

# Expanded Markets for Australian Cotton

August 5, 2021

By Matthew Bradd, Australian Cotton Shippers Association

Australian cotton is being exported to the largest spread of export destinations in a long time as basis declines to make Australian cotton extraordinarily competitive compared with other machine picked growths.

The list of export destinations sounds like the Gap Year we would all have liked to experience - Thailand, Indonesia, Vietnam, Korea, Japan, Malaysia, Turkey, Portugal, Djibouti, the Philippines, India, Pakistan and Bangladesh.

These markets all have their own individual reasons for buying Australian cotton. Thailand, Indonesia, Vietnam and Korea are price driven markets and usually our main competition in this space is the US and Brazil.

Empirically what we have witnessed this year is that Australia has lost the lofty basis premiums paid by China and is now selling at levels at or below US cotton. This drop in value is buying market share for Australian cotton.

There are some very large spinners around the world that will switch their purchasing structure based on the price and availability of cotton. We are seeing that in Indonesia, Vietnam and Korea for 2021 and 2022 sales. We are hopeful that once these markets reacquaint themselves with the superior quality of Australian cotton they will see the value and increase their pricing ideas.

Heading over to Europe, Turkey has been a significant destination this year. They have open-end spinning which demands low micronaire cotton. We have been seeing low micronaire cotton coming sporadically from different areas this season and Turkey and Taiwan are keen buyers of this quality at the right price.

Meanwhile, Pakistan is buying Australia's premium cotton 40 staple and 32 GPT, spinning high count cotton Ne 50' and 60'. (Traditionally we see around 5% of our crop having these combined parameters.)

With all these different destinations, it's accurate to say that our shipping routes have changed. Once we mainly shipped to Chinese ports where there is an insatiable demand for containers to ship to the USA and European markets. With the change in shipping routes, we have witnessed a dramatic increase in rates charged by shipping lines. Some destinations - Pakistan, Bangladesh, India and Turkey - have seen a 300% increase on those rates. COVID 19 has also played a major part in this, with global lockdowns in many countries affecting workers and infrastructure.

Congestion at ports in India has been a major issue for merchants looking to book space on vessels to consumers in Pakistan, India and Bangladesh. All three combined account for a significant portion of global consumption and all have the ability to consume a significant quantity of Australian cotton in their spinning laydowns.

To explain how the shipping world works it may be helpful to relate it to flying your family to Europe for a holiday (don't we wish!). You select the city that you will be departing from, the carrier you want to travel with, and the route you wish to take with many airlines having hubs in Singapore or Dubai for example. You fly the first leg up to Singapore then get off and join other travellers from different origins enroute to your final destination. Shipping is exactly the same, vessels will tranship

to a port (for example Singapore) then be unloaded and put on another vessel either owned by the shipping line or owned by a third party feeder vessel company. In the case of the latter, the shipping line loses control of its containers. We have seen 6-12 week transit times from Brisbane into India. The shipping lines have increased their rates to reflect the time the shipping container is unavailable for more profitable routes and also for the unknown of how long it will be “stuck” in congestion.

Other significant factors affecting the availability of vessels is the consolidation of companies with many mergers after the shipping industry went through a sustained period of large negative results causing some bankruptcies. Now we are left with a less competitive shipping industry with major shipping lines having more control over supply and routing.

On the local front, the 2021/2022 crop is growing bigger with some estimates towards the upper end of the range of 4-4.5 million bales. Cash prices for farmers have been at A\$600 per bale in recent weeks, enticing farmers to plant more acreage towards cotton for the excellent gross margins it is providing.

Ends