

MUSINGS & REFLECTIONS ON THE SEASON

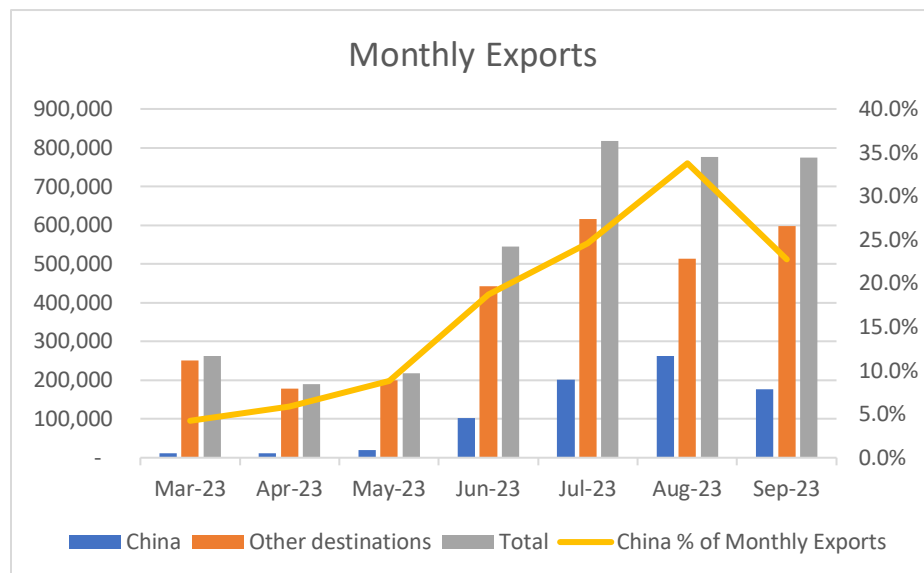
By Tony Geitz, Australian Cotton Shippers Association

As 2023 draws to a close, the last of our gins are winding down and amongst the backdrop of Christmas functions and AGMs we are approaching a time that allows for reflection. The 2022 and 2023 crops have been the biggest consecutive crops Australia has ever produced. Our industry produced, ginned, classed, warehoused and will export just shy of 11 million bales over that period – and for some perspective, this is about 1 million more bales than for the combined 2012 and 2013 crops.

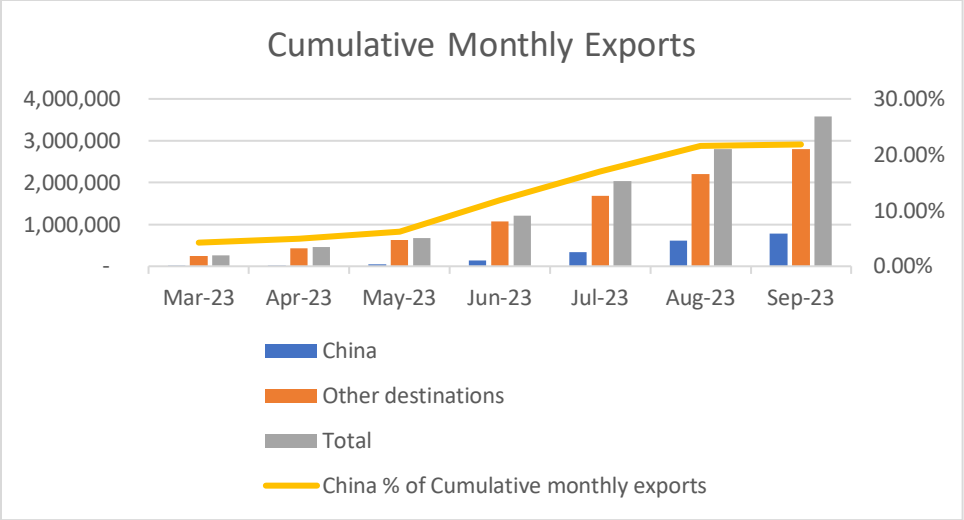
Since March 2022, our monthly shipments have averaged 462,000 bales. Comparing this to 2012/2013, somewhat surprisingly the monthly average was 507,000 bales. Also surprising was that we shipped around 815,000 bales less over the same calendar spread (March to August) between 2012/2013 and 2022/2023.

So apart from a reflection on our logistics movements what has changed in our destination markets over the last 10 years? The largest increase is the rise in Vietnamese consumption moving from 2% for 2012/2013 to 39% for 2022/2023. The reasons for this are well known with significant investment in spinning capacity from China (to avoid import tariffs) and to a lesser extent South Korea and Japan. The most significant downward change was China moving from 68% to 9%. All other destination markets including Indonesia, India, Thailand, South Korea all were within a 7% change between both periods.

In examining the China export situation, in 2022 we exported a 2.35% crop to Zhongguo. Graph 1 plots China exports on a monthly basis and Graph 2 plots China exports on a cumulative monthly basis.



Graph 1



Graph 2

There are a couple of points worth noting – (a) export flow peaked in September 2023 and (b) the rate of increase on cumulative share of Australian exports to China is slowing. We also know there were sizable unsold Australian consignments made to China this year that are still sitting largely unsold in warehouses. This is cotton which registers as an Australian export but sits in the Free Trade Zone and is not imported to China until it is sold. Given the large quantity of unsold consignments it is possible that the export volume of Australian 2023 cotton has peaked and could suggest that total export flows will slow, although tail end demand has been quite good.

With Australian-China bilateral relations improving, there have been questions around how merchants and the wider industry might react to significant sales to China. In that context, last year was the first year since the early noughties that we truly had a diversified export customer base. How did this come about? In 2022 ASCA visited Vietnam and the members who participated in that visit heard for the first time in a very, very long time an historical unicorn - “unblended Australian cotton yarn” being spun in one of the world’s largest consumption markets. Australian cotton had become so competitive relative to other growths in its efforts to gain market share that it was actually profitable to do so.

In the China market in particular, Australian cotton had always been blended with other growths to enhance yarn count ratio and margins. Circling back to the original question of how could this happen, Australian cotton had to gain inelastic market share in other destination markets because we had a such a large crop to market. The only way to do that is through price but interestingly, AUD/bale domestic prices have by and large been insulated from the decrease in ICE Futures and Australian basis because of a significantly lower AUD/USD.

Let’s take a look at Cotlook 31-3-36 G5 quotes for April, May, June for both 2012 and 2022 for Australian and Memphis Eastern growths then take an average price difference over these time frames which is shown in the below table.

Growth	Australian US c/lb	USA Memphis Eastern US c/lb	Basis Value Difference US c/lb
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Avg Quote Apr/May/June 2012	98.49	93.15	5.35
Avg Quote Apr/May/June 2022	153.83	159.47	-5.64
Loss in basis value			-10.99

Bear in mind the Australian crop size was roughly the same over these time periods, however there were significant differences in global balance sheets and in particular the US which was extremely tight and staring at a massive Jul/Dec 22 inverse. This tight 2022 US balance sheet was tied to China having a soft ban on Australian in 2022 as opposed 2012 when China was buying Australia cotton in volume and it was trading at a premium to the US.

In order to be conservative, let's limit this basis difference to -5.0 US c/lb. At prevailing exchange rates that equates to roughly AUD 37.00/per bale basis value lost for an Australian bale. To further extrapolate this number and without trying to be too alarmist, in 2022 42% (2.3 million bales) of our crop was classed a Middling. If we apply this value basis difference to just this section of the crop we can say our industry lost approximately AUD 87 million worth of export value as a consequence of China not being in the market in this quality category alone.

So do we need China back? I would venture to say we do.

Ends