Exploring the Current Cotton Landscape and Its Implications

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In the realm of cotton production and export, Brazil is poised to claim the top spot from the USA this year. This shift underscores the significance of understanding who's who in the global cotton market and why it matters.

Brazil's ascent to the number one exporter position is driven by its cost-efficient production of machine-picked cotton. Despite some shortcomings in staple length, Brazilian cotton meets quality standards, particularly in terms of micronaire and grade - making it a formidable contender in the international market. Delving into their quality data, Brazil produces Middling and Strict Middling, with strength between 28-31 GPT and G5 micronaire, falling down on staple length with 75% of the crop between 35 and 37 staple.

Conversely, Australia faces challenges this year due to delayed planting and harvesting, impacting its export numbers for May. Compounding this, Brazil's anticipated cotton harvest starting in May presents direct competition for Australian shipments in the following months (June, July, August and September).

Australia, however, possesses strengths in quality and logistics. With superior staple length and efficient onshore logistics, Australian cotton maintains a competitive edge, particularly in Asian markets where shipping times are favourable at 14-21 days versus Brazil at 50 + days.

Examining trade patterns, Brazil emerges as a dominant exporter to China with around 4 million bales, surpassing both Australia at 1.2 million and the USA at around 3 million. This underscores Brazil's growing influence in shaping global cotton trade dynamics.

US cotton production in 2024 is expected to be 17 million bales, the key to reaching such a production level is the recent improvement in soil moisture with the weather pattern transitioning from El Niño to La Niña around mid-year. Texas is predicted to get above-normal moisture and alone is expected to produce 8 million bales - twice the production of the past two years of 3.2 and 3 million.

In USDA's Ag-Forum outlook published back in February, the USDA estimated global 24/25 imports at 45.3 million bales (+2.3 million bales year on year). Let's assume that the USDA keeps its February trade outlook. The share of Brazil's exports (from global trade) is estimated at 27% for the current crop and could climb toward 30% in 24/25 (function of a bigger crop). As the share of Brazil's exports grows, the US export share (from global trade) will be capped and likely come below the past 3 year average share (32%), probably closer to 30% too, this implies US exports of 13.6 million bales. I think this is a very likely outcome as it's in line with US total supply, global trade and the fact that Brazil is winning market share.

2024 world cotton production is expected to grow from 112.9 million bales in 23/24 towards 116 million bales in season 24/25. The growth will be mainly driven by the US, Brazil, Greece and Turkey while production is expected to decline in China, Pakistan and Australia. The USDA will likely align global consumption with global GDP growth outlooks as a starting point, so consumption will likely be within 115-116 million bales. So, fairly balanced with world cotton production.

With a huge Brazilian crop at an expected 15.4 million bales, the US crop at 17 million bales and Australia at 4 million bales, Australian cotton is going to have to fight to keep market share. Basis the premium of physical lint price over ICE #2 Futures is where this fight will happen.

The Australian crop is well placed for the delivery windows of April/May/June/July/August each year. For the past two years, we have had smaller US crops allowing for Australian to find a natural fit into these months. However, with the large US crop and impending Brazilian crop Australian will lose its competitive edge and have to compete through basis price to get market share.

One advantage Australia has is the weak Australian dollar keeping prices at home elevated while we can compete in USD terms in Asia. A best of both worlds scenario - Australian farmers can maintain their higher AUD per bale price while merchants can use the FX to convert the sales into more competitive USD per bale prices.

	Dec-23			Apr-24		
	Import coverage Q1-24	**Import coverage Q2-24**	**Import coverage Q3-24**	**Import coverage Q2-24**	**Import coverage Q3-24**	**Import coverage Q4-24**
CHN	80%	20%	10%	95%	50%	15%
IND	60%	20%	20%	80%	20%	0%
PAK	60%	35%	10%	90%	30%	10%
BGD	50%	35%	15%	80%	30%	30%
TUR	75%	40%	20%	100%	40%	15%
VNM	30%	15%	10%	75%	25%	5%
IDN	68%	26%	11%	89%	23%	4%

A higher interest rate environment increasing the cost of carry a mill needs to pay for financing cotton bales stored at the spinning mill warehouse, heightened volatility in cotton Futures and empirically reported tough conditions for spinners to convert lint into yarn has kept spinning mills buying hand to mouth. The table above shows import coverage for quarter two (mills fully covered) and for quarter three, mills need to buy 50-70%, and quarter four up to 85% to be purchased.

In summary, Australian cotton has its work cut out in 2024 and 2025.

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