

Cotton Outlook

Special Feature

November 2022



ICA Trade Event: Las Vegas 2022

Together again



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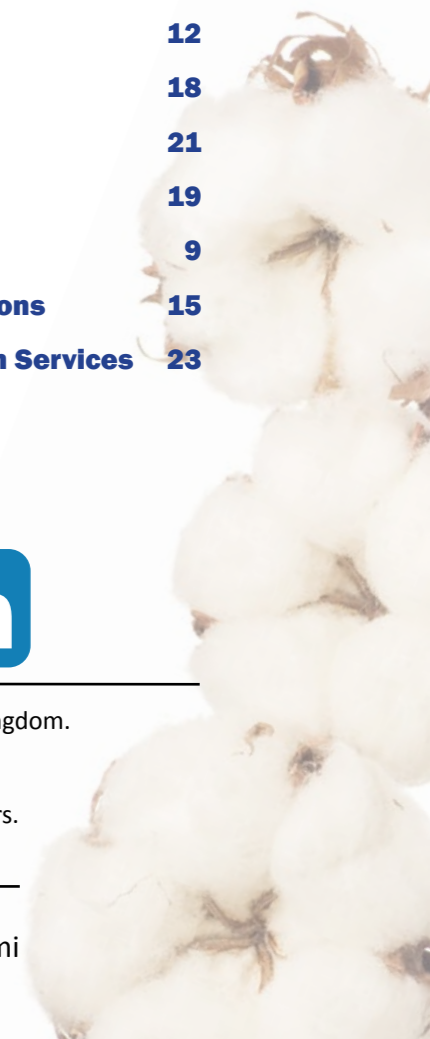
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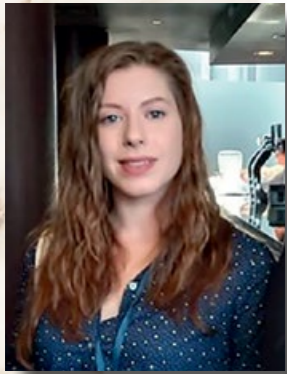
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'Together Again' – Welcome to Las Vegas

Alice Robinson, Market Analyst,
Cotton Outlook



For the first time since 2018, the International Cotton Association's annual Trade Event is taking place at an overseas destination once more – and what a destination it is! This year also marks only the second occasion that the ICA Trade Event has been held in the United States, following last year's return to home turf in Liverpool, and an unwelcome Covid-related hiatus the year before.

That this year's gathering – always a highlight of the cotton calendar – is taking place in the city of Las Vegas will no doubt prompt comparisons between the casinos for which the metropolis is known, and the cotton trade itself. The industry has in recent years resembled a game of chance, buffeted by outside influences that even the savviest gambler would find it almost impossible to predict.

With that in mind, the expertise shared at the ICA's annual Trade Event will be more welcome than ever. The

programme includes regional forums for some of the world's major producing countries, a session with the Association's growing Women In Cotton initiative, and of course discussions concerning some of the biggest issues impacting the cotton industry today, including sustainable supply chains and the development of new technologies that could transform the sector in the coming years.

The gathering will, as usual, culminate in a Gala dinner, this year held in the Park MGM's Presidio Ballroom. We at Cotlook would like to extend our sincere thanks to the ICA Secretariat, including Managing Director Bill Kingdon and the principal officers of the Association, as well as our esteemed contributors, who not only make publication of this volume possible, but also provide the wider cotton community with the opportunity to meet in person, as has been the case for the Association's long history, once more bringing us Together Again.

2022 Sourcing USA Summit - Building our business together

Kelly Nelson, US Business Manager,
Cotton Outlook



In 2022, the biennial Sourcing USA Summit is taking place in the beautiful location of Aventura, Florida, from November 16 to 18. It has been four long years since the last Summit, which was held in 2018 in Scottsdale, Arizona, as Covid caused the cancellation of the event that was scheduled for 2020.

Much has happened in the century since the first weekly issue of our publication, now known as Cotton Outlook, rolled off the press, and the same could be said of the four-year period since the last in-person Sourcing Summit was held.

Cotton and textile industry participants will have the chance to listen to speakers from around the world – including our very own Mike Edwards – who will doubtless discuss some of the developments of the intervening period, touching on topics such as the global economic outlook, new standards for sustainability and transparency for cotton, supply and demand issues,

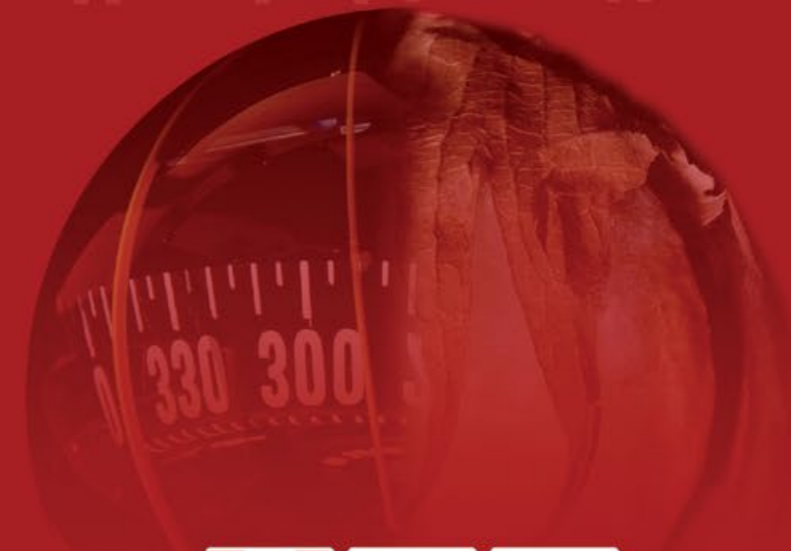
cotton trading conditions, the US Cotton Trust Protocol, and US cotton classification measurements.

Meanwhile, networking sessions at the Summit will provide an informal setting in which participants can share information with major players in the cotton textile industry from the USA, Asia, Europe, and Latin America. These will offer an unrivalled opportunity to gain valuable business insights and strengthen relationships with peers from around the globe.

We would like to thank Cotton Council International for hosting such a prestigious event, as well as all those in the industry who support our endeavors, whether by contributing to our Special Features, sharing market information, exchanging opinions, advertising, and providing price quotations to ensure the accuracy of the Cotlook A Index and its constituents.



Headed to cotton
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The New Normal for the ICA



Bill Kingdon, Managing Director,
International Cotton Association



**International
Cotton
Association**

‘May you live in interesting times.’ This apocryphal curse seems appropriate for us all as we navigate international conflicts, economic headwinds, erratic markets, damaging climate events, reducing demand for textiles and significant challenges in international logistics. Readers will doubtless be able to add many other challenges to this list. Throughout the recent turmoil and despite these challenges, the role of the ICA remains constant: to provide the framework for international cotton contracts and dispute resolution. And, we hope, to provide opportunities for professionals from all sectors of the cotton industry to meet and collaborate. This year has seen a return to the ‘new normal’ for the ICA as industry meetings, in-person events and travel are resuming across the globe.

As the world has begun to open up once again, following the many restrictions that impacted us all during the pandemic, we have been active in supporting our members and your needs.

We have been working towards outreach objectives by travelling to meet with the global cotton community. In May, Alex Hsu (ICA President) and I made the Association’s first outreach visit since before the pandemic, with a trip to India, where we joined Azeez Syed (Immediate Past President) and Mohit Shah (ICA Director) to connect with the Indian cotton community and ICA members. During our trip the Presidents of the ICA and the Cotton Association of India (CAI) renewed the Memorandum of

Understanding (MOU) between the two associations and had positive and productive engagements in both Mumbai and Delhi.

In September, Alex and I made further outreach visits to Pakistan and Bangladesh – the first since 2018. Shortly afterwards in October, we also visited Korea and Vietnam. The focus on all these trips was greater collaboration and engagement with the cotton community.

The loosening of travel restrictions has also enabled the ICA to engage in more industry events, including the 36th International Cotton Conference in Bremen in September, and AFCOT’s Forum in October.

Complete Cotton, the ICA’s annual training programme, made a return for the first time since 2019. Forty-five cotton professionals from 15 countries successfully completed the training, giving terrific, positive feedback.

And of course, Las Vegas 2022 will see the return of the first traditional in-person ICA Trade Event for three years. We were determined to find a location that would allow the cotton community to be ‘Together Again’ – the theme of this year’s event. This unusual location was able to respond to our late request and provide the facilities that you, our



international and regional delegates, expect from an ICA event. The Trade Event has evolved to include an extra day for Cotton Connected sessions, providing an interactive platform for focus on key topics and regions. Next year we return to Singapore, and in 2024 the ICA international trade event will be held in Liverpool. We look forward to seeing all of you, and your friends and colleagues, at these events also.

ICA membership continues to rise during these challenging times. From January 2023 we will be introducing a new membership category to better understand and support Producers & Ginners and Spinners & Mills¹. Last year we created a new ICA Code of Conduct so that individuals can clearly understand what they are committing to by signing up for ICA Membership. All Individual ICA Members and Agent Members are asked to confirm their commitment to this.

The challenge of logistics and its impact on buyers is still felt globally and we encourage our members to communicate clearly and promptly with their counterparties about revised dates.

¹The new membership categories will be Principal Firm (Producer and Ginner) and Principal Firm (Spinner and Mill).

Collaboration has remained a core focus for the ICA and in addition to the CAI renewal, we have signed and exchanged three more MOUs to formally acknowledge the cooperation between organisations. The ICA’s most recent MOUs include Aid by Trade Foundation, with its initiative Cotton Made in Africa (signed in July 2022), the U.S. Cotton Trust Protocol (signed in February 2022) and the International Textile Manufacturers Federation (signed in 2021).

It has been over a year since we launched the new ICA website with its increased access for many employees of member firms. We have had great feedback with 92% of survey respondents saying they found the new website easier to use and navigate, and we have seen a 19% increase in website traffic as more employees of member firms have registered to increase their access.

The Women in Cotton group is successfully continuing with online events and now that in-person meetings are taking place, the initiative is building a presence at global gatherings, highlighting the importance of diversity in this industry. Thanks to the efforts of the Women in Cotton working group, the ICA was shortlisted for the Trade Association Forum’s Diversity and Inclusion Awards earlier this year. The Women in Cotton initiative has contributed towards



great progress in the Association's gender diversity objectives in 2021. These include the following:

- 27% increase in female ICA Individual members
- 67% increase in female representation amongst ICA committees / working groups
- 50% increase in female representation on the ICA Board

We have also adapted here at the ICA office in Liverpool. We have both renovated and reduced our office footprint, thereby saving costs for our members. Initiatives such as these enable us to keep membership fees unchanged for well over a decade. The latest additions to the ICA team include Lily Litchfield (Training & Events Assistant) and Mateus Gimenez (Safe Trading Officer). Casandra German has returned from maternity leave joining Mateus in the ICA's Safe Trading department. In January we will be saying goodbye to Vanessa Harris, our Assistant Management Accountant – Vanessa has worked for the ICA for over 10 years. Her contribution and smile will be greatly missed.

Our joint-venture company, ICA Bremen, continues to thrive with 12 laboratories now certified under the international laboratory certification scheme and 29 cotton professionals certified as Quality Experts. This year also saw the return of its annual in-person Cotton Classing and Testing training, a six-day training programme which took place last May in Bremen, Germany. More recently, ICA Bremen has launched an improved website to offer better functionality to its users. We look forward to hearing the community's feedback on this.

I take great pleasure in seeing the ICA able to engage in-person with the global cotton community again. The Association has learnt a lot from the challenges presented over the last few years and we are ready to grow, evolve and continue learning as the ICA returns to its new normal.



THE NATURAL CHOICE for more than a century



American Cotton Shippers Association: welcome and update



William H. "Buddy" Allen, President and CEO,
American Cotton Shippers Association

The American Cotton Shippers Association would like to welcome ICA and CCI guests to ICA's Annual Trade Event and the CCI 2022 Sourcing USA Summit. This convergence of market information, networking, and commercial activity is much needed to serve as a catalyst, returning our industry's culture to its normal procedures. Since industry members last met in person, we have collectively experienced unprecedented events, causing epic macro-economic disruptions, ultimately leading to extreme market volatility.

For US shippers, a trade war with a landmark resolution was followed by unprecedented demand erosion at the onset of the Covid-19 pandemic that led directly to our current supply chain conundrum. During the pandemic, consumer behavior changed drastically, from investing in experiences such as travel and entertainment to the purchase of tangible items, thus creating a greater volume of inbound cargo that completely inundated our port and interior infrastructure. We believe that until the topline measure of increased inbound cargo subsidies, challenges will persist. As I write this in late September, we are enjoying a moment of relief that a potential strike by rail workers was averted.

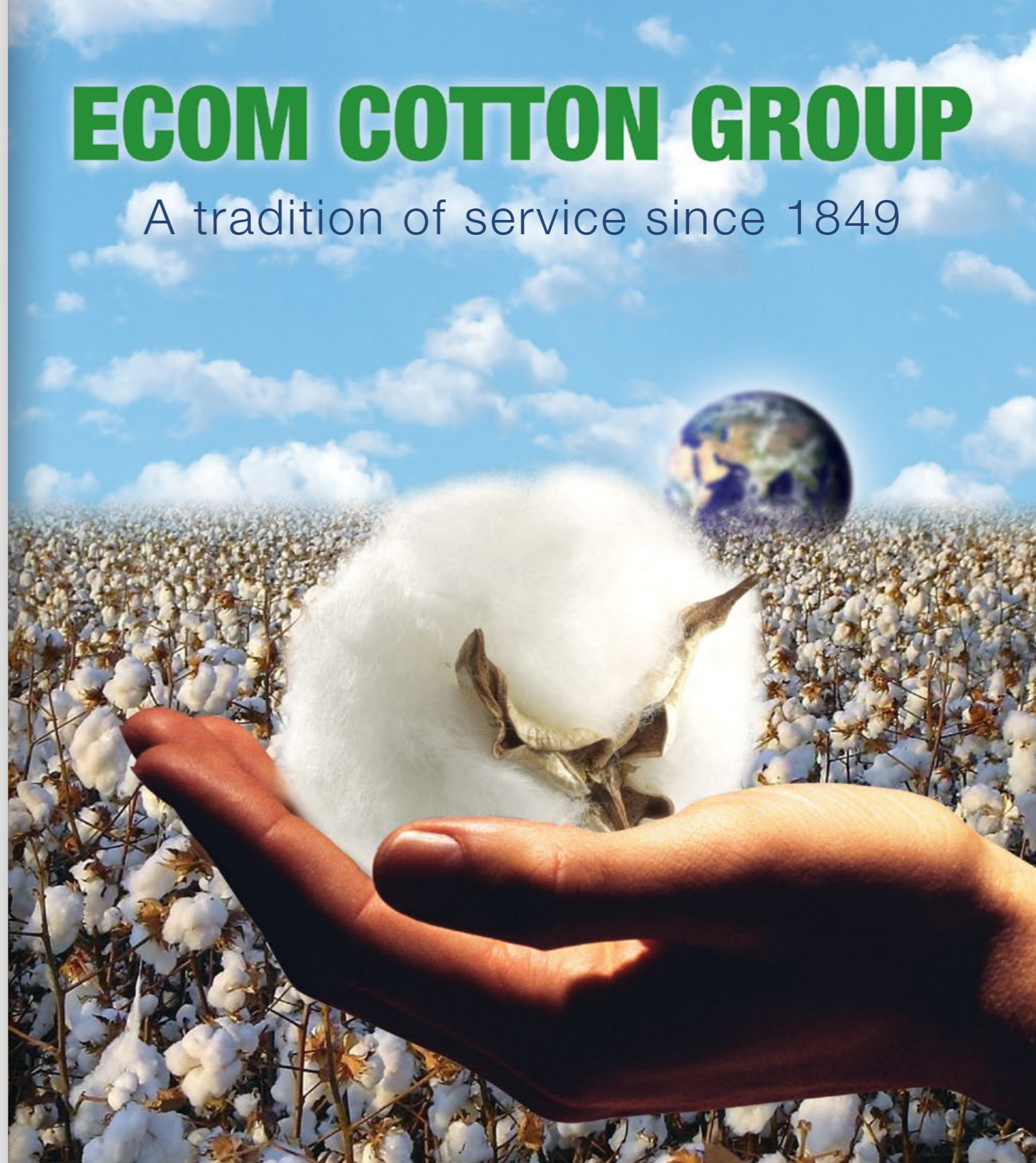
These supply chain challenges do not easily sort themselves. As previously stated, inbound volumes must subside for us to see relief. However, there are meaningful tools being implemented to expand

our capacity from the interior to export sailings. In November 2021, President Biden signed a greater than \$1 trillion-dollar, bipartisan infrastructure package that directs more than \$550 billion to support transportation challenges with a focus on improving roads, bridges, and ports. This influx of monetary support was followed by more prescriptive action this summer by Congress's passage of the Ocean Shipping Reform Act of 2022 (OSRA). By design, OSRA would increase the accountability and transparency requirements for ocean carriers providing services to agricultural exporters, with a specific focus on containerized shipments like cotton. The legislation also makes the levying of certain fees, like detention and demurrage, more burdensome to carriers, eliminating certain costs and incentivizing execution. Currently, rulemaking and implementation are ongoing at the Federal Maritime Commission on an expeditious timeline, by Washington D.C. standards.

ACSA has four key priorities concerning the implementation of OSRA. We are advocating for clear and swift action to prevent discrimination against or disadvantage to agricultural exporters; creation and utility of better practices for chassis provisioning; development of a clear and binding definition of merchant-haulage-freight; a reasonable approach to the levying of fees. Collectively, these along with other tools will ensure our members are able to be the most dependable and efficient exporters of cotton in the world.

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While there has been significant focus on supply chain challenges, cotton's balance sheet has experienced an incredible evolution. US output is going to be the smallest since 2015, led by the Texas crop's devastation by drought resulting from the broader *La Niña* pattern. With approximately two million bales of old crop remaining to be shipped, and new crop ginning beginning in earnest, there will be no seasonal slowdown this year in shipping. Currently, the crop size bulls remain checked by looming stagflation



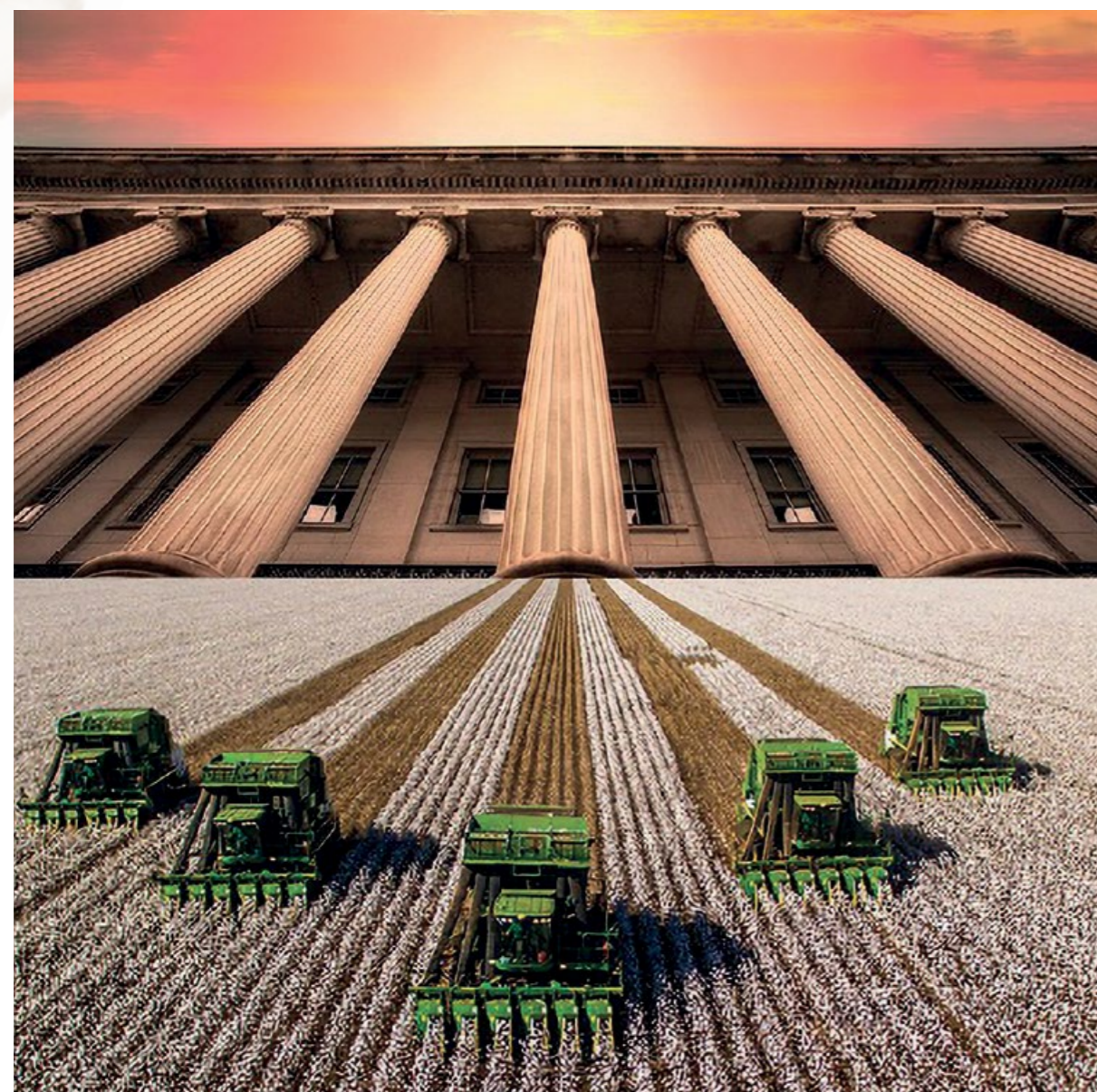
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**International Cotton Institute
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When it comes to the history of music, modern logistics, and cotton, all roads lead to Memphis, TN. The **American Cotton Shippers Association (ACSA)** is excited to once again offer a premier business opportunity expanding participants' knowledge and network within the cotton industry. Memphis, a city steeped in a rich history of the cotton business, provides the perfect backdrop for this unique experience.

We offer a 4-week residential program designed to broaden participants' understanding of the U.S. cotton industry and the international business environment. From field to fabric, the program offers an in-depth look at cotton from virtually every perspective.

For more information please visit acsacottoninstitute.org or e-mail us at cotton@memphis.edu.

and other significant macro-economic concerns in the marketplace.

The US futures market, the gold standard for hedging around the world in our industry, is at risk. Pending proposals before the United States Commodity Futures Trading Commission would change the market structure to allow a disintermediated model, leveraged, with instant auto-liquidation to reconcile margins. While this model is initially focused on digital assets, we see this as precedent-setting, and a likely contagion that will be adopted more broadly in agricultural markets. We fear that this will have a significant negative impact on commercial hedgers and expose markets to increased distortion. We are actively appealing to Congress to put meaningful boundaries in place to prevent this contagion.

When this article runs, the US will be right on top of midterm elections. Based on the latest election projections, we believe that there will be extreme turnover in Congress, with majority leadership in both Chambers in play, and potentially as much as one half of all members being replaced by election or natural attrition. Current US Farm Policy expires in 2023 and will be an initial agenda item for the 118th Congress to focus on in the coming year. In addition to our industry's observation of a marked elevation in demand for sustainable production and manufacturing that can be authenticated and leveraged, this turnover in the US government comes at a unique juxtaposition

in time when US conservation, environmental, and energy policies are collectively embracing a broader utility of consuming food as feedstock for energy. Specific examples of this can be found in the recently passed Inflation Reduction Act, where significant incentives were established for the production of sustainable aviation fuel and the broader manufacturing and consumption of renewable fuel. At ACSA, we engage strategically during the creation of this type of policy to consider the potential risks that could be created, the requirements for future management of them, and how this form of policy will play forward into commodities' balance sheets. In the same vein, we are pleased with the United States Environmental Protection Agency's response to ACSA advocacy in their recent announcement that the release of renewable fuel obligations will be extended from one year to three years, to enhance commercial certainty for consumption requirements. Clearly, we are entering an era with the strong potential for policy-driven market influence, whereby the public sector's advocacy and engagement will be critical. ACSA has a targeted strategy to provide leadership that enhances the security and efficiency of trading cotton. We are focused on how to best navigate and address current challenges so that our customers can be confident in our ability to deliver. We appreciate the close and valuable partnerships we share with ICA and CCI and look forward to participating in both ICA's Annual Trade Event and the 2022 CCI Sourcing USA Summit. We wish them each great success.

Interview with incoming President



Tim North, President,
International Cotton Association

Cotton Outlook: Congratulations on your imminent accession to the post of ICA President. From a personal and professional perspective, can you sum up what this means to you?

Tim North: Becoming the ICA President is an immense honour. I am humbled by the confidence that has been placed in me by trade participants which allows me to lead this historic and vital organisation. After nearly 44 years in the cotton trade, becoming President of the ICA is a wonderful culmination of a long and varied career.

Although I intend to speak to this in other forums in the near future, I must state in no uncertain terms that the role of ICA President is one that requires a responsibility to all segments of the trade. It is essential that all involved in cotton trading from the farmer to the end user feel that they have access to the services provided by the ICA. As ICA President it is my responsibility to make sure that my door is always open to respond to industry needs and questions across the whole spectrum. Moreover, I intend to investigate further ways to make the trading environment safer going forward.

CO: The ICA's annual Trade Event is always a highlight of the cotton calendar and this year we return to a predominantly in-person event in Las Vegas. Although technological innovations can provide increased access for those who may not be able to travel, to what extent do you welcome the return of face-to-face meetings?

TN: There is no question that face-to-face meetings make for much better engagement than the remote forums we were forced to employ during Covid lockdowns. Nothing can equal the spontaneity and value of real-time person-to-person meetings. I would like to believe that we coped as best as we could during the Covid restrictions, but the reality is that it is time to return to normality and to indulge in the opportunity to physically 'meet and greet', which is so important and irreplaceable.

CO: In the past few years, most of the world has experienced Covid restrictions of some kind and working practices have been altered. Are there lasting benefits for the Association's operations, perhaps plans for remote access to resources in the future?

TN: Although there is no comparison to in-person gatherings such as the annual ICA event, we certainly learned to adapt to restrictive circumstances and maintain our contacts by utilising modern technology on platforms like Zoom and Google Meet. Again, this can in no way replace face-to-face meetings, but it has proven to be a useful accompaniment to our daily contacts. Whereas phone conversations are a part of our daily routine, the ability to set up physical meetings allows much greater scope for staying in touch and making presentations.

The success of ICAspire's professional development series, which is delivered completely online, is proof that the ICA can use technology to

further its reach and level of engagement within the industry, complementing its in-person presence. The ICA will continue to incorporate these platforms to help provide education and training.

CO: Very volatile price movements and protracted shipping delays have also been prominent during recent seasons. At the time of writing, yearly ICA arbitrations are at a record low. What are your expectations for the rate of arbitrations in the coming year?

TN: Every season seems to have a dominant theme and this past year has proven to be no exception. Logistics have been at the forefront of our business concerns. Whereas those shipping cotton have a vested interest in moving lint from interior warehouses to destination ports as quickly as possible, unfortunately the worldwide shipping circumstances thwarted even the best efforts. At the same time, those receiving cotton are buying in good faith that cotton will be shipped on a timely basis, and they plan their programmes accordingly. Unfortunately, due to circumstances entirely beyond the control of both shippers and end users, delays have occurred and are likely to continue until more tonnage capacity returns to the market.

The ICA has counselled parties to contracts to employ open and constant communication as difficulties arise in the shipping process, so that arrangements can be made to help counter the problems that logistical issues can create.

Volatility has been increasing of late and unfortunately the combination of violent price swings coupled with these ongoing logistical issues will create some real challenges. Buyers and sellers are strongly urged to take reasonable and constructive measures to negotiate these issues as they arise and again, clear and constant communication is a key factor in resolving any potential disputes. One has to hope that such constructive approaches to the challenges the trade will undoubtedly face in the coming months will help to avoid an increase of arbitration cases.

CO: The annual Complete Cotton course, held in Liverpool, has resumed following a two-year hiatus, and the first Advanced Cotton Import Training took place in Qingdao, in cooperation with the China National Cotton Exchange, late last year. What training does the ICA have planned for 2023?

TN: The ICA regularly conducts training workshops in China – a trend that was interrupted by the



pandemic. Should travel restrictions continue to ease, the ICA will immediately be back to China to continue its training and workshop initiatives. We are grateful for the continued support of Yang Baofu and ICA Ambassadors in China to facilitate this.

Complete Cotton is planned to run again in 2023 – 45 delegates took part this year and the feedback was extremely positive. Additionally, ICA Bremen's annual Classing & Testing training programme will also run again in 2023, after a successful return to in-person training this year.

The ICA is open to offering bespoke training and it is hoped that with travel and face-to-face events returning, we will be able to deliver more training in 2023 to meet the cotton community's needs.

CO: This year, the ICA was shortlisted for the Diversity and Inclusion Award as part of the Trade Association Forum Best Practice Awards, and the Women in Cotton initiative has continued to grow. How do you intend to build on the progress that the Association has already made?

TN: Women in Cotton has indeed been a great initiative as spearheaded by Kim Hanna (who will become the first female President in the history of the Association next year in 2023), together with Eimear McDonagh. Details of ongoing events and forums can be found on the ICA website, and feature female leaders in the cotton industry.

Women in Cotton will continue to deliver a series of free online 'Chats for Change' – these events are open to men and women in the cotton industry and focus on professional development and overcoming gender barriers. The sessions will be complemented with more in-person events in 2023, which we hope will only add to the impact of the initiative.

Heads or Tails?



Mike Canale, Merchandising Manager,
Plains Cotton Cooperative Association

Prequel to 2023

The 2007 movie *No Country for Old Men* provides the audience with suspense and thrills. Many, including myself, think of this as a classic piece of cinema. The film has many twists and turns. Sheriff Bell is always one step behind in capturing the villain, Anton Chigurh, as he wreaks havoc through West Texas.

Trying to figure out what is next for the market can feel similar to this movie. Many times in the past year, we have all been one step behind. The dynamics, factors, causes, and certainly the timing of each element that pushes and pulls cotton prices are never dull! Sure, the market can lie dormant for a while. But as soon as you turn your back on it, it's on the move again. With that in mind, I jotted down some notes regarding what has taken place in the market during the past 12 months.

Like many other commodities, cotton prices began to increase at the end of last year, but unlike the stock market, cotton kept rising into the first quarter of 2022 and beyond... In September 2021, ICE December futures were in the low 80s cents per lb. By the middle of May 2022, the December contract had soared to \$1.33 and looked to be promising a very good payout.

This market has too many characters to stay still for long! Like in the movie, we have experienced big swings, and not all have been good. Still, the show

must go on. The cotton market showed everyone it could appear friendly, and take futures prices 50 cents higher in an eight-month period, as it ended in May 2022. However, the market can also quickly change and act with no mercy. It took away that same rise in just two months, losing 50 cents from its highs and moving back into the low 80s in mid-July. The season was not shaping up to be a feel-good movie, but maybe something closer to *No Country for Old Men*, where you can't trust your next lead.

Cotton prices did not stay in the low 80s for long, though. It was as if the market had gotten away from the villain Anton Chigurh, and sprang back vigorously. No one springs back after dealing with Anton – I'm just saying! This market had found new life though, and it was ready to move higher again.

After briefly trading below 84.00 cents in mid-July, the December futures contract rallied as though it had just called the coin flip correctly. Prices were trading over \$1.18 by the middle of August. However, our villain soon came out of nowhere to blast the market back to \$1.02, and that's about where we sit at the time of writing – with December 2022 futures at around \$1.05.

Main Cast

Supply - The barren landscape in *No Country for Old Men* is what much of West Texas looks like today. The drought this season is said to be worse than in 2011. Abandonment for the High Plains and Rolling



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Plains is over 70 percent, pushing toward 80 percent. Many have written since late spring that drought in the region should bring higher prices.

West Texas is not the only area suffering, as our friends tell us in other parts of the world. The disaster in Pakistan, caused by enormous Monsoon rains, has some thinking that 40 percent of the crop may be lost.

After noting West Texas's problems, many ask if supply can keep up. Supply may or may not be the bull everyone is thinking, and there is one noticeable trend that certainly may not be quite so bullish. As per the September 2020 WASDE report, USDA world production was placed at 111 million bales. The 2021 figure stood at 115 million, and the 2022 report places global output at 117 million bales. There is an upward supply trend, even with the drought in the Southwest US.

Demand – Demand has been robust due to the void created in supply chains that was caused by Covid-19 shutdowns over the last two years. In my opinion, this character will determine the ultimate direction of our movie in the next 12 months. Demand to date has been good, but the big question is what it will be like in the first quarter of 2023, when several large investment companies experience a recession. USDA has cut global demand to less than 10 million bales per month, with possibly more cuts to come.



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The Department's projections for mill use are going in the opposite direction to supply, with even smaller numbers going forward; world use in 2020 was pegged at 122 million bales. In 2021, it was estimated at 119.5 million, and in 2022 it was projected at 118.6 million.

Outside Money – We are told the funds are sitting close to the historical median in terms of buying power vs. selling power. Does this mean the run for using commodities (including cotton) as a hedge against inflation is over?

Supporting Cast

The Federal Reserve

By the time you read this, September's interest rate decisions will have been made public. Will the action taken in December 2022 and beyond play a role in the slowdown on Main Street? If the rates get bumped more than expected, does that keep the buy signal green for the US dollar? The dollar has been hovering around recent highs, making it more difficult for US cotton to be competitive overseas without a price discount. Financial analysts suggest that, more often than not, an economic recession arrives approximately six months after we enter a bear stock

market. The Fed seems adamant that it will not let up on raising rates until inflation is significantly reduced. We are seeing signs that the housing market is starting to slow, or at least not escalating as much as in the past two years. Is this the first sign that higher interest rates are taking effect? Unlike Sheriff Bell, we hope the Fed makes the right calls sooner rather than later, and does not let inflation get away.

Projecting the plot for 2023

We all understand that none of us knows the future, but we must estimate, project, and understand the risks that lie around the corner in order to put a strategic game plan together. One difference between our business and the movie *No Country for Old Men* is that luck will only take us so far. The landscape of our market will continue to change as we go down the road. On behalf of PCCA, we want to thank our many customers for trusting us as their strategic supplier for their sourcing needs. We encourage our customers to utilize PCCA for our strength in numbers and knowledge, to be your supplier of choice in 2023 and going forward!

“Call it!”

How greater traceability will support Agriculture 4.0



Mark Pryor, Chairman and Chief Executive Officer, The Seam

Technology is unleashing positive disruption and powering transformation in every sector imaginable.

'Agriculture 4.0' is a concept that was seeded at a recent World Government Summit, meaning that the use of new tools and digital systems is rendering the work of farmers more complicated as they respond to demographic, natural resource, and cost demands.

The future of agriculture will see the replacement of inefficient techniques involving one-size-fits-all regiments. Instead, agriculture will become more knowledge-based and, at its best, empower participants in all sectors of the supply chain – especially small or regional producers – to participate fully in the efficiency revolution.

However, this innovation needs to happen responsibly. The idea, combined with brand and consumer expectations for sustainable and environmentally friendly products, means Agriculture 4.0 will depend in large part on commodity traceability and new systems to make the concept achievable.

From implementing the standards of traceability, several distinct benefits will follow.

At its core, traceability ensures a basic set of standards, including an expectation that a commodity's history, location, and applications or

uses are considered and made available on record. At a higher level, it also affords producers a more substantial degree of visibility for their products. More exposure means a greater level of market potential.

Most consumer products already involve components from multiple sources, but enabling greater traceability raises awareness and enhances their sustainability potential. Agricultural commodities are no different – and the use of a technology platform makes traceability easier.

Technologies *need* to be integrated for traceability to work. Because this is about telling the story behind a product, everything goes hand in hand. We can expand this idea to other farming practices that can then benefit from digitization, such as mapping out water usage and soil management practices.

Traceability goals depend on several core characteristics. The first is accessibility. If large, multi-acre farm operations are the only ones using new technologies, this creates a barrier in the industry. 'Agriculture 4.0' coincides with 'Industry 4.0', but a number of farmers will not invest in sophisticated tools if they are concerned that they cannot meet the upfront costs on their own. All industry players need to be on board to ensure that small farmers face a minimal cost burden in relation to adopting new solutions.

The second is intelligibility, so that anyone with the ability to access a system understands how to navigate it, to find where a commodity came from. There will never be a way to totally avoid the use of industry terms or trace every molecule in a commodity. Instead, the aim is to avoid those final products with an unclear origin, utilization of which has, unfortunately, been the norm.

The third, fittingly, is third-party verification, which independently ensures that producers can show (instead of just tell) where the commodity comes from, and what its net environmental impact is.

The future of everything, from the food we eat to the clothes we wear, is dependent upon technological

progress in agriculture. To know what the future holds in agtech, it is essential to know the places that products and innovations have come from.

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‘Navigating Tight Supply’ – the outlook for supply and demand in 2022/23

Paul Doran, Trader,
CAM Négoce, Division Coton

“May you live in interesting times” – perhaps a curse masquerading as a blessing. We have certainly been living in interesting times recently, with barely enough time to digest one ‘once in a lifetime’ event before the next one comes along. Textile supply chains have spent 40 years at the vanguard of globalisation, with goods flowing east and products flowing west on an increasingly efficient conveyor belt. China gets the \$5 jobs, America gets the \$5 jeans, and everybody’s happy. Except they weren’t.

Cracks in established cotton logistics networks that developed during the Sino/US trade war in 2018 widened to yawning chasms during the Covid-19 pandemic and the outbreak of war in Ukraine this year. With retailers no longer able to rely on uninterrupted supply, “just in time” ordering became “just in case”, as purchases were doubled up in the hope that *something* would arrive on time. Further down the supply chain, shipping lines pulled vessels and containers away from less fashionable trade lanes as every available resource was devoted to moving finished goods to Europe and the US. Demand for cotton exploded just as the world’s ability to move it was curtailed like never before. Even as futures prices raced to decade highs, basis levels ballooned with spinners desperate to secure stock. The sun shone on the cotton business, with good margins available for

producers, merchants, agents and processors - but the storm clouds were brewing.

Increased transport costs coupled with labour shortages fired inflation in the West, which was turbocharged by the war in Ukraine, as the extent of Europe’s reliance on Russian energy became clear. Central Banks were slow to react, but the inevitable tightening of monetary policy materialised as quantitative easing dried up and interest rates continued to rise. An entire generation of Western shoppers who had grown up with low interest rates and low inflation suddenly had to wrestle with the prospect of rapidly rising prices and more expensive credit. With market confidence plummeting, consumers discovered that the best way to tighten their belts was to buy fewer trousers, and retailer inventories built up, echoing back through the supply chain in the form of ever more empty order books. Problems were exacerbated as an industry that is overwhelmingly US Dollar-denominated contended with a resurgent Greenback pushing twenty-year highs, meaning many more Renminbi, Taka, Dong or Lira are required to import cotton.

A backwardated futures market led to a series of inversions: two or three-cent nursery slopes from December to March to May to July were navigated

undramatically, as underlying prices continued to rise, before the emergence of a thirty cent ‘Black Run’ July/December precipice. Logistical problems from almost every cotton-producing nation in the world meant that shipments were running late - several months late in most cases - and following the transition to December, many contracts were fifty cents or more over the prevailing futures market levels. Despite this, buyers overwhelmingly fulfilled their contracts, a testament to the strength of the cotton community, but also to the fact that there were scant cheaper or quicker alternative options.

As we head into the fourth quarter of 2022, the bullish mood of the post-pandemic recovery period seems firmly behind us. Every conversation turns to demand destruction: fewer factory shifts, slower machines and sometimes complete shutdowns. Buyers are focusing on digesting their expensive, late-arriving orders before they even think about placing new ones. Despite this, the market remains stubbornly backwardated and basis levels continue to trade far above historical norms.

What can we infer from this? As poor as demand is, available supply still can’t serve it, at least right now. Even if most spinners are covered for nearby shipment, the few bales that do become available are still coveted by those who need to buy. Origin sellers continue to be largely insulated from increased freight rates as end users or merchants swallow those costs by way of basis appreciation.

With the Northern Hemisphere harvest period upon us, almost two thirds of exported bales are scheduled to be harvested in the next quarter. Anecdotal evidence suggests that many spinners expect to have digested their late shipment cotton by the end of the year, which should leave gaps in mills’ supply as we welcome in 2023. With heightened price volatility both up and down stream, we are likely to see a greater than usual spot demand, as buyers and sellers attempt to limit risk. It may be that inscrutable India, the cotton statistician’s graveyard, helps to shape the cash cotton market during these months. A domestic consumption number that is just shy of record levels looks vulnerable considering the wider malaise, so with a larger than average crop in the offing (at least at the time of writing!) then there may be plenty of Indian cotton around to apply pressure to the asking rates of other origins. As always though, there are wheels within wheels, and if prices fall too far then a historically generous Minimum Support Price (MSP) will become a factor, plucking bales out of the present and depositing them back into the market at some point in the future.

As macro-economics and politics intermix, our market will continue to be as influenced by Moscow as Mumbai, Tehran as much as Texas. It therefore seems certain that the *interesting times* aren’t yet behind us.

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Bulking up again?



Brett Anderhub,
Rekerdres & Sons

I never imagined some thirty plus years ago, when I was processing insurance declarations as a green Broker's Assistant, making careful note to distinguish when a CIF certificate actually received the 'containerized' discount over the break bulk mode on the marine insurance rate, that I would once again be reviewing the concept with cotton merchants.

Back in those days, there were regular bulk sailings from Brazil to Venezuela, Benin to Brazil, Paraguay to Portugal, Greece to the Far East, China to Bangladesh, Latvia and Russia to anywhere!

Often vessels were solid, well built, and in the regular bulk trade. But just as often they were not! It seemed as though any vessel that would float (and that term was used loosely) could be hired to move cotton. I remember old Russian fishing vessels that were 'repurposed' with the fall of the Soviet Union, to capture more lucrative international trade.

The world was awash with capacity, and commodities – including cotton – were eager to oblige.

As could be expected, heavy losses ensued. Vessels sank, 'turtled', or simply ruined cargo in holds due to faulty loss control systems, decrepit combings and hatch covers, and general rust and neglect. Not only was cargo in peril, but seafarers were also working in horribly dangerous conditions.

Scrutiny of the intended vessels was a must – but older on-board equipment wasn't always as dependable as reported.

Eventually, the marine industry had no choice but to push back. Led by the International Maritime Organization and the SOLAS Convention (Safety of Life at Sea), new regulations and standards started to be implemented worldwide in the late '90s and early '00s. New training and safety certificates became mandatory for ships to enter ports. Marine insurers had also had enough: extreme insurance surcharges by both P&I (Protection & Indemnity) and cargo insurers were levied on older vessels, to discourage their use and push the trade towards newer, compliant ships.

The economies of scale and freight value for break bulk transportation started to disappear. More importantly, the now ubiquitous shipping container sealed break bulk's fate. The containerized trade greatly improved the speed, logistics, cost, and doorstep delivery to overseas mills. Break bulk was rendered obsolete.

In the twenty years since, new supply chains have been honed with great precision and efficiency. To be sure there were still challenges, but on the whole, bales continued to move in large numbers under ever-shrinking budgets.



C/O Rekerdres and sons

Then came the pandemic. The compounding cargo snarl-up post-Covid has left commodity shippers with exorbitant additional freight costs, when and if containers can be found at all. Horror stories abound from every origin about the problems of working out how and when cotton will be exported.

Resourceful merchants with outstanding contractual commitments have been forced to explore other options. Initially, cotton shippers trying to catch any available vessels looked into costly repositioning of their stock near ports, where empty containers might be more easily coaxed into carrying cotton.

Naturally, break bulk shipments look to be an ideal solution, ready to come out of retirement to carry the load.

Break bulk shipments today can be very efficient, especially since the majority of global cotton exports are now destined to a more concentrated number of spinning countries.

There are, however, significant hurdles to overcome.

First, and depending on the size of the shipment, a proper consolidation/staging warehouse at the port must be reserved, along with a sufficient number of drayage vehicles to move the cotton to the vessel in a timely manner. It



C/O Rekerdres and sons

is equally important for that warehouse to be vetted for cleanliness and firefighting systems. It is also recommended that the warehouse labor force is familiar with cotton's characteristics, to avoid damage to the bales during the move – or worse, burning them up altogether.

Next, the shipper must find a suitable vessel. The shipper should work closely with its insurance brokers to make sure the vessel is insurable. The vessel should be of a newer build and have all the relevant operational certificates

from internationally recognized authorities.

Additionally, it should be contracted with a solvent P&I Club as well as a valid IMO number – which can be easily checked to ensure it is not blacklisted. There are numerous services which can provide this updated information.

Ultimately, a cargo certificate of insurance will be issued covering the full value of the shipment. Since break bulk shipments tend to be significantly larger than the usual containerized shipments, a check for sufficient conveyance limits under the ocean cargo policy should be undertaken – especially as cotton prices continue to hover at unusual highs.

Then, the vessel should be surveyed to ensure that it is suitable to carry cotton. A specially



C/O LDC

the same availability and vetting of services at the discharge port. It is imperative, when any problems or damage are noted upon discharge, that an independent surveyor (preferably one with a good working knowledge of the vessel) is immediately called in to determine the extent of the damage and make note of any deficiencies or problems found. As soon as the vessel leaves port, many of the remedies available sail away with it.

Break bulk shipments of cotton could make a welcome return and provide a great relief for today's

designated surveyor – at the port of loading, solely representing the shipper – can make an independent inspection of the condition of the vessel and its loss control systems. They should also be present at loading to detail the quality and quantity of the bales being loaded.

This survey is invaluable and helps to clearly delineate where any damage might be caused.

The shipper will need to closely analyze the charter-party agreement, which will determine the services of the vessel in exchange for freight. The GENCON is the standard such agreement and contains basic conditions and customizations to indicate which party will undertake the various tasks involved.

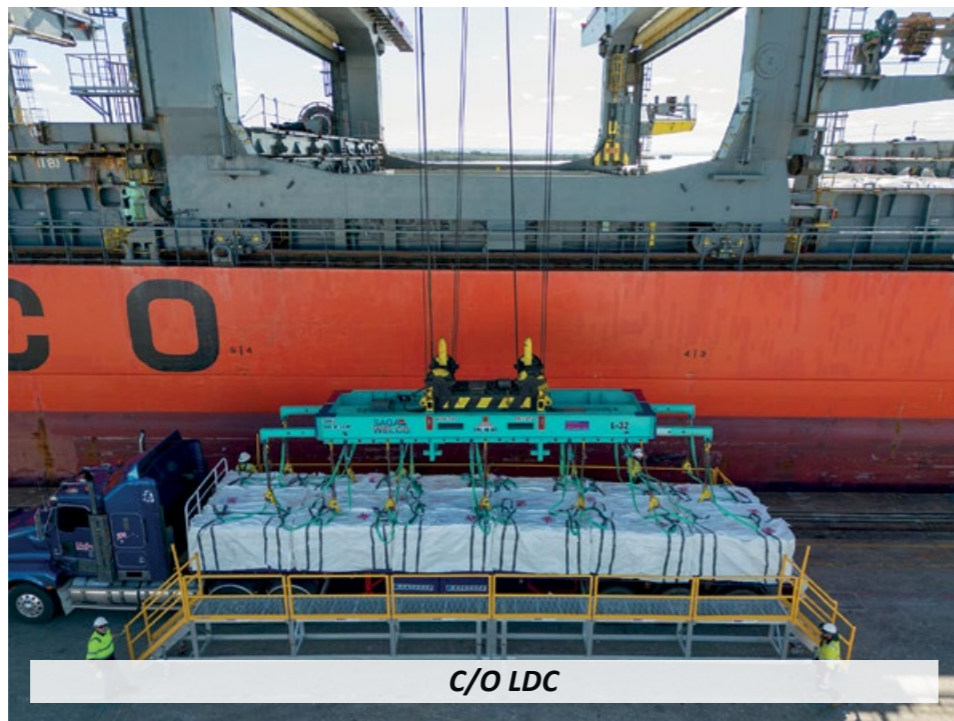
Specialist cotton insurers can assist with Charterers Legal Liability Coverage to protect the specific legal responsibilities that the shipper contracts in respects to the vessel owner, stevedores, and other cargo interests.

Lack of attention to any of these items may result in delays which could very quickly compile hefty demurrage charges and erode any freight benefits.

Finally, the shipper will need to closely coordinate

shipping problems. Cotton insurers are prepared to do their part and are willing to provide the needed capacity. However, unlike in years past, an updated approach with solid risk control underpinnings and knowledgeable insurers is a must for a successful venture!

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