

2023 season – how's it shaping up?

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We are now well into the 2023 Australian cotton season with picking nearing completion and the crop over 60% ginned and classed. It is often said that no two cotton seasons are the same, and that is what makes our business interesting and keeps many of us coming back. Some may call this a definition of insanity!

In terms of contrasts, the 2022 and 2023 ginning and shipping seasons could not be more different and in most areas the 2023 season is a breeze compared with 2022. Let's have a look at the variables and see how the 2023 season compares with long term average and in particular the 2022 season.

Conditions

While the 2022/23 crop growing season started off during the tail end of the three year cool and wet La Niña weather cycle, the second half of the growing season (and harvest period) certainly saw a distinct change in the weather pattern to a warmer and dryer period as the threat of an El Niño developed.

The cool wet start during spring presented a challenge for farmers to get the crop established and the crop had a very slow start with a higher than normal amount of replanting. Some farmers who had a wet and late pick in 2022 struggled to get a crop in on time while cool wet weather in the more southern areas, resulting in significantly reduced plantings and many crops being planted later than the ideal planting window.

The distinct change in the weather in early 2023 saw irrigated crops in the central and northern areas kick away and conditions could not have been better over January, February and March. The change in weather was not so favorable for dryland crops which, while they needed the heat, did not get the rainfall they require during the boll establishment and filling period, resulting in crop stress which negatively impacted yield and quality.

Quality

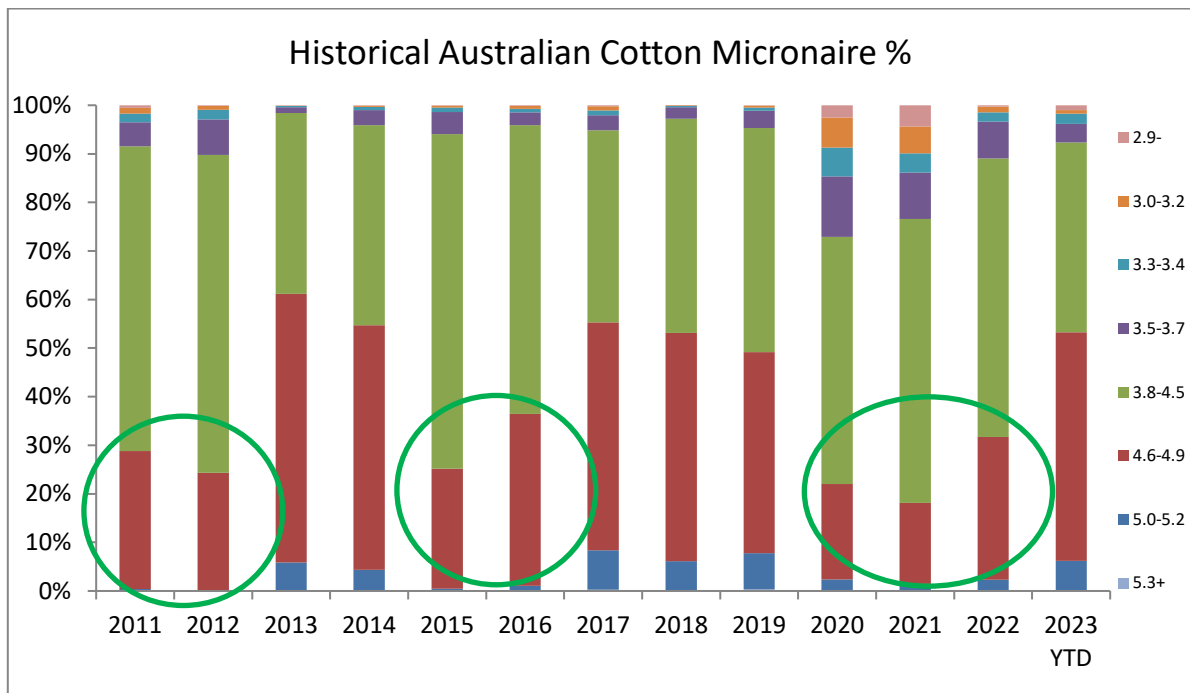
Grade & Colour

The 2023 season is shaping up to be one of our best on record for grade, second only to the 2018 crop. Over 80% of cotton picked and classed so far is Strict Middling (21) and better colour - well ahead of the long term average of around 60% and in stark contrast to the record low 15% Strict Middling colour in 2022. The balance of the crop is mostly Middling (31) colour, while year to date only 3% of the crop is falling below base grade for colour or leaf. (It should be noted that a significant portion of the 3% below base is actually 2022 crop that was carried forward to 2023 for ginning).

Micronaire is an interesting one this season. While concerns of low micronaire in the south have been realised, resulting in some micronaire in the G4 (3.3-3.4) category and lower, the central and northern regions produced a bit of a surprise with higher than average micronaire. This can be attributed to the warm and largely cloud-free weather during the peak boll fill period, combined with excellent fruit retention on the back of almost non-existent insect pressure.

The historical micronaire chart below clearly shows the impact of weather cycles on Australian cotton micronaire. The La Niña (wet and cool) years circled in green distinctly showing the lower amount of 4.6+ micronaire during those periods. The warm dry finish to the 2023 crop, and its

impact on micronaire, is clearly shown with the sharp rebound in the percentage of 4.6+ micronaire for the 2023 crop.



Length & Strength

Length and strength results from irrigated crops are excellent in 2023 with nearly 90% of the crop 37 (1-5/32") staple and longer and nearly 90% 30 GPT and stronger. The lack of rain after new year and consequential stress on the dryland crop this year, has resulted in around 10% of the crop being 36 staple and shorter and in some cases with lower strength also.

Export Volumes & Destinations

In covering this topic the first thing to mention is that the July World Agricultural Supply and Demand Estimates (WASDE) report, published by the US Department of Agriculture, had Australia as the second largest global cotton exporter in the 2022/23 marketing year. Australia was only behind the USA and estimates Australia as exporting 6.6 million bales of cotton in 2022/23 just ahead of Brazil on 6.5 million bales. This is a huge effort and a great achievement by our industry.

The big change in export destinations is the re-emergence of China as an export destination for Australian cotton. The unofficial nature of the ban on Australian cotton imports to China means we will see no announcement of the recommencement of trade. The recommencement has been slow but the numbers are telling the story.

China took 20,000 MT of Australian cotton in June 2023, a big number considering they took only 37,000 MT and 27,000 MT in the whole of 2021 and 2022 respectively. While this June number, which represents 11% of total exports YTD, is well below the 60% of our crop China was taking prior to trade tensions, it is a very positive sign that the situation is improving for cotton, as it has for other commodities like coal and barley.

Australia's Prime Minister, Anthony Albanese, is scheduled to visit China later this year and it is expected that we will see major trade improvements before that visit. This looks to be spot on so far with the removal of the 80% tariff on Australian barley as at 5 August 2023.

The timing of improved exports to China couldn't be better with all major cotton importing countries reporting a very difficult business environment and reduced demand for cotton throughout 2023.

Vietnam remains our number one market, taking 43% of our exports in June, while India, Indonesia, China, Bangladesh and Turkey make up the top six destinations for the month. Exports to India will likely drop to for the balance of the year as shippers and buyers wait for the new calendar year to restart the 51,000 MT tariff free quota allocation which would be used up for 2023.

The later than normal crop, combined with a slow start from gins on the back of the long season in 2022, meant our exports of 2023 crop got off to a slow start. Pace has now picked up and we shipped 122,000 MT (540,000 bales) in June, a 6% Year on Year increase from 2022. One would hope for strong exports in July and August, or the industry might run into issues with storage space at the back end of the ginning season which is expected to go into September and even later for some gins.

Shipping and Logistics

The worm has certainly turned in the global container shipping market. Last year we were begging shipping lines for space and paying astronomical prices as a result. This year shipping lines are begging us for cargo and rates are reflecting their desperation. While it is nice to get these low rates, some kind of equilibrium would be better for all so that shipping lines stay in business and services are maintained.

Landside logistics are also greatly improved in 2023 with fewer issues around truck shortages and road closures due to flooding. There is some concern around storage space as we come to the back end of the season. Gins are operating more efficiently this year, thanks to much better cotton quality, less covid and better weather.

These factors, combined with slow demand in most export markets, means cotton might move slower than shippers would like, putting additional capacity on static storage space. There is already talk of merchants moving bales "backwards" in order to access additional storage space, something we might see more of as we get the tail end of the season.

Ends