from processing and manufacturing to research and development, design, brand management and other high value-added fields, and cultivate new competitive advantages for Chinese cotton with quality, environment and service at the core.

Fourth, cultivate talents. Talent is the core factor that drives innovation, and is essential for the development of New Quality Productive Forces. We have to be talent-oriented, to deepen reform in the system of talent selection, development, and evaluation, so that the cotton industry can cultivate, attract and retain talented members. It is necessary to optimise personnel training, such as strengthening the cooperation between schools and enterprises, establishing a 'cotton professional talent alliance', to cultivate a team that not only has professional ability, but is also familiar with the characteristics and trends of the macro-economy and industry development.

Last but not least, we should improve the mechanism to incentivize talent, build a platform for employees to do business, and attract and retain outstanding personnel.

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The role of industrial big data in business

Lv Bin,
China National Cotton Exchange

As the national economic strategy shifts towards high-quality development and New Quality Productive Forces, traditional industries are undergoing profound changes. As a core sector of Chinese agriculture, the cotton industry is embracing cutting-edge technologies such as big data and artificial intelligence to drive industrial upgrading through digital transformation in the face of intensifying global competition and the disconnect between high-quality supply and demand. This paper discusses how the cotton industry can use digital technology to achieve innovation in cultivation, circulation, processing and trade, and analyses the challenges involved in the process of data collaboration.

In the rapidly evolving domestic environment, China is actively promoting economic transformation, with a focus on 'high-quality development' and 'New Quality Productive Forces'. The core of this strategy is to use artificial intelligence and the digital economy to reshape the business models of traditional industries, thereby improving the efficiency of labour. The cotton industry, as an important part of China's agricultural landscape, is in urgent need of transformation and has broad opportunities for development. China's cotton production occupies an important position in the global market, but we must be soberly aware that the imbalance between the supply of high-quality cotton, and the scale of demand from the textile industry, has gradually become more prominent. Fortunately, the rapid development of big data and technology has provided us with new ideas to solve the problem, at the core of which are scientific and technological means to inject new vitality into the cotton industry. It should be noted that digital transformation is not limited to technical innovation; it is a deep reshaping of the industrial model. We must abandon the path of dependence on the traditional business model from an ideological perspective, and should not be satisfied with superficial behaviours like registering an account on social media platforms, but instead improve business and labour efficiency, to truly achieve the transformation and upgrading of the industry.

1. The value of big data for the whole cotton industry chain

The cotton industry plays an important role in China's agricultural modernisation process, which has been significantly transformed by digital technologies over the past decade. The introduction of digital planting methods, such as soil and climate data monitoring and precision drone operations, has improved the intelligence of farmland management. The rate of mechanisation is also increasing, and automatic cotton pickers and chip tracking technology are capable of recording information throughout the full life cycle of cotton. Meanwhile, the electronic and basis trading of commercial cotton are widely used, which greatly improves the efficiency of cotton circulation. Digitalisation has also reshaped the textile industry chain, and smart factories have strongly promoted the upgrading of the textile industry through automated production lines, customisation and refined quality control.

Relying on the deep integration of data and finance, the Cotton Farmers' Comprehensive Service Platform has launched the 'cotton e-loan' service, which can help banks to grant credit lines to cotton farmers, up to a total of more than six billion yuan, effectively reducing financing costs. This provides more transparency in inventory and sales by optimising the service platform, and uses mobile devices to conveniently check cotton batch information, improve communication, and simplify the systemization of sales management and traceability. These 'smart cotton' products serve as a connection between the internal system of the enterprise and the national cotton trading platform, helping the business to operate automatically, thereby reducing errors and costs.

In the textiles industry, the introduction of the CAS precision cotton distribution system, which is based on real-time data, can be an accurate guide to cotton procurement and use, to ensure product quality, reduce costs and enhance supply chain elasticity.

In short, under the guidance of digital technology, the cotton industry has achieved unprecedented changes and efficient integration of planting, circulation and processing, to become an outstanding representative of the coordination between the digital economy and the real economy.

2. Challenges of data synergy and digital transformation

Although digitisation has brought significant benefits, the cotton industry still faces multiple challenges. The value of data in terms of production can be divided into three stages: the first is business connectivity, which can eliminate the isolation of information; secondly, data drives intelligent decision making, improving business operations; lastly, external data flow is the key to maximising the value of data. However, the cotton value chain is long and complex, and the degree of information sharing and resource coordination in each link is insufficient, which limits the full utilisation of data value.

When it comes to meeting the needs of intelligent downstream manufacturing and market diversification, the problems of existing data dispersion and poor platform connectivity have resulted in untimely responses and inaccurate matching throughout the supply chain. To this end, it is necessary to break data barriers and realise cross-platform interconnection, so that users can grasp the operation of the whole business chain in real time and effectively control risks.

Business operating costs and management efficiency are also affected by data issues. Multi-channel sales models increase the burden of data maintenance, while manual processing is error-prone and timeliness is poor. Matters such as transportation and replenishment are complicated, involving a lot of material preparation and manual input, which is inefficient. At the same time, the individual company's internal financial software is not connected with the national cotton trading market system, so key links such as fund reconciliation and invoice delivery still rely on manual operations, increasing unnecessary costs and potential risks. Taking ginning mills as an example, the process of data reporting and verification is cumbersome, which affects the speed of data aggregation. Large enterprises face even greater challenges when consolidating and analysing data from their ginners. At the risk prevention and control level, firstly, the current data aggregation system cannot meet the needs of business leaders for real-time and accurate data, which hinders early risk warnings and strategic decision-making. Secondly, the coverage of data resources is limited, which affects the formulation of forward-looking strategies.

In addition, the process of building a public image to take advantage of China's huge domestic market and build 'Xinjiang Cotton' into a leading international brand, thereby expanding market share, is a major test of data synergy and digital capabilities.

Finally, talent development is key to driving digital transformation. Enterprises need more interdisciplinary talents with standardised, digital and international vision, who are proficient in business and technology. They are an important cornerstone for enterprises to achieve high-quality sustainable development.

3. Solutions to help enterprises' high-quality development

With the rapid development of data technology, companies are seeking to rely on big data and advanced information technology to accelerate sales processes, streamline price assessment systems, and strengthen risk prevention and control mechanisms, thereby improving operational and labour efficiency and shaping a superior user experience. Taking 'Smart Cotton' as an example, the successful implementation of this platform marks major progress in upstream and downstream collaboration and risk control. Last year, 'Smart Cotton' successfully connected the national cotton trading market system and the internal management of companies, providing real-time dynamic data on cargo rights, reducing manual input and tracking links, and greatly improving efficiency. This year's upgraded version goes further, with plans to achieve two-way data interaction, covering subsidy application, warehouse receipt management, fund reconciliation, and invoice processing, making business operations more convenient and efficient.

The establishment of an industrial digital platform provides an intensive data management solution for ginners under the enterprise group, covering data aggregation, resource allocation, inventory management, customer service and data analysis, establishing a one-stop internal operation system and significantly improving the efficiency of the enterprise.

As for industrial chain data integration and the improvement of the user experience, the forthcoming 'Resource Communication' service platform is intended to build a convenient and safe industry-level 'data highway'. This platform can upload cotton resources to different trading platforms with one click, and give real-time feedback on sales and logistics, effectively solving the problem of public inspection data acquisition, and expanding from the original point-to-point model to establish network interconnection.

In addition, in response to the actual needs of companies, value-added services such as 'futures selection calculation' and 'basis reference price' are to be launched, to help enterprises make futures compliance judgements, accurately calculate premium and discount costs, and provide decision-making support, such as the formulation of procurement and inventory management strategies.

In terms of risk prevention and control, the introduction of the supervision system for seed cotton purchase loans reflects the concept of 'Artificial + Technical'. By linking seed cotton delivery systems and the processing platform, digital management can be employed right through to the sale of the finished products, dynamically calculating the value of movable assets, and effectively acting as a technical barrier for risk prevention and control.

These products and services upgrade the role of data from simple connectivity to deep collaboration, driving productivity. In terms of public brand building and improvement of market influence, reliance will be on

the state-level cotton/cotton yarn trading centre, to extend the concept of 'digital cotton' to the downstream textile industry, and establish a digital traceability system for the public brand of 'Xinjiang Cotton', allowing consumers to understand and trust Xinjiang cotton products.

Talent cultivation is also an important part of high-quality development. As a professional training institution under the National Cotton Trading Market, the China National Cotton Exchange's China Cotton School focuses on cultivating 'new quality talents', providing a platform for cotton industry practitioners to learn and exchange cutting-edge technologies, and injecting vitality into the sustainable development of the industry.

To sum up, building a comprehensive digital ecosystem is an important way for the cotton industry to achieve high-quality development. We urgently need to strengthen collaboration between the upstream and downstream of the industrial chain, create a digital sharing environment that runs through the entire industry, and promote the transformation of industry data from simple connection to deep collaboration, from one-way use to efficient reuse, and from simple superposition to deep integration. At the same time, we also need to continuously improve the level of intelligence, actively introduce cutting-edge technologies such as the Internet of Things and artificial intelligence, and inject wisdom into every link of the cotton industry to improve overall operational efficiency and competitiveness.

With the vigorous rise of the digital economy, the cotton industry will usher in a new development horizon. On this road full of both challenges and unlimited opportunities, we adhere to the concept of innovation, progress and stability, to science and technology as the guide, data as the engine, to achieve high-quality development in the cotton industry and the modernization of China's agriculture.

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Analysis of Chinese raw cotton imports in 2023

Beijing Cotton Outlook

China imported 1.957 million tonnes of cotton in 2023, slightly more than in the previous year. The total volume of China's imports from the United States decreased significantly, but it was still the major supplier. The proportion of Brazilian cotton imported remained stable, at about 30 percent. Under the influence of the improving relationship with Australia, imports from that country recovered noticeably last year.

In terms of prices, the average unit price of imported cotton fell markedly on a yearly basis, but remained high compared to the previous five years.

1. Total imports increased in 2023

According to customs statistics, in 2023, China imported 1.957 million tonnes of cotton (an increase of 21,000 tonnes, or 1.1 percent), in the middle of the range for the past five years.
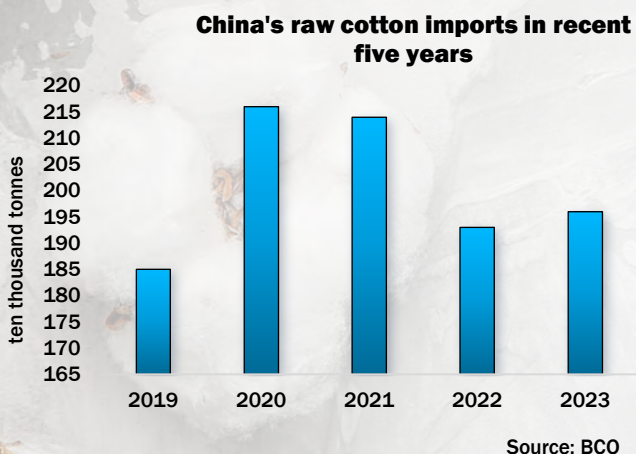
2. US cotton top again, while Australian cotton imports rebound

Looking at a breakdown of imports during the year by country, the three main suppliers were the US (752,000 tonnes), which accounted for 38.4 percent of the total, a decrease of 33.6 percent from 1.132 million tonnes in 2022; Brazil (572,000 tonnes), with 29.2 percent, down 0.98 percent from 577,000 tonnes; and Australia (271,000 tonnes), accounting for 13.87 percent, an increase of 746.9 percent from 32,000 tonnes. Others included Sudan (52,000 tonnes), Turkey (50,000 tonnes), and India (43,000 tonnes).
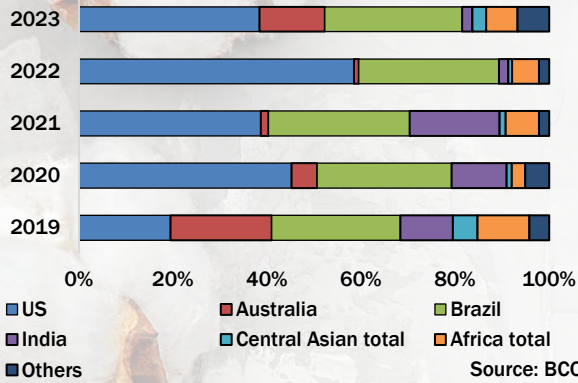
From the perspective of the past five years, although the proportion of China's imports of US cotton in 2023 remained the largest of any country, it was 7.16 percent less than the average amount during the period (810,000 tonnes). The proportion of Brazilian cotton imported was about 30 percent of the total,

China's raw cotton imports in recent five years

Source: BCO

China's raw cotton imports breakdown proportion in 2023

Source: BCO
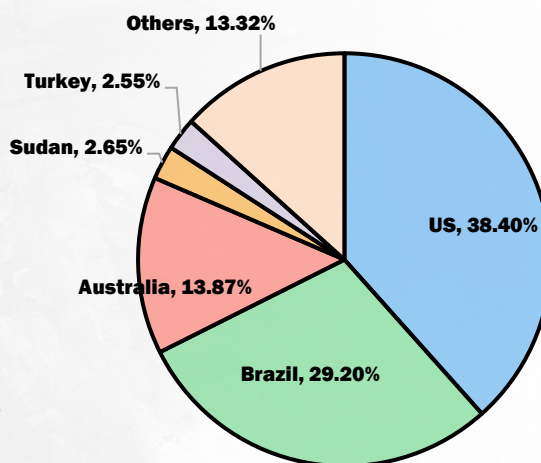
down 1.89 percent (580,000 tonnes). As economic and trade relations between China and Australia continued to improve, cumulative imports of Australian rebounded significantly to increase by 61 percent compared with the average volume recorded during the past five years (170,000 tonnes).

China's raw cotton imports breakdown proportion in recent five years

US
Australia
Brazil
India
Central Asian total
Africa total
Others

Source: BCO

Average prices of China's raw cotton imports in recent five years

was placed at an average of 100.18 cents per lb, down 18.05 percent on the year (from 122.25 cents/lb). Brazilian cotton was priced at 93.42 cents per lb (down 22.54 percent from 120.60 cents/lb), and Australian cotton was 97.45 cents per lb (down 25.51 percent from 130.82 cents/lb).
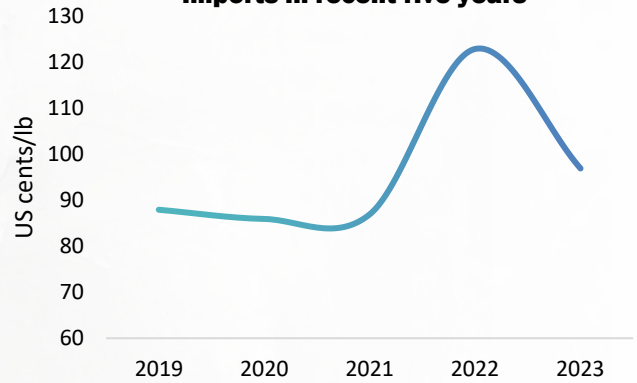
3. Average prices still higher than in recent years, though down on the year

In terms of imported cotton values, the average price of imported lots in 2023 was 96.69 cents/lb, down 21.15 percent from the 122.62 cents/lb recorded in 2022, but still high compared with the period in view. The average monthly import price last year was roughly 90/105 cents per lb.

The yearly average prices of the principal origins exported to China have all declined: US cotton in 2023

4. General imports decreased significantly while others increased sharply

Looking at the current import model, the total volume of general cotton imports in 2023 was 812,000 tonnes, accounting for 41.48 percent of the cumulative total, a decrease compared with 2022 (1.232 million tonnes), and representing the second lowest level in the past five years. Meanwhile, the volume of goods imported to Special Customs Supervision Zones (SCSZs) was 568,000 tonnes (29.03 percent of the total), the second highest in the past five years and an increase of 65.34 percent over 2022 (344,000 tonnes). Inbound and

outbound goods in bonded areas at ports amounted to 496,000 tonnes, representing 25.34 percent of the total. Port stocks were the highest of the past five years, and constituted an increase of 121.84 percent from 2022 (224,000 tonnes). The volume of imports under processing trade quota was 76,000 tonnes, 3.86 percent of the total, a decrease of 40.41 percent on the year (127,000 tonnes), and the lowest amount during the five-year period in view. Small-scale border trade imports were 5,585 tonnes, just 0.29 percent of the total, the lowest of the past five years, with a decrease of 48.19 percent on the year (11,000 tonnes).

Proportion of port stocks breakdown in 2023

Source : Customs ; Data BCO
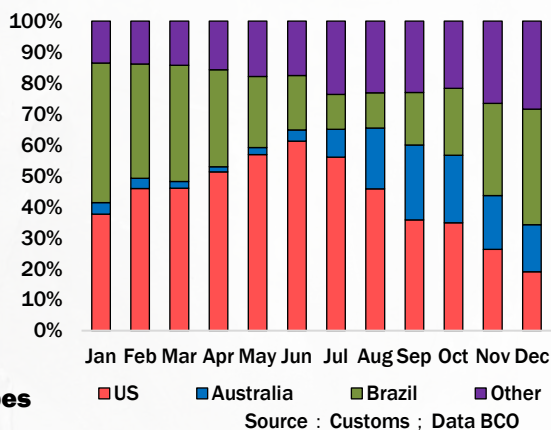
Raw cotton imports under different types of trading in recent five years

Data : BCO
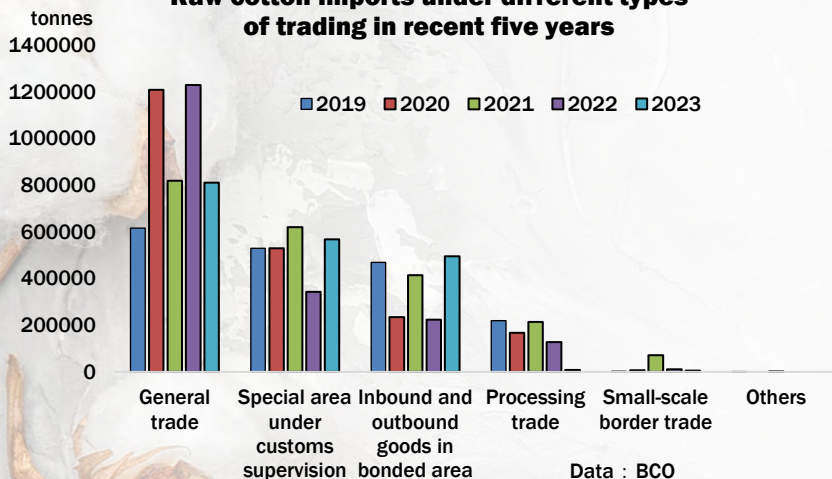
5. Port stocks rose steadily and Australian cotton inventories increased

In 2023, total stocks in China's main ports for cotton imports (Qingdao and Zhangjiagang) showed an increasing trend - from nearly 200,000 tonnes at the beginning of the year, to more than 500,000 tonnes by the end. The rise is attributed primarily to a lack of buying activity from downstream enterprises in view of poor consumer demand for retail goods. Generally, import purchasing of raw cotton in early 2023 was weak, though some sporadic business was witnessed. As for the composition of port inventories, in the first half of the year, Brazilian and US cottons accounted for about 80 percent of the total. In July, with the improvement of Sino-Australia relations, the volume of Australian cotton imported increased significantly, rising from a monthly total of less than 5,000 tonnes, to about 30,000 tonnes. Imports in the following months were maintained at around 30,000/50,000 tonnes, bringing the total volume of Australian cotton to a much higher level. By the end of 2023, Brazilian cotton accounted for about 37 percent of total stocks consigned at ports, US for about 20 percent, and Australian roughly 15 percent. The remainder included a small amount of Sudanese, West African, Mexican and other varieties.

What a volatile spring

Michael Zheng
General Manager,
Brighann Cotton Marketing (Beijing) Ltd

On New Year's Eve 2024, I was at John & Ada Seery's house in Moree with my son Toby, watching the fireworks over Sydney's Darling Harbour on the screen, counting down '5, 4, 3, 2, 1, Happy New Year!' Ada slowly looked up, a little embarrassed; 'we agreed to watch the fireworks together, but while we were playing a word game I accidentally fell asleep.'

This is Toby's first time in Australia, and my first time back in Moree since 2019. Back then, Moree had only one set of traffic lights; today, there are two. The most asked question on that trip was 'Can China really liberalise the import of Australian cotton? Will the policy change?'

Yes, after a lapse of four years, China really liberalised the import of Australian cotton. In the short term, there is policy continuity, but in the medium to long term, geopolitical disturbances have not disappeared. As it makes up only a small portion of China's total imports, Australian cotton has little chance of surviving on its own.

The past few years have been good for Australian cotton, with annual output exceeding one million tonnes for three consecutive crops. This has made Australian farmers slowly forget their initial hesitation when Australian cotton exports to China were blocked in 2020. In fact, the price difference between Australian and US cotton has gone from a premium of 400 points in 2020, to a discount of around 200 points in 2024. From a basis point of view alone, in four years, Australian cotton lost nearly US$530 million. If you were running a farm in Australia that produces 20,000 tonnes of cotton a year,

the losses over four years could be close to US$11 million.

Why is this happening? One reason is that in the process of exploring new markets, Australian cotton has to cede part of its premium, and sometimes even has to compete with Brazilian/Indian cotton. The second is that in recent years, US production was low, while patriotic sentiment in the United States was high, so some major brands required suppliers to use or prioritise the use of US cotton. The United States, as the largest consuming market of textiles, repressed the basis prices of machine-picked cotton from Australia and Brazil. Although Australia's domestic consumption is not weak, its total population is only 26 million, so it is hard for the country to influence global cotton use despite some brands making Australian cotton a priority.

Fortunately, relations between China and Australia have eased. The basis level for Australian cotton went from 1,100 'on' the ICE cover month in October 2023, to 1,500 'on' in early 2024, which was almost equal to or even slightly higher than that of US cotton. Sentiment in the trade was more price-sensitive and decisive: international merchants bought a large volume of Australian cotton from origin and basis prices were around 1,100 to 1,300 'on'. Chinese traders also began to stock up actively, with an average basis offering level of around 1,400 'on'. The way was therefore paved for Australian cotton to gain re-entry into the Chinese market. It seemed as if everything was heading in a bright direction, until the Spring Festival holiday for the Year of the Dragon... In three weeks, the nearby New York futures contract soared from the 80s cents per lb to 90+ cents, and then topped 100. The price spread between July and December widened to an inverse of more than 1,500 points. Traders holding large positions in Australian cotton were perturbed, and even felt the fear of being cornered and squeezed. Meanwhile, mills who had bought Australian cotton in the spot market had mixed emotions: those who had fixed a priced in advance were happy and hopeful, while those who had not yet set a price were mostly remorseful, regretting that they were not decisive enough. Those spinners who had not had time to purchase were utterly confused but mostly

happy - although it was not considered the right time for buying Australian cotton, they were able to raise their quotations of cotton yarn.

In the chaos, a month passed, and cotton futures on the Zhengzhou Commodity Exchange remained steady. Shippers' basis levels for Australian cotton dropped from 1,400 'on' to 750. Merchants found that, although ICE futures had risen from 85 US cents to 93, the fixed price of Australian had not increased at all, while liquidity had declined. Traders who had not fixed their prices looked towards the ICE May and July contracts, then basis levels, and the spot prices of their competitors, and none of them knew where to start. Although spinners had to adjust their yarn prices back down to their original levels, it was pleasing to find that the price of imported cotton in bonded areas at ports was almost on a par with those in force before the Spring Festival. In contrast, cotton traders who had built long positions and those who had no time to fix their prices (another form of making a long position) were the most injured and the most stressed.

After going round and round, Australian cotton basis remains under pressure. Supply of old crop US is quite tight, and the pace of sales and shipments is robust. ICE only accepts the delivery of US cotton, so the nearby contract remains firm and the risk of being squeezed is still hanging overhead. US new crop production is expected to increase strongly, while Brazilian output will continue to rise, and there is a distinct probability that hundreds of thousands of tonnes of unsold Australian cotton will be priced based on the ICE December contract. The price inversion between the July and December contracts has not been lifted and there is a risk of a greater outbreak at any time. At the same time, stocks in China, the largest target market for Australian cotton, are still high. Around 650,000 tonnes of imported supplies have accumulated at Qingdao port, and sales are still slow.

Difficulties emerge every year, but are especially numerous this year. Australian cotton, traditionally priced on the ICE May and July contracts, is frequently exposed to the risk of price squeezes. A few years ago, when this situation arose once every 5-6 years, cotton traders could still survive, but recently the situation has become

more frequent, and market participants are really tired of dealing with it. At the same time, the quality of Brazilian cotton, also produced in the Southern Hemisphere, is increasing along with the quantity. However, the timing of the Australian cotton crop still has intrinsic value, and it is weathering the challenges that are increasing year by year.

During a business trip to Ningbo, the General Manager of Brighann, Ian, suddenly missed hot and dry noodles, a Wuhan local snack. With the help of Gaode Maps, I eventually found a place. With a bowl of reasonably tasty Wuhan noodles and two bottles of Qingdao beer, our thinking gradually spread - in addition to praying for a good annual harvest of US cotton, so carryover stocks are sufficient to avoid possible squeezes, can Australian cotton traders join together and apply to ICE

to modify its delivery rules with a slogan of 'Australian Cotton Matters'? Activity in the May/July contracts relies on Australian cotton, as otherwise ICE can only price cotton on the December delivery, and the significance of the platform is reduced.

If ICE is not able to change the rules, can ZCE be considered for cotton price hedging? China is the largest consumer of Australian cotton, and the Sino-Australian relationship is recovering. If Trump is the winner of the US election later this year, out of their own respective practical considerations, China-Australia relations can realistically be maintained. ZCE plays an important role in global cotton pricing; 80 percent of nearly six million tonnes of the domestic crop can be delivered against the board, and there are around 23 delivery warehouses across the country. In addition, the price discovery function of ZCE has been accurate for a long time, and there are considerable reserve stocks that can be adjusted to avoid squeezes. Aside from the price inertia, details of which can be resolved at an operational level, ZCE is in fact a more suitable market for Australian cotton pricing. To be conservative, if we cut the volume of Australian cotton sold to China in half and try to price it on ZCE, there would be high probability of positive EV (expected value) innovation. In addition, the focus of the Australian Cotton Association should shift to textile consuming markets such as the US, Europe and Japan. Australian cotton itself has a good story - 'water-saving, not reliant on government subsidies, excellent fibre quality, farm employees from all over the world, diverse and inclusive'. If it can be told in the right way, it can be a very good narrative. Beneficial turning points are often born of difficulties. The challenges faced by Australian cotton today are likely to force market participants to find a more effective risk control pricing and marketing system.

After the hot and dry noodles, I suggested heading back to the hotel. 'Carbohydrate bombs' and beer are scary. From Tianyi underground food court we walked to Rixin Street, just an ordinary street scene, noisy and boring. Turning to Zhongshan East Road, we could vaguely see the Fenghua River, bringing a cool breeze, sweet and refreshing. After taking a few steps, we bumped into Jiangxia Bridge, and suddenly we became quiet, for fear of disturbing the bright tranquility in front of us. I couldn't help but think of the magnificent fireworks near the Darling Harbour Bridge in Sydney on New Year's Eve. Sydney is one of the largest loading ports for Australian cotton, and beside Jiangxia Bridge in Ningbo is located the largest buyer of Australian cotton. After a short period, a loop was formed in this moment. Even if we walked slowly, we would eventually return to Shangri-La on Willow Street. The wind was very quiet, barely able to ruffle the bamboo. I thought for a moment of brushing my fingers across the willow leaves, but maybe another day.

Connecting with China

Bill Kingdon, Managing Director,
International Cotton Association

On behalf of the International Cotton Association (ICA) and our members, we are delighted to be back in China at the China International Cotton Conference in Xi'an. Alongside myself, ICA's Second Vice-President Pierre Chehab is representing the ICA at this year's event, accompanied by Dr Robert Jiang (ICA China Business Development Manager). The ICA is committed to collaborating with partners from all sectors of the cotton value chain. China's role is almost unique as one of the leading cotton growing nations and a major textile producer so we welcome this opportunity to be reunited with the Chinese cotton community and all our friends here.

Last June, we were here to participate in the China International Cotton Conference held in Guilin and deliver training which provided an opportunity for Robert Jiang, Alex Hsu (ICA Past President) and Kevin Xue (ICA Ambassador) to further connect with the Chinese cotton community, meeting with the China Cotton Association on matters of mutual interest.

Two training courses were organised on the trip in collaboration with the China National Cotton Exchange,

Qingdao West Coast Cotton Association and Zhangjiagang Cotton Association. Robert Jiang, Kevin Xue and Du Feng (ICA Arbitrator) presented to over 200 delegates in Qingdao and many in Zhangjiagang. The training covered ICA Bylaws & Rules, contract making and performance, agent, quality and testing, standards and value differences, mediation, the arbitration procedure, List of Unfulfilled Awards Parts 1 & 2 and ICA membership benefits. The interactive nature and detailed composition of the workshops provided key content for continuing professional development and allowed participants to keep up to date with the latest knowledge in this ever-changing cotton trade environment.

The trip also provided an opportunity to meet with ICA Associate Director Yang Baofu and our other ICA China Ambassadors; David Li, Hongxiu Huang, Jianhua Lu, Peter Wakefield and Zhiyan Pan. The connection the ICA has with these individuals plays a significant role in our relationship with China and we are very grateful for their support.

The ICA continues to further its outreach and training programme in 2024, to promote safe trading and good

Training and Outreach visit to China, June 2023:

trading practices. In March, an outreach workshop was held in Mumbai, attracting 55 delegates from diverse sectors of the cotton industry in India. In April, another such event was conducted in Thai Binh near Hanoi, a focal point of spinners in northern Vietnam.

The President and the Managing Director visited many spinning mills in Vietnam and conducted dialogues with them on subjects of mutual interest. Further workshops are planned to be held in China, Turkey and Bangladesh as requested by their industry participants. We welcome active participation in the ICA's outreach and workshops, the purposes of which are to benefit all those involved in the cotton industry.

Our memorandums of understanding (MoUs) with China are of great importance to the ICA. We currently have MoUs with the China Cotton Association and China National Cotton Exchange to formally acknowledge the alliance and cooperation between organisations. We have also established partnerships with the Cotton Association of India, TextileGenesis, Better Cotton, US Cotton Trust Protocol, Aid for Trade/Cotton made in Africa and the International Textile Manufacturers' Federation and are striving to further develop relationships with key sustainability organisations.

We also look forward to further cooperation with the China Cotton Association and the China National Cotton Exchange. Together with Yang Baofu, ICA Ambassadors and industry presenters, we endeavour to continuously provide workshops, forums and training to the industry in China.

With over 650 ICA members, we continue to welcome new members to the ICA and encourage all those in the Chinese cotton community to consider joining our safe trading community.

We are delighted to be hosting our next Trade Event & Gala Dinner in Liverpool on 16 – 17 October 2024. We expect over 500 international cotton professionals to attend and we hope to welcome many delegates from China.

Registration is now open on the ICA's website with a limited special offer for group bookings; www.ica-ltd.org.

Training and Outreach visit to India, March 2024:

Overview of the global cotton market

Alice Robinson,
Editorial Team, Cotlook Ltd

International cotton prices

Following a lengthy period of stability in 2023, international cotton prices have presented a much more volatile appearance in recent months. Nearby ICE cotton futures broke out of their long-standing trading range to exceed the dollar mark, with the May delivery reaching a high point of 101.08 cents per lb on February 28. In the subsequent weeks, May reversed direction in rapid fashion; at the time of writing (mid-April), the lead month is in the mid-80s cents per lb, a level not seen since late January. The earlier strength is attributed in large part to speculative activity, prompted by the tightening US balance sheet, and while open interest has moderated somewhat, it remains for now exceptionally high.

Increases in the December delivery were of much more modest proportions, and the inverted July/December spread widened to a daunting 1,544 cent points at its most pronounced. That differential has since narrowed but remains substantial at around 500 points.

The Cotlook A Index (which measures shippers' offering rates for Middling 1-1/8" cotton, Cost and Freight to Far Eastern ports) followed the pattern of nearby ICE futures up to a point, recording a recent high of 107 cents per lb in late February, its firmest level since September 2022. However, the strength of the lead month in New York appeared somewhat divorced from activity in the physical cotton market. Spinners who had for some time adhered to a hand-to-mouth approach to new purchases found themselves with low inventories, but mill demand remained predominantly directed to modest volumes for nearby delivery, as the inverted structure of the board further discouraged the building of stocks. Merchants, for their part, had in many cases amassed considerable long positions that became burdensome when considering the backwardation that penalised the carrying of cotton from month to month. These elements combined saw basis levels succumb to heavy pressure, and the A Index retreated relative to nearby ICE futures, from the premium of around 1,000 cent points per lb that ruled throughout much of last year, to little more than 400 points by mid-April 2024.

A Index premium over nearby New York
**US cents per lb, CFR**
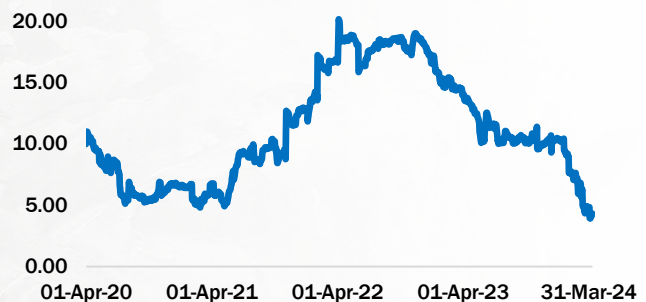
Import demand in China

The timing of the initial rise in New York of course coincided with a pause in business activity in China for the Lunar New Year holiday, and many observers had expected prices on the Zhengzhou futures platform to follow suit on that market's return. In the event, ZCE remained remarkably steady before embarking on a bullish run as ICE futures retreated, while offering rates in the Chinese physical market also presented a relatively firm appearance. The result was that international cotton prices (measured by the Cotlook A Index, adjusted to comparable terms) moved from a premium of almost 1,000 cent points over the China Cotton Index in late February, to a discount of more than 600 points.

From the perspective of relative prices, imported lots therefore presented a far more attractive prospect

to Chinese buyers than they had for some time, and a modest level of demand began to emerge. However, the abundance of supply in that country (including availability from the domestic crop and heavy consignment stocks already at ports) has so far acted as a disincentive to new import business on a larger scale.

International vs. domestic prices
(yuan per tonne)
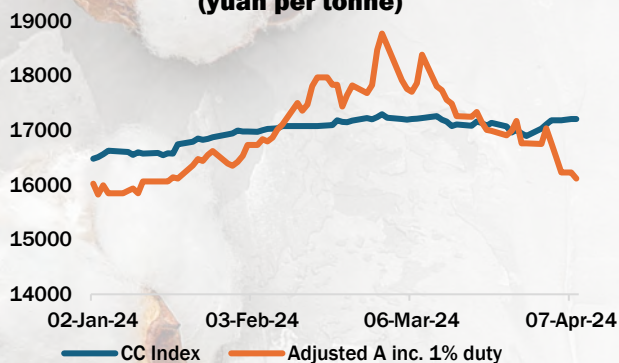
Supply outlook

Spinners' acknowledgement that supply in the year ahead is unlikely to be constrained also contributed to the attrition of shippers' basis levels. Among the major export varieties, the basis for Brazilian cotton was perhaps the most severely impacted. This was of course influenced by availability of the bumper 2022/23 crop, but an even more substantial supply appears to be in prospect from the 2023/24 outturn. The official forecasting agency, CONAB, recently raised its forecast of production in 2023/24 to 3,560,100 tonnes, which would represent a record crop by some margin. We have adopted the same figure for our estimate, indicating an increase of 12 percent from the previous year.

As for the Southern Hemisphere's other major producer, Australia, expectations for the 2023/24 crop are placed comfortably above one million tonnes, for the third consecutive season. The rise of production in the southern half of the globe, and potential implications for the seasonal dynamics of supply, remain a preoccupation for many members of the cotton value chain.

In the Northern Hemisphere, sowing of the 2024/25 crops is under way in many countries. Among the major producers, of course the prospects for output in the US are always keenly observed. In late March, the Department of Agriculture's Prospective Plantings report indicated a planted area of almost 10.7 million acres, below most trade expectations, but still sufficient to realise a considerable increase from 2023/24. Our numbers meanwhile reflect the view of much of the trade – relative price movements since the beginning of the year are expected to result in a planted area greater than 11 million acres, while a better moisture profile across most of the US cotton belt should facilitate a much lower abandonment than the near-disastrous situation that was witnessed in 2023. Cotlook's forecast for US output in the new season is therefore placed at nearly 3.6 million tonnes (approaching 16.5 million 480-lb bales), which would mark an increase of 36 percent from the previous season.

The outlook in China appears little altered from the results obtained in 2023/24. A slightly lower planted

area may be partially offset by better yields, while policy continues to prioritise the enhancement of quality and productivity in the important Xinjiang region.

In the Indian subcontinent, meanwhile, early indications for the coming season appear to show that the fortunes of the two major producers are likely to diverge. Yields remain stagnant in India, and producers are said to have been rather disappointed with their returns from the current crop. Most observers therefore anticipate that cotton area will decline in 2024/25. Conversely, the recovery of output in Pakistan this season (following floods that devastated much of the crop during the previous campaign) is expected to continue, supported by strong prices in the local market in recent months.

World's top producers
**(thousand tonnes)**
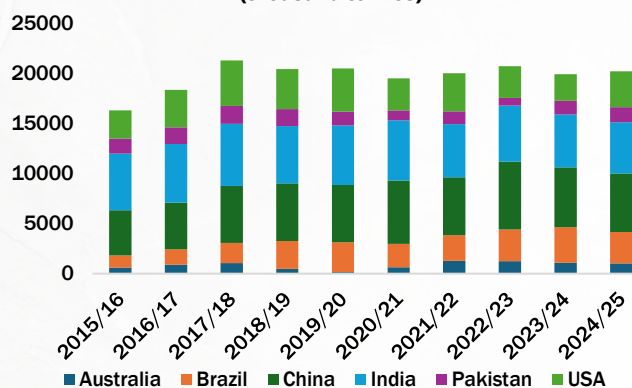
Consumption in 2024/25

A more encouraging economic outlook in some of the world's major textile consuming markets has informed a tentative optimism with regard to cotton consumption in the season ahead – though of course any assessment at this early stage is still fraught with difficulty. Inflationary pressures have eased in recent months, and the IMF's April forecast of global GDP growth in 2024 was placed at 3.2 percent, with a further increase of the same margin in prospect in 2025. Those numbers hardly indicate a sensational improvement but are enough to impart a modestly more positive mood. However, as always consumer demand for textiles will be decisive to the prospects for raw cotton use, and at present spending on discretionary items remains fairly weak.

Nevertheless, our figures for the primary consuming markets at this early stage show an upward bias in 2024/25. In China, the pace of recovery from the post-Covid slump has so far been much slower than most observers anticipated, but a modest increase is envisaged, though our figure of 8.2 million tonnes still falls some way short of the record consumption of 8.8 million witnessed in 2017/18. India's cotton industry, meanwhile, is less reliant than most on exports to the major western textile consuming countries, as it also serves a sizeable domestic market. A figure close to the record consumption seen in 2020/21 therefore appears achievable.

That pattern is replicated across much of the rest of the consuming world – a modest, but not insignificant optimism with regard to the prospects for cotton use in 2024/25. Cotlook's figure for global cotton consumption currently implies an increase over 2023/24 of a little more than three percent, to 24,857,000 tonnes. Perhaps

World's top consumers
(thousand tonnes)

Legend: ■ Bangladesh ■ China ■ India ■ Pakistan ■ Turkey ■ Vietnam
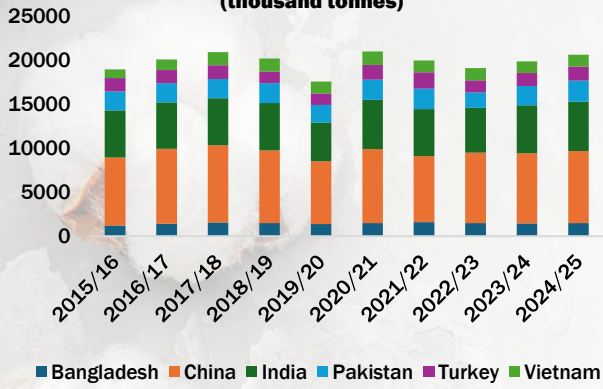
that upturn may be viewed as disappointing with reference to the 26 million-plus global consumption that was achieved just a few years ago, but in the context of today's complex macro-economic and geo-political landscape, we can be comforted by the knowledge that things at least appear to be moving in the right direction.

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