



COTTON OUTLOOK

NEWS • DATA • ANALYSIS

ICA Liverpool 2024



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ICA Liverpool – Welcome back



Alice Robinson
Deputy Editor
Cotlook Ltd

The International Cotton Association’s annual Trade Event returns once more to Liverpool with its first full in-person meeting in the city for five years.

This year’s gathering – always a highlight of the cotton calendar – takes place at a time of potentially seismic change for the industry. This publication explores the major challenges faced in the year ahead, including new EU legislation, risk management in the face of high volatility, and the continued surplus of global production when consumer demand for textiles has yet to recover fully. Nevertheless, there are reasons for optimism – several industry bodies have issued a ‘call to arms’ in defence of the natural fibre, more voices are championing cotton’s inherent sustainability credentials, and the ICA itself continues to innovate with the success of

the Women in Cotton initiative and training programmes around the world, while retaining an unwavering dedication to a safe trading environment for all.

Cotton Outlook would like to thank all our contributors, as well as the ICA Secretariat and Managing Director, Bill Kingdon. And a special note of thanks goes this year to our retiring Editor, Mike Edwards, whose 40-year long career in the industry will conclude with the Gala Dinner in St George’s Hall. His knowledge and camaraderie will be greatly missed, but we wish him all the best for the years ahead.

Let us gather in Liverpool with the knowledge that cotton has weathered many storms in its long and diverse history and will continue to do so as long as there are those of us willing to unite under its banner.

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A vision in focus



Bill Kingdon
Managing Director
International Cotton Association



**International
Cotton
Association**

We started 2024 with a refreshed vision for the ICA - to be a world leader in upholding contract sanctity by informing and training supply chain participants in a diverse, inclusive, and equitable environment giving a voice to all members. Our focus has been shaped by this in 2024.

We have conducted many outreach visits to train and inform the global cotton supply chain. Robert Jiang (ICA Business Operations & Development Manager) has led these. Together with many leading experts in the industry, the ICA has trained 150+ cotton professionals in India, Vietnam, Turkey and China. By the time you read this, more will have benefited from training in Bangladesh in September.

Some of the highlights of our outreach programme featured a workshop in Mumbai in cooperation with the Cotton Association of India (CAI). Soon after, Kim Hanna (ICA President) and I visited Vietnam to connect with the local cotton community, and we delivered a programme on quality and trading issues in Thai Binh concurrently. ICA Bremen also held quality training in Ho Chi Minh City in early May.

Next, training was held in cooperation with the Kahramanmaraş Industry and Business Association (KASIAD) in Kahramanmaraş, Turkey. It was great to see so many spinners and agents participating. The safe trading team was present in both India and Turkey too.

In cooperation with the China (Shandong) Free Trade Qingdao Pilot Zone, we held a cotton workshop in Qingdao. ICA Vice-President, Pierre Chehab, joined both in Qingdao and at the China Cotton Conference in Xi'an.

While sustainability has been high on all our agendas for several years, it has become clear recently that emerging legislation is likely to have a faster impact on the textile value chain than most other sustainability factors. The EU, for example, is pressing forward rapidly with a programme intended to 'end fast fashion'. Your Association is now learning more about emerging textile legislation from the EU. Arguably, the path that the EU is on represents a significant threat to all natural fibres in textile production, including cotton.

EU draft legislation will require a life-cycle assessment of each item, using a complex system of Product Environmental Footprint Category Rules (PEFCR). The impact of these rules will fall first on textile producers, who will be responsible for capturing the evidence against the PEFCR. As currently constructed, these rules ignore important factors, such as microplastics and plastic waste; nor do they recognise the full environmental impact of fossil-fuel fibres; nor the positive impact of natural fibres, like cotton, that are renewable, recyclable, and biodegradable. Under the PEF framework, the result will be that man-made fibres will be classed as more sustainable than natural ones.



ICA is the first cotton organisation to pledge financial support to *Make the Label Count*, which is a coalition of organisations representing natural fibres who are committed to working to resolve the shortcomings in existing draft EU sustainability legislation. Collaborating with CICC, ICAC and the key cotton stakeholders,

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We are always trying to add value to our membership offering. So earlier this year, the ICA launched a new membership category – ICA Executive Partner. This has been created for businesses who supply services to the cotton trade and wish to support the work of the ICA. We are relying on our members' support to reach out to their suitable contacts with this new membership opportunity.

Forty-two international delegates successfully

we expect to have more to report after the first international cotton leaders' forum meeting in September.

With our mission at the front of our minds – to protect the legitimate interests of all those who trade cotton – we have made public our List of Unfulfilled Awards: Part 2 (LOUA 2). Every company listed on LOUA 1 before 2018 was re-examined, and the related parties reviewed. By making this information universally available the global cotton community now has access to key information to help mitigate risk.

completed this year's Complete Cotton course in Liverpool. Delegates represented 17 countries with 28 percent female representation. The feedback was universally positive; all the attendees confirmed that they would recommend the programme to a colleague. One delegate – Mashiya Tarannum of Square Textiles PLC (Bangladesh) – was sponsored by ICA Women in Cotton (WiC). There will be another sponsored place in 2025.

This has been an important year for WiC. It has been wonderful to work alongside Kim Hanna, ICA's first female President. Kim has been tireless in her dedication to an inclusive and effective Association that is committed to supporting the interests of all its members. ICA's new podcast – *'The Thing About Cotton'* – is an innovation launched by WiC this summer. Now available on podcasting platforms, each panel explores a different component of the cotton value chain, and also highlights female leaders and their achievements.

Last year, during our Singapore Trade Event, you told us to 'communicate the positive story of cotton'. This was one outcome from the 'Your ICA Survey'. Alongside the podcast, we are also sharing stories which convey cotton as the textile commodity of choice across the ICA's social media platforms. Your feedback helps us to shape the ICA direction. Therefore, we will be conducting this survey again this year in Liverpool. Please spare a few minutes to share your views with us.





ICA Bremen, too, has been busy this year, featuring four training courses on cotton classing and testing. Two were in Vietnam in collaboration with VCOSA, and the Cotton Classing & Testing training was followed by a bespoke course for delegates from Ivory Coast; both in Bremen. ICA Bremen has also welcomed Emmy Luyindula to the team. Based in the ICA office in Liverpool, Emmy is the ICA Bremen Marketing Officer and quickly settled into the role.



We will soon be welcoming a new President, Mr Mohamed Bashir (Gul Ahmed Textile Mills) from Pakistan. Mr Bashir's network and experience will be important to broadening ICA's appeal to all cotton sectors. We look forward to working with him to help achieve our vision for the ICA.

Finally, I am delighted that the ICA Trade Event 2025 will be held in Dubai – a global hub for the international cotton community to gather. We look forward to seeing as many cotton companies as possible at this event.



Interview with ICA President



Mohomed Bashir
President
International Cotton Association

Cotton Outlook: Many congratulations on your accession to the post of ICA President. Can you tell us a little about your journey from the beginning of your career to this point?

Mohomed Bashir: Thank you! I am truly honoured to have been appointed as the President of the International Cotton Association. My journey in the textile industry has been long and fulfilling, shaped by various roles and experiences that have collectively prepared me for this position and I look forward to contributing positively to the global cotton industry.

I began my career in the textile industry several decades ago, joining Gul Ahmed Textile Mills Limited, one of Pakistan's leading textile manufacturers. Driven by a deep interest in manufacturing and international trade, my early years were spent learning the intricacies of textile production and management, eventually leading me to become the Chairman of Gul Ahmed Textile Mills Limited. My roles at Gul Ahmed varied, but each position taught me valuable lessons about leadership, innovation, and

the importance of adaptability in an ever-evolving industry.

Over the years, I took on various leadership roles. I served as the Chairman of the All Pakistan Textile Mills Association (APTMA) and co-founded the Pakistan Business Council, a platform advocating for business interests in the country. My involvement with these organizations allowed me to influence policy and contribute to the growth and sustainability of the textile industry in Pakistan.

My commitment to the industry also extended internationally. I held the position of President of the International Textile Manufacturers Federation (ITMF) from 2010 to 2012, where I worked on global issues and collaborated with international stakeholders.

In addition to my professional endeavours, I have been actively involved in educational and philanthropic efforts. As a director of the Habib University Foundation and the Education Fund for Sindh, I have contributed to initiatives aimed at improving education and supporting underprivileged communities in Pakistan.



My contributions have been recognized both nationally and internationally. In 2006, I was awarded the Sitara-e-Imtiaz by the President of Pakistan. Additionally, in 2017, I was honoured with the Grade d'Officier in the National Order of Merit by the President of the French Republic for my services to the textile industry and beyond. In 2020 I was awarded the Knight of King Northern Star Order, first class by the King of Sweden, Mr. Carl Gustaf.

As the President of the ICA, I aim to leverage this knowledge to promote innovation, sustainability, and inclusivity within the global cotton community. I am committed to fostering an inclusive environment within the Association, emphasizing the importance of diverse perspectives from all sectors of the supply chain. My goal is to address the challenges of climate change, market volatility, and evolving social and environmental legislation with collective wisdom and engagement from every region and industry sector. I am excited about the journey ahead and look forward to collaborating with industry leaders to address the challenges and seize the opportunities that lie before us.

CO: You are one of a very small number of ICA presidents to have come from a textile industry rather than a cotton trading background. What might this particular perspective bring to the role?

MB: Thank you for highlighting this unique aspect of my journey to becoming ICA President. Coming from a textile industry background, rather than a cotton trading background, indeed offers a distinctive perspective that I believe can bring several advantages to the role.

Having worked extensively in the textile manufacturing sector, I possess a comprehensive understanding of the entire cotton value chain, from raw cotton procurement to the finished textile product. This end-to-end insight allows me to appreciate the interconnected challenges and opportunities across different segments of the industry.

Textile manufacturing often faces significant challenges related to sustainability, including water usage, chemical management, and waste reduction.

My experience in this sector has made me acutely aware of the need for sustainable practices. My aim is to promote sustainable initiatives and innovations that can benefit both cotton traders and manufacturers. This includes advocating for environmentally friendly practices and technologies that can reduce the industry's ecological footprint.

Quality control is paramount in textile manufacturing. My background enables me to emphasize the importance of high-quality cotton and standardization across the industry. By fostering strong relationships between cotton producers and textile manufacturers, we can work together to improve quality standards, ensuring that the cotton traded meets the rigorous demands of textile production.

The textile sector relies heavily on collaboration between various stakeholders, including farmers, traders, manufacturers, and retailers. My perspective encourages greater collaboration and communication across the supply chain. By bridging the gap between cotton traders and textile manufacturers, we can create a more cohesive and resilient industry.

Textile manufacturers often face market volatility, which impacts raw material costs and availability. My experience helps me understand these challenges and work towards solutions that provide stability and predictability for all parties involved. This includes advocating for fair trade practices, risk management strategies, and supportive policies.

The textile industry also increasingly relies on technology and data analytics to optimize production processes and supply chain management. My background equips me to promote the adoption of technological advancements within the cotton industry, enhancing efficiency and competitiveness.

In summary, my textile industry background brings a comprehensive, sustainability-focused, quality-driven, collaborative, and technologically forward perspective to the role of ICA President. I am committed to leveraging these insights to benefit the entire cotton value chain and drive positive change in the industry.

CO: You assume the role following a period of less extreme price movements than those observed during the Covid period. Yet early this year we again saw considerable turbulence in the market, and today shipping delays and difficulties obtaining Letters of Credit persist in many countries. In that context, what are the major issues that the ICA is likely to face during your term of office, and what are your expectations for the rate of arbitrations in the coming year?

MB: The cotton industry continues to navigate a complex landscape influenced by various global factors. Several major issues are expected to shape the agenda during my term, and understanding these will be crucial for our collective success.

Although the period following the extreme price movements of the COVID-19 pandemic has seen relative stability, the cotton market remains susceptible to volatility. Factors such as geopolitical tensions, trade policies, and climatic conditions can lead to sudden price changes. Managing this volatility requires robust risk management strategies and better forecasting models to help our members navigate uncertainties.

Persistent shipping delays and logistical challenges continue to disrupt the supply chain. These issues are exacerbated by global port congestion, container shortages, and fluctuating demand patterns. Addressing these challenges will involve collaboration with international shipping lines and logistics providers to ensure a more reliable and efficient transport of cotton.

The difficulties in obtaining Letters of Credit (LCs) in many countries pose significant hurdles for the cotton trade. Financial institutions need to be engaged to facilitate smoother transactions and ensure that trade flows remain uninterrupted. Advocating for more accessible financial services for our members will be a priority.

There is an increasing demand for sustainable cotton production practices. The ICA must continue to promote and support initiatives that reduce the environmental impact of cotton farming, such as Better Cotton and organic cotton programmes.

Encouraging sustainable practices not only addresses environmental concerns but also meets the growing consumer demand for eco-friendly products.

Given the current context, I anticipate that arbitration rates may initially remain high due to the residual effects of recent market disruptions and logistical challenges, as parties seek to resolve disputes arising from shipment delays, non-fulfilment of contracts, and financial difficulties related to LCs. However, in the long run, as we work towards improving market conditions, enhancing risk management frameworks, and fostering better communication and collaboration among industry stakeholders, I foresee a decline in arbitration cases. The ICA's commitment to education and mediation will also play a crucial role in reducing disputes. To tackle these challenges effectively, the ICA will focus on many strategic initiatives.

CO: Over the next few years, climate change and the transition to net zero may have profound implications for our market. How do you view these issues? Is there a role for the ICA as we navigate the challenges associated with traceability, sustainability and decarbonisation?

MB: Climate change and the transition to net zero emissions are critical issues that will significantly impact the cotton market and the broader textile industry in the coming years. I recognize the profound implications of these challenges and the crucial role that our organization can play in addressing them.

Climate change poses risks such as water scarcity, extreme weather events, and changes in pest dynamics, which directly affect cotton cultivation. Sustainable practices will be essential to mitigate these risks and ensure the resilience of cotton farming communities.

There is increasing pressure from consumers, regulators, and investors for businesses to operate sustainably and reduce their carbon footprint. This trend is driving demand for transparent and sustainable supply chains, including in the cotton sector.

The ICA can play a pivotal role in navigating these challenges by encouraging

and facilitating the adoption of sustainable farming techniques, such as organic farming, water-efficient irrigation methods, and integrated pest management, implementing systems and standards for traceability throughout the cotton supply chain, from farm to final product. This includes promoting certification schemes that ensure transparency and accountability in environmental and social practices, collaborating with industry stakeholders to develop strategies for reducing carbon emissions across the cotton value chain. This may involve promoting renewable energy adoption, improving energy efficiency in processing, and exploring carbon offsetting

initiatives. We can engage with policymakers to advocate for supportive regulatory frameworks that incentivize sustainable practices and facilitate the transition to a low carbon economy, and provide education and training programmes to cotton industry professionals on sustainable practices and technologies, equipping them to adapt to changing environmental and market conditions.

As we embark on this journey towards a more sustainable future, the ICA under my leadership will prioritize initiatives that promote environmental stewardship, social responsibility, and economic viability in the cotton industry. By fostering collaboration,



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innovation, and transparency, we aim to position the cotton sector as a leader in sustainable agriculture and contribute positively to global efforts to combat climate change.

CO: The ICA recently added Supima to the impressive list of organisations with which it has signed a Memorandum of Understanding. How important are these alliances in terms of enabling the Association to continue to foster a safe trading environment?

MB: The recent addition of Supima, a renowned organization representing American Pima cotton producers, to the list of entities with which the ICA has signed a Memorandum of Understanding (MoU) is indeed significant. These alliances play a crucial role in enabling the ICA to foster a safe and reliable trading environment for the global cotton market in several ways:

Collaborative agreements with organizations like Supima facilitate the exchange of information and best practices related to cotton trading. This promotes greater transparency in market operations, reducing uncertainties and enhancing trust among trading partners. MoUs often include provisions for standardizing trading practices, dispute resolution mechanisms, and compliance with international trade regulations. These frameworks help ensure that transactions within the cotton industry adhere to ethical and legal standards, thereby fostering a fair and safe trading environment.

Partnering with industry leaders provides the ICA with access to specialized knowledge, technical expertise, and resources related to cotton production, quality standards, and market dynamics. This collaborative approach strengthens the Association's ability to provide valuable guidance and support to its members. Building alliances with prominent organizations expands the ICA's global network and enhances its influence within the cotton industry. This enables the Association to advocate more effectively for industry interests, address common challenges, and seize opportunities for sustainable growth and development.

MoUs often include provisions for risk management and contingency planning, which are crucial in mitigating potential disruptions in the supply chain or market fluctuations. Collaborative agreements support initiatives aimed at promoting best practices in cotton trading, sustainability, and ethical conduct. This contributes to the long-term viability and reputation of the industry. In a rapidly evolving market landscape, alliances with organizations like Supima enable the ICA to adapt quickly to technological advancements, regulatory changes, and shifts in consumer preferences.

In conclusion, alliances through MoUs are instrumental in enabling the International Cotton Association to maintain and strengthen a safe trading environment for the global cotton market. By fostering collaboration, standardizing practices, and leveraging collective expertise, these partnerships contribute to the sustainability, transparency, and resilience of the industry as a whole.

CO: Your predecessor, Kim Hanna, was instrumental in the formation of the Women in Cotton group, while various other initiatives have been founded by ICA presidents in the recent past. Are there any ideas that you'd like to develop during your time as president?

MB: As I step into the role of President of the ICA, I am inspired by the legacy of initiatives introduced by my predecessors, including the impactful Women in Cotton group founded by Kim Hanna. Building on these foundations, I intend to further expand and support the Women in Cotton initiative, fostering opportunities for women across the global cotton industry. This includes promoting leadership roles, networking opportunities, and mentorship programmes to empower women professionals in cotton.

Given the urgency of climate change, I plan to advocate for and initiate programmes that promote climate-smart cotton production practices. This includes supporting research, innovation, and adoption of sustainable farming techniques that reduce environmental impact and enhance resilience.



I aim to amplify the ICA's digital capabilities, facilitating smoother and more secure transactions through improved online platforms and digital documentation. This will streamline processes for members and enhance efficiency in cotton trading.

I hope to promote educational programmes and workshops aimed at strengthening knowledge and skills within the cotton industry. This includes topics such as market trends, technological advancements, and sustainable practices. Strengthening partnerships with international organizations, governments, and NGOs can address common challenges and drive collective action on issues such as market volatility, regulatory compliance, and sustainability.

We can also explore the potential of blockchain technology to improve transparency and traceability in cotton supply chains. This will help ensure ethical sourcing and quality assurance, benefiting both producers and consumers.

My vision for the ICA revolves around advancing sustainability, promoting inclusivity, fostering innovation, and strengthening global cooperation within the cotton industry. These initiatives aim to not only address current challenges but also position the industry for sustainable growth and resilience in the years ahead.

I look forward to working collaboratively with stakeholders across the cotton sector to turn these ideas into impactful initiatives that benefit the entire global cotton community.

CO: Lastly, what are you most looking forward to during the year, and what are your main aims, from both a professional and personal perspective?

MB: As I embark on my tenure as President of the ICA, I am filled with optimism and determination to lead the organization through a transformative period for the global cotton industry. I am also filled with anticipation and determination to achieve several key aims, both professionally and personally.

To promote sustainable practices within the cotton industry, advocating for environmental stewardship, and

supporting initiatives that enhance the industry's resilience to climate change. By improving transparency in cotton trading practices and pricing mechanisms to foster a fair and efficient market environment. By building stronger partnerships with global stakeholders, governments, and organizations to address common challenges and promote global trade standards. Expanding initiatives like the Women in Cotton group to empower women professionals and promote diversity across the industry. Leading initiatives to leverage technology for digital transformation in cotton trading processes, enhancing efficiency and security.

Personally, I aim to lead the ICA with integrity and vision, fostering a culture of collaboration and innovation among members and stakeholders, continuously learning and staying abreast of industry developments to adapt strategies that benefit the Association and its members. I plan to engage actively with the cotton community, understanding their needs, and advocating for their interests at a global level.

I am particularly excited about the opportunity to make a positive impact on the global cotton industry during my tenure as President of the ICA. I look forward to collaborating with industry leaders, policymakers, and stakeholders to address challenges, seize opportunities, and shape a sustainable future for cotton.

I am eager to contribute my experience and leadership to drive meaningful change within the industry while also fostering a supportive and inclusive environment for all members of the cotton community.

I am motivated by the prospect of creating lasting value and advancing the interests of the cotton industry globally. I am committed to achieving these aims with dedication, collaboration, and a focus on sustainability and innovation.



Overview of the global cotton market



Alice Robinson
Deputy Editor
Cotlook Ltd

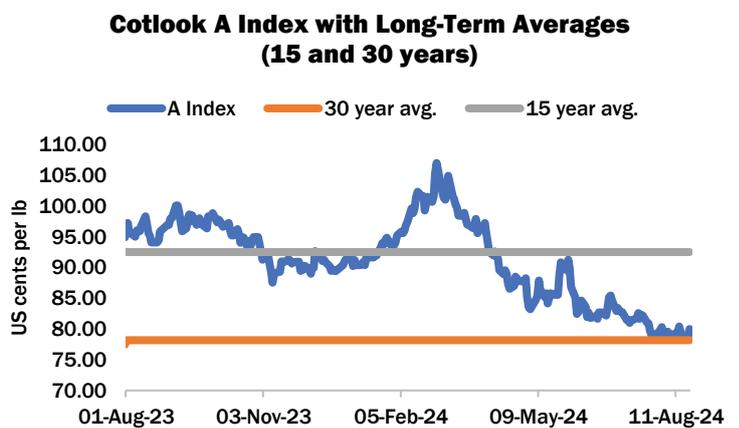
World cotton prices

In the 12-month period since the International Cotton Association's last Trade Event was held in Singapore, cotton prices have departed from the relative stability that prevailed throughout much of 2023 to present a much more volatile appearance. Nearby ICE futures broke out of their long-standing trading range to exceed the dollar mark in late February, before staging a dramatic reversal that brought shippers' offering rates, as reflected by the Cotlook A Index, to levels not seen since early December 2020. At the time of writing,

with the December ICE contract trading in the high 60s cents per lb, the A Index (which measures shippers' offering rates for Middling 1-1/8" cotton, Cost and Freight to Far Eastern ports) stands within touching distance of its 30-year average of 78.00 cents, although that threshold has, for the time being, yet to be breached.

The earlier strength was attributed in large part to speculative activity, prompted by the tightening US balance sheet in the first months of 2024. Open interest rose to its highest level since November 2021, when prices were in the midst of the prolonged bull run that materialised following the cessation of Covid lockdowns in many of the world's major textiles consuming markets.

Cotton's subsequent reversal was no less dramatic, as speculators embarked on an active period of selling that saw ICE futures begin their headlong decline, while in the following months Managed Money investors built up a historically large short position. The fall was



exacerbated by bearish sentiment in the physical market, arising both from supply pressure in anticipation of a bumper output in many of the world's biggest producing countries, as well as a frustratingly slow recovery in the outlook for downstream demand. In addition, events outside the sector (both political and economic), including escalating tensions in the Middle East and disappointing unemployment figures in the United States, have compounded the rather gloomy sentiment that has characterised the cotton market for many of the past several months.

Shippers' basis levels, too, have fluctuated widely in the past year. The A Index relative to New York, which in August 2023 reflected a healthy margin of around 1,000 cent points, narrowed in April of this year to less than 400 points, as merchants strove to liquidate their burdensome long positions in view of the pronounced backwardation that was evident on the board at that time. Spinners, for their part, were reluctant to build stocks in a negative carry environment, particularly when faced with sluggish demand in the downstream sector.

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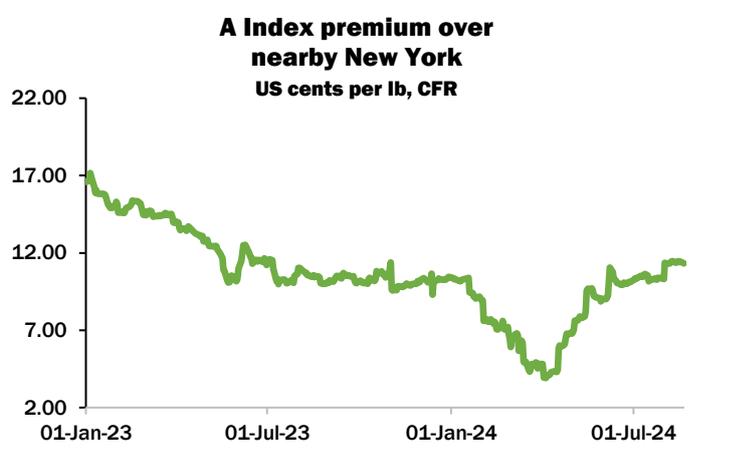


 info@becotton.net

However, several factors converged to enable shippers to gain back the ground lost earlier. Firstly, in a falling market it is customary for merchants to attempt to increase their basis levels to offset the decline, and mill customers, satisfied with the absolute levels in circulation, are usually content to oblige. Secondly, in this instance, despite the abundant outlook for global supply in 2024/25, the availability of certain qualities and grades was very limited in the short term. Brazilian cotton was already quite well committed from first hands, remaining US lots mainly comprised lower grades, and the quality composition of the Australian crop was in question owing to the unhelpful rains received during the growing season.

prices either close to, or below, their break-even equivalent levels.

In consequence, import demand in much of South and Southeast Asia limped along in rather routine fashion, with spinners in Vietnam and Bangladesh, for example, restricting themselves to modest purchases of cotton available for nearby or prompt shipment. In a few cases, this has caused unforeseen problems in the supply chain, as congestion at ports and Red Sea diversions resulted in delayed deliveries and spinners already holding low inventories found themselves scrambling to secure supplies in the very short term. Nevertheless, and perhaps not without risk on the part of the spinner, reports of forward buying in large volumes have been few and far between in recent months.



That said, price spikes on domestic markets did encourage periods of more active purchasing in several countries, most notably Pakistan, where a delayed harvest and smaller crop in view for 2024/25 pushed local values beyond the levels that many mill buyers were willing to consider (although modest quantities still changed hands for those in most urgent need). Spinners were hopeful that prices would come under pressure

Partly as a result of the foregoing, high origin replacement costs prevailed across most of the producing world, hence merchants felt little inclination to reduce their basis levels in order to facilitate sales. Spinners were in many cases required to meet sellers' price ideas to secure stocks. Whether basis levels will hold when shipments of new crop cotton begin in earnest, though, remains to be seen.

as seed cotton arrivals increased, but in mid-August imported lots still presented a much more attractive appearance vis-à-vis domestic crop stocks.

The outlook for mill demand

The pattern of mill buying outside China has with few exceptions remained confined to nearby shipment lots throughout much of the past year. The bearish configuration of the global balance sheet failed to encourage spinners to extend their coverage beyond the most pressing requirements, while weak conditions in the yarn and textiles sector meant that many were facing yarn selling

enthusiasm for imported cotton than for some time. The announcement that the Minimum Support Price for seed cotton was to increase by seven percent in 2024/25, as well as greatly reduced assessments of planted area, contributed to a widening of the already pronounced discrepancy between local and international prices.

However, the major focus of shippers' attention was as usual trained on China as the world's largest importer. The structural deficit implied by Cotlook's production and consumption estimates was around two million tonnes in 2023/24, while a spate of State Reserve buying was also undertaken to

replenish warehouses following the auction programme that took place in 2023, during which around 885,000 tonnes were disposed of. In the event, customs data revealed that the country's raw cotton imports last season amounted to over 3.26 million tonnes, the fourth highest on record, with Brazil overtaking the US as the principal supplier, with 40 percent of the total.

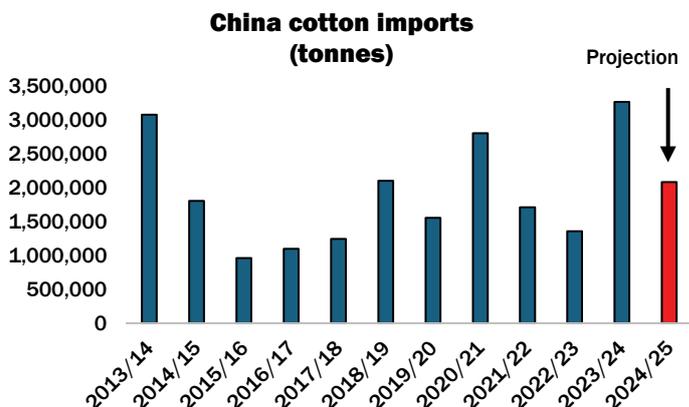
Looking forward, though, a repetition of China's impressive imports in 2024/25 at this stage appears very unlikely. Stocks in the country are abundant (commercial and industrial inventories by late July amounted to almost 3.6 million tonnes with up to 540,000 consigned at ports), and manufacturing data from the first half of 2024 are not promising – the Cotton Textiles PMI continued to indicate contraction in the sector in June, while new orders and capacity utilisation were both down on the month. Our projection of Chinese imports in the current season stands at less than 2.1 million tonnes at the time of writing.

more than 300,000 tonnes, and even a very pronounced increase from that figure can hardly be relied on to bridge such a sizeable gap as that left by China.

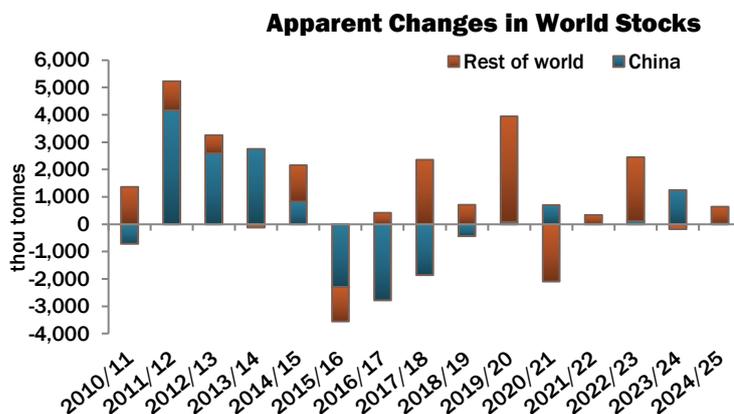
Pakistan may provide an opportunity for shippers, but the persistently weak nature of downstream demand coupled with an implied import requirement that stands just 300,000 tonnes above that in evidence last season is likewise hardly transformative. And in Bangladesh, the modest improvement of consumption that is currently projected may be in jeopardy as a result of the recent unrest that saw extensive business closures, should retailers (who have drastically reduced their lead times for garment orders) decide that operations in that country present too great a risk.

In essence, the pattern of robust global production in an environment for consumption that is improving only by marginal degrees will remain the major challenge for growers and shippers alike in the season ahead. The answer perhaps, as

suggested by Cotlook's retiring Editor Mike Edwards elsewhere in this issue, lies in a global campaign to advocate for cotton's ecological, social and practical advantages, to arrest its declining market share and champion it as a sustainable alternative to man-made fibres. For the time being, however, and in the absence of any sea change in consumer demand in favour of the fibre, a further addition to global stock levels appears to be in prospect for 2024/25.



The question, then, is where may the bumper crops that are in prospect in 2024/25 find a home? As mentioned above, it is anticipated that India will purchase greater volumes of international cotton than during recent years, and the Cotton Corporation of India is expected to procure a substantial portion of the local output via its price support operations, which could further encourage demand for imported lots. However, arrivals in 2023/24 are estimated at little



Risk management in a high speculation environment



Bailey M. Thomen
Cotton risk management consultant
StoneX Financial

If you ask anyone in the cotton industry what their opinion is about the market, you'll rarely get the same answer twice. However, if there is one thing that cotton traders can agree on it is that cotton prices are volatile. We live in a time of high uncertainty where clickbait news headlines, political turmoil, and social media comments can set off a maelstrom of market activity across asset classes creating real consequences for those whose businesses depend upon the pricing mechanisms of the markets. In 2024 alone, cotton prices have witnessed swings of as much as +26 percent and -17 percent since the start of the calendar year. Over the past five years, prices have fluctuated by 322 percent from lows of 48.00 cents per lb to highs near 155.00 cents per lb. Often we can attribute the volatile price swings to the speculative and Managed Money trade flow which usually has a high degree of correlation to ICE price movements. Unfortunately, there is no one-size fits all solution for managing these complex realities, nor do we have a crystal ball to predict the next move from speculative traders, though there are key methods and

strategies for maintaining stability and price protection amid the volatility. We have the tools to allow us to move from being *reactive* to *proactive* in a high speculation environment.

In order to use these tools effectively, it first becomes necessary to lay the groundwork for understanding risk management. I will seek to answer these questions: what is market risk? Why are the markets so volatile? And how do we manage risk in an environment where speculative trading seems to rule the trade flow and price movement?

Market risk can be defined as *the impact of price volatility on an enterprise's performance*. Acknowledging the existence of risk is critical; denial or ignoring the reality and its impact on your business will not replace thoughtful planning. Once we have accepted the reality of this price risk exposure, we move on to the bigger question of why are the markets so volatile? In the cotton market, many common answers are given, including: the ICE cotton futures market is small relative to other commodities



ICE cotton prices the last five years

StoneX



sloth falls asleep and gets left behind on the great migration. Sid then panics and makes a series of silly, albeit entertaining decisions to try to catch up with the herd. Despite our best efforts, we too are not always rational in our trading decisions. We can panic if we see the market moving, our feelings can sometimes drive our actions, particularly where money is involved,

thus it can often be subjected to larger daily, and even intraday, price swings as a relatively lower trading volume is required to leverage prices. Another reason for market volatility is the increasingly automated trading from algorithmic and high frequency traders that use computer programs to fill orders at a pace significantly faster than any human clicking a button. With the pattern recognition that these computers use they are able to analyze data in milliseconds and it can change the trajectory of prices rapidly. It has been said that there is no substitute for experience in life, and the same could be said about trading, so you might be wondering how are us mere mortals, or even the most experienced of traders, supposed to keep up with computers trading in this digital age? Well, the short answer is that we cannot, we cannot beat the market. The good news, however, is that we don't need to try to beat computer trading. We can make a plan; we can identify a range of possible scenarios and plan for them or protect against them to maintain stability in a world of uncertainty.

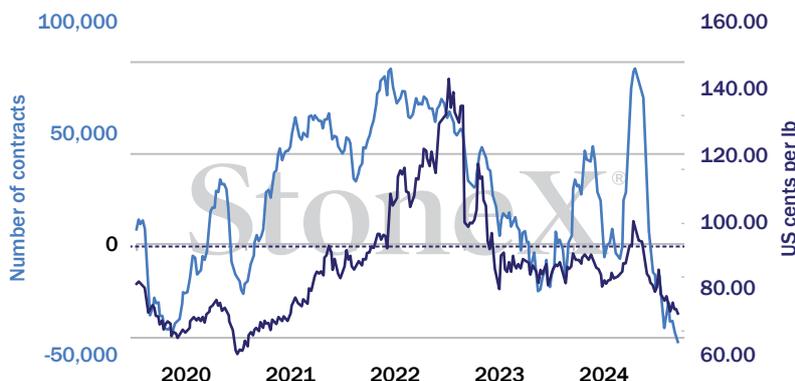
and too often it can lead to making pricing decisions based out of FOMO. As traders we study the markets, analyze fundamental data, and the probabilities for certain outcomes, and while this information does help us understand the framework of the cotton market, it doesn't tell us everything. Probabilities don't account for the actions that stem from emotion or sentiment of market participants. How do you quantify the FOMO and panic buying or selling that occurs? It seems that more often than not lately the market can perform in converse to how we think it should behave based on the fundamental data alone. So how do we manage that? Do we toss out our analysis, or do nothing at all and hope for a better outcome? The answer, of course, is no; there is no substitution for thoughtful planning and taking appropriate risk measures to prevent against worst case scenarios.

One of the first questions to ask when looking to build a risk management program

Another widely credited explanation for the cotton market's volatility includes the dreaded "fear of missing out", or "FOMO" as they call it. No one wants to get left behind on a good opportunity. I am reminded of the kids' movie 'Ice Age'; in the beginning of the movie the character Sid the

US No.2 Cotton Managed Money

Sources: CFTC & Refinitiv



is, “Where is your risk?” or worded differently, “Which direction of price movement hurts your business?” If you’re a grower, you might typically say that lower prices hurt, at least up until the time of selling the crop. If you’re a yarn or textile mill, you probably would say higher prices on future purchases of cotton. This is the basic starting point to building a risk management plan, and from there we must understand what are the break-even prices of the operation. We could also describe this as ‘price sensitivity’: the impact of the number of bales, open or unpriced, vs. the minimum price move of 0.01 cents. We cannot know if a risk management program is effective if we don’t know where the black turns to red in the bottom line. You might notice that none of these questions for developing a risk management strategy involve asking what the specs are doing in the market. While the Managed Money traders do share a close correlation between their positions and the price movement, at the end of the day developing risk management strategies is less about what specs are doing and more about protecting your bottom line by utilizing the futures market to offset risk in your physical operation.

Economists love to talk about “Black Swan” events or those which appear like once-in-a-lifetime, highly unlikely but still possible events, and yet these things seem to happen with more and more frequency which makes them difficult to plan for. Personally, as an agronomist by training, the analyzing of innumerable theoretical market scenarios can be tedious; trying to predict every unknown possibility is nearly impossible. I would rather have a plan and take action on that plan. Just as a farmer plans his or her crops, inputs, timing, and costs for every season, you must plan your risk management program. The tools of

the futures market are all there for you with futures contracts, options contracts, and even the more recent, customizable, and specialized “Over the Counter” or OTC contracts. There is always a financial risk to consider in using all these tools, just as there is a risk to your business by not doing any risk management. There is a big misconception that futures markets increase volatility and risk, but in fact, it is the very existence of risk that led to the creation and use of futures contracts. We often compare some of these hedging tools such as options to an insurance policy – you pay a premium for coverage against a harmful scenario, and typically, you hope you don’t need to use the policy. We utilize the financial markets to offset the risk faced in physical purchases and sales.

The next step in developing a successful risk management program is diversification. As in any stock portfolio, diversification is a key tool in protecting and developing your assets. The same principle applies in your risk management plan, and having a variety of tools in use often yields more stable results. The overall process can be broken down into this game plan: Identify your risk, Quantify, Prioritize, Implement, Monitor, and Review. From year to year the plan can and should be adjusted based on changing business and/or market conditions. We must keep an eye on the bigger picture of global dynamics, including speculative positions and market fundamentals, but also dial in to your business’ needs to set clear goals, then review what worked best and make adjustments for the future. There is no one-size fits all approach, but rather with a focus on the long-term goal of operating a successful business, we utilize the aforementioned steps to implement a dynamic risk management program for navigating the cotton market’s volatility.

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Brazil's new role in the global cotton market



Alexandre Schenkel
Abrapa President and cotton grower in Mato Grosso state

The year 2024 has already made history for Brazilian cotton farming. For the first time, the country ranked third globally in cotton production has earned the title of the world's largest exporter of cotton lint. In the 2023/24 season, 2.68 million tonnes were shipped, an 85-percent increase from 2022/23, positioning Brazil ahead of the previous leader, the United States.

This milestone is a historical record that greatly symbolizes the cycle of transformations the sector has experienced since 1990. Just over two decades ago, Brazil was the second-largest importer globally. A lot of work was done in research centres, laboratories, and farms to bring Brazilian cotton farming to its current level, characterized by professional rural management, socio-environmental responsibility, and cutting-edge technology.

The key to this change was the increasingly consistent investment in sustainable production. In 2012, Brazil gathered the best productive practices adopted in different regions into a socio-environmental protocol encompassing labour relations, environmental management, and productive efficiency.

This protocol, known as the Responsible Brazilian Cotton program (ABR), is the national standard for socio-environmental

certification. In the 2024 harvest, 82.5 percent of the entire Brazilian crop will be certified – equivalent to 3.02 million tonnes.

The environmental gains are significant. Today, 66 percent of Brazil's territory is composed of preserved native vegetation – a conservation effort in which cotton farmers are key allies. This happens because in Brazil, farmers allocate between 20 percent and 80 percent of their farm areas to environmental preservation, depending on the biome in which they are located. Furthermore, the environmental impact is reduced, since 92 percent of the crop is grown in dryland areas, with irrigation used sparingly, only where and when the crop requires it.

By applying science and technology to agriculture, we have become more productive and efficient. Since 1990, we have reduced the area planted to cotton by more than 50 percent. Today, we use only 0.2 percent of Brazil's territory to produce over 3.6 million tonnes. This production volume is 424 percent higher than what was harvested in the 1990s, with half of the land used, thanks to the high technological level of our crops.

Another important factor in Brazil's success in global market leadership is the fact that 60 percent of cotton is grown as a second crop after the soybean harvest.

	1980's – 1990's	2024	
 Area (Million hectares)	4.1	1.9	 54%
 Yield Kg cotton lint/hectare)	248	1,841	 642%
 Production (metric tons)	700,000	3.67 million	 424%
 Human Development Index (HDI) (Mato Grosso state average as % of world average 1980 x 2022)	39%	101%	 235%

Source: Conab, MDIC, USDA, ICAC, United Nations Development Programme (UNDP), 2024

By utilizing yearly rotation with soybeans in the second crop system, land becomes more fertile, and it is possible to conserve the physical, chemical and biological characteristics of the soil, in addition to providing greater productivity potential in both crops.

Cotton Brazil

With a high percentage of certified cotton and surplus production available for export (about 75 percent each harvest), Brazil has expanded its share of the global market. This position was strengthened in 2020 with the launch of Cotton Brazil, an initiative by Abrapa that promotes Brazilian cotton worldwide to expand consumer markets.

The primary focus is the Asian market, which accounted for 98.8 percent of Brazilian exports in the 2023/24 season. The program is driven by international missions, technical events, information exchange, and commercial and institutional relationships, in addition to a representative office in Singapore.

China, the world's largest cotton consumer, has been the leading nation importing Brazilian cotton. In the 2023/24 commercial year, the Chinese textile industry imported 1.31 million tonnes – equivalent to 49 percent of Brazil's total shipments. This is a significant percentage, especially considering the figure was only 6 percent six years ago.

In second place is Vietnam, which imported 390,000 tonnes, accounting for 15

percent of the total. Bangladesh absorbed 11 percent of total exports, with 284,000 tonnes.

Although ten nations are among Cotton Brazil's priority relations, in the 2023/24 season, Brazilian cotton was exported to 27 countries total. One factor that helps explain this international expansion is the consistent year-round availability of the product, something unimaginable decades ago.

One of Brazil's latest investments includes ensuring efficient logistics capable of delivering well-conditioned and good-quality shipments to destination countries. We have expanded the ABR protocol to export terminals, and today, 42 percent of cotton is exported through certified terminals.

Traceability

The 100 percent traceability of exported bales is another factor that helps explain the international performance of Brazilian cotton. By simply using a smartphone, one can track the entire journey of the product via QR code – from the farm where the seed was planted, to the final shipment, to the export port.

Currently, Brazil is preparing to replicate the experience with the SouABR project in the international market, which provides end-to-end physical traceability of Brazilian cotton. The initiative began in 2021 as a partnership between Abrapa and major Brazilian retail chains.

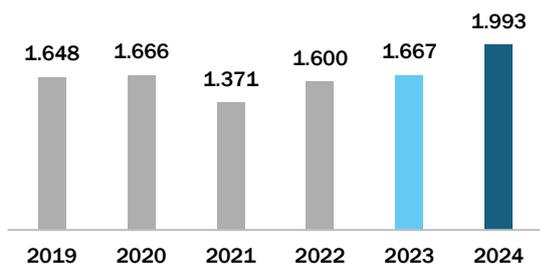
By scanning the QR code on clothing tags, the final consumer can follow the cotton's

journey until it reaches their wardrobe – from the producing farm to the retailer, through spinning, weaving, knitting, and garment manufacturing.

Future

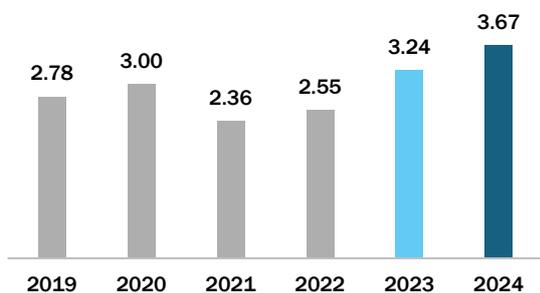
This combination of factors that characterize the Brazilian cotton production model has led to consistent results. In the 2023 season, Brazil's planted area was 1.66 million hectares (ha), increasing to 1.99 million ha in the 2024 agricultural cycle. Production was 3.24 million tonnes in 2023 and 3.67 million tonnes in 2024 (an increase of 13.3 percent). Climatic aspects influenced Brazil's forecasted average yield for this season to 1,841 kilograms of lint per hectare (kg/ha). In 2023, we reached the excellent mark of 1,944 kg/ha.

Area planted with Cotton in Brazil (in million hectares)



Source: Conab. *Done 2023 and Forecast 2024: Abrapa (Aug 24)

Cotton Lint Production (in million tonnes)

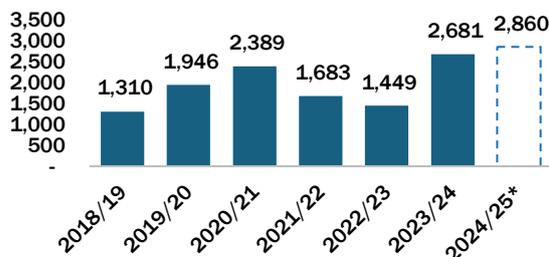


Source: Conab. *Done 2023 and Forecast 2024: Abrapa (Aug 24)

In the commercial year that begins in August, our domestic consumption will increase by 3 percent, with 740,000 tonnes

to be absorbed by the Brazilian textile industry. With this, we predict that 2.86 million tonnes of lint will be destined for the external market, expanding by 6.7 percent from the 2023/24 cycle.

Brazilian cotton exports (in 1.000 tonnes)



Source: ComexStat – ME, Aug/2024. [Market Year: August to July.] * Forecast

According to estimates from Abrapa and projections from the United States Department of Agriculture (USDA), 2025 could once again see the South American country as the world's largest exporter of cotton lint. If the forecasts are confirmed, it will be another sign that cotton farming, based on the unity of producers, professional management, applied technology, and socio-environmental commitment, indeed delivers consistent results.

The rise of Brazil is an important milestone and sends a crucial message to global consumers that it is possible to increase levels of productivity and cotton production in a sustainable way.

We hope that this could be one trigger for a resumption of global cotton consumption, which in recent years has suffered so much from unfair competition with other fibers, especially synthetic ones, which are much less sustainable than cotton.



Four decades in cotton: reflections on technology, sustainability and community



Mike Edwards,
retiring Editor of Cotton Outlook

The telex machine was invented in 1926, just a few years after the publication known today as Cotton Outlook came into being. In the 1920s, the United Kingdom was importing between three and four million bales annually, principally through the port of Liverpool en route to the Lancashire mill towns. Nearly sixty years later, when the author began his career in cotton, the Lancashire textile industry was a shadow of its former self but telex was still the principal means of communication with correspondents overseas. An unmistakable staccato clicking sound from the 'telex room' heralded news of Monsoon rains in India, tender catalogues from the Sudan or setbacks to crops in the Americas or Asia.

When the fax machine supplanted telex a few years later, it seemed that nothing much could improve on the possibilities it offered. But new technologies arrived thick and fast. The advent (or, more accurately, the popularisation) of email and the internet offered more instant and qualitatively

different means of communication. Mobile phones, SMS, then applications such as WhatsApp ensured that the process rolled onward with ever greater speed. The need for terrestrial infrastructure was by-passed by satellite technology. Thus today, the itinerant cotton merchant and even the farmer toiling in his or her field has all the tools with which to follow prices in real time and take instant decisions to buy or sell.





Innovation and technical change have not been confined to communications. Some years ago, the New York cotton futures market made the transition from 'open outcry' to electronic trading. Trading hours were extended, allowing price discovery to begin well before the sun was up across the US cotton belt, thus ushering in a period of globalised cotton futures trading.

It remains the case, though, that only US cotton can be delivered against the No. 2 contract. The failure of efforts to establish a truly global hedging mechanism was a particular cause for regret in the early months of 2024 as the No. 2 contract reacted to a tightening US supply and demand position, while the trade struggled to manage risk in non-US origins that account for a growing share of international trade.

Today, algorithms are credited with allowing futures to react instantly to any fresh stimulus or perceived opportunity. Awe-inspiringly rapid and powerful computing capabilities, typically grouped under the (perhaps misleading) banner of Artificial Intelligence, represent the latest technology with a transformative potential for commodity markets, as in other arenas of commercial endeavour.

Clearly, the speed at which information is transmitted, processed and acted upon is

a far cry from the more sedate era of telex. But are we any the wiser? Sometimes it seems we are not.

Just as in times gone by, we struggled for most of the season to put a confident number on the Indian crop, to cite but one example. Cohorts of buyers or sellers still frequently find themselves caught painfully on the wrong side of the No. 2 contract. The two-year plus bull run that occurred during the Covid period attests to the contrary nature of markets, even if hindsight allows us to understand how events confounded the pessimistic expectations that the author, amongst others, harboured early in 2020.

Could it be that the integrity of data and their judicious interpretation matter more than the speed of transmission or manipulation?

Communications technology has also contributed to some profoundly negative outcomes for cotton and those whose livelihoods depend on the commodity. "A lie can be half-way around the world before the truth has time to get its boots on", according to a quotation attributed (perhaps apocryphally) to Mark Twain over a century ago. The nature of the online world compounds the difficulty implicit in Twain's dictum a thousand-fold.

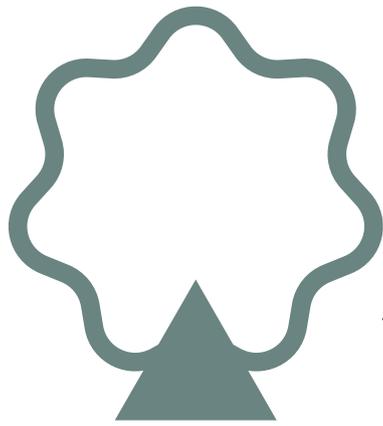


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Despite the valiant efforts of organisations such as the International Cotton Advisory Committee and Cotton Incorporated, numerous untruths and misconceptions with regard to cotton are to be found on the internet. Not only do they circulate rapidly; they can linger, uncorrected, for years if not decades.

The lazy journalist, or even the well-meaning and curious retail consumer, might still be swayed by the ludicrous proposition that 20,000 litres of water are required to produce a kilo of cotton lint. Or that 25 percent of the world's pesticides are used on

cotton. The proliferation and longevity of erroneous statements such as these are not an abstract concern. The well-being of millions of people, many in the most impoverished regions of the world, depends on a healthy global cotton market.

Today more than ever perhaps, the task of asserting the inherent credentials of cotton in the area of sustainability – rather than seeking to differentiate one production model from another – seems a pressing if apparently intractable task. But the idea and practice of generic cotton promotion is not new. Four decades ago, the International Institute for Cotton was doing sterling work in this area under the able leadership of one Peter Pereira.

Alas, the organisation foundered in the absence of a workable funding mechanism, a failure symptomatic of the fragmented nature of the global market and perhaps the huge diversity of circumstances in which cotton is produced. The need of the hour is to find a means of coordinating a global, generic campaign to promote cotton.

If not now, then when?
We are accustomed to talking about the present



climate emergency in the context of its effect on cotton production. The scientific consensus that extreme weather events are becoming more frequent is supported by recent developments in a number of cotton-producing countries. In addition, the weather patterns on which farmers depend have become less reliable. Even if catastrophe is avoided, these incremental changes are at best a hindrance to the improvement of productivity that is the holy grail of many cotton sectors in the developing world.

But the global response to climate breakdown – the necessary transition to net zero – is also likely to have major and hitherto largely unappreciated consequences for the quantum of global fibre consumption and for fibre choice. This is a moment of jeopardy for cotton demand, but also one of opportunity.

Consider the textile strategy launched by the European Union in March 2022. The

vision of a textile market in which pre and post-consumer waste is drastically reduced, durability is promoted, while circularity and recycling are prioritised is persuasive. Fibre consumption as a whole must be reduced.

Yet the EU's strategy document had relatively little to say directly about the merits of particular fibres. The Elephant in the Room – that the world's major textile fibre, polyester, is a fossil fuel derived polymer, a source of micro-plastic pollution and one that requires decades to biodegrade – merits only a sideways glance. More alarming still, the EU's Product Environmental Footprint (likely to be a key criterion as textile manufacturers seek to comply with EU norms in the coming years) would seem – perversely – to favour polyester over cotton and other natural fibres. Therein lies the jeopardy. The opportunity must be grasped as a matter of urgency to assert the benefits of a fibre that is natural, renewable and biodegradable.



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Greek & Egyptian cotton broker



For readers that have persevered to this point in these valedictory musings, their reward is a more uplifting thought. Four decades on from his first foray into the telex room, the writer remains fascinated by the miracle of cotton.

Cotton is a profoundly *human* commodity, one that, for better or worse, has at various points been intimately involved in mankind's progress and tribulations over the centuries. Think of the industrial revolution, the American Civil War, India's independence struggle and more recently cotton's contribution to Poverty Reduction and Sustainable Development Goals.

And today, the desire of the global cotton community to gather together remains undimmed. Contrary to some expectations, the ease of remote communication, honed and popularised during the pandemic, has not dulled our appetite for face-to-face encounters. A commodity traded across borders and oceans, often months or years in advance of delivery, seems to call on us to share moments of personal proximity in which to negotiate business, debate the market and exchange opinions. There is no better expression of that instinct than the International Cotton Association's annual gathering, which returns this year to its spiritual home in Liverpool.



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