



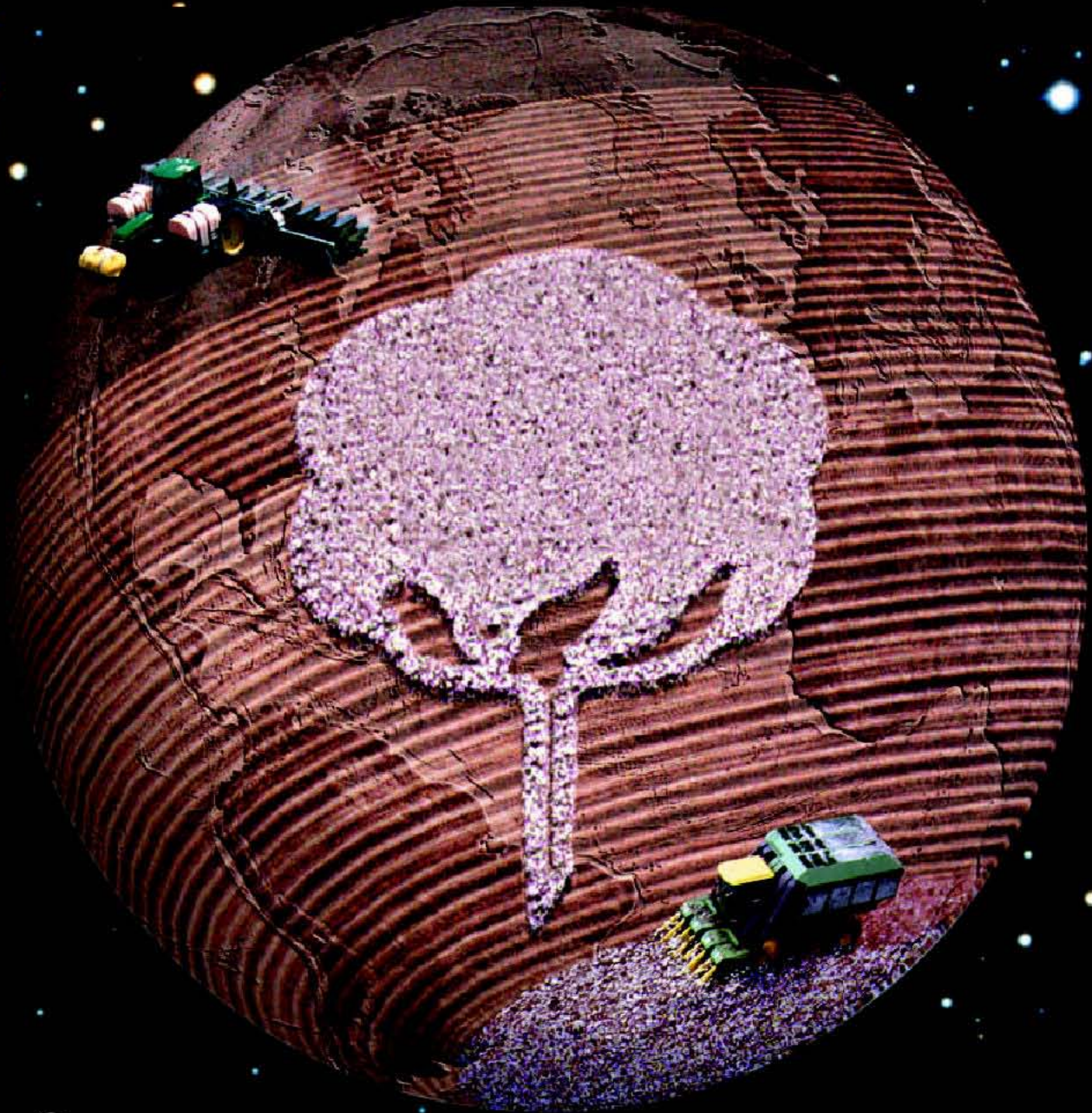
Cotton Outlook

AUGUST 2019



WORLD LONG STAPLE MARKET

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World long staple market: an uncertain outlook

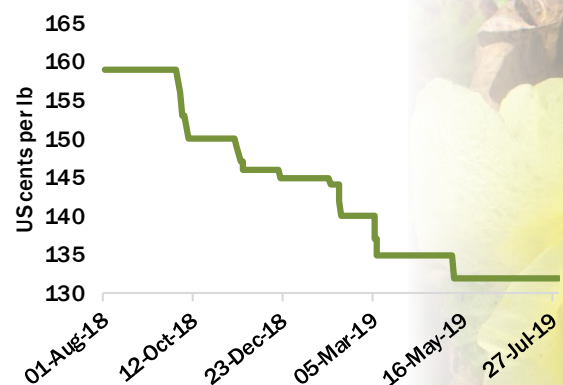


*Antonia Prescott,
Deputy Editor, Cotton Outlook*

The story of prices for both upland and long staple varieties in 2018/19 was one of progressive attrition. The by now protracted trade dispute between the US, the world's largest exporter of cotton, and China, the largest consumer, has come to press more and more heavily on the global market as hopes of a resolution that would see tariffs on goods moving in both directions removed have been repeatedly dashed.

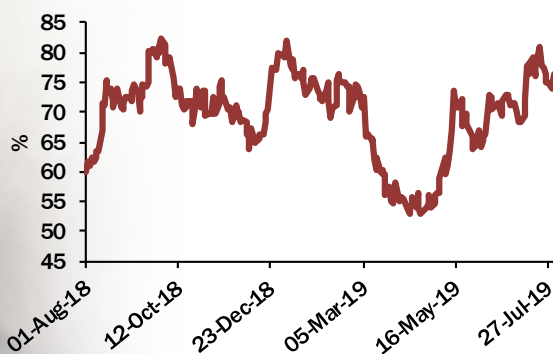
Over the course of the 2018/19 season, upland prices as measured by the Cotlook A Index declined by about 25 percent, while the benchmark quotation for Pima (Grade 2, 1-7/16", CFR Far East) displayed only a marginally greater level of resilience, relinquishing about 17 percent of its value in the same time frame. The Chinese Type 137 quotation fared somewhat better with only a 4.4 percent loss, but that still indicates a fall of 1,100 yuan per tonne since the beginning of August 2018.

Cotlook Pima quotation

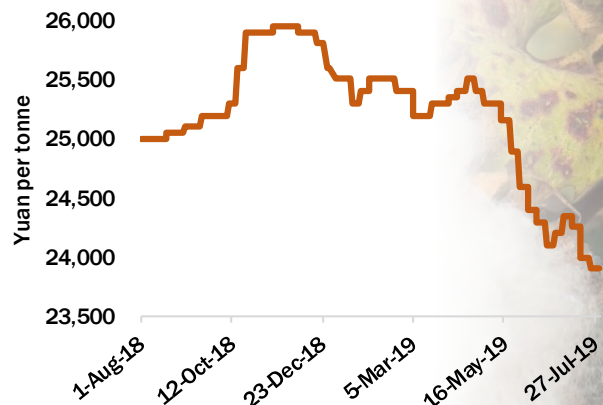


Moreover, by historical comparison, long staple prices appeared relatively cheap in relation to upland values. The average of the Cotlook Long Staple Premium (calculated by comparing our Pima quotation with the A Index) was just

Cotlook Long Staple Premium 2018/19 season



T-137 price



over 69.7 percent, while the long-term mean stands at 91 percent. At one point in mid-April (when rising confidence that a Sino-US trade deal might be imminent temporarily boosted upland values) the premium fell to just 52.8 percent as Pima prices remained unmoved.

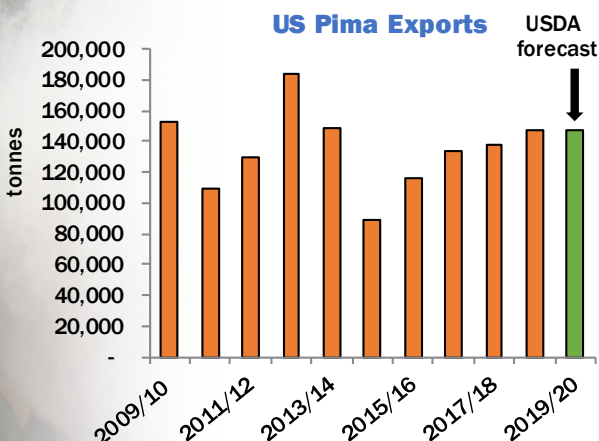
Indeed, throughout the season, upland prices were subject to significant volatility (albeit following an overall downward trend), that long staples lacked. The declines for Pima and Chinese Type-137 were more (much more, in the case of Pima) steady as confidence in downstream demand waned progressively over the season.

International trade

While the current price weakness for all styles of cotton may largely be attributable to the uncertainty arising from the US-China trade dispute and its knock-on effect on consumption down the line, sales of long staples in the 2018/19 season held up reasonably well (perhaps, in turn, as a function of the falling price). Exports of Pima in 2018/19 outstripped the total for 2017/18 by a margin of 33,500 running bales (over five percent). Those to important markets (India, Vietnam, Pakistan, Peru, Turkey) showed an increase. Even exports to China (where shipments of US cotton are subject to an additional 25-percent tariff, unless imported under ‘processing trade’ quota, applicable if finished goods are exported) declined only slightly.



Export registrations in Egypt tell a similar story. International sales overtook last year’s final total in Week 20 of the present marketing season (ending



August 31) and currently stand just shy of 88,000 tonnes, a year-on-year increase of 60 percent, albeit from an admittedly larger crop.


However, the situation regarding advance sales for the 2019/20 Pima crop is not as encouraging. At the start of August 2018, 221,300 running bales had been contracted for the marketing year ahead. This year, just 70 percent of that total had been registered by the same point. And it is sales to China that have suffered the most. Indian purchases have held up well, but Chinese importers have committed to buy just 22,000 bales in 2019/20 so far, compared with 67,600 at the start of last season.

Supply and demand outlook

Of course, supply and demand fundamentals will also have a bearing on prices and trade flows in the coming season. According to USDA, the area dedicated to Pima in the US looks to have increased by nine percent to 273,000 acres, which would be the largest Pima area since 2011/12. In Egypt, however, planted area has fallen by nearly 30 percent and a decline estimated at 23 percent can be observed in China’s main long staple growing region, Awati County in Xinjiang.


The coming season’s global production forecast of almost 450,000 tonnes represents a fall over nine percent from the estimate for 2018/19.

That the area dedicated to Pima in the US has increased this season, despite the steady fall in price over the last 12



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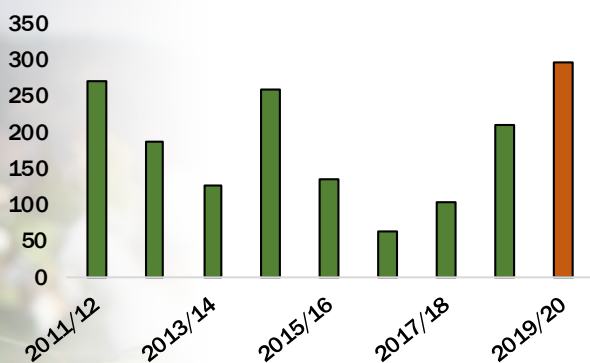
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Pima ending stocks (thous 480 lb bales)



Source: USDA

months, may be accounted for by rising hopes of an early resolution to the US-China trade dispute in April, the period when Pima planting was getting under way. However, yields are predicted to be somewhat lower this year, as a result of cold, wet conditions in the early stages of the season and increasing insect pressure as temperatures have risen. The resultant figure for production is largely similar to that seen last year, with a slight bias to the downside. An export figure similar to that estimated 2018/19 may see ending stocks rise strongly again to approach 300,000 bales (480 lbs) by July 2020, a gain of 40 percent in a year.

The recovery of output in Egypt seen in 2018/19 has proved to be short-lived, as the area planted for 2019/20 has retreated by nearly 30 percent, suggesting a long staple crop in the region of 67,500 tonnes. It appears that Giza 94 has been accepted by mills in customary export markets and continues to gain ground once occupied by Giza 86. Production of all varieties is down this year, but Giza 86 will probably make up only a quarter of the volume of Giza 94 cultivated. Extra-long staples now represent a very small proportion (five percent) of the overall crop.

As our two contributors from China make clear, the Xinjiang long staple crop is expected to decline further this year in the face of falling prices, high production costs and waning demand (there is a tendency for mills to switch to high-grade upland varieties).

World LS Output (tonnes)			
	2018/19	2019/20	2019/20 v 2018/19
United States	169,607	165,000	-3%
Egypt	90,000	67,600	-25%
of which:			
ELS	4,000	3,375	-16%
Giza 86	22,000	13,225	-40%
Giza 94	64,000	51,000	-20%
Sudan	7,000	7,000	0%
Uzbekistan	3,000	5,000	67%
Tajikistan	1,000	1,000	0%
Turkmenistan	15,000	21,000	40%
India	100,000	100,000	0%
Peru	5,000	5,000	0%
China	80,000	65,000	-19%
Israel	9,000	9,150	2%
Spain	5,500	4,000	-27%
Total	485,107	449,750	-7%

Indian long staple output continues to fall well short of local consumption. The improvements of upland yields during the early part of this century, and last season's sharp increase in Minimum Support Prices, would seem likely to militate against a shift in producer preferences toward long staple varieties. Moreover, (in the first two months of the growing period) rainfall was lacking in those states (Tamil Nadu, Karnataka and Telangana) in which long staple cultivation is concentrated.

As regards demand, consumption trends are always difficult to forecast with any great precision. However, by observing data related to production and international trade, it is possible to draw some preliminary, albeit tentative conclusions about the coming season.

World LS Consumption (tonnes)			
	2018/19	2019/20	2019/20 v 2018/19
India	195,000	195,000	0%
China	140,000	120,000	-14%
Pakistan	32,000	37,000	16%
Egypt (ELS, G86, G94)	12,000	13,000	8%
United States	5,500	6,500	18%
Latin America	12,500	12,500	0%
Bangladesh	10,000	10,000	0%
Europe (inc. Turkey)	15,000	15,000	0%
South East Asia	19,000	19,000	0%
Others	2,000	2,000	0%
Total	443,000	430,000	-3%

Overall, we project a four-percent decline in global consumption. As yet, there is no relief in sight on the issue of the trade dispute, and for that reason our estimate of Chinese consumption (especially of US Pima) is reduced for this season. Our estimate of Indian consumption in 2018/19 is based on local production plus strong import volumes for Egyptian varieties and US Pima, and for now we forecast no significant change in that pattern for 2019/20. (The demand represented by forward sales of Pima to India by the end of the 2018/19 marketing season was almost identical to that at the end of the previous season, for example.) In Egypt, consumption fell in 2018/19, but may rebound slightly in 2019/20 as state and private investment in fine count yarn capacity takes effect. Modest year-on-year rises might also be observed in the US domestic market and in Pakistan, while a higher volume is projected for both seasons in South East Asia. Bangladesh and Turkey have seen their forecasts fall, while that for Latin America (principally in Peru) is unchanged.

At this early stage, then, world production of long staples is forecast to exceed consumption during the season ahead by a margin of about five percent.



Factors influencing California's Pima production



*Brad Reinhart,
Director of Cotton Marketing, J.G. Boswell Company*

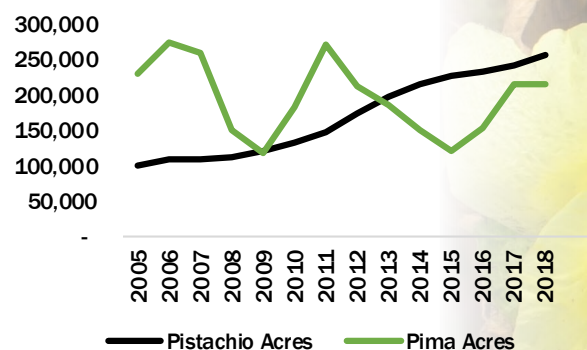
Pima cotton has been grown in the San Joaquin Valley of California since 1960, when farmers first realized that the region's climate is perfect for production of this variety. The crop can generally be planted in April because of the warm early-spring temperatures. Hot, dry summers supply the heat units necessary for plants to mature fully, and since it does not typically start raining in this area until November, the crop can usually be harvested without any degradation to the fiber. Pima production peaked in the state in 2006, when 275,000 acres were planted, and the current USDA estimate for the 2019/20 crop is 240,000 acres. The dynamics of farming in California have changed drastically since Pima was first grown here. We'll discuss below a few of the significant factors farmers are facing today and try to forecast how these factors might impact Pima production in the future.

Competing crops

The hot, dry summers, wet winters and rich soil of the San Joaquin Valley are ideal for much more than the production of Pima. California leads the US in the production of over 60 different crops, although most Pima farmers do not have the opportunity to grow the full range of these. Many farmers are limited to a choice between different row crops – Pima, Acala/upland, processing tomatoes, wheat, safflower or alfalfa hay – none of which has been especially profitable over the last few years. However, permanent crops such as grapes, almonds and pistachios have been much more lucrative and are being planted in large areas that have traditionally been occupied by cotton.

Pima is primarily grown in five counties of California: Kings, Kern, Fresno, Merced and Tulare. The graph shows

California pistachio and Pima acres by year



the overall number of acres of pistachios and Pima in these counties over the last 14 years. Note how pistachio acreage has increased by over 150 percent in the timeframe presented in the graph, while Pima acreage has fluctuated significantly from year to year. Permanent crops are much more profitable, due not only to the price per pound fetched for the product, but also because of the relatively low input costs once orchards are established. The ground does not need nearly as much cultivation as row crops such as cotton, which also reduces the expense of equipment and labor.

At some point in the future, we will reach a point at which the profitability of permanent crops like pistachios and almonds can no longer support additional acreage. We are not there today and yet the rate at which new orchards are being established is beginning to slow. An orchard of almonds typically stays in production for 20 years and a pistachio orchard can stay in production for over 90 years.

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During this time, the ground is unavailable to other crops such as Pima and this eliminates the farmer's ability to shift to other crops.

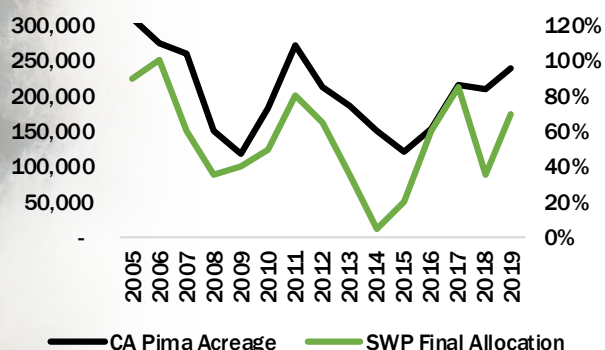
Water

In the 1940s, farmers in parts of Fresno County were assured that if they developed their farmland, various planned public water projects would be able to supply all their irrigation requirements. The water projects were indeed completed; however, competition for water resources has risen inexorably since then. The state population has grown from five million in 1930 to 23 million today. In addition, the Endangered Species Act has forced the release of water to the ocean to help protect the delta smelt fish and other threatened species. As a result, farmers in the region can no longer depend on the public water system as a reliable source for irrigation water.

In the past, groundwater was pumped from wells to help maintain a consistent level of crop production in years when surface water supplies were low as a result of drought. Recently, however, the state legislature passed new regulations to prevent the excessive consumption of groundwater. The Sustainable Groundwater Management Act (SGMA) will restrict to sustainable levels the amount of groundwater farmers are able to pump from their land. There still is some uncertainty regarding the way the new regulations will be enforced, when they will take effect, and what level will be considered sustainable, but the insurance that groundwater provided to Pima farmers in the past will probably not be available in the future.

If one wants to understand Pima production in California, one only needs to look at how much water is available. The graph below shows the correlation between the State Water Project Allocation, which is a measure of how much public water is available to farmers, and total Pima acreage in the state. It is clear that water availability and Pima acreage are highly correlated, even more so than price and acreage.

State water project final allocation and California Pima acres



Prior to planting the 2019/20 crop, Pima farmers were faced with prices that had fallen almost to the cost of the production (their lowest level in over ten years); nevertheless, acreage is still expected to increase by 29,000 acres according the latest USDA estimates. Coincidentally, this last winter was one of the wettest on record and the

State Water Project Allocation is set relatively high at 70 percent.

The water supply available to California farmers is highly uncertain year to year. The new regulations will only add to that uncertainty. Permanent crops like pistachios are exactly that, permanent, and need a certain amount of water each year to be productive. Row crops like Pima will receive the excess water after the permanent crops' needs are met. In the future, one can expect more volatility in Pima acres planted from year to year depending on water availability.

Regulations and taxes

California is the one of the most regulated agricultural areas in the world. Not only are these regulations burdensome to follow, but additional fees and taxes increase the cost of production. For example, the current price of diesel in California is \$3.953 per gallon, which includes \$0.68 in excise taxes plus applicable sales tax. This is compared to \$2.82 per gallon in Texas, the largest cotton-producing state in the US. Moreover, in 2016 the California legislature passed a law that will gradually increase the minimum wage by \$1 per year until it reaches \$15 per hour by 2023. This will be more than double the current US federal minimum wage of \$7.25 per hour.

On January 1 of this year, the California Department of Pesticide Regulation imposed new restrictions on the use of chlorpyrifos (Lorsban) on many crops including cotton, making it essentially unavailable to farmers. For many years, this chemical has been very effective controlling pests such as lygus, whitefly and aphids, which cause sticky cotton. Farmers have alternative methods to control these pests, but the materials involved are two to three times more expensive than those used in the past.

The challenges of growing Pima in California today are very different from those prevailing in 1960. The stakes are much higher when it comes to deciding what crop to grow each year; obtaining the necessary water is a much more uncertain process; taxes are higher and there are more regulations to follow. Given how many acres have been devoted to permanent crops in the five main Pima-growing counties, it is difficult to envisage a scenario in which we'll again see 240,000 acres in the state. And that's not necessarily a bad thing considering the current state of demand! However, those very same challenges have also made us extremely efficient in our farming practices. We are pioneering new technologies that minimize inputs such as fertilizer and water while maximizing the yield per square foot. Our innovation and sustainable farming practices will ensure Pima will continue to be grown in California for many more years.



An overview of Egyptian public business sector reform and its implications for affiliated cotton businesses



Mohamed Hassouna

Senior Advisor to the Minister of Public Business Sector, Egypt

Technical features distinctive to Egyptian cotton

From a technical point of view, the value of Egyptian cotton products arises from the strength and elasticity of the raw material which allows it to be woven much more tightly than other types. Egyptian cotton is classified as a barbadense breed, as it possesses very fine long and extra-long fibres. According to the Fashion Institute of Technology in New York, the Giza variety of barbadense cotton grows only in Egypt, “therefore Egyptians aggressively protect this industry.” Cotton grown elsewhere mainly comprises varieties of the hirsutum type which has much shorter, coarser fibres. US Pima is a cross between barbadense and hirsutum types. It was developed around 1912 in Arizona as a hybrid of an Egyptian cotton variety. However, Egyptian cotton can still be woven far more tightly than other strains.

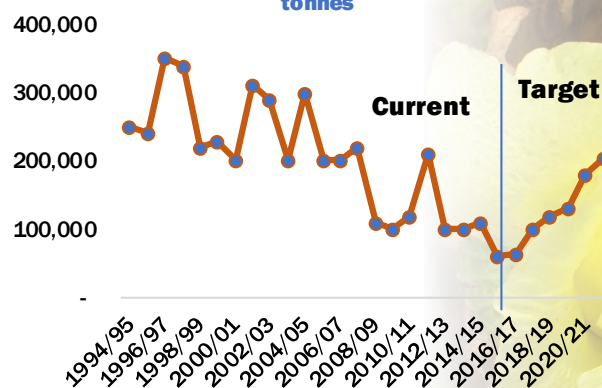
Current Egyptian cotton statistics

The first chart on the right demonstrates an almost steady decline in the production of long staple and extra-long staple Egyptian cotton since the mid-1990s. The plan for the next few years is to raise production via a restructuring project that will be detailed later.

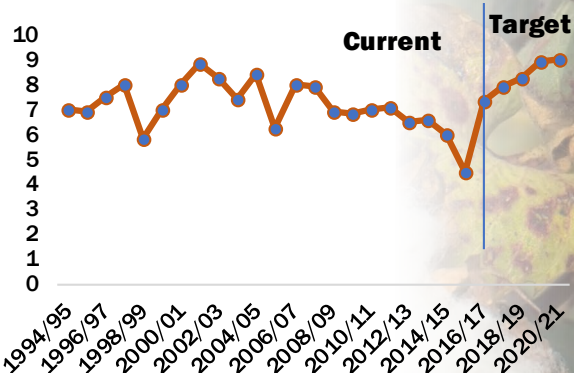
The plan also targets an increase in productivity, which is currently below international levels. The second chart shows actual and target yields for ELS varieties.

Despite having a typically lower price point than other long staple varieties, Egyptian cotton has been losing ground in the international market in recent years, in part as a result of problems with quality and contamination. The first chart overleaf demonstrates market share for an eight-year time series.

Production of Egyptian cotton tonnes

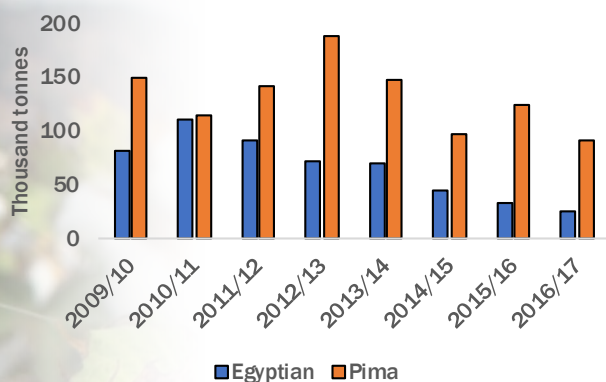


Cotton yield kantar/feddan

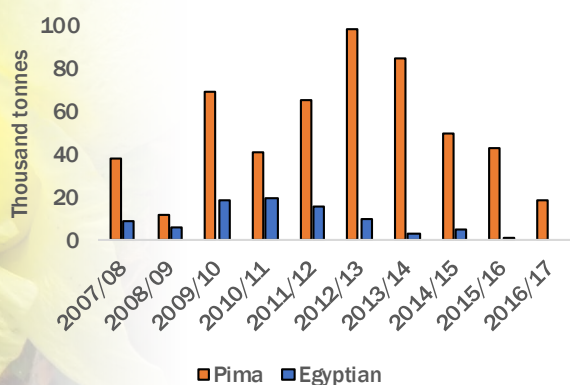


Moreover, both Egyptian and American Pima exports are now in a period of decline, due to reduced acquisition by India and China. The following graph shows the fall in exports to China from both countries.

US and Egyptian exports



US and Egyptian exports to China



Public Business Sector (PBS) reform programme

By the end of the 1950s, the Egyptian textile industry had been taken into public ownership in its entirety, and the value of all inputs and outputs in the sector were determined by the government, rather than by market dynamics. This was a difficult moment for the Egyptian economy, with the Arab-Israeli conflict at its peak, and the need for economic support via subsidized products was critical. Subsequent competition between the public and private sectors in the Egyptian textile market has resulted in the dominance of private enterprises in activities such as the spinning of synthetic fibres (polyester, acrylic, and polypropylene) and production of ready-made garments, since that sector has the flexibility, motivation and financial resources to grow at a faster rate.

Since the early 1990s, the government has been engaged in a long-term plan for economic reform and has targeted textiles as a strategic industry, as it is the most labour-intensive sector in Egypt and a major contributor of products for export. The policy was to allow the private sector to carry out the required restructuring through a process of privatization of certain cotton and textiles (C&T) companies. Only three cotton ginning companies were privatized, one of which (the Nile Cotton Ginning Co.) subsequently returned to public sector ownership. Meanwhile, the C&T companies that remained in public hands have deteriorated substantially over the last 20 years. Despite the settlement in 2006 of debts owed by C&T

affiliates to national banks in the amount of £13 billion, no resources were allocated for modernisation or the implementation of technical restructuring. Additional funds were disbursed only to cover salary payments in the event of a company's insolvency, or to finance urgent working capital requirements.

At the present time, public sector textile companies employ more than 56,000 workers, representing around 25 percent of the total labour force of all public sector companies. The Holding Company for Cotton and Textile Industries (HCCTI) owns 32 companies engaged in various activities as shown below.

Activity	Spinning and weaving	Cotton Ginning and Trading	Pressing	Total
Number of companies	23	8	1	32

In aggregate, these companies realize sales of £3.7 billion per year, of which £1.5 billion come from cotton ginning and trading/exporting companies. The companies in the cotton sector generate an average annual profit of £300 million, while other textile companies tend to show annual losses of about £3 billion. The Ministry of Public Business Sector (MPBS) is keen to restructure the whole portfolio of 32 affiliates including both cotton and textiles companies, which fall under the single umbrella of the HCCTI.

The restructuring programme

In the last year, the MPBS has adopted a more comprehensive approach to restructuring. The aim is to include not only technical areas of the businesses but also their managerial and human resources. Moreover, the changes are to be undertaken based on proper studies by professional consultants, as well as in cooperation – whenever possible – with private sector entrepreneurs.

The following are the main pillars of the reform program for the 32 textile companies and 121 public sector affiliates.

- * **Financial, technical and managerial restructuring** of top loss makers (including cotton & textile companies). This includes successful settlement of debts owed by the companies to creditors such as the National Investment Bank (NIB), electricity and gas companies. The settlement of debts owed by textile affiliates to NIB (amounting to £10 billion) was in fact concluded a few months ago.
- * **Developing partnerships with the private sector**, which could take several forms, including: a) establishing special purpose vehicles to carry out new projects; b) increasing capital through private sector subscription, eventually reducing the public sector stake; and c) offering shares of certain companies for sale through the stock market.
- * **Managerial reform in the public business sector** and affiliated companies, including assessment of CEOs, revisiting internal policy manuals, modifying Public Enterprise Sector Law No. 203/1991 (under

way) to remove historical impediments to reform, and the improvement of management and measurement of performance.

- * **Enhancing corporate governance** partly through some of the aforementioned modifications in the law, as well as by other means.
- * **Utilisation of unused real estate**, starting with the preparation of a proper database of the land owned by the 121 affiliates which should include information and documentation on ownership, values, and possible best uses, etc. The largest land-bank was found to be owned by the textile affiliates; preliminary estimates indicated a total value close to £100 billion.
- * **Other restructuring tools**, including mergers, to be implemented on a case-by-case basis. The textile companies are expected to be brought together into just eight entities, each with its own specialization for individual product lines.

This multi-faceted approach to the restructuring of C&T companies is being implemented in two phases.

Phase one: study by specialized consultants

The MPBS has made impressive progress in the last couple of years, paving the way for a comprehensive restructuring scheme based on proper studies for the first time since 1992. This project began with the engagement of a specialist international consulting firm, Werner International, which produced for the first time a fully-fledged financial and technical feasibility study for cotton ginning as well as the affiliated textiles companies.

The following are a few highlights from the Werner report that illustrate the deterioration in cotton ginning plants.

- * There are 25 ginneries in total, many of which are over 100 years old.
- * There has been no capital investment for 40 years, and ginning parks are antiquated, with machinery between 40 and 140 years old.
- * All the ginneries are equipped with the most basic model of roller gin, which is technically obsolete.
- * The yield and production rates achievable with such equipment are a fraction of those produced in modern factories: 25 kgs lint per hour, compared with the 450 kgs per hour processed by the new rotobar production method.
- * Energy consumption rates

are high: 450 KW per hour to produce 2,275 kgs of lint.

- * Lint ginned according to this process undergoes significant damage and contains a high proportion of contaminants and residual trash.
- * Infrastructure has been neglected in all cases and is now in a poor state of repair or is unfit for purpose.
- * The conditions in many gins pose risks for the workers in the form of fire hazards or other risks to their health.
- * Approximately 20 of the 25 plants in the three ginning subsidiaries are located in urban areas.
- * Many have inadequate storage areas and need to rent space elsewhere in order to store seed cotton supplies properly.
- * Much of the workforce is made up of seasonal workers, only a small proportion (about 15 percent) of which have temporary employment contracts; the remainder work according to a daily piecework rate.

The major findings and recommendations of this study covered several areas including the following:

- * Cotton-related policy recommendations.
- * Product mix recommendations.
- * Mergers, shutdowns and company grouping.
- * Downsizing the number of ginning facilities (from 25 to just 11).
- * Identifying unutilised land for future deployment or sale.
- * Investment-related recommendations with an estimated total investment cost for cotton companies of £1.1 billion, in addition to £25 billion for spinning, weaving and textile companies.

The MPBS used the findings of this comprehensive study to prepare a roadmap for the implementation phase.



Preparing the roadmap

The work of the consultants laid the groundwork for the restructuring process, but there was a lot of fine-tuning in several areas to be completed first. This included the following tasks, which have been completed during the last year as part of a comprehensive initiative by MPBS.

- * Study of the entire value chain from cotton seed to end products.
- * Meetings with various stakeholders: investors, exporters, labour representatives and government bodies, including the Ministries of Agriculture and Industry, as well as the Cotton Research Institute.
- * Identifying weaknesses in the value chain (such as the causes of contamination).
- * Study of the Better Cotton Initiative (BCI) standards, with a view to future adoption.
- * Probing the issue of importation versus local cultivation of medium and short staple cotton for use by local mills, whilst boosting the quality of ELS and LS.

Phase two (current phase): project implementation

One of the first projects to be completed as part of the restructuring process was the overhaul of the Fayum ginning plant, where the worn-out facility was replaced with state-of-the-art technology. The trial period has commenced and the official inauguration took place on June 30, 2019. The new plant (pictured above and on page 11) clearly represents a technical step forward, but it offers other advantages too. For instance, it sends a strong message both locally and internationally that the Egyptian government is keen to restore the image and reputation of Egyptian cotton (especially long and extra-long staples) by making improvements to the entire value chain.

It also assures public sector workers, the media and other constituency groups of the government's positive approach to the C&T sector and its commitment to reform.

The launch of the final configuration of the new process is imminent. Mandatory aspects of the comprehensive restructuring project adopted by the MPBS in the implementation phase and now under way include:

- * Signing a new mandate for Werner consultants to supervise the entire implementation of phase two in light of the recommendations presented in their previous studies.
- * Preparing the organizational structure for the implementation phase.



- * Recruiting new experts to work on the implementation through a scientific evaluation and assessment procedure.
- * Discussions with relevant ministries (agriculture and industry) regarding a more efficient cotton handling and distribution process to boost the quality and competitiveness of Egyptian cotton, which is currently sold at a discount to US Pima due to quality and contamination issues.

Conclusion and remarks

The road to the successful restructuring of cotton and textile companies under the Egyptian public business sector has been laid on solid ground, but success can only be achieved if the policy reforms in the cotton sector currently being pursued are made mandatory and implemented in full. This is the route to the revival of Egyptian cotton and related industries throughout the value chain.



A new strategy for cotton traders



Mahmoud El Sayed,
Chairman, DMT EGYPT

There is no doubt that the 'back-to-back' business model for cotton trading has become the one that implies least risk. However, in such turbulent global conditions as currently prevail, even this model becomes more uncertain and some additional measures need to be taken. Traders of ELS cotton, particularly Egyptian cotton, have to adapt to a new secure model in order to mitigate risk.

In light of the above, and in particular as a result of the US-China trade dispute and fluctuating global currencies, a more conservative strategy is needed, one that depends on selling smaller quantities with expedited shipments in order to reduce the risks for both the seller and the buyer. For example, the peak of the Egyptian cotton season is November to March, and this season that period saw a major depreciation of the US dollar in respect of the Egyptian pound.

Consequently, a new business model has arisen involving a steady stream of small-volume, fast-turnaround sales amounting to about 3,500 tonnes. Such contracts represent about five percent of all sales of Egyptian cotton in the 2018/19 season, most of them to Pakistan. The strategy helps to pre-empt any problems that may occur either in the domestic market or the destination country

(for instance, currency fluctuations, increases in customs duties) that create such stress for exporters.

For example, earlier the season prices for cotton were quoted around 108 cents/lb, CIF Far East while the Egyptian pound/US dollar rate was 18.00. However, when prices rose to 118 cents/lb, Egyptian exporters gained no additional benefit because by then Egyptian currency had strengthened to 16.50 pounds per dollar.

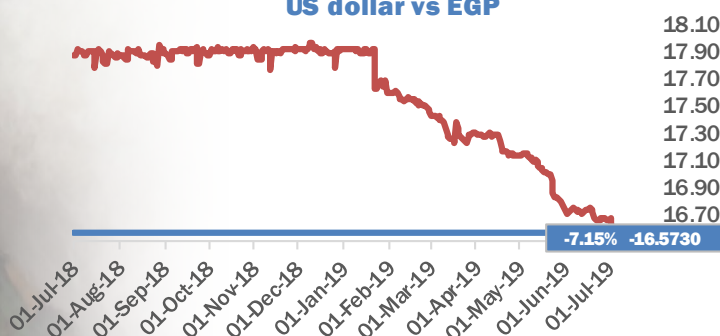
So, what steps can exporters take to manage such risks?

To answer that question, we need first to identify the factors that must be taken into consideration:

- * Currency volatility in Egypt as well as in countries importing Egyptian cotton. For example, in the 2018/19 season the value of the Egyptian pound rose by more than seven percent, while the Pakistan rupee fell by about 30 percent.
- * The area sown to cotton in Egypt for the 2019/20 season has decreased by more than 23 percent.
- * The supply of US Pima cotton is expected to rise.
- * Egyptian interest rates are high: about 21 percent annually.
- * Domestic production costs are due to rise as a result of the government policy to slash energy subsidies. There will also be a knock-on effect for all associated activities, including ginning, harvesting, trucking, etc.

By identifying these factors and adopting the same conservative business model for the coming season, Egyptian exporters are endeavouring to penetrate further into existing markets, doubling the volume sold to India, Bangladesh and China.

US dollar vs EGP



Interview with Mr Magdy Tolba, Chairman of the Egyptian Export Council for Textiles, Apparel and Home Textiles



The Egyptian textile industry will play a vital role in the strategy of the Ministry of Trade and Industry to promote industrial development and foreign trade over the next ten years. The sector is one of the largest contributors to employment (the sector employs 1.5 million workers, about one third of the industrial labour force) and in 2018 provided annual exports worth US\$ 3 billion, accounting for 12 percent of all non-petroleum exports for the year.

The country's vertically integrated textile industry encompasses the complete production process: from the cultivation of cotton, to the manufacture of yarns, fabrics and ready-made apparel. The Egyptian textile industry is the country's second-largest sector after agriculture and plays a major role in shaping the Egyptian economy.

The apparel sector in particular has undergone a significant reversal of fortunes and has experienced a new phase of growth in recent years. The country has more than 1,500 apparel factories with a total production capacity of 15 million pieces per day. Fifty percent of workers in the sector are women.

Apparel supplies 6.5 percent of non-petroleum exports and received investments valued at US\$159 million between 2016 and 2019. Apparel exports reached \$1.604 billion for 2018 compared to \$1.459 billion in 2017, a rise of ten percent. The main markets for apparel exports are the US, which accounts for half of Egypt's international sales, and the EU, which takes 30 percent. Other significant markets include Canada and some Arab and African countries.

The textiles sector – encompassing the production of fibers, yarns and fabrics – is another key contributor to Egypt's industrial output, accounting for 3.2 percent of private sector production in 2018 and involving more than 2,000 companies and 300,000 workers.

Directed to more than fifty markets, Egyptian textile exports achieved a rise of eight percent in 2018 (with a value of US\$900 million) compared to 2017 and represented a four-percent share of total non-petroleum exports. The principal export destinations for textiles are European Union countries, which account for about 35 percent of total exports, followed by Turkey (30 percent), the Mena (Middle East and North Africa) region (23 percent), and the rest of Africa (about ten percent). In terms of products, the cotton cluster (HS 52) has the largest share of exports (40 percent), followed by non-woven textiles (HS 56) on 20 percent, and man-made fibre products (HS 54) which account for 15 percent of total textile exports.

In addition, Foreign Direct Investment in Egyptian textiles projects has witnessed a significant increase during recent years, especially in the woven fabric sector where the number of FDI projects has risen from about 200 in 2014 to more than 700 in 2019.

Egypt is now ready to achieve substantial growth in textile exports, thanks to its unique geographical location and its long industrial history, as well as recent developments in infrastructure and the free trade agreements that give the country preferential access to some of the world's largest markets.

In his dialogue, Mr Magdy Tolba, Chairman of the Egyptian Export Council for Textiles, Apparel and Home Textiles, says that Egyptian textile exports could increase four-fold by 2025, reaching an annual total of US\$12 billion. In order to achieve this growth, improvements are needed in the business climate: in particular, better co-operation between the government and exporters. He emphasizes that Egypt's textiles and clothing sector is the most integrated industry on the African continent, giving the country a significant advantage over its competitors and allowing it to function as a hub for African textile exports.

The country has a well-developed infrastructure and is making further investments of more than US\$15 billion in roads, electricity networks and irrigation projects, and at 15 marine ports.

Cotton Outlook: What is the principal challenge the industry faces as it increases textile exports?

Mr Magdy Tolba: We aim to increase textile exports from US\$3 billion to US\$12 billion by 2025. But the industry faces strong competition from neighbouring countries which have better financing and facilities, so first we have to address the tough financial conditions for companies. We have to make finance available at concessionary rates and classify the textile sector as a non-high-risk credit industry.

CO: What are the other challenges and benefits?

MT: The apparel sector is a labour-intensive industry which requires a highly skilled workforce. In order to meet this need, the intention is to create 500,000 jobs by 2025 and provide training for up to a million existing workers.

Moreover, apparel manufacturers are confronted by rising production costs (for electricity, natural gas, wages, water, etc.) while most of our raw materials are imported from abroad in response to the increasing demand for man-made fibres.

The fashion supply chain is also facing the challenges posed by a rising global population, increasing wealth and consumerism in emerging markets, and the phenomenon of fast consumption in the developed world.

The textile sector in particular is also trying to deal with fierce competition from China and Bangladesh, countries that already provide steady support for their export industries. For example, China, the largest apparel exporter in the world, provides financial support to manufacturers to the tune of 17 percent of the value of exported products. Bangladesh, the second-largest exporter in the world, gives manufacturers a five-percent subsidy.

Meanwhile, Egypt's textile and apparel factories are installed with ageing machinery that urgently needs to be modernised in order to keep up with the pace of technological changes in textile industries in the rest of the world.

However, the Egyptian textile sector also offers a large, cost-effective, skilled labour force with minimum labour wages of US\$115 per month. Electricity costs around seven cents per kilowatt-hour, compared to three to four times that amount in China.

Textile production in Egypt is decreasing while consumption is increasing. The value of our exports has hovered around US\$3 billion for the past nine years, although this total was supposed to double in the wake of the flotation of the currency in 2016. The fact that it has remained more or less the same is due to several factors, including a delay to the system of export tax rebates and the negative impact of certain elements of new legislation in the realm of customs law, for example, as well as the reliance on a large volume of imported raw materials and accessories.

Nevertheless, the implementation of the new export tax rebate scheme on July 1, 2019 will support the domestic industry and increase the added value of exported products.

CO: How does the consumer make sure that Egyptian apparel is made from local raw materials?

MT: The Cotton Egypt Association plays an important role in this regard. We aim to increase the area cultivated with cotton so that we are able to meet the local needs and develop the whole system. Moreover, the Export Council is one of the main implementing partners in the BCI Sustainable Cotton Initiative with UNIDO, which ensures the concept of sustainability in the textile value chain.

CO: What would be the likely impact on the textile industry of a floor price for cotton?

MT: A floor price would probably have a positive impact, helping farmers achieve sustainability in agriculture and thus produce affordable raw materials that meet the needs of the local industry and export sector. Such a scheme should be run in parallel with an efficient and mechanized harvesting system, and the promotion of the Egyptian cotton logo and Egyptian brands.

CO: What about the future of cultivating Giza 94 versus Giza 86?

MT: The future of the cultivation of Egyptian varieties depends largely on the outturn rates and which strains offer higher yield. New, high-productivity varieties should also be developed.

Meanwhile, Egypt must develop new markets to increase imports of short staple cotton, which will bring costs down and provide a consistent supply of an important commodity for consumption in the domestic market.

CO: What is the role of the Export Council in implementing the strategy of doubling Egyptian exports?

MT: Policy advocacy is one of the main roles of the Export Council. We support effective trade policy positions and act as technical experts, representing the interests and communicating the point of view of stakeholders to the government. We have adopted a model similar to that in operation in eastern European countries, whereby the business community plays a critical role in encouraging the government to invest in the textile sector and modernise existing factories.

The development strategy for the textile industry aims at reducing Egypt's trade deficit by increasing exports, while strengthening its competitiveness, reducing imports, improving the quality of the exported product, creating millions of jobs and increasing the relative value of Egyptian exports.

Egypt is a sourcing hub for a large variety of textiles and apparel products. The region offers ethical, socially compliant factories with export experience. The supply chain is vertically integrated and mostly certified by Wrap, ISO and OEKO-TEX.

CO: What are the steps required from the government to overcome the current challenges?

MT: Attracting Foreign Direct Investment and supporting investments in general is important: business incentives in Egypt are given to both local and foreign investors on an equal footing. In addition, some of the existing free trade

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agreements should be revised to the benefit of the Egyptian industry, and defunct agreements should be reactivated and ratified so as to increase Egypt's market share in the Eastern Mediterranean and African regions and help the country benefit from the export opportunities available within these promising markets.

CO: Any final thoughts?

MT: Egypt's textile industries have numerous competitive advantages. The core of the export development strategy for the next five years is to quadruple exports, strengthen domestic manufacturing, increase added value, improve the quality of exported Egyptian products while achieving sustainable cultivation and production processes for Egyptian cotton so as to maximise the benefit of its unique reputation for high quality.

We expect the government to cooperate with the Export Council in its efforts to increase exports and reduce imports, especially as it acts in its advisory capacity, helping

the government formulate the policies needed to increase exports, create jobs, reduce unemployment and enhance Egyptian GDP.

I should add that the US is the main export destination for Egyptian apparel products manufactured in the Egyptian Qualified Industrial Zones (QIZ). These products enjoy duty-free access to the US market under the QIZ protocol.

Products manufactured in Egyptian QIZs can use fabrics imported from third countries and remain eligible for duty-free access to the US market, provided that 35 percent of their value is added in Egypt (costs incurred in the US also count towards the 35 percent threshold), and that they include a minimum of 10.5 percent of Israeli content.

Egypt also enjoys duty-free market access to the EU under the double transformation rule of origin. Alongside Turkey, Europe is a main export market for textile products, especially cotton yarns. With its fabric base and sourcing proximity to Turkey, exports to the EU are likely to increase.

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Long staple import market analysis



*Ms. Lorna Le,
China Marketing Director, Eastern Linkage Limited*

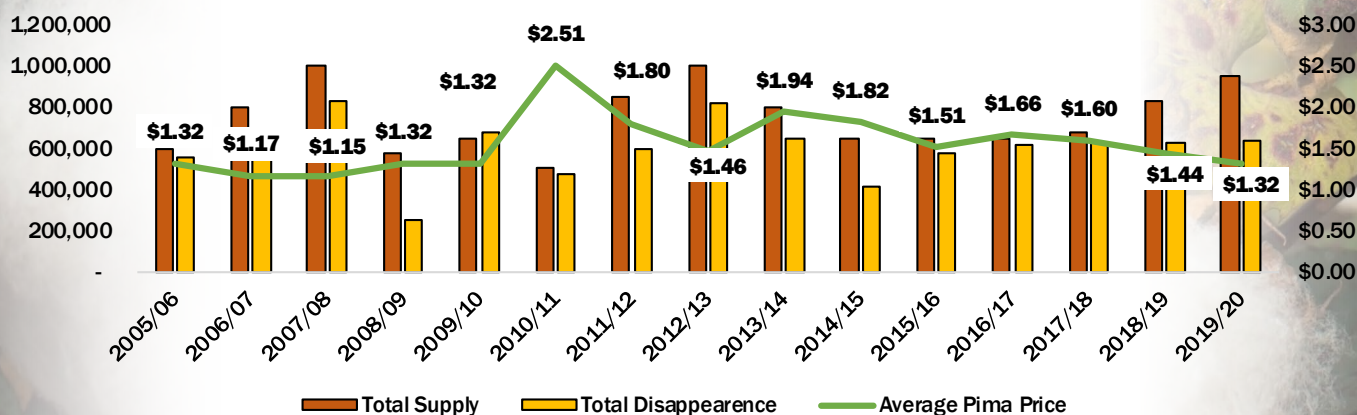
Established in 1998, Eastern Linkage Limited was one of the first Chinese agents dealing in imported cotton to specialise in long staple and high grade cotton stocks.



Firstly, let's take a look at China's inventory of imported long staple cotton, which consists principally of US Pima and Egyptian Giza, the former being the dominant style for imported long staple cotton. By June 20, 2019, according to USDA's export sales report, a total of 251,682 bales of US Pima had been sold to China in the 2018/19 season, comprising 211,479 shipped, and 40,203 unshipped. This total accounts for 35 percent of Pima exports this season. India was the second-largest buyer of US Pima (210,903 bales sold, or 29 percent). The comparable figures by the same date last year were 241,944 and 178,613 bales, respectively. So, we can see from the figures that despite total sales of US cotton sales to China having been sluggish since June 2018 due to Sino-US trade friction and the additional tariffs of 25 percent levied by the Chinese side, Pima exports alone have already exceeded those of a year ago.

Survey results show that stocks of old crop Pima (from the previous four seasons) currently held at domestic ports amount to nearly 2,000 tonnes, a very small percentage of which had already cleared customs before the start of the trade dispute last year. Stocks of new crop were estimated to total around 5,000 tonnes. This figure includes some shipments en route that were contracted by traders in March and April this year, at a moment when Pima prices had declined and the market was optimistic about progress in Sino-US trade relations. However, most of the new crop stocks were ordered at high price points and then had delivery delayed in the hope that tariffs would be cancelled. In these extraordinary circumstances, US cotton merchants and farmers' cooperatives have afforded their Chinese customers great flexibility and support in allowing the postponement of contracts. In June, however, farmers in the US agreed a financial settlement, under the terms of

**Long-Term supply and demand of US Pima
(running bales and yearly average Cotlook Pima quote, CIF Far East)**



which all outstanding contracts had to be shipped before the end of that month, or risk incurring large warehousing costs and capital interest charges.

This year, Pima prices have maintained a weak trend and most quotes are currently between 130 and 140 cents per lb (with 125 cents being the lowest offered by some merchants). A year ago, the prices were generally at or above 155 cents per lb and a mood of optimism prevailed in the market. Then, of course, came the escalation in the trade conflict and everything changed.

The price trend chart (on the previous page) shows that for almost all of the past ten years, the Pima price has ruled above 140 US cents per lb, reaching as high as 180 and 195 US cents per lb in 2013/14 and 2014/15, respectively. The current rate of around 130 US cents per lb is obviously a relatively low point, equivalent to 22,000 yuan per tonne after customs clearance. Indeed, it is now widely accepted that Pima prices have dropped to the break-even level for farmers. By contrast, the price of Xinjiang long staples has declined from 27,000 to 24,500 yuan per tonne, and now stands around 2,500 yuan per tonne higher than for Pima, giving Pima an even greater potential advantage; however, most spinners have remained cautious buyers in the light of the 25-percent tariffs. Nevertheless, a small number of domestic mills have taken advantage of the price fall and have made purchases using processing trade quota (thus avoiding the additional duty) to replenish their stocks and cover their requirements for next year. Many other spinning mills, though, are feeling the pressure of mounting inventories resulting from the slow pace of sales of high-count yarn, so long staple consumption has decelerated overall. Only a few mills have maintained low inventories and adopted Xinjiang long staples as an alternative to Pima, despite the price differential. The principal motivation for such a strategy seems to be concern about the quality of Pima stocks available.

Sluggish downstream consumption has led to a widespread lack of confidence, and some traders and mills have agreed 'buy-back' plans which could be implemented once the trade dispute is settled. However, after many months during which tensions have escalated rather than dissipated, some such buy-backs were finally confirmed. In those cases, the losses to buyers were huge and the difference was 20 cents per lb or even higher.

Price aside, the issue of most concern to Chinese buyers in recent years has been the problem of sugar contamination. This issue has emerged in the last four to five years, especially in the summertime. Sugary deposits on cotton fibres can cause damage to machinery leading to the interruption of factory operations. For those Pima users, sugar content has undoubtedly become the major concern in procurement.

Cotton pests are responsible for this type of contamination, and effective management has become a key issue for those Pima suppliers seeking to improve their core competitiveness. Boswell, the largest supplier of US Pima, is one of the market leaders in terms of seed breeding, cultivation, harvesting, processing and sales. They employ strict procedures to ensure they meet their

customers' various requirements, including testing for sugar contamination. Other suppliers who cannot match the high standards risk being blacklisted by spinning mills.

New crop enquiries are very light at present, mainly because of concerns about the additional tariffs on US cotton. Despite the positive developments at the G20 summit in Osaka, mills are still worrying about the possibility that additional tariffs may be levied at short notice. On the other hand, if the trade talks maintain a smooth trend and a satisfactory outcome is achieved, the Pima price may rise rapidly, perhaps by as much as ten cents per lb from its current level. Whether mills take a cautious or more bold approach with regard to their medium-term buying strategy will depend on the orders they have on their books and their expectations about the future direction of policy in China and the US.

Next we'd like to talk about another competitor of US Pima – Egyptian long staples. Years of varietal improvements have meant that some of Egypt's long staple output is now unfamiliar to Chinese users. Production of Giza 88 and Giza 70 (formerly the representative varieties) has ceased and the minimal stocks that remain at port are now eight or nine years old. Meanwhile, Giza 96 (which provides a substitute for Giza 88), Giza 94 and Giza 92 (similar to Giza 86) have grown in popularity. According to official data, by June 22, exports of Egyptian long staple varieties in the current season totalled 84,611 tonnes, of which 5,641.5 tonnes had been shipped to China (ranked as the fourth-largest importer of Egyptian cotton after India, Pakistan and Bangladesh). The figure for India was 44,268 tonnes, and of the total imported by China, Giza 94 accounted for 82 percent, or 4,655 tonnes.

Egypt is the only long staple origin where prices have increased this year. Earlier in the season, for example, Giza 94 was quoted at just over 110 cents per lb, but has increased to 125 recently, in line with the cheapest US Pima. Moreover, the price for Giza 96, the representative variety of Egyptian extra-long staples, has risen to over 150 cents per lb recently. Export sales for the first four months of the current marketing season almost matched those for the entire year in 2017/18, perhaps as a result of the attractive prices for Egyptian long staples in the early part of the season. After that point, quotes began to rise because of an expectation that production of long staples and extra-long staples would not meet estimates made earlier.

One local Egyptian supplier – Modern Nile Cotton Company – has a similar market-leading position to the one Boswell enjoys in the US. It pays close attention to foreign fibre issues, and some of its top-tier varieties, such as Giza 87 and Giza 45, are highly sought after by many major high-end textile producers and shirt manufacturers.

Other varieties, such as Israeli Pima, produced on a smaller scale, are usually sold as spot purchases at above 150 cents per lb. Producers of Pima in Peru would also like to gain access to the Chinese market, but their sales opportunities are limited, mainly as a result of high prices and their production methods, which involve harvesting by hand.

2019 Xinjiang Long Staple Outlook



*Zhang Lei,
E-commerce Information Department Manager,
Xinjiang Yinlong International Agricultural Co-operation Co., Ltd.*

Xinjiang long staple area in 2019/20

The headlines for Chinese cotton cultivation area this year are that upland area will increase and long staple area will fall. According to the relevant research data, the main producing areas (including upland) in southern Xinjiang this year, namely Aksu City, Kuche, Shaya, Xinhe and Awati Counties, totaled around 7,550,000 mu (503,333 ha), down 350,000 mu year on year, of which long staples accounted for 1,280,000 mu, down sharply by 370,000 from 2018/19.

As the primary area for Xinjiang long staple production, Awati County is also called the 'home of long staples' and produces over 60 percent of the Chinese crop. In 2018/19, area in Awati was 840,000 mu and output 80,000/90,000 tonnes. This year, area is expected to fall by about 23 percent to 650,000 mu.

The decline of long staple area can be attributed to five factors. The first of these is the high cost of inputs: long staple picking is entirely manual, and labour costs have been rising over recent years (to 2.5/3.0 yuan per kilo in 2018/19), so growers' interest in long staple planting has waned. Second among the reasons is the low yield of long staple varieties. In 2018/19, yield was around 250 kilos per mu, while the figure for upland cotton was 450/500 kilos: a vast difference. Third is the relatively low price. Last year, the average price for long staple seed cotton was 8.8 yuan per kilo, and farmers' gross revenues amounted to 2,024 yuan per mu (based on yields of 250 kilo per mu), below the break-even level. This year, according to reports of the long staple crop so far, yields are forecast to be slightly lower than a year ago, at 230/240 kilos per mu. The fourth reason is the fact that income from long staple is lower than

from upland cotton. The comprehensive input cost for long staple cotton is 2,800 yuan per mu; if we place seed cotton yield at 250 kilo per mu and price at nine yuan per kilo, the net income is 2,070 yuan per mu, which represents a loss. In the absence of government subsidies, the shortfall would be even bigger. In contrast, the input cost of upland cotton is 2,500 yuan; with seed cotton yield at 430 kilos per mu and prices at 6.5 yuan per kilo, the resultant net income is 2,795 yuan per mu (excluding direct subsidies), representing a modest profit for farmers. Lastly, a further 200,000/300,000 mu of land have been brought into cultivation in the region this year, all of which will be under upland cotton, following the upward trend for machine-picked upland cotton in southern Xinjiang.

Production conditions in 2019/20

In mid-to-late May this year, excessive rains were witnessed in Xinjiang's main producing areas, and long staple seedlings were also affected by regional hailstorms and low temperatures, which necessitated widespread replanting. In the first half of June, temperatures in Aksu remained unstable and overall crop development was poorer than last year. However, open skies and high temperatures have been ruling across Aksu since mid-June and these, in combination with scientific field management techniques implemented by farmers, have resulted in plants of around 65/70 cm in height, roughly the same as a year ago. However, because of the sustained low temperatures in the region earlier in the growing season, yield this year is expected to be slightly lower than in 2018, at 230/240 kilo per mu.

Inventory and sales

The main reasons for the recent poor sales of long staples recently are caution on the part of buyers and the reluctance of sellers to reduce prices. By late June, long staple inventories in Aksu totaled around 20,000 tonnes, while those in Shandong and Henan in the 'mainland' amounted to 25,000, a significant proportion of which have quality issues in terms of length and strength. Sales have been sluggish. Moreover, these figures exclude stocks held at ports or by spinning mills. Overall, the large inventories have placed great pressure on ginners, whose only choice has been to lower their offering rates. As a result, several ginning mills have gone out of business and the total number of such enterprises is predicted to decline significantly this year.

At the time of writing (early July 2019), respective prices for Types 137 and 237 lint are 23,500 and 22,400 yuan per tonne in the 'mainland', down 300 yuan from the previous week. When interest charges and warehousing costs are factored in as well, the actual input cost for Type 137 is 25,000/25,200 yuan per tonne, some 1,500/1,700 higher than the price achievable for such supplies.

Supply and demand in 2019/20

This year, estimates of long staple area in Xinjiang are conservative at 1,280,000 mu, while yield is forecast at 230/240 kilo per mu. If we say demand from the domestic market is likely to amount to 130,000/140,000 tonnes annually (part of which total may ultimately be replaced by purchases of much cheaper fibres), we can see that no shortage of supply is anticipated.

Price trend analysis in 2019/20

Long staple prices have maintained a steady trend recently and largely remain unattractive to the market. By late June, Types 137 and 237 were quoted in Xinjiang at 23,200 and 22,200 yuan per tonne, respectively. Sales have been slow since May and some mill buyers have turned instead to high grade Australian or US cotton.

Many spinning mills, affected by the Sino-US trade dispute, have reduced or stopped their operations altogether and have adopted hand-to-mouth purchasing strategies. Furthermore, because of the low prices prevailing in the market, many traders and ginners are inclined to hold stocks rather than liquidating them at a loss.

For the foreseeable future, though, it seems as though long staple prices may still have room to fall; orders are limited and unsold stocks in downstream markets (for textiles and clothing, for instance) are mounting. Secondly, the current outlook for global trade is not particularly positive; and thirdly, prices of upland cotton have become more competitive vis-à-vis long staples, such that the differential has broadened to 10,000 yuan per tonne, with the result that some companies have decided to switch their high-count yarn production from long staples to Australian and high-quality Xinjiang upland cotton. Lastly, availability of high-grade long staples is poor. Supplies with good specifications (37mm in length, 40/42 in strength and 4.2 for Micronaire) are already sold out, while lower quality stocks are less desirable.

Future prospects

High-quality cotton is fundamental to high-end cotton textile production; however, because of the high input costs and poor returns for farmers, long staples are gradually being abandoned by producers in China, creating a certain tension between supply and demand.

From the farmer's point of view, the only way to increase long staple returns is to move to fully mechanized harvesting. And if we consider the perspective of spinning mills, although long staple demand in the domestic market is limited, it nevertheless persists in certain quarters. However, such a substantial reduction in planted area is likely to result in problems and risks associated with the procurement of long staples in the coming year, and the interests of spinning mills with high-quality cotton needs may be damaged.

At the same time, this sort of conflict between supply and demand has long been a concern for participants in the country's long staple textile chain; so much so, in fact, that the current Xinjiang target price reform policy allows some special cotton varieties including long staples a 130-percent subsidy, in keeping with the concept of 'higher price for higher quality'. In the increasingly complicated environment of international trade, most ginners and spinners still believe that transferred orders will be limited to conventional and medium-to-low grade products, while domestic demand for high-value-added products will remain steady and will not be washed away as the Sino-US trade dispute escalates. Similarly, demand for long staples has always been there. So, in order to balance the interests of all those in the long staple cotton sector, perhaps we can only pin our hopes on the next phase of cotton target price reform.



Awati County long staple summary



Xinjiang Yinlong International Agricultural Co-operation Co., Ltd.

The results of the latest survey conducted by Yinlong in the main producing area of Awati County, Aksu Prefecture, show soil compaction and poor uniformity in crop height, both of which increase costs and create difficulties in field management. By late July, plants had about two to three bolls each, which was poorer than a year earlier. Some domestic companies have tried to adopt machine-picking to harvest long staple cotton but their efforts ultimately failed, so hand-picking is likely to dominate for the foreseeable future, which means that harvesting costs will remain high. If we estimate labour costs at three yuan per kilo, and yields at 320 kilos per mu, the cost of picking 170 mu of long staples will reach around 163,200 yuan. By contrast, if we calculate the cost of machine-picking at 190 yuan per mu, the figure would be only 32,000 yuan in total.

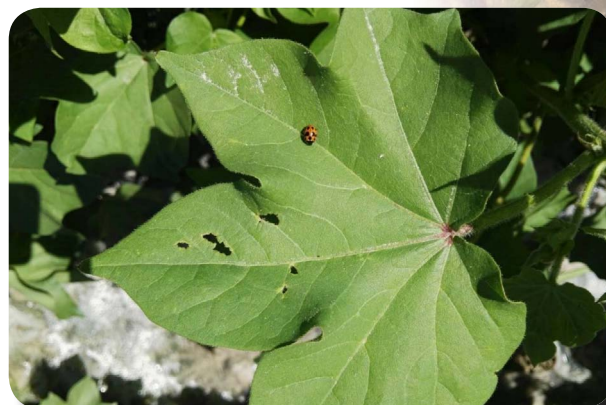
As a result of this season's high costs, low output, difficulties in field management and poor downstream demand, it will be very hard for long staple production to rise significantly. In recent years, area in Awati has been

decreasing. Last year, the land was shared 50/50 by long staple and upland; however, this year upland area has already exceeded that dedicated to long staples.

Poor uniformity of long staple crops in Awati caused by adverse weather early in the season



Insect damage caused by hailstorms and pests



Crop development in Awati



Long and extra-long staple cotton consumption in Pakistan



*M. Anees Khawaja
Director, Mahmood Group*

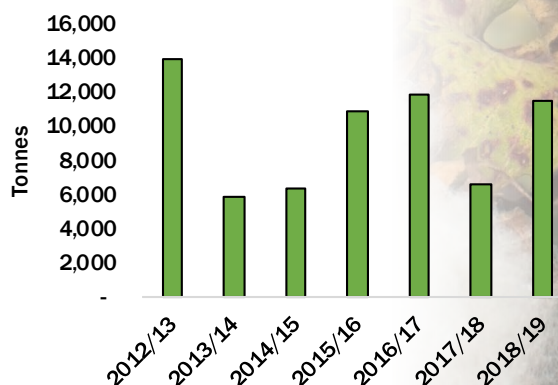
Pakistan is the third-largest cotton consumer in the world and this is true for long and extra-long staple cotton as well, with Pakistan behind only China and India in the use of these varieties. However, unlike China and India, Pakistan does not produce any of its own LS/ELS cotton and is exclusively dependent on imported stocks to supply its needs. Pakistan has a proud history as a leading producer of fine-count yarns as well as high-end products made from ELS cotton. US Pima, Egyptian Giza, Turkmen ELS and Indian DCH-32 are some of the growths most regularly imported and consumed by Pakistan's mills, along with a limited share of Greek and Spanish ELS during the last few seasons.

With no local production to rely on, Pakistan's demand for long and extra-long staples is highly sensitive to shifts in the price relationship with upland cotton, and imports of ELS cotton fluctuate significantly depending on pricing and the demand situation. Furthermore, mills in Pakistan are flexible when it comes to the production of different styles and counts of yarn, and thus LS/ELS consumption can vary, depending on the relative profitability of coarse and fine count yarns in any given season. The 2018/19 season is a case in point: lower prices for LS/ELS cotton have prompted mills to increase their imports and consumption of ELS cotton significantly. Much lower Egyptian prices in particular have been the catalyst for a large increase in imports of Egyptian cotton in 2018/19. Imported fine count yarn prices also significantly affect Pakistan's LS/ELS consumption. Pakistan has been a regular importer of fine count yarns, mainly from India and China, over the last few years. The profitability of each yarn count is paramount in determining consumption patterns for most mills in Pakistan.

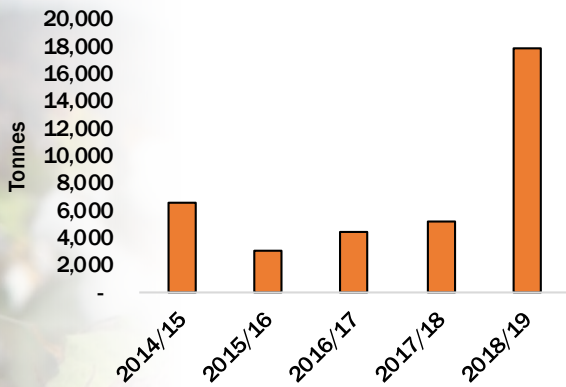
Mills are also flexible in their buying patterns when it comes to choosing among the various ELS/LS growths, and

are willing to switch to alternative varieties and origins according to the price relationships between them. The lack of any significant availability of Turkmen ELS during the current season has led to demand being redirected almost entirely to Egyptian Giza 94 and Giza 86. Furthermore, since Indian DCH-32 offering levels have been almost equal to prices for Egyptian Giza 94 for long periods this season, mills have preferred the Egyptian supplies on account of their lower contamination levels and the possibility of marketing the end product with an Egyptian cotton label. Pakistan mills may also be inclined to import more than a season's requirements of ELS cotton, if they feel prices are undervalued during a particular year. This is another factor that has pushed imports of US Pima and Egyptian Giza varieties during 2018/19, as mills have been able to buy at very attractive prices during dips in the market this year. The charts below and overleaf show imports by Pakistan mills of US Pima and Egyptian Giza for the last few seasons.

Pakistan imports of US Pima



Pakistan imports of Egyptian cotton



In comparison with India and China, Pakistan is not a big exporter of LS/ELS branded products. Thus, the value proposition is the most important element for mills in Pakistan when it comes to making purchasing decisions.

They are willing to experiment, with a view to reducing their costs while at the same time maintaining the quality of the product. Two or three seasons ago, when ELS prices were substantially higher, mills in Pakistan increased their consumption of manmade fibres significantly. Consumption of Tencel fibre in particular replaced some of that of ELS, to such an extent that last year Pakistan became the biggest global consumer of Tencel fibre. This season, with ELS prices going down, consumption of Tencel fibre has also decreased.

Traditionally, most of the yarn and textile products made from LS/ELS cotton in Pakistan

were exported to developed markets seeking high-end goods. However, nowadays many of the leading textile and weaving mills have their own brands and enjoy a strong retail presence in Pakistan itself, having managed to create demand for fine-count products in the local market. In particular, lawn fabric made from fine count yarns by mills in Pakistan is very popular locally and even in neighbouring countries. Indeed, Pakistan mills lament the lack of greater access to nearby markets and are confident of significant growth in LS/ELS consumption if such access were to be granted.

Going forward, Pakistan is expected to remain a regular and consistent consumer of LS/ELS growths, and mills are well equipped to maintain their competitive edge in this sector. However, in the absence of a plan to develop any local production of LS/ELS, Pakistan will continue to rely on imports for its LS/ELS needs.

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