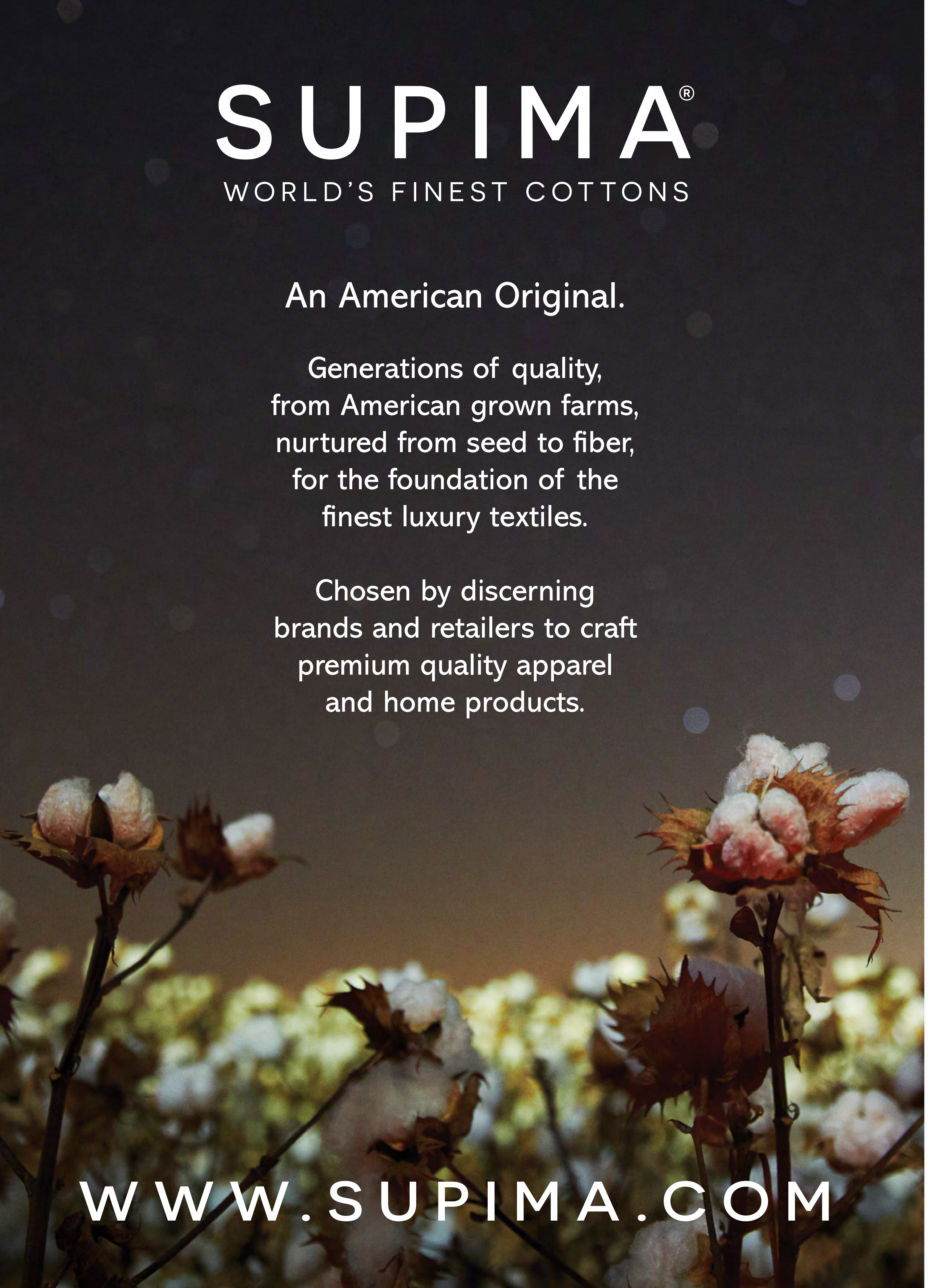
Cotton Outlook

AUGUST 2021

WORLD LONG STAPLE MARKET



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The long staple market in 2020/21 – an unlikely recovery

Antonia Prescott,
Deputy Editor,
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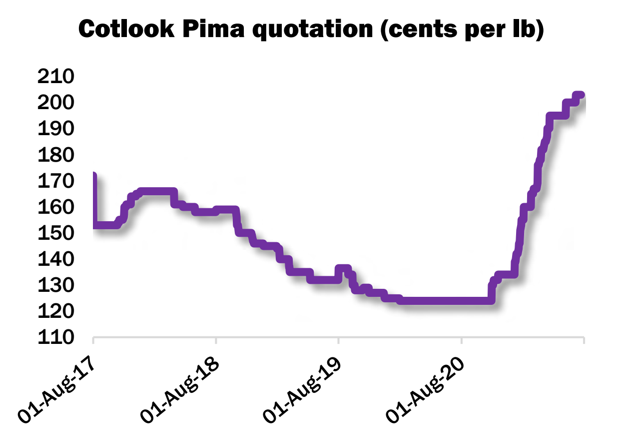
In July 2020, the market for long staple cotton was reeling from the effects of the pandemic. Our review of supply and demand dynamics for last year's Long Staple Special Feature pointed to some quite dire possible outcomes in terms of protracted economic dislocation. Happily, the worst of those fears about long-term economic scarring and an extended collapse of demand have not come to pass. Instead, after the initial hiatus brought about by the first wave of infections as it spread around the world, industrial activity has tended to recover. Of course there have been intermittent and sporadic interruptions – due to local lockdowns, the closure of retail space and the concomitant cancellation and delaying of manufacturing orders, as well as disruption to shipping and banking schedules – but the worst case scenarios envisaged by some in the cotton industry have generally been avoided.

Indeed, what actually transpired was something radically different, at least in the countries that typically have the highest levels of consumer spending. Government interventions designed to protect the macro economy and domestic incomes, combined with a lengthy period of enforced confinement, have meant that in many countries consumers have amassed funds with which to give vent to a pent-up desire for personal and household goods. Products at the luxury end of the range, such as those composed of long staple cotton, have seen demand return as well, despite concerns that spending would be focused on mainstream, essential



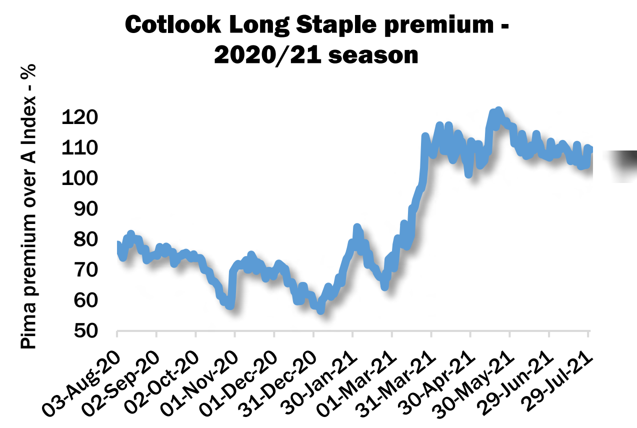
goods at least in the short to medium term.

As downstream demand began to return in the third quarter of 2020, so empty supply chains triggered a run of buying by fine count spinners – especially in India – who were keen to secure supplies of long staple lint for the season ahead at prices that had been falling, not just since the arrival of the pandemic, but (in the case of US Pima) since the spring of 2018.

Upland prices (as measured by the Cotlook A Index) reached a nadir in April last year, and then adopted a steady rising trajectory. Despite a period of marked volatility between February and May, by the end of the 2020/21 season the upward trend had been reasserted

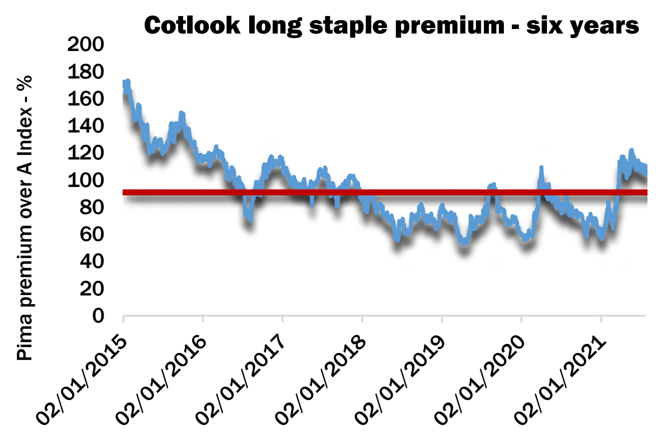
and the A Index surpassed the dollar mark in the last days of July.

The rise of Pima prices began somewhat after that of upland cotton, in late October, but has been even more resolute in the period since. Over the subsequent nine months, Pima prices climbed by 86 cents per lb or 69 percent, with no interruption at all to the rising trend.



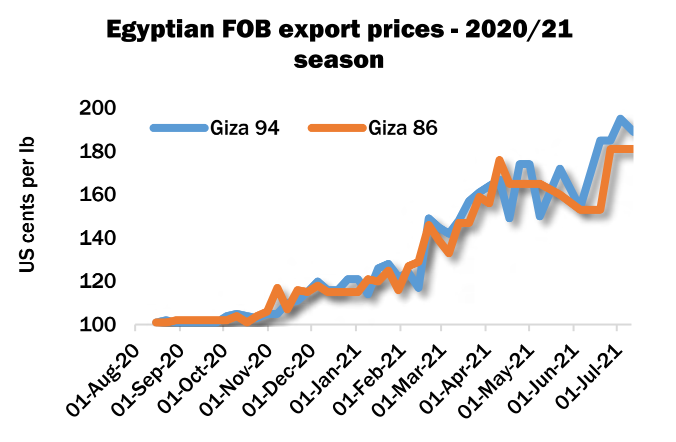
The relationship between long staple and upland prices, as measured by Cotlook Long Staple Premium, thus shifted sharply during the later months of the season. By the end of 2020/21, the Premium stood at over 109 percent. The scale of the margin during the season just ended was the largest for several years, and moved the premium above the long-term average, shown by the horizontal red line in the accompanying chart.

In Egypt, the other principal source of supply to the world market, the increase in export prices registered

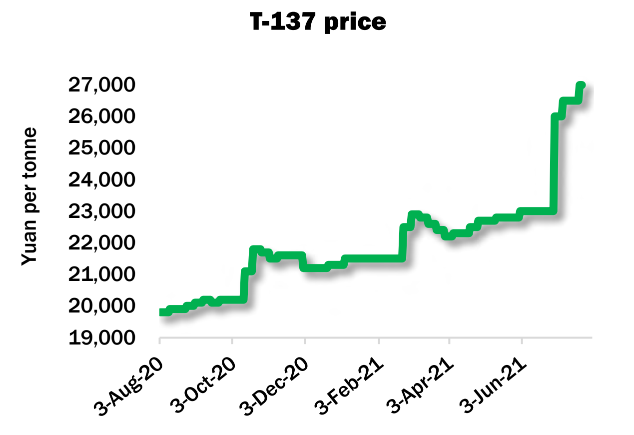


by *Alcotexa* between the start of the marketing season on September 1 and late June (at which point there was very little cotton left uncommitted) was around 80 percent.

In China, a net importer of long staple cotton and one burdened with unsold stocks in recent seasons,

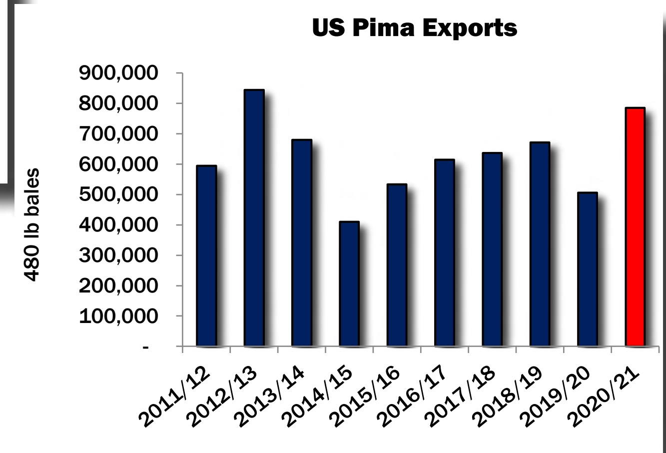


the proportional rise has not been quite as marked, but a similar trend can be observed: between October 2020 and July 2021, prices for the benchmark Type 137 quality rose by 31 percent, with a strong advance noted in late June as the tightening local and international supply position put increasing pressure on the market.



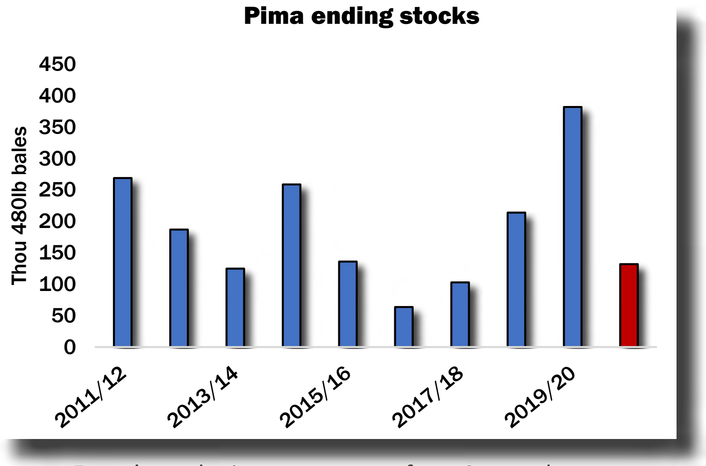
Resurgent demand drives exports

The strength of the world long staple market is all the more remarkable for the fact that the end of the 2019/20 season saw a large carryover of long staple stocks in the principal trading origins of the US and Egypt. Pima ending stocks in July 2020 amounted to

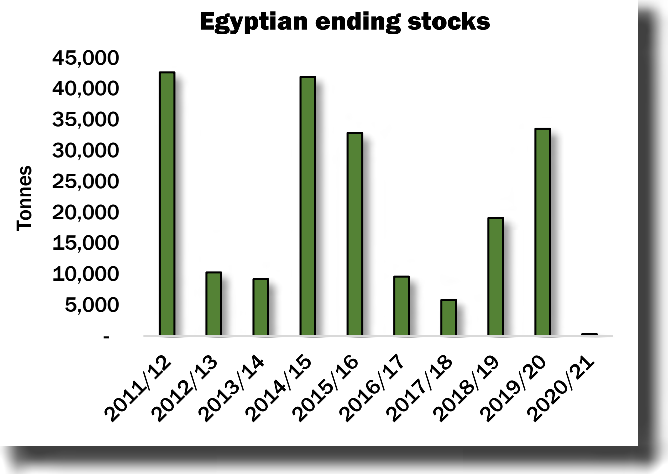


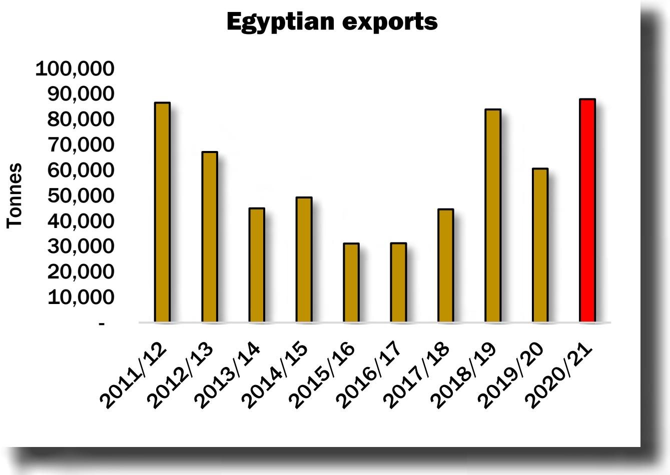
382,000 bales according to USDA. The concern at that point was that excess stocks would act as a drag on prices during the season ahead, but as we have seen, that eventuality did not come to pass. Instead, exports of US Pima were strong throughout the whole 2020/21 season: by late July a total equivalent to more than 860,000 480-lb bales had been registered, of which 88 percent had been shipped. USDA's forecast is for a total of 785,000 statistical bales dispatched by the end of the marketing season on July 31. India has been the largest purchaser of US Pima this year (representing 36 percent of all sales), followed by China (21 percent); both countries have increased their purchasing in terms of volume and market share since last year – in the case of the latter metric, by five and three percentage points respectively.

Carryover at the end of 2020/21 was forecast by USDA in July at 132,000 bales, implying that the surplus is expected to have fallen by around two thirds over the course of the season. Projections for 2021/22 show a further draw down of 38 percent, which would leave the smallest opening stocks for more than a decade.



Egypt's marketing season runs from September to August. By late July, more than 88,000 tonnes had been registered for export, of which 96 percent had been dispatched. This is the highest export volume of the past ten seasons. As in the case of Pima, India is the largest customer for Giza cotton, with Pakistan in second place. Together, those markets account





for 82 percent of export registrations this season. The shipment figure in fact implies an anomaly in the historical data, since according to estimates of carryover and production in 2020/21, it is greater than the quantity available. The supply (beginning stocks plus production) for the 2020/21 season is effectively exhausted.

Falling production

The rise in prices is, of course, related not just to the dynamics of downstream demand discussed above, but also to supply. Long staple output has been falling in most producing countries for a number of years, a trend that has left the market vulnerable to an unanticipated upturn in demand as experienced over the past year or so.

The reasons for contraction of output are several, and attested to in some of the articles contained within this feature. Firstly, the additional complexity associated with long staple production – the longer maturing period, the greater requirement in terms of heat units and hours of sunshine, the fact that many producers still rely on hand-picking – means that input costs are higher and output subject to more risks than in the case of upland cotton. Secondly, while buyers certainly pay a premium for long staple lint, this has fallen in recent years and farmers have increasingly found that the additional investment is not merited on price grounds. In the Far West of the United States, long staple cotton has been losing ground to permanent crops such as pistachios and almonds. Meanwhile in China, farmers have remained committed to cotton, but are more inclined to cultivate upland varieties that are rendered more economic by the expansion of machine picking that has proved difficult to replicate in the long staple sector.

Outlook for 2021/22

The global production outlook for long staples in 2021/22 is mixed. The ongoing drought in California has resulted in a substantially lower planted area this year. The July estimate from USDA is 142,000 planted acres and 140,000 harvested: a year-on-year fall of nearly

30 percent, which comes in the wake of a 15-percent reduction the year before. On the other hand, the latest crop progress report indicates that those plants that have gone into the ground are faring relatively well, especially given the extremely hot temperatures seen recently and the scarcity of water available for irrigation. Yields are expected to be about five percent higher than last year, so USDA's estimate of production is 415,000 bales, down by a quarter from 2020/21.

The situation in Egypt shows some improvement from last season. Definitive figures for the 2021/22 planting campaign have yet to be announced, but the last assessment from *Catgo* indicated an area of just less than 100,000 ha (237,157 feddan), including 1,765 dedicated to extra-long staple varieties. The total represents a recovery in planting to the level seen in 2019/20, before the 23-percent cut observed in 2020/21. Estimates of output vary, but for now Cotlook favours a figure in the region of 70,000 tonnes (a figure that excludes Giza 95 on staple considerations).

In China, hopes for greater output this season resulting from a government policy supportive of a revival of LS cotton were dealt a blow by unfavourable conditions early in the Xinjiang growing season. Widespread replanting was required and the area is now estimated at slightly less than 700,000 mu (400,000 in Aksu, 100,000 in Kashgar, 100,000 in Shaya, and small areas scattered around southern Xinjiang), which is similar to last year. Field reports so far are encouraging and output is forecast at 65,000 tonnes.

Long staple production in India tends to range between 400,000 and 500,000 bales (local weight, 170Kgs) in any given season. In the absence of more detailed data at present, we estimate output at the upper end of that range: 85,000 tonnes.

Adjustments in other producing countries are fairly modest, with the result that global output looks set to fall by around 18,000 tonnes in 2021/22 – despite the strength of demand and the highest prices recorded for some considerable time, both in absolute terms and (as discussed above) in relation to upland values.

What of consumption next season? Downstream demand seems still to be strong. In other circumstances, further growth in long staple consumption might be expected to continue. But as we have shown, carryover stocks of American Pima are small and those in Egypt virtually non-existent. An added complication in the latter country may be the introduction of a new system for the internal marketing of seed cotton. Whatever its merits (the objective is to curtail the role of intermediaries and thereby assure farmers better prices), there is some apprehension that in the current very tight international supply situation, the commencement of Egyptian selling may be delayed.

Owing principally to the downturn in US Pima area, for a second successive season, world long staple production will be insufficient to meet consumption. The inescapable conclusion would seem to be that some rationing of demand will be required. Just one caveat arises from the possibility that a part at least of the robust export demand witnessed during 2020/21 has served to rebuild fine count spinners' raw cotton inventories. India's combined purchases of US Pima and Egyptian cotton this season are more than double those recorded in 2019/20 and 50 percent greater than the season before that.

World LS Output (tonnes)	2019/20	2020/21	2021/22
United States	149,000	119,000	90,000
Egypt	67,600	58,000	70,000
India	90,000	85,000	85,000
China	60,000	65,000	65,000
Turkmenistan	21,000	15,000	15,000
Uzbekistan	5,000	1,000	1,000
Tajikistan	1,000	-	-
Israel	7,800	5,000	5,000
Sudan	1,000	1,000	1,000
Peru	5,000	4,000	4,000
Spain	4,000	3,500	2,500
Total	**411,400**	**356,500**	**338,500**

World LS Consumption (tonnes)	2019/20	2020/21	2021/22
India	160,000	175,000	165,000
China	110,000	125,000	110,000
Pakistan	32,000	35,000	27,500
Egypt	13,000	13,000	11,000
United States	3,500	3,300	3,000
Bangladesh	10,000	13,000	11,000
Latin America	15,000	18,000	15,000
Europe (inc. Turkey)	12,000	15,000	12,000
South East Asia	16,000	25,000	22,000
Others	3,000	3,000	2,500
Total	**374,500**	**425,300**	**379,000**

The transformation of the global long staple balance sheet during the 2020/21 season has nonetheless been remarkable. So, as the new season commences, the situation is interesting to say the least. Demand looks to be strong, prices are high but supply is limited. According to the textbooks, that configuration of factors should give rise to even higher prices in the short term and greater production over a longer time frame as farmers seek to take advantage of the premiums available. However, other considerations – such as the relative costs of production, upland prices and weather patterns – will also be in play, so the patterns of supply and demand, not to mention trade and price, are actually no easier to predict with confidence this season than any other!

US Pima market update and outlook

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

The last ten months have been remarkable for the US Pima market! Prices were near record lows at the beginning of the 2020/21 marketing year and shippers struggled to move their substantial inventory. Fast forward to today when the Cotlook US Pima quote is 200 usc/lb, with all indications now pointing to a shortage of US Pima cotton that in all probability will not be able to satisfy normal demand for the next marketing year. What was the cause of this price volatility and what are the factors that will shape pricing in the future?

For reference, below are the current supply and demand figures for Pima for the last four marketing years, and best projections for the 2020/21 and 2021/22 marketing years.

2020/21 marketing year: carryover stocks

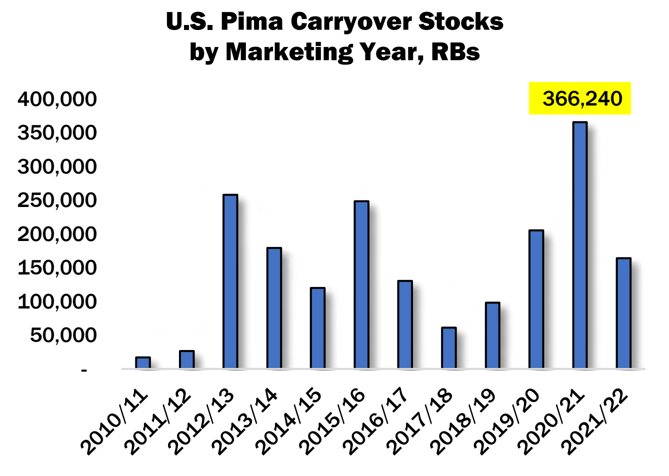
At the beginning of the 2020/21 marketing year, American Pima farmers and merchants had 366,240 running bales of carryover stocks, mainly from the 2019/20 crop, which was by far the largest supply carried over in recent history. In fact, it was more than

US Pima balance sheet, year ending July 31 (running bales)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Diff from prev MY
Harvested acres	187,800	250,400	248,800	223,500	194,500	140,000	-54,500
Yield per acre (pounds)	1,454	1,341	1,545	1,472	1,362	1,429	67
Carryover from previous MY	130,848	61,632	98,592	205,440	366,240	125,760	-240,480
Production	546,144	671,520	768,960	658,080	524,640	400,000	-124,640
Domestic imports	1,920	1,920	2,880	2,880	2,880	2,880	0
Total supply	**678,912**	**735,072**	**870,432**	**866,400**	**893,760**	**528,640**	**-365,120**
Domestic mill use	27,840	25,920	21,120	14,400	14,400	19,200	4,800
Exports	589,440	610,560	644,160	485,760	753,600	460,800	-292,800
Total use	**617,280**	**636,480**	**665,280**	**500,160**	**768,000**	**480,000**	**-288,000**
Ending stocks	61,632	98,592	205,152	366,240	125,760	48,640	-77,120
Stock to use percentage	**10%**	**19%**	**36%**	**73%**	**16%**	**10%**	**-6%**

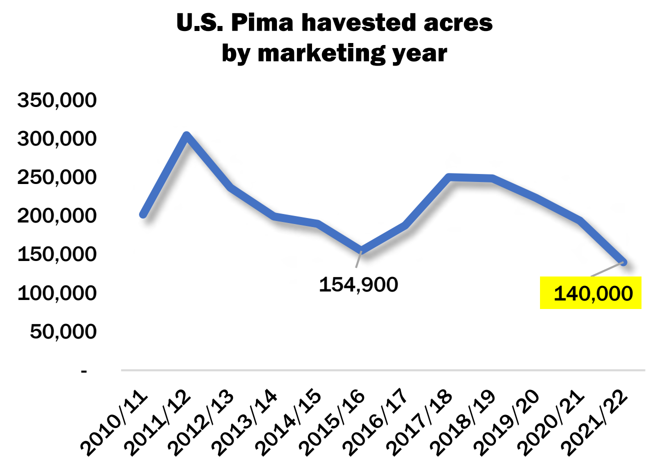
double the historic average of 148,145 bales. What caused such an incredibly large supply? It was a perfect storm of over-production relative to demand that had collapsed and stagnated under the market conditions of the time. For three consecutive years covering the 2017/18, 2018/19 and 2019/20 crops, American Pima growers produced more fiber than the annualized consumption over those periods. The 2018/19 crop was especially significant due to near-ideal growing conditions that produced an average US Pima yield of 1,545 pounds per acre.

The struggles with American Pima consumption during the 2019/20 marketing year have been well documented. First, shippers had to deal with the US/China trade war, wherein new tariffs created significant uncertainty for both spinning mills in China and retailers in the US. Then, in March 2020, Covid-19 began to take hold in the US, which led to a variety of complications for the brand/retail and manufacturing segments that brought exports almost to a halt.



2020/21 marketing year: supply

It was clear by February 2021 that California, where typically 80%+ of US Pima is produced, was entering its second year of drought, which would in turn severely reduce the number of acres that could be planted. In March, the California Cotton Ginners



and Growers Association projected there would be a 34-percent decrease in Pima acreage in California for the 2021/22 Crop. The current estimate from the USDA is just 140,000 harvested acres of Pima this fall in the US. Note, this is fewer than the number of acres harvested in California alone during previous drought that spanned 2014/15 and 2015/16.

2020/21 marketing year: demand

American Pima sales started to gain momentum early in the 2020/21 marketing year with a nearly empty supply chain. In addition, farmers were putting significant pressure on merchants to liquidate the remaining unsold 2019 Crop. Furthermore, because of global price disparities with other long staple varieties, the US Pima Competitiveness Program was triggered, incentivizing merchants to expedite the sale of the crop as quickly as possible to take advantage and remain competitive. Exceedingly large stocks, an empty supply chain, the relatively low American Pima prices, along with an ELS Competitive Payment Program all stimulated unprecedented demand and consumption.

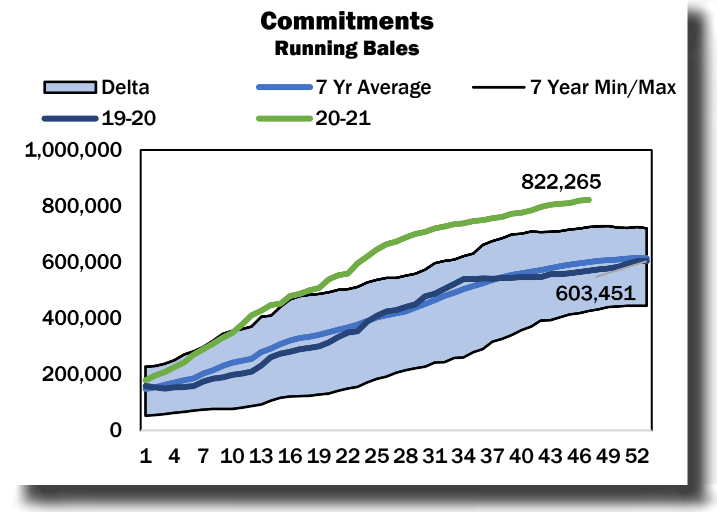
Near-record levels of demand for American Pima continued throughout the marketing year, with 822,265 running bales committed to date, which is the second highest total in the last ten years, and stands second only to the 2012/13 marketing year. The record consumption can be attributed to tremendous optimism with regard to current and future demand in the brand/retail space. In the wake of the collapse of apparel sales last year, consumers have come back in a big way and have a propensity to spend and buy more.

Factors impacting the 2021/22 marketing year

Supply

Surface water availability: California manages its surface water resources via an extensive network of reservoirs, enabling users to store the water for future use and reducing the impact of a single year of drought. However, not much can be done in a period when a drought persists for two or more seasons. Currently, water levels in nearly all major reservoirs in California are below 50 percent of their historic averages, which means the amount of carryover into next year will be severely limited. American Pima farmers will be largely dependent on the amount of precipitation received this winter when determining planted acres for 2022/23.

Groundwater availability: Water from wells has traditionally been an important and flexible resource for American Pima farmers and the agricultural community, especially in years of drought, to supplement shortfalls of surface water supplies. In 2014, California adopted the Sustainable



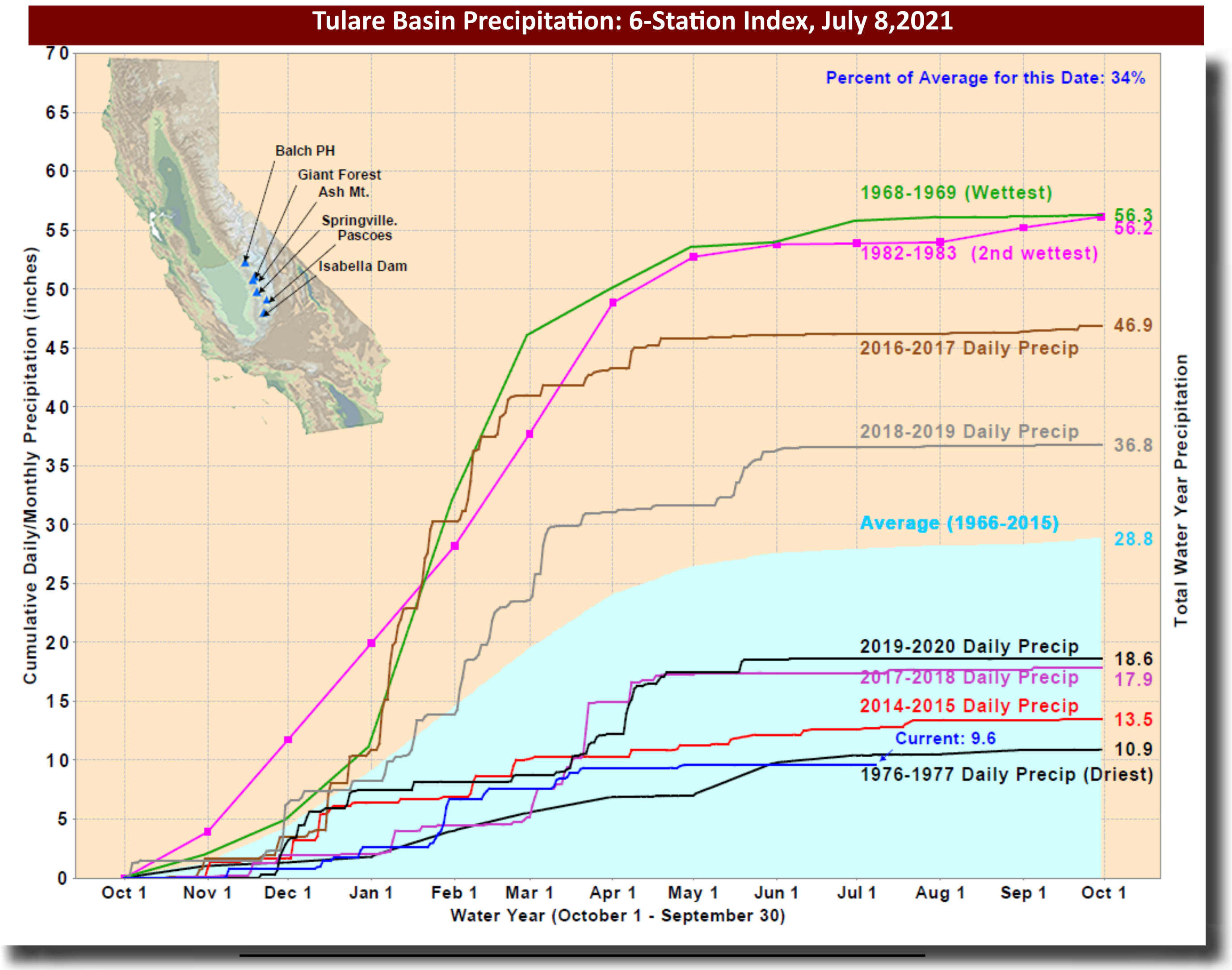
Groundwater Management Act (SGMA), which was designed to maintain sustainable levels of groundwater. Until now, SGMA's impact on farming activities has been somewhat limited; however, key American Pima growing areas in the San Joaquin Valley will begin to be regulated in January 2022. The area covered by SGMA will only grow in the coming years and the Act will eventually affect all agricultural producers and all crops.

Competing crops: The San Joaquin Valley is considered to be the breadbasket of the US. American Pima farmers have the option to grow many other crops such as almonds, pistachios, or processing tomatoes. Due to the unique climate in California, many of these crops can be grown in this state only, and their value is likely to increase as water becomes scarcer in the San Joaquin Valley. American Pima prices will need to increase to remain competitive and to encourage farmers to maintain acreage in the state.

Production costs: The cost of production in California has risen steadily over the last 20 years. Increases in rates payable for labor, insurance, investment, fertilizers, pesticides, fuel, water and equipment have all been contributing factors. In addition, a recent study found that expenses related to governmental regulations alone increased costs by an average of 265 percent between 2012 and 2018. The value of American Pima must find a viable level to ensure that farmers can continue to invest and grow the crop and derive profitability from it.

Demand

Replacement fiber: At the time of writing, Egyptian Giza 94 is trading at 192 us¢/lb CIF Far East, as per



Cotlook, which means it does not offer an attractive cost-based alternative for US Pima.

For certain spinning applications, upland cotton can be used as a substitute for ELS where the premium fiber quality of ELS cotton is not needed. The Cotlook A Index has been between 90 us¢/lb, and 95 us¢/lb for much of this year while US Pima is valued at 200 us¢/lb, placing the US Pima to Cotlook A ratio at about 210 percent. The ratio's historical average is around 180 percent, indicating that the current US Pima price is relatively high compared to upland. For some additional perspective and scale, it is important to note that the ratio climbed to over 280 percent during the previous California drought in 2014/15.

SUPIMA®: *Supima* is continuing to make significant strides with brands and retailers in developing programs that communicate the benefits of utilizing 100-percent US-grown American Pima. Aside from the intrinsic qualities of a longer, stronger and finer fiber than upland, it is 100-percent verifiable from origin, using a forensic science-based platform from Oritain. In addition, many consider American Pima to be the most dependable, consistent and sustainably grown cotton fiber in the world. The efforts by *Supima* to highlight conversation and steward education programs focused on authenticity and responsibility have led many brands and retailers to incorporate American Pima into their product mixes and then utilize the SUPIMA® trademark. This in turn generates inelastic demand for the fiber along supply chains with a strong point of differentiation for the consumers.

Trade barriers: One only needs to look to the US/China trade conflict that took place in 2019 to understand the negative impact that barriers to trade can have not only on cotton markets, but the world economy. It seems that cooler heads are now prevailing, even though many differences and challenges persist. My hope is that the individuals formulating trade policies will understand that trade confers significant economic benefits on all parties involved.

Consumer confidence: US consumer confidence took a significant hit once Covid-19 began to spread and pragmatic restrictions were put into place to mitigate the impact of a burgeoning pandemic. There are multiple components that feed into this calculation, including current and future employment rates, and anticipated future income. The prospects for each component have been improving steadily since the beginning of the year and now are at levels that are comparable to the pre-pandemic period. The rising consumer confidence values are only adding to brand and retail confidence in the market.

A good friend of mine thinks the American Pima market is too much like a rollercoaster. The price can rise and fall dramatically due to all the factors mentioned above and the last nine months provide the perfect illustration of this. The market will always be at the mercy of Mother Nature, pandemics and government policies. And if Covid-19 has taught us anything, it is that we shouldn't discount previously unforeseeable events that can have huge impacts on our markets. However, there are things we can do as an industry to help minimize volatility, and maintaining a higher average price would help support this endeavor. American Pima has been too inexpensive for too long, given the tremendous value it offers to brands and retailers that benefit from the quality and everything that goes into producing a fully traceable, sustainably grown bale of cotton. Given the significant challenges Pima growers are facing in California, it is imperative this price adjustment is sustained if we want this amazing fiber to be available in the future.

May you live in interesting times…

Marc Lewkowitz,
President and CEO,
Supima

The title of this article is an English expression that first seems to appear in the late 19th century. Given its convoluted history – including an anecdotal association with a curse, for which no record has been found – as well as its more common and current intimations of danger, anxiety, trepidation, excitement, and opportunity, we propose that this conflicted benediction encapsulates something of what it means to have lived and worked in the cotton industry over the past few years.

The world of cotton is an interesting place. It can seem so simple, and so basic, and people can be forgiven for seeing cotton as a generic thing, but it is anything but. Even for the professionals who deal with cotton on a daily basis, it seems that year after year we hear the same thing: "I thought we had seen it all," or, "This is something we never could have imagined." Yet, here we are, having faced a suite of challenges unlike any we have had to contend with in living memory.

I find myself repeating that cotton is a complex subject as it is not singular in nature. The cotton industry refers not only to the fiber, but also to its history, and to a broader industrial and social complex that is global in scale. Cotton's history is reported to span about 7,000 years, and it was a key commodity during the Industrial Revolution and the expansion of capitalism, as well as acting as a catalyst in the explosion of consumerism.

Today, cotton is one of around 15 major natural fibers derived from plants and animals that contribute to the health and vibrancy of agricultural communities, as well as to local, national, global economies, and to geopolitical stability. It is estimated that some 40 million households in approximately 90 countries are directly engaged in natural fiber production, and that about 290 million people around the world are directly employed in connection with natural fibers. This activity is all derived from production that occurs on approximately 2.5 percent of the world's arable land. In the realm of natural fibers, cotton accounts for over 80 percent of total production and forms the largest renewable natural fiber source for the textile industry, and the world standard for apparel and home textiles. Cotton is everywhere, and while imitators and imposters may claim to be cotton-like or cottonized, after 7,000 or so years, cotton is still cotton.

In the world of cotton, some 26 million tons of fiber are produced annually. This is the equivalent of approximately 120 million bales. However, as noted previously, cotton is a complex subject, which needs to be discussed in a more granular way than simply in terms of the global production figure. For a start, there are many types of cotton, the main four strains being Gossypium *hirsutum*, Gossypium *barbadense*, Gossypium a*rboretum*, and Gossypium *herbaceum*. The Gossypium *hirsutum* species accounts for the vast majority of the world's production. Much of the balance (only around three percent) is made up of the Gossypium *barbadense* species. This variety has some unique plant agronomics, and produces a fiber with very particular characteristics. The fiber is known as extra-long staple (ELS) cotton and is finer, longer, and stronger than upland varieties, allowing the production of more specialized yarns and fabrics.

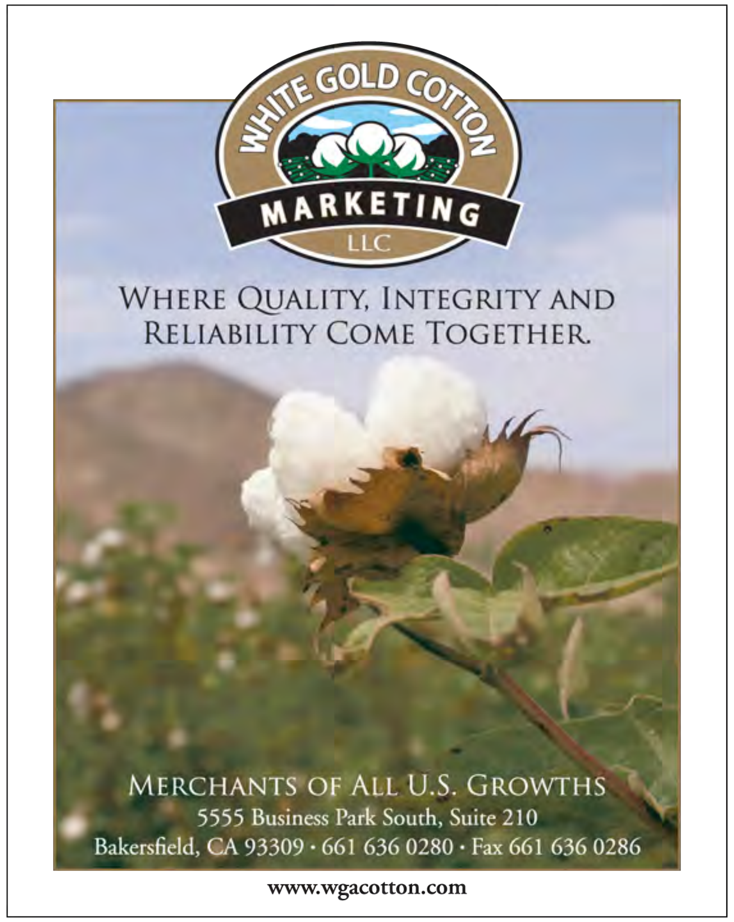
As a xerophyte (a drought-tolerant plant), the Gossypium *barbadense* species thrives in drier, controlled growing environments where farmers can closely manage the agronomic phases and timing to produce a verdant crop that generates robust yields, thus minimizing the use of resources and maximizing the efficiency of production. All ELS cotton is grown in these environments where they exist around the world. The US is the largest producer of ELS cotton, with American Pima produced in Arizona, California, New Mexico and Texas. Pima was originally developed in the US by the United States Department of Agriculture (USDA), which began breeding trials of Gossypium *barbadense* cotton in Arizona at the start of the 20th century. The trials were conducted on Indian land, and when the first cultivar was released, the USDA asked permission to use the Indian name for the new fiber. Hence, the name for US ELS cotton was chosen in recognition of the Pima Indians in Arizona. The Pima name quickly became synonymous with ELS cotton and was broadly adopted by other ELS producing areas in the US. To protect the identity of what had been developed in the US, the growers founded an organization with the name Superior Pima, which was subsequently shortened to give the portmanteau *Supima*.

Supima is a non-profit promotional organization representing the growers of American Pima in the US, and the owner of the SUPIMA® trademark and associated licensing program that authorizes the use of the mark on products made with American Pima that are sourced through a licensed supply chain. The broad relationship it enjoys with entities throughout the entire supply chain – from the grower to the brand/retail partners – puts *Supima* in a unique position in the complex cotton sector.

To go back to the title of the article, the widespread industry challenges that have materialized over the last few years began with the outbreak of a trade war between the US and China. The associated disruption was then compounded by the Covid-19 pandemic and climatic changes. These events have certainly made for "interesting times". And they do not end there. A long litany of other factors, including consumerism and an opaque supply chain, have had a further substantial effect on the cotton sector, much of it accompanied by leveraging marketing words such as sustainable, organic, regenerative, circular, recycled, and so on. While some of these claims get called out as green-wishing and green-washing, many others are never contested. The struggle seems to be never-ending, as does the barrage of messages dominating the conversation. Unfortunately, much of these ignore the key factors of responsibility and accountability.

What is sustainable and what is sustainability? The question will undoubtedly draw out various definitions, often involving references to environmental, social and governance (ESG) issues. The real problem is that the terms like sustainable or sustainability are being used in the context of attainment. While sustainability might be a goal, it is not a destination we can ever reach because it requires continual improvement. This improvement is characterized by responsible steps and accountable actions, but those by themselves do not amount to full sustainability. Additionally, there is so much marketing and posturing in this space that at times the messages directly contradict themselves. There are so many examples, but we will present just a few, such as the lack of contractual continuity in the supply chain allowing buyers to walk away from a contract. (The exception, of course, is provided by the standard contract terms of the International Cotton Association, which must be adhered to by cotton merchants and spinners.) Another example is the creation of an entirely new, "sustainable" product line alongside existing ones, simply to stimulate more consumption and sales. Or we can look at the unimaginable amounts of money that are paid to athletes, celebrities and influencers for endorsements. These can only be seen as drivers for consumption against a backdrop of supply chains that are incessantly and mercilessly squeezed. As much as things change, there are always some constants, and one of these is the fact that cotton and natural fiber producers are at the end of a very long and slow supply chain: whatever gets pushed back through the supply chain always ends up with them. Last year, when Covid-19 was beginning to raise alarm bells and markets contracted, orders were cancelled and everything was put on hold – prices for cotton collapsed. For American Pima producers, prices fell to historic lows of around a dollar a pound, which is substantially less than the cost of production. Now that prices have risen – and we know this pattern all too well – the question that arises today is "why are prices up?" and the next is "how can we get prices back down again?" When prices were at a dollar, there was no race to see if that was sustainable/viable for the growers.

There must be a bigger conversation around value that is connected to responsibility and accountability. This will then need to be balanced against the ongoing efforts and narratives around corporate sustainability initiatives. The first consideration is that any efforts that go towards responsibility and accountability as part of a sustainability framework are not cost-neutral. Often, they take a great deal of additional work and effort that should constitute part of the value conversation. A critical component of even beginning to talk about responsibility relative to sustainability is transparency and insight into the supply chain. Without authenticity or the ability to check the veracity of a source, you cannot validate or make any claims about a product: you simply can't prove and therefore don't know where



it came from. In the textile world, supply lines have always been relatively opaque and tackling this was not something that was even possible until recently. As an organization, *Supima* has been investigating ways to address verification of origin for a dozen years. Yes, this has been a long and slow process, but it has also provided tremendous insight and knowledge about the supply chain. By using a forensic science based platform developed with Oritain (www.oritain.com), *Supima* has mapped out all American Pima growing regions to identify the unique combination of trace elements and isotopes that are intrinsic to the fibers grown in each location. This enables *Supima* to authenticate the origin of ELS cotton at any point in the supply chain without the need for any additional markers, taggants, tracers, or technology. The next step towards full responsibility is to define known and managed supply chains, lending participants the ability to prove the source of the raw materials, and to be engaged with all the constituent partners in the supply chain. This will bring ESG factors to the fore and should involve a greater consideration of the concept of value, as well as supporting investment in the supply chain and enabling partners to deliver against their corporate promises.

Despite all the challenges of the last couple of years, *Supima* has found strength and demand through the virtues of honesty, transparency and authenticity. There is a unique value for *Supima* cotton, acknowledged as an exclusive, limited, and premium quality fiber, second to none in the marketplace. With an extensive regulatory oversight process that covers every possible aspect of an American Pima producer's operations and ensures true origin verification, *Supima* cotton is known and sought after as the responsible choice for ELS cotton.

The value derived from responsibility and authenticity in the supply chain, including support for the investment made by growers, is what will mark out the credibility of businesses that take the extra steps to do the hard work. If the industry is truly interested in change and improvement, the first steps will be to stop making over-simplified claims for the sake of a quick marketing win, to acknowledge the complexity of the true situation, and step up to do the necessary work. Otherwise, the risks inherent in the *status quo* will remain, and we will find out before too long just how interesting our times may become.

A new chapter in Egyptian cotton

Mohamed Hassan,
Director,
Kea Impex Co.

What a very special and difficult season 2020/21 has been!

Despite a great deal of uncertainty and lots of fears in all markets, sharp increases in prices and demand for cotton were recorded, with Egyptian varieties achieving the highest rises of all. By the time of writing, prices for short and medium staple cotton had increased between 20 and 30 percent, and those for long staples between 70 and 80 percent. The margin for Egyptian varieties was even greater.

And it wasn't just prices that increased. Sales for export and to the local market achieved a recent record of more than 100,000 tonnes (the highest since 2010/11), while a carryover of near zero was encountered for the first time for decades. Even now, exporters are still receiving enquires, as well as early demand for next season's crop.

This season, the list of buyers showed the happy return of some who had not bought Egyptian cotton for several years, as well as several new purchasers and regular customers who increased their volumes. In addition, there was an expansion in the area of free zone mills, deliveries to which count as exports.

These developments were especially welcome after the period from 2013 to 2015, when Egyptian cotton suffered a severe deterioration in quality and lack of varieties. Giza 86 alone represented 90 to 95 percent of both production and exports.

Two main factors may be cited as leading the comeback of Egyptian cotton. Firstly, we must point to the technical efforts made to improve quality and develop new varieties such as Giza 94 (which is an excellent alternative to Giza 86, with longer staple and better Micronaire) and Giza 96 (ELS) as well as the brand-new Giza 97 (with a staple length of 34mm and strength of 46 gpt), which will be launched this season.

Secondly, we should applaud the work of the Cotton Egypt Association (CEA) in managing the Egyptian cotton brand and logo. The CEA protects the logo and ensures traceability, so that everything sold and purchased as Egyptian cotton was actually produced in the country. It has also run a successful marketing and promotional campaign: the number of licensed users has increased every year for the past four years.

Points to note for the 2021/22 Egyptian cotton season

A new policy for seed cotton pricing and selling will be implemented this season. A government committee will oversee auctions in all producing areas. This will help rationalise costs and processes, and will minimise the role of intermediaries and associated price inflation as cotton moves between producers and shippers.

The new seed cotton pricing policy is expected to change the selling practices of Egyptian shippers in the coming season, not only because they will enter

the season with no reserve stocks, but also because they will no longer be able to rely on their customary buying channels. Shippers may face severe competition for seed cotton supplies and have less control over the prices they pay. This in turn may delay the early circulation of offers to the market and hamper efforts to gain market share, as quantities and buying prices will not be defined, especially in the early stages of the season.

The 2021/22 season will also see the launch of several new or modernised ginning factories, capable of producing zero-contamination cotton, which has been one of the most important challenges for Egyptian cotton since manual processing (*farfara*) was ceased.

There will also be a significant increase in the role of the public sector, as all government-run ginning and trading companies are merged into one organisation in an effort to achieve greater efficiency. This change will run in parallel with a programme to upgrade government spinning mills. The scheme will begin with the Misr Mehalla mill (which has a capacity of 182,000 spindles and can produce around 30 tonnes of yarn per day). This will be rolled out to other government mills in due course. The aim is to vastly improve productivity in the local yarn sector, and as a few private entities are also expected to enter the market, the prospects for local and export yarn sales to provide an effective complement to the raw cotton market look good.

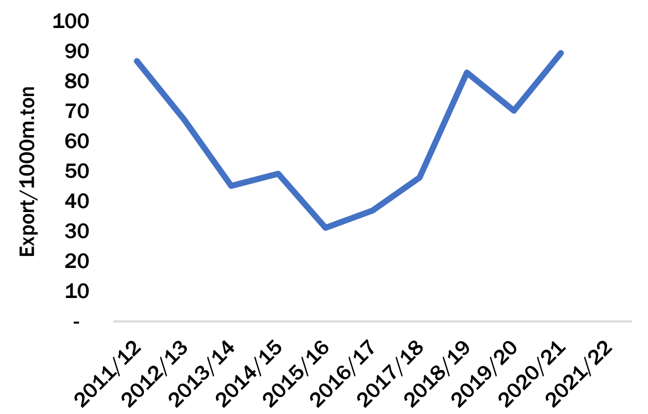
The future is promising, but to ensure success will require ongoing effort and investment

A growing local market will require the approval of additional origins for imports after decades of dependence on a very limited number of permitted origins. This issue is thought to be under consideration by the Egyptian government.

We also think Egypt should attempt to increase cotton production in the coming years in order to match the expected rise in demand, while maintaining reasonable selling prices. This year's forecast output is around 82,000 tonnes, which is 40 percent more than last year. However, the lack of any carryover stock means that supply will actually be 12 percent lower than in 2020/21, and 22 percent less than the overall demand encountered last year.

Finally, it should be an ambition to improve the level of service (especially after-sales service) provided by Egyptian shippers. This is necessary to match the high value of Egyptian cotton and to meet the demands of a market that is expected to grow in the near term.

Variety	planted area feddan	production tonnes
G.45	25.00	7.73
G.87	30.00	9.36
G.96	4,147.00	1,492.92
G.92	7,874.00	2,640.23
G.94	179,687.00	62,018.97
G.86	27,772.00	9,503.58
G.95	15,503.00	5,627.59
G.97	1,646.00	597.50
trails	247.00	88.92
Total	236,931.00	81,986.79



ECH – a new major player in Egypt's textile sector

Khaled Raafat,
CEO,
Egyptian Cotton Hub

In July 2020, Cotton Outlook's Long Staple Special Feature discussed the Egyptian government's ambitious reform plans for the Egyptian cotton and textile sector. Mr. Hisham Tawfik, Minister of Public Business Sector, explained how the state-owned cotton and textile industries were undergoing large-scale reforms to the integrated supply chain. In this article, Mr Raafat provides an update on those reforms and announces an innovative new project.

One significant development that I am pleased to announce is the recent establishment of the Egyptian Cotton Hub (ECH), a specialized sales and marketing firm that is owned in its entirety by the Cotton and Textile Industries Holding Company (CTIHC), and is tasked with becoming the group's commercial trading arm.

After more than 40 years operating in the private sector I was honoured to be invited to head this new company and given the responsibility to lead all sales and marketing efforts for the CTIHC. My entire management team was hand-picked from a pool of seasoned professionals with decades of industry experience in the Egyptian market. They are divided into Commercial Directors for the different product lines (e.g. yarn, fabric, & apparel) as well as a Director of Retail.

We are commencing operations at a time when the CTIHC's 32 production and trading companies are being merged into ten new entities under the guidance of Pricewaterhouse Coopers and Werner International. These companies had suffered from years of neglect and are finally being given the attention they deserve. Over US$1.3 billion are being invested in the latest production technologies from the best names in the business: for example, the spinning and winding lines are from Rieter, Marzoli, and Savio while the weaving lines are from Picanol, Itema, and Toyota and the dyeing and finishing lines are from Bruckner, Benninger, Thies and Monforts.

The result will be a large-scale manufacturing group equipped with state of the art machinery focused on processing fine count Egyptian cotton. Furthermore, Egypt's central location, its proximity to major markets in the EU and US, and its favorable trade agreements that grant duty-free access to Egyptian exports all paint a very promising picture of the future of Egypt's cotton and textile industry. With that in mind, we at ECH are set to command a sizeable market share and position ourselves as a major player in the world's yarn, fabric, home textile, and apparel manufacturing industries.

The company's mandate also includes the creation of a strong local and regional retail operation that will cater to the needs of discerning clients in the domestic market looking for the latest trends in home textiles and clothing. It is our belief that with freshly renovated stores in prime locations and an equally engaging online experience, there will be something for everyone to enjoy. Right now, we are developing new product collections in collaboration with several European

designers as well as cooperating with local creative talent to develop a new brand identity that embodies the heritage of Egyptian cotton products. These new product lines will be showcased in the company's Cairo stores by the end of this year.

In all, we are very excited by the opportunities that lie ahead and very happy to be part of the CTIHC during this time of transformation to help restore the Egyptian cotton and textile industries to their former glory.

The role of the Cotton Arbitration and Testing General Organization (CATGO) and the importance of the balance sheet

Mohamed Khedr,
CATGO Chairman,
Egyptian Delegate of ALCOTEXA

Egyptian cotton occupies a leading position in global markets, prized for its superior physical qualities and spinnability. It is among the best extra long staple (ELS) cottons in the world, and as such it forms an essential pillar of the Egyptian economy.

The Cotton Arbitration and Testing General Organization (CATGO) was established to serve the cotton sector in an independent supervisory capacity, under the auspices of the Ministry of Trade and Industry.

The role of CATGO is as follows:

- Classifying and grading seed cotton in the producing regions and monitoring the different varieties as they move from farms to spinning mills or export centres in order to avoid mixing;
- Expert arbitration of disputes over contracts for the sale of lint (initial arbitration, appeal and counter appeal);
- Testing the physical and spinning characteristics of local and foreign cottons using an updated HVI system, and issuing internationally accredited quality certificates;
- Testing the moisture content of cotton bound for export or use in the local market, monitoring weight and issuing certification;
- Preparing standard grade boxes representing the basic grades of commercial Egyptian cotton varieties.

CATGO also publishes a weekly Egyptian cotton balance sheet providing the most up-to-date estimates of beginning stocks, current crop output, total supply, arrivals at spinning mills, commitments and total distribution, thus identifying the uncommitted cotton in the market.

The balance sheet is considered a reference point for all cotton stakeholders in terms of production, exports and shipments; it is also used for planning in the industry and preparing feasibility studies for the development of new projects and organisations.

This season, the weekly balance sheet has often shown a supply figure of zero, despite the fact that trading has clearly continued. This disparity has arisen from exporting companies selling cotton amongst themselves, or from the sale of cotton to exporters by spinning mills in an effort to achieve higher profits.

CATGO is aware of the importance of the accuracy of the cotton balance sheet, and will thus take steps to tighten control over this activity in upcoming seasons.

In the beginning of 2020, the Egyptian cotton sector was negatively affected by Covid-19 when all mills were closed, shipping activities were halted, and the planted area decreased due to lower prices. However, in 2020/21, exports recovered as prices increased. In the coming season it is expected that the area planted to cotton will rise by 21 percent year on year.

How can we take Egyptian exports of textiles and apparel to the next level?

Dalia Rady,
MBA,
Export Development Strategist

To every advantage there seems to be a corresponding disadvantage… but we never really fully exploit our many advantages!

Egypt is one of the only countries in the region that offers a full production chain in the textile industry. Yet the Egyptian textile and apparel sector still lacks vertical integration. Our USP remains our LS and ELS varieties, but few apparel products made in the local market actually use these. Moreover, global demand is rising for a whole new product mix that we are still not offering in our basket of exports.

Though labour is abundant in Egypt, finding skilled and efficient workers suited to the needs of the sector remains a challenge that needs to be addressed.

The wages of workers in textile and apparel factories are relatively low, but still higher than those paid by many Asian manufacturers. This would not have been an obstacle to increasing our exports if the prevailing business model in the sector were not to target the mass export markets of the US and EU.

Many recent developments and mega-projects have enhanced Egypt's competitive position in the MENA region regarding logistics and transportation. Yet Egypt's performance in trade across borders remains in need of reform to improve lead times for textile and apparel exporters.

In the middle of difficulty lies opportunity

We are one of just a few countries that are flexible in producing both small and large orders. That fact, in addition to our proximity to Europe, should give Egypt a great competitive advantage, especially given the near-shoring trend that has grown throughout the COVID-19 crisis.

So, in order to be able to capitalise on our advantages, Egyptian companies need to work on:

- Speeding up responses to production orders and enhancing communications with international buyers;
- Managing costings and pricing more effectively so as to be able to compete with narrower profit margins;
- Improving the price/quality ratio to boost the perceived value of exported products;
- Expanding knowledge of buyers' requirements, such as certification, compliance and corporate social responsibility-related issues;
- Improving innovation to survive in a world moving towards ever-greater digitalisation.

How can the Egyptian government play a positive role, so we take our exports to the next level?

A lot needs to be done to create a truly business-enabling environment! But let's start with closing the gaps in knowledge and expertise needed to develop the Egyptian textile and apparel industry. Let's end the many overlapping roles, activities and initiatives of different governmental organisations and institutions.

After 15 years of working in export development and export promotion, I can't help but wonder why we are still underperforming despite all the efforts, plans and initiatives.

I think the answer is this: all these efforts need to be better consolidated and conducted in a less impulsive way. We need to stick to a plan that we update according to the continuously changing environment. We don't need to start from scratch every time!

Extra-long staple cotton in Israel – emerging from crisis

Jonathan Spenser,
Israel Cotton Production and Marketing Board Ltd

There's never a dull moment in agricultural production and trading!

With climate change taking a toll on output and now the Covid-19 pandemic battering the commercial sector and world trade, it is no wonder that producers are at a loss as to how to formulate their long-term production plans.

The market stagnation that characterized the cotton and textile sectors during the Covid-19 outbreak in 2019/2020 had a substantial impact on cotton production in Israel.

The combination of falling prices, negligible sales and a lack of government support extended to field crop production in Israel deterred growers from planting cotton. Inventories stacked up as sales stopped. Production forecasts for 2021 were abysmal.

However, as the pandemic recedes in various parts of the world and the commercial sector adapts elsewhere, cotton trading seems to be rebounding, markets are awakening, and prices are on the rise.

In Israel, the revival of sales and attractive prices of extra-long staple cotton since the first quarter of 2021 have spurred growers to increase planting. Cotton acreage for the 2021/22 season has grown to over double the original forecasts.

In Israel there are now multiple reasons for optimism

Although the pandemic is not over yet, business is recovering. Trade is buoyant with the Cotlook A Index at a three-year high, and ELS is changing hands at prices that are highly attractive for growers. The Israel Cotton Board (ICB) has executed significant sales during the last few months, and expectations for 2022 are already soaring as cotton once again becomes a significant player in the planned mix on field crop farms. Optimism is back, and with a bit of suitable weather and good management – an Israeli tradition – cotton will be king again.

Furthermore, the Israeli cotton sector is at last emerging from a crisis of long-term drought and heat stress, brought about by climate change, that resulted in especially low yields during the 2016 and 2017 seasons. Improved agronomic adaptation to these environmental stresses, which are becoming inherent, is proving successful and ELS yields have been rising for the past three seasons, with production maintaining peak lint quality.

Quality Parameters 2020-2021

Variety	Length (HVI)	MICRONAIRE	STRENGTH (HVI)
Israel Pima ELS	37-38 mm	3.7-4.5	41-45 GPT
Israel Acalpi LS	34-35 mm	3.4- 4.2	34-37 GPT

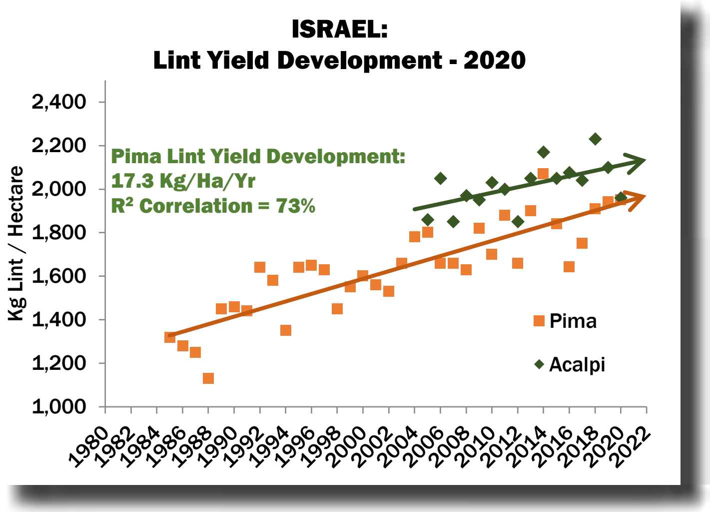
ICB is now a benchmarked Strategic Partner of BCI, producing quality cotton based on its own standard. The sector independently implements this standard to produce quality cotton fully recognized by BCI as “Better Cotton”. This factor alone is expected to drive yield and quality to new highs, all achieved in a sustainable manner.

ICB is fully committed to its sustainability principles and believes they will provide an edge in the marketplace. As the entire crop conforms to BCI “Better Cotton” standards, ICB continues its tradition of supplying the highest quality cottons, which now enjoy the additional advantage of being produced under rigorous and recognized standards to complement its excellent reputation for world-class quality and service.

Israeli cotton now not only conforms to these attributes of quality and service, but also delivers a brand based on best management practices in the realms of sustainable pest control and chemical usage, water stewardship, soil fertility and conservation, biodiversity and environmental considerations, decent work, and farm management.

All Israeli cotton is 100-percent machine-picked by John Deere Baling Pickers, 100-percent roller ginned, benefits from 100-percent mechanized production, HVI and stickiness testing, and is now 100-percent sustainably produced and accredited as BCI “Better Cotton”.

Israeli cotton has – for the last 12 years – been exclusively and successfully marketed by *Otto Stadtlander GmbH, Germany* and consumed by the best and leading spinning mills worldwide, in countries including China, India and the Far East, as well as Turkey, Europe and South America.



Xinjiang long staple cotton – the best cotton in China

He Zongfeng, Xu Xinyang,
China National Cotton Group Corporation

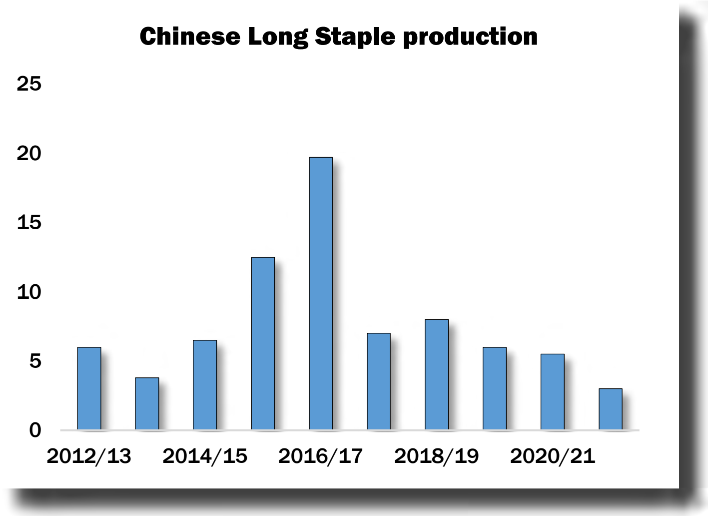
Introduction

The fibres of long staple cotton are soft and long, firm and durable, and they are known as ‘the best cotton in the world’. However, the growing conditions for long staple cotton are demanding due to the long developmental period and the requirement for a lot of heat. Awati County, Xinjiang, is located in northern China’s continental arid climate zone and is characterized by typically dry weather with little rainfall, extended sunny periods, sufficient heat, and perfect photo-thermal conditions. Thus, it enjoys exceptional advantages that make it an ideal location for the cultivation and production of long staple cotton, so Awati County is renowned as ‘the home of Chinese long staple cotton’.

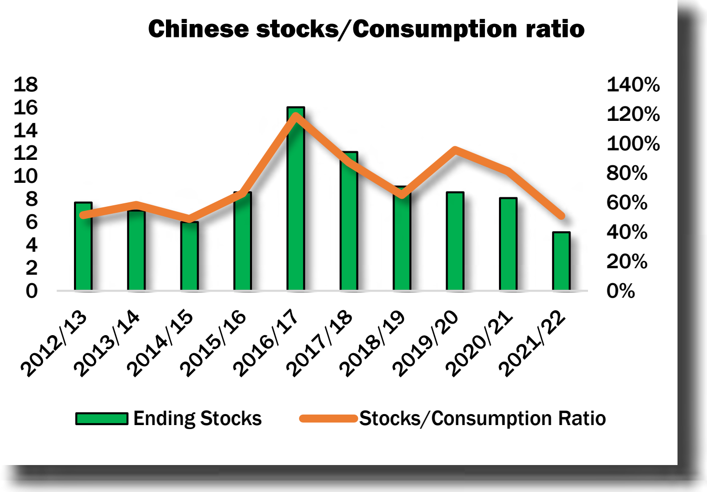
Domestic demand for long staple cotton accounts for only one percent of total consumption in China, but it is nevertheless important to the country’s high-end cotton textile industry. As a result of several factors, domestic enterprises have no choice but to turn to imported cotton to meet their production needs. In consequence, the market price of US Pima is now about 6,000 yuan per tonne higher than Xinjiang long staples, which poses an increasing threat to the whole industrial chain.

Less and less long staple production in Xinjiang

This year, sowing of Xinjiang long staple cotton was virtually complete in May. According to our own calculations, around 640 tonnes of Xinjiang long staple cotton seed have been sold this season, and local growers had some seeds from last season still in hand. If we take the seed requirement as 2 kgs per mu, the area planted to long staples this year is estimated at around 350,000 mu (down 30 percent from last year), with a production forecast of 30,000 tonnes. Meanwhile, in the US, the area planted to Pima in 2021/22 is also facing a reduction of 30 percent, as a result of a sustained drought in the principal growing region. In the latest long staple report released by the International Cotton Advisory Committee, world long staple production in 2020/21 was placed at 327,500 tonnes, indicating a third consecutive year of decline.



In fact, then, many countries across the globe as well as China, are facing the same situation, and the reduction of production might even be described as tragic.



Why are growers turning away from long staple cotton cultivation?

The core reason that long staple cultivation has been abandoned by many producers is the difference in the profitability of long staple and upland cotton. The former does not yet benefit from widespread machine picking, plus labour costs are rising and yields for LS cotton are relatively poor. In consequence, many growers have been turning to upland cotton. Here is an illustration of the results in 2020:

Long staple earnings per mu = (seed cotton price + subsidies) * yield - costs
So, in theory, earnings from long staple planting last year were (8.5+1.4) * 350 -2,500 = 965 yuan per mu.

In comparison:

Upland cotton earnings last year were (6.7+1) * 400 - 1,800 = 1,280 yuan per mu.

To summarise, even if long staple cotton enjoys a higher subsidy rate, its earnings per mu are still lower than those for upland cotton.

With insufficient production to meet demand, the best protection for long staples is consumption.

The overall quality of fibre produced in Xinjiang in 2020/21 was poorer than the previous season. Data released by the China Fiber Quality Monitoring Center (http://www.ccqsc.gov.cn/authorize/index.action) show that fibre length and strength both declined significantly. Furthermore, the quality profile of raw materials is then transferred to yarn products, which has led to low stocks of high-count yarns.

The users of long staples are relatively stable from year to year. This season, the high-quality clothing sector has performed well on the stock market, and factories producing these goods have been working at full capacity, which also means a greater demand for raw materials. The supply of high-quality Xinjiang long staples is clearly an indispensable factor in safeguarding this part of the manufacturing sector. In fact, Xinjiang LS

	18/19	19/20	20/21
Length			
32mm	0.05%	0.12%	0.02%
31mm	0.81%	0.57%	0.14%
30mm	12.06%	10.44%	2.38%
29mm	48.12%	43.90%	21.34%
28mm	34.02%	37.85%	54.83%
27mm	4.67%	6.77%	19.93%
26mm and below	0.27%	0.37%	1.16%
Actual Average Length	29.14	29.04	28.48
Strength			
Very Strong (≥31.0)	5.09%	5.23%	2.42%
Strong (29.0～30.9)	31.51%	31.99%	19.02%
Middle (26.0～28.9)	59.37%	58.37%	74.34%
Poor (24.0～25.9)	3.95%	4.33%	4.17%
Very Poor (≤23.9)	0.08%	0.09%	0.05%
Average Strength	28.47	28.46	28.02

cotton has long been used by many domestic brands and has become part of people's daily lives. One such brand is PYE Pai, a Chinese company founded in 1984, which has been using Xinjiang long staples for 27 years and has invested a large amount of time and money in research into technology and cultivation.

Then there are newcomers, such as Bai Xiao T, a Ningbo-based T-shirt brand whose products are made purely of Aksu long staples, which enjoyed particularly good sales and revenues last year.

The only way to encourage Xinjiang growers' enthusiasm for long staples is to boost customer recognition and demand, in order to grow the market.

A national policy to support Xinjiang long staples

In the context of rapidly decreasing long staple area, it has become urgent to stabilise plantings. Mercifully, the problem has gained the attention of the government. It is understood that both Awati County and municipal authorities are now actively encouraging long staple planting, and its subsidy in 2022 is likely to be increased substantially. Market observers also suggest that China should establish its own brand of long staple cotton, which will help with promotion, as well investing more in the research and development of high-quality cotton seeds to guarantee the supply of Xinjiang long staples, which form the cornerstone of the domestic high-end textile chain. In the future, China's long staple cotton will be known by more people for its outstanding quality characteristics.

Promising outlook for Xinjiang long staples

Fu Changjian

For over ten years, I have been involved in Xinjiang long staples via my work with three ginning mills in the region, which together have an annual operating volume of around 10,000 tonnes.

My personal estimate of long staple area this year in Xinjiang is 650,000 mu, roughly unchanged from last year. Early in the season, during the sowing period, many planting areas in Xinjiang were subject to low temperatures, excessive rains and high winds, which resulted in poor seedling emergence and slow growth. However, after remedial measures (including extensive replanting) were implemented, the development of long staple crops got back on track and is now considered generally better than upland cotton. At the time of writing in late June, we predict yield and production of long staples should be around eight percent lower than a year ago.

In general, the market for long staple cotton has also been recovering, with consumption higher than last year by 20 percent, although still not on par with the level seen during 2019/20. The development of downstream demand for long staples henceforth will depend on three main factors: the pace of recovery in the global economy, the prevention and control of Covid-19 outbreaks, and trade relations between China and western countries. My personal outlook is relatively optimistic, that the recovery of consumption will continue. However, the current high level of international long staple prices will inhibit that recovery to a certain extent.

Additionally, long staple consumption in Xinjiang has been affected by the import ban in the US, while long staple exports from the region to Europe have also been in decline.

Meanwhile, the growth of China's domestic consumer market in recent years is such that the share of products made with long staples headed to the local market has been increasing while exports have declined. On the other hand, Chinese enterprises are also exploring export markets other than Europe and the US, so I believe the net impact on consumption of long staples over the next few years will not be significant.

Since mechanised picking of long staple cotton is not yet widespread, the cost of harvesting crops by hand is still relatively high. By contrast, the upgrading of technology for upland cotton harvesting has been much more rapid, and machine picking should account for over 80 percent of the crop this year. The consequent saving on labour costs will be significant.

Furthermore, for the past three years, the premiums available for long staple cotton have been considered unsatisfactory given the lower cost of producing upland varieties, and local growers have been unhappy with the profits realised from long staple cultivation. As a result, the area dedicated to long staple cotton production in Xinjiang has been falling for a number of years, as growers' enthusiasm has waned. However, the signs are that prices for long staples should be much higher than those for upland cotton in 2021/22. China's spinning technology, as applied to long staples, is already quite advanced and mature. Changes in consumption will be driven mainly by the pattern of consumer demand and the profitability of fine count yarn production, rather than by technological innovation.

At the first outbreak of Covid-19, the market for long staple cotton cooled rapidly, with consumption dropping by over 30 percent in the most severe cases. Luckily, with the spread of infections across the country quickly brought under control, consumption was rebooted only a few months later and has now largely recovered. The impact of the pandemic is therefore temporary, and consumption is expected to return to normal in the medium term.

The impact of production-related problems for Xinjiang long staples has fallen significantly in the past few years, especially the issue of foreign fibres. The reduction can be attributed to four factors:

- Preventative measures have been adopted throughout the processes of picking and transportation, and people's awareness of how to avoid contamination with foreign fibres (such as minimal or no use of woven bags) has improved;
- Ginning mills have bought a variety of equipment to address contamination with foreign fibres. Spinning mills have also adopted new equipment to reduce the proportion of impurities;
- It is expected that mechanised harvesting of long staple cotton will expand over the next two to three years, which should solve the problem entirely.

I have been involved in Xinjiang long staples for years and I am now very confident about market prices in the longer term. At present, the domestic long staple market is promising, and has been working through inventories accumulated over several years. In addition, the market price for Xinjiang long staples has increased substantially and is now placed at around 26,000 yuan per tonne, a level that allows good profits for producers. Because of the rapid rise of prices for US Pima, Egyptian Giza and Israeli long staples, Xinjiang LS cotton still has room to increase.

The expectation is that Xinjiang long staple prices will be higher and growers' profits will be more satisfactory this year. If this prospect is realised, I believe the area planted to long staples will expand next year.

An overview of the Xinjiang long staple cotton ginning market

Pang Hao,
General Manager,
Awati Tianyun Cotton Co. Ltd.

Cotton Outlook: Could you tell us your estimate of the area planted to long staple cotton in Xinjiang this year? How does it compare with last year? Also, what is the likely effect of the sustained bad weather during April and May?

Pang Hao: As far as I understand, the official estimate of the area planted to long staples is currently around 520,000 mu, which is 100,000 more than last year; yield is estimated at 200/300 kilo per mu (even lower for smaller growers). As for the adverse weather earlier this year, yes it did have some impact on the crop, but after replanting the toll is not expected to be too great. Production is forecast to drop slightly, but the assessment of final planted area will be more precise after the local government's second round of surveys, which will be conducted and announced in August. Despite the fact that the government has tried to encourage long staple production this year, we predict that the actual area figure will be much lower than expected, perhaps less than 300,000 mu.

CO: How would you describe the performance of long staple cotton in the spot market? Prices for international long staples have been increasing recently, with quotes of around 30,000 yuan per tonne for US Pima. Meanwhile, the asking prices for supplies originating in Xinjiang were for a long time relatively stable at around 23,000 yuan per tonne. What do you expect in terms of market trend for the second half of the year?

PH: Orders for long staple lint have been recovering steadily in recent months. The situation is much better compared with last year, so I expect LS prices to surge in line with international offering rates.

CO: Demand for imported long staples remains high due to the US ban on products originating in Xinjiang and other factors. While the quality of Xinjiang long staples is high, exports of extra-fine yarn products are still mainly destined for Europe and the United States, so spinners have no choice but to use imported long staples as substitutes. Do you think it is possible to revitalise demand for Xinjiang long staples?

PH: The spinnability of Xinjiang long staple cotton makes it suitable for a wide range of end uses. If the quality specifications of upland cotton in a particular cotton season fail to meet market requirements, for example if they are lower than 'Double 30' (fibre length of 30mm and strength of 30), raw material for spinning 60s count yarn must be replaced by long staples, so I believe market share can grow.

CO: The target price subsidy for Xinjiang long staples has been raised this year. What do you think will be the effect on production?

PH: Xinjiang long staple output is quite small, plus the harvesting process is very laborious, so most local growers are not enthusiastic about it. Nevertheless, planted area may expand somewhat as a result of the rise in the level of subsidy.

CO: As a ginning enterprise with a particular interest in long staples, do you foresee any adjustments in your operating strategy?

PH: Exports of fine count yarns and textiles are heavily influenced by politics and the pandemic, so prices for yarn have been fluctuating widely. At present, I predict long staple prices will increase by a large margin due to rallies in the international market, so for Tianyun, we would like to reduce the purchase of long staple seed cotton to stay away from risks.

ELS cotton in India in 2021 – a spinner's perspective

Harshavardhanaa Prabhaakaran,
Executive Director,
L S Mills, India

Since the Covid-19 pandemic first struck India in December 2019, businesses across various sectors have tried to stay afloat. Every business has had its own advantages and challenges. Sectors such as pharmaceuticals suddenly became highly profitable, whereas the bricks and mortar retail industry saw a steady decline in footfall. The cotton and yarn sector also faced its own set of difficulties. But a thorough understanding of demand and supply in the market helped certain companies perform better than others.

The first wave abruptly put a stop to market activity, the concepts of quarantine and lockdown became the norm. Then, just as the first wave settled down and the situation seemed to stabilise, new strains of the virus brought about the second wave of the pandemic in India. Only this time, infections were more pervasive and brought a whirlwind of state-specific lockdowns which curbed the movement of goods to a bare minimum.

Despite all these hitches, spinners across India have had an optimistic year overall. The empty pipelines created by the slowdown of supply have served to stimulate demand in the market.

On a national level, a shortage in labour was observed as migrant workers left their employment to return to their hometowns. Meanwhile, on an international level, logistics posed a whole suite of problems ranging from a shortage of containers to congestion at major ports. And the additional imposition of an 11-percent import duty on cotton did not help the situation.

As fine count spinners, our preferred choice is ELS cotton, and due to the unpredictable market situation we are constantly looking for opportunities to cover supplies in bulk and in advance in order to avoid compromises on quality. Demand for imported ELS cotton in India has been on a steady rise for the past few years, especially targeted at varieties such as Pima, Giza 94 and Giza 86. This demand arises primarily as a result of the lack of a consistent supply of the premium domestic DCH variety.

The preference for imported cotton stems from its more widespread availability, but also its better quality and strength. However, while demand for Giza-based yarn is strong, the number of mills accustomed to producing it is small, not least because of the involved traceability and auditing procedures required. Moreover, although the fibre to yarn realisation is better with Giza and *Supima*, the increased cost of the raw materials requires higher capital investment, making it difficult for spinners with fewer resources to enter this market.

Adding to the strain is the drought in California, which could significantly influence the availability and the prices of Pima cotton this year. Usually in this situation, we would expect to make up the shortfall with Giza cotton, which may see a larger crop this year. Generally, the availability of Pima and Giza cotton do not pose a problem to mills but in the past year we have seen a gradual decline in supply, starting in the initial months of this season. The sudden demand created by mills bulk-buying stocks of ELS as a precautionary measure to combat uncertainty was the main reason behind this decline in the supply.

With regard to the prices of Indian cotton, the government recently announced an increase in the Minimum Support Price for the coming season, which in turn led to a rise in prices in the open market. The price of medium staple cotton has increased to around ₹58,000 per candy while the price of ELS cotton has soared to ₹95,000 per candy or even more.

Such an increase has had the effect of sending customers on a desperate search for alternative fibres and blends in an effort to improve the affordability of their output, but such options only offer an interim solution.

In the end, manufacturers will have to pay the increased prices in order to keep production lines running. India's upland crop usually totals around 350 lakhs of bales every year and almost 20 percent of this cotton is exported. A similar crop size is predicted the upcoming season as well. While output in 2020/21 was disappointing, it is expected to be better this year.

And in the meantime, as mills continue to wait out the second wave of the pandemic, there has been a significant dip in purchasing, which means that securing these ELS varieties next season may be far more challenging. Mills tend to keep a buffer stock to cover them for six months of production, but market predictions about medium-term availability suggest that it would be advisable to secure as much cotton as an organisation's finances will allow.

Another major factor to take into account in respect of ELS purchasing is that during the period after the first wave of the pandemic had subsided there was great optimism, and mills invested in greater spindle capacity. However, the arrival of the second wave brought this momentum to a pause: everything slowed down again, production schedules were delayed and fabric manufacturers struggled to do profitable business due to increased yarn prices.

In addition to these primary issues, manufacturers also face a whole suite of secondary and even tertiary problems, which add to the burden of spinners across India. These problems include fluctuating exchange rates, diesel price hikes, delayed deliveries and loan repayments.

As these uncertainties continue to loom over the industry and indeed the world, the success of a mill depends on effective management of the available resources and maintaining a watchful eye on the market. Some mills have also taken the opportunity available at this time to mitigate their weaknesses and improve competitiveness.

Taking the past 18 months into consideration, my personal view as a mill owner is that the prices of cotton and yarn are not likely to fall in the near future. However, a healthy price level for both needs to be achieved in order generate better business opportunities for companies all along the supply chain.

The growth of LS/ELS cotton consumption in Pakistan

Khalid Majeed,
CEO,
Mekotex Pvt. Ltd.

Pakistan has a rich history of LS/ELS cotton consumption, despite having no domestic production of these varieties unlike other main long staple consuming markets, such as China and India. Pakistan's LS/ELS consumption is largely driven by demand from the local market since the country is not a major exporter of luxury textile products. Instead, Pakistan's consumption of long staple varieties has been traditionally driven by production of fine lawn fabrics for ladies' wear and traditional men's clothing. Textile mills in Pakistan have been importing LS/ELS growths for use in these products for decades.

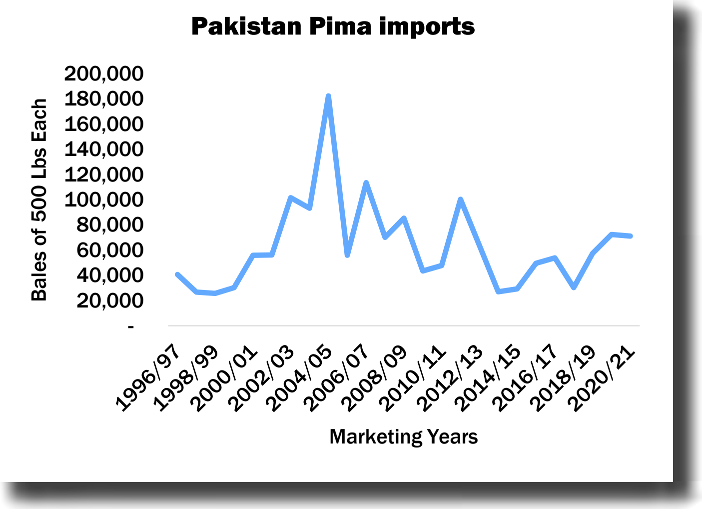
However, consumption trends in Pakistan have witnessed significant changes over the last decade. The development of technology has allowed mills to become a lot more flexible in their fibre consumption patterns and to vary the product mix. This is especially pertinent in the case of the production of ladies' lawn, for which the advent of digital printing in recent years has completely changed the paradigm. Mills are now able to produce multiple varieties of lawn cloth, which has led to an improvement in demand for such fabrics. It has also helped them to access niche segments of the market in a viable and cost-effective way.

Pakistan's textile sector has bounced back very strongly, following the sharp contraction in demand over the last two quarters of 2020. On the back of increasing textile orders, booming local demand and friendly textile policies implemented by the government (for instance, subsidies for energy charges and low-interest rate loans to finance modernisation and product line balancing) mills have been able to invest in all sub-sectors of the textile value chain. As well as making significant investments in spindles/open end spinning and weaving, mills are also enhancing their processing/finishing capacities. The upgraded technology is expected to be fully installed over the next 6-18 months, and among the new spindleage some specifically designed for fine count yarn production has been planned. Thus, Pakistan's consumption of LS/ELS cotton is expected to receive a significant boost over the next one to three years.

In contrast to other long staple cotton consumption powerhouses like China and India, the Pakistan market for LS fibres is much more price sensitive in nature. Over the last decade, mills have developed a capability to adjust their fibre usage based on the price relationships between the various LS/ELS cotton growths, and even competing man-made fibres. The domestic market for branded Pima/Giza products is a very small niche, and for the majority of products, mills do not need to adhere to any particular fibre consumption pattern. They just need to ensure that the quality of the finished product remains the same, irrespective of the fibers or blends used. In particular, the regular availability of Tencel fibre over the last few years has led to a share of LS/ELS cotton consumption

being diverted to Tencel. Whenever long staple cotton prices move higher, mills tend to adjust their blending ratios in favour of Tencel fibre, to the extent that Pakistan's consumption of the man-made fibre has increased substantially over the past two to three years. Last year's decline in long staple cotton prices led to a pick-up in LS/ELS cotton imports to Pakistan, which has slowed down considerably this year, as ELS prices have moved sharply higher again. Many of the regular importing mills in Pakistan are well financed and have been able to increase their imports of LS/ELS cotton beyond their immediate consumption needs, whenever prices have fallen below their historical levels or when the premium over upland has narrowed. Last year's sharp decline in long staple prices led mills to import a great deal more than their requirements, and thus LS/ELS cotton inventory levels have been high in Pakistan, even during the recent price boom.

Up to now, mills have had to maintain a substantial proportion of LS/ELS cotton in the blends with man-made fibres to obtain the desired results. However, as technology evolves and the quality of man-made fibres improves, mills may in future be able to use blends with a lower percentage of long staple cotton and still achieve products of acceptable quality. The chart shows Pakistan's US Pima imports over last two decades and demonstrates the elastic nature of the demand and, in particular, the pick-up in imports, when prices are near their lows.



With global warming affecting all our lives, and agriculture especially, the onus is on LS/ELS cotton producers to ensure availability of these fibres in quantities and at prices that meet the needs of the market.

This is especially true in the case of US Pima and Egyptian Giza. These are recognised brands established over decades, and production should be increased in a sustainable manner. Demand for finer textile products from emerging economies is expected to increase as people's livelihoods improve, and the cotton world needs to be ready to cater to this demand.

In general, cotton consumption across the world follows the trend of global economic activity. As long as vaccines prove effective against Covid variants and economies continue to rebound, the argument in favour of a widespread improvement in demand for cotton – and long staples in particular – appears to remain valid.

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