



# Cotton Outlook

## LONG STAPLE UPDATE

JANUARY 2020

### Welcome to Cotlook's January long staple update

Here you will find a round-up of recent developments in the long staple producing and consuming markets, analysis of price movements and relationships, production and trade news and any other significant events taking place in the long staple sector.

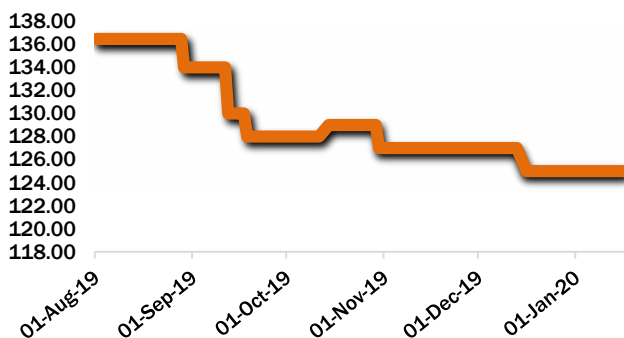
In this edition, we review developments since the start of the 2019/20 season, including falling prices and premiums, the impact of governmental trade policies on demand for long staples, and the progress of this year's marketing campaigns in the US and Egypt.

Overall, demand has been lacklustre and producers have been disappointed by the prices obtained. Traders express some uncertainty with regard to future supply as farmers contemplate alternative crops.

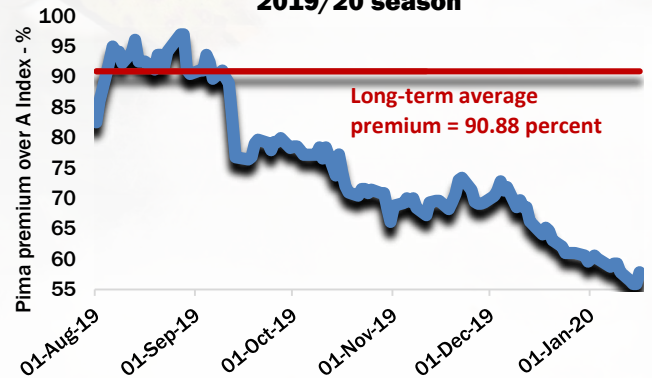
### Prices

Cotlook's benchmark **Pima** price (Grade 2 1-7/16") began the season at 136.5 cents/lb, 4.5 cents higher than the quote that prevailed until July 31, which marked the end of the 2018/19 season. Since the beginning of August, however, the story has been one of almost continuous price attrition as the Cotlook quotation has been subject to several successive downward corrections, with just one modest (and short-lived) rally in the second half of October. In mid-January, Cotlook's Pima quotation stands at 125 cents/lb.

**Cotlook Pima quotation  
2019/20 season**

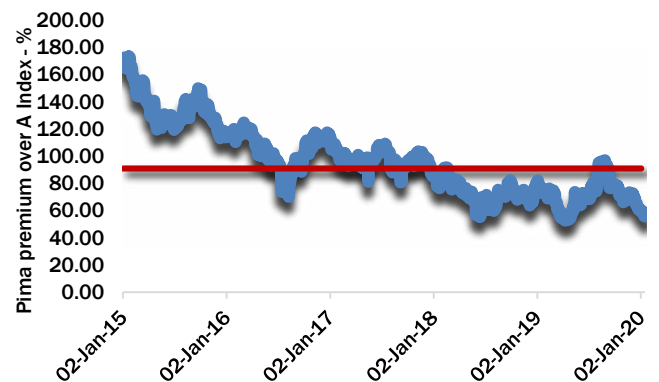


**Cotlook long staple premium  
2019/20 season**



The **Cotlook Long Staple Premium** (established by calculating the percentage by which our Pima quotation exceeds the A Index) follows a similar trajectory, although its decline has been accentuated by the progressive rise of upland rates over the same period. As a result, the premium had declined to around 56 percent by the middle of January, versus a long-term average just below 91 percent. A glance at the longer-term perspective reveals a steady erosion of the premium over the past five years.

**Cotlook long staple premium - five years**



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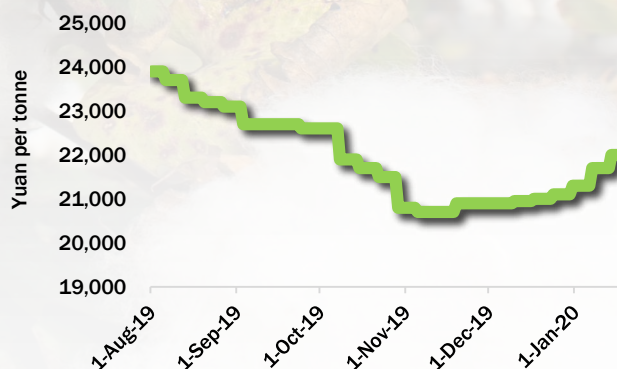
The early stages of the **Egyptian** marketing season were marked by a wide range of export offers. The cheapness of those at the bottom of that range (considered to reflect a value well below the cost of production) was attributed in some quarters to the desire of certain operators to generate finance, as well as a generally poor level of demand from export markets. The situation changed abruptly in early October when, in response to the depression of prices, *Alcotexa* established a committee to address proposals for a minimum price for exports. The committee met on October 3 and agreed a price schedule that fixed minima well above the level at which business had recently been reported. The result was a sharp fall in the volume of business registered over the next few weeks.

On November 20, the cancellation of the scheme was determined by an Emergency General Meeting of *Alcotexa*, following which export prices declined sharply and the volume of registrations rose strongly to over 12,000 tonnes, before reverting to more routine proportions over the succeeding weeks.

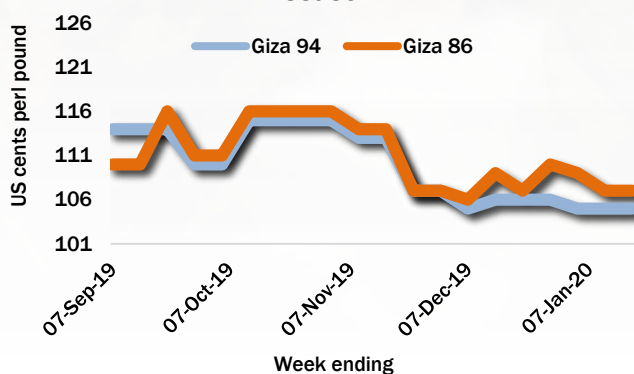
By mid-January, export prices had failed to recover any ground, though some observers contend that a firmer price trend will emerge in the short to medium term, as more cotton is believed now to be held in financially strong hands.

The price for **Chinese T137 cotton** has also undergone several downward revisions since the beginning of the season. On August 1, it was quoted at 23,900 yuan per tonne, but then proceeded to fall steadily over the subsequent four months before seeing a slight upturn late in the period. By mid-December, it was quoted at 20,950 yuan per tonne, almost 20 percent lower than the price at the equivalent point last season. However, the shift in market sentiment either side of the year-end extended to the long staple market, and by mid-January the quotation had recovered by 1,300 yuan (over six percent) to stand at 22,000 yuan per tonne.

**T-137 price**



**Egyptian FOB export prices - 2019/20 season**



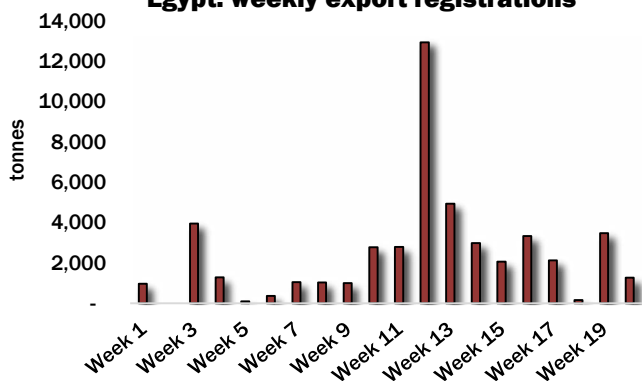
## Trade

### US Pima

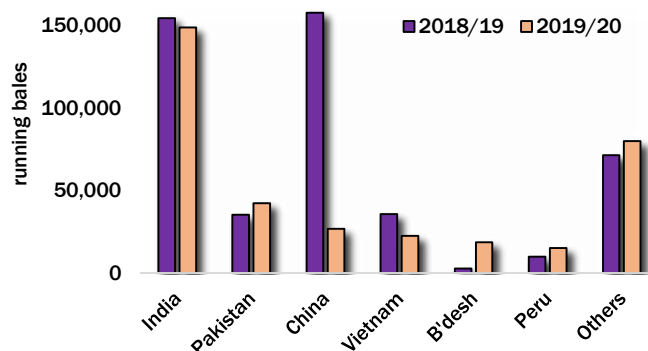
Export sales of US Pima since the start of the season totalled 353,800 running bales by January 2 (of which 181,300 remained to be shipped), according to USDA data. The corresponding figures a year earlier indicated commitments of 467,200 (294,600 awaiting shipment).

The figures since the beginning of this season thus represent a 24-percent drop in sales of Pima overall, almost all of which is attributable to the sharp fall in trade with China and (to a much lesser extent) Vietnam.

**Egypt: weekly export registrations**



**Pima export sales by destination (January 2, 2020)**



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India has so far emerged as the largest market, taking a 42-percent share (compared with 33 percent at the same point of last season). Pakistan follows in a distant second place on 12 percent. China has seen the greatest shift this year, falling from 34 percent in early January 2019 to barely eight percent in 2019/20.

Despite the shortfall in relation to the previous season, in its January supply and demand report, USDA retained its Pima export estimate of 675,000 bales, implying that exports are expected to maintain (although not build on) the improved performance they have achieved since their recent low in 2014/15 (410,000 bales). The pace of sales to China during the balance of the season may of course be affected by the course of bilateral trade relations, following signature of the Phase One trade agreement on January 15.

## ELS Competitiveness Program

On January 10, USDA announced that asking prices for Egyptian Giza 94 would henceforth be included amongst the 'foreign growths determining payment eligibility and payment rates for the ELS Cotton Competitiveness Program.' A four-week qualifying period has thus begun, during which the price of the cheapest 'foreign growth' (adjusted for quality and location) must remain below 113 percent of the Pima basic loan (95.75 cents per lb) and must also remain below the reference price for US Pima. If those conditions are met for four consecutive weeks, payments can be made during the subsequent week to domestic users or exporters equal to the difference between the Pima and the cheapest foreign quotation – currently Giza 94. The detailed calculation appears in the weekly **Cotton Outlook** magazine, and on a daily basis in our **Cottonquotes** service.

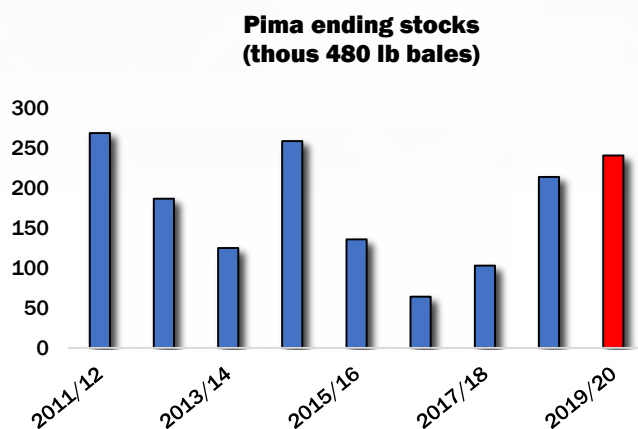
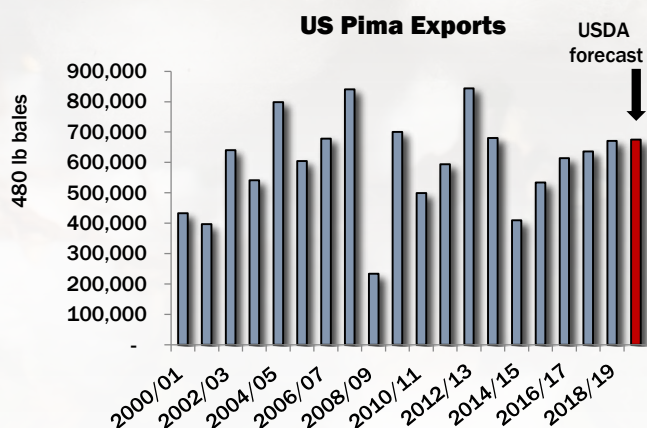
The stated objectives of the programme, which is enshrined in US farm law, are:

- to maintain and expand the domestic use of extra long staple cotton produced in the United States;
- to increase exports of extra long staple cotton produced in the United States; and
- to ensure that extra long staple cotton produced in the United States remains competitive in world markets.

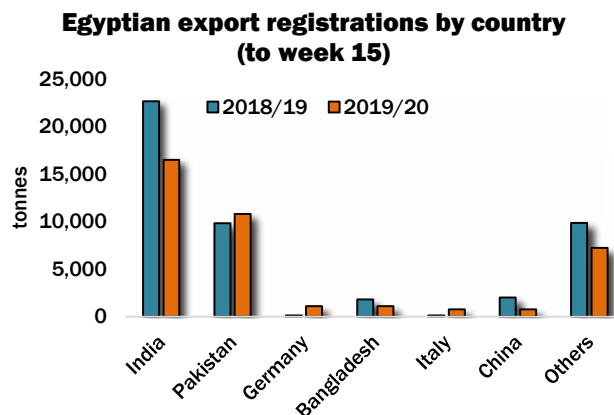
## Egypt

Egypt's marketing year began on September 1. In the period to mid January, export registrations have totalled 47,381 tonnes, 13 percent less than in the equivalent period of the 2018/19 season (which produced a significantly larger crop).

Export data reflect the continued replacement of Giza 86 by Giza 94 as the principal long staple variety cultivated. The latter variety represents over 72 percent of all registrations arranged by January 11. Giza 86 is in second place with 19 percent. ELS varieties contributed



In January, Pima ending stocks for the 2018/19 season were placed by USDA at 214,000 bales rising to 241,000 bales by the end of the current season. This would be the highest carryover since the 2014/15 season, when ending stocks totalled 259,000 bales.



# Cotton Outlook

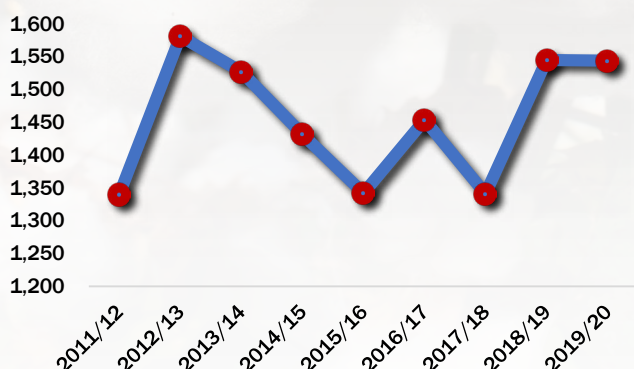
just over three percent. Forty-seven percent of commitments have been registered for delivery to India and a further 28 percent to Pakistan.

## Production news

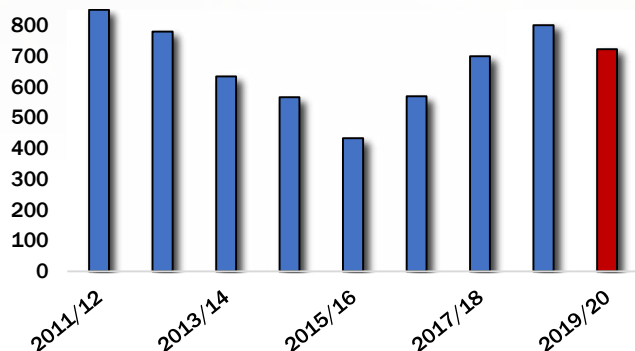
### US

Despite a slow, cool start to the growing season, Pima crops have fared quite well this year. The harvested area is estimated to be 225,000 acres (down from 249,000 in 2018/19), and yields have been good. The figure reported in USDA's January supply and demand report is 1,544 lbs per acre, up from 1,526 lbs/acre the previous month and only marginally below the figure achieved in 2018/19, itself the highest since the 2012/13 season. Total output is forecast at 722,000 bales (compared with 801,000 last season).

**Pima yields (lbs/acre)**



**Pima production (thous 480 lb bales)**



### China

In October it was reported that the area planted to long staple cotton in Awati County, Xinjiang was estimated to be around 250,000 mu less than last year, at 600,000 mu (40,000 ha), while yield was lower by 10/20 kilos per mu, at 240/260 kilos.

### Egypt

According to Egypt's *Cotton Arbitration and Testing General Organisation*, the quantity of new crop seed cotton classed by December 30 was 1,202,504 kantar (just over 189,000 tonnes), about 33 percent less than the total at the same point last season. Of that volume, 152,935 kantar (24,087 tonnes) were composed of 'fundamental seed' (i.e. seed cotton from which, once ginned, the seed will be preserved for planting) controlled by the Holding Company, while 983,864 kantar (154,959 tonnes) were in commercial hands.

Long staple cotton makes up 96 percent of the total, while the small balance is composed of extra-long staples.

With harvesting and classing now well advanced, local observers have adjusted their estimates of total output this season to about 70,000 tonnes, down from 73,000. The forecast published by *Alcotexa* is 1,634,833 metric cantars, or 81,742 tonnes.

### Israel

This year, conditions during the spring were colder and wetter than usual and planting was somewhat delayed as a result. Picking of Acalpi was completed in mid-October, while the harvest campaign for Pima ran about two weeks behind schedule and was finalised in early November. Nevertheless, in general, the growing season has benefited from good weather and favourable temperatures. Quality is reported to be very high. Production is estimated at 7,800 tonnes: 3,600 of Pima and 4,200 of Acalpi.

### Spain

The weather during the harvest in Spain was favourable and total ELS production is still estimated at about 4,000 tonnes.

## World production and consumption

As intimated above, estimates of 2019/20 production in most producing countries have tended lower over recent months. As a result, our latest estimate of 2019/20 world long staple output is revised to just over 437,000 tonnes, down from the figure of almost 450,000 tonnes advanced in our annual Long Staple Special Feature, published in August. (For the purposes of our comparison, Upper Egypt varieties are omitted from the figure that appears in the world production table)

Estimating long staple consumption is a difficult task, often reliant on an extrapolation from production and trade data for various countries. Our forecast for 2019/20 is little altered from that indicated in August and implies a modest decrease from the previous season.



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Our estimates imply a surplus of production over consumption for both the 2018/19 and 2019/20 seasons.

## Outlook for 2020/21

Although early indications regarding water availability for irrigation of California's 2020/21 crop are encouraging – by late-December the Sierra Nevada snowpack was modestly above average – a reduction in Pima area, perhaps of the order of ten to 20 percent, is considered likely in 2020. Current export prices are deemed to fall short of production costs and a diversion of land to other crops is anticipated. It remains to be seen to what extent the possible reactivation of the ELS Competitiveness Program discussed above might restore confidence amongst producers of Pima.

Egypt also expects planted area to fall, in response to this season's low prices.

World LS Output (tonnes)			
	2018/19	2019/20	2019/20 v 2018/19
<b>United States</b>	174,397	157,197	-10%
<b>Egypt</b>	109,559	70,026	-36%
<b>of which:</b>			
<b>ELS</b>	6,425	3,409	-47%
<b>Giza 86</b>	32,531	13,667	-58%
<b>Giza 94</b>	70,603	52,950	-25%
<b>Sudan</b>	1,000	1,000	Unch
<b>Uzbekistan</b>	3,000	5,000	67%
<b>Tajikistan</b>	1,000	1,000	Unch
<b>Turkmenistan</b>	15,000	21,000	40%
<b>India</b>	100,000	100,000	Unch
<b>Peru</b>	5,000	5,000	Unch
<b>China</b>	80,000	65,000	-19%
<b>Israel</b>	9,000	7,800	-13%
<b>Spain</b>	5,500	4,000	-27%
<b>Total</b>	<b>503,456</b>	<b>437,023</b>	<b>-13%</b>

World LS Consumption (tonnes)			
	2018/19	2019/20	2019/20 v 2018/19
<b>India</b>	175,000	175,000	Unch
<b>China</b>	140,000	120,000	-14%
<b>Pakistan</b>	32,000	37,000	16%
<b>Egypt (ELS, G86, G94)</b>	12,000	13,000	8%
<b>United States</b>	4,790	4,355	-9%
<b>Latin America</b>	12,500	12,500	Unch
<b>Bangladesh</b>	10,000	10,000	Unch
<b>Europe (inc. Turkey)</b>	15,000	15,000	Unch
<b>South East Asia</b>	19,000	19,000	Unch
<b>Others</b>	2,000	2,000	Unch
<b>Total</b>	<b>422,290</b>	<b>407,855</b>	<b>-3%</b>



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Tel : 44 (151) 644 6400  
 Fax : 44 (151) 644 8550  
 E-Mail : editor@cotlook.com  
 www.cotlook.com

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