COTTON MARKET REPORT

SEPTEMBER 2022

Low Production, Declining Consumption and Market Volatility in 2022/23

International

A few months ago, the ICAC warned that people needed to buckle themselves in for what was shaping to be a bumpy ride in the 2022/23 season.

Due to catastrophic flooding, Pakistan, the six largest cotton producing country in the world, is expected to see its production decline by 21% from last season to reach 1 million tons. And the number could grow as the full extent of the damage is realised.

Meanwhile, US growers faced the opposite type of adverse weather, drought, and it has destroyed the West Texas crop. The effects of Hurricane Ian also have caused damage to the crop in Georgia, the second-largest cotton producing state in the country.

Even if production was unaffected by these disasters, the uncertainty about the strength of the global economy has prompted investors to anticipate a decline in consumption. A decrease in production would normally be expected to drive prices higher, but when combined with bearish macroeconomic concerns, the expectation is difficult-to-predict volatility. The uncertain microeconomic conditions around the world supported by the third consecutive interest rate increase by the US Federal Reserve Bank, fuelled by the persistently high inflation that reached 8.3 percent in August, could lead to a recession. This could help explain the price decrease in the Cotlook A-index and the ICE Cotton Futures valuation on December contracts. This level of price decrease was not expected, considering the level of production shortfall currently projected.

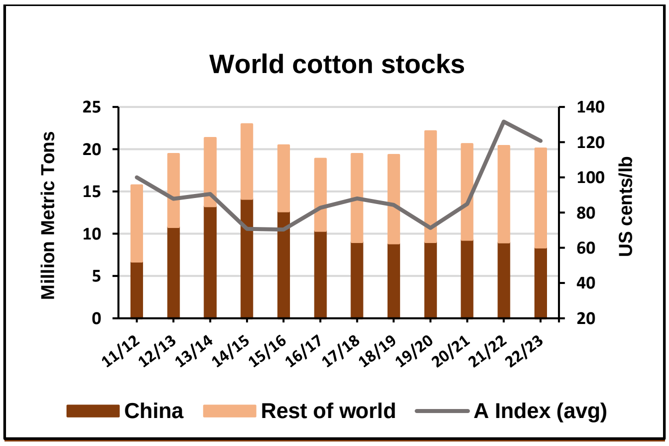
Despite these difficulties there is good news out of West Africa – revitalised production. Production numbers have been increasing over the past several seasons and if the current projected numbers come to fruition, the region will achieve its highest production ever!

The ICAC Secretariat's current price forecast of the season-average A-index for 2022/23 ranges from US 99 cents to US 150 cents, with a midpoint at US 121 cents per pound.

Source: ICAC

World cotton balance sheet

	Aug-Jul	2022/23	
	2021/22	Aug	Sept
	Million Metric Tons Lint		
Beginning Stocks	20.61	20.37	20.37
Production	25.44	24.71	24.98
Consumption	26.14	25.30	25.30
Ending Stocks	20.37	19.78	20.06
Stocks/ Use (excl. China)	63.82%	66.83%	68.44%



International Cotton Prices

(Quotes in US cents per pound)	03/10/22	Season Low	Season High	1 Year ago	2 Years ago
Cotlook A Index	**104.00**	**103.80**	**135.20**	**113.90**	**71.30**
NY Futures Nearby Contract [a]	**93.22**	**87.11**	**122.20**	**106.93**	**64.66**
Basis[b]	**10.78**	**6.40**	**35.9**	**7.37**	**6.48**
2022/23 average to date	**120.70**				
2021/22 average	**131.68**				

[a] *Previous day's close*

[b] *Current A-Index minus Nearby NY (previous close)*

Local Outlook

This month's estimate amounts roughly to 73 000 lint bales, which is 2.8% up from last month's estimate. The increase can be attributed to better yields and higher ginning outturn (lint recovery at gin) than expected.

The ginning season is almost 90% complete whereas the balance of the crop will be processed by end of October. In the Northern Cape areas farmers will start planting from middle October as heat units start building up whereas the rest of the country will start planting from beginning of November onwards.

The impact of the extreme global weather conditions on world supply and the current condition of global macroeconomic uncertainty will lead to more cotton price volatility than normal in 2022/23.

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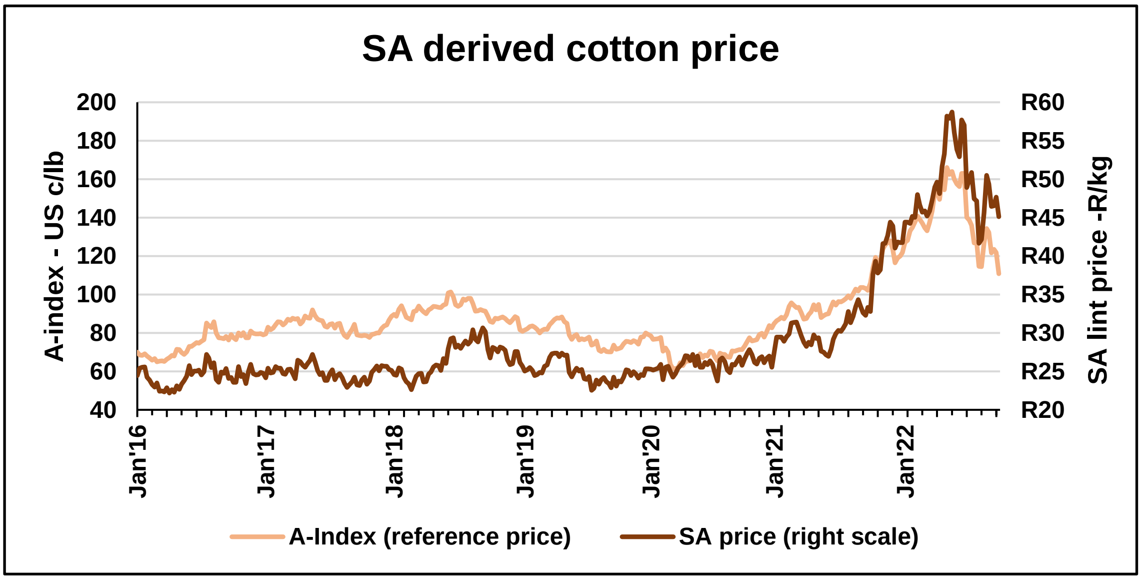
RSA CROP	2021/22 8th Estimate	2021/22 9th Estimate	2020/21 Final Estimate
Ha Irrigation	6 6 98	6 671	5 900
Ha Dryland	11 204	11 204	10 600
Total Ha	17 902	17 875	16 313
Yield: kg seed cotton per ha			
Irrigation	4 234	4 366	4 650
Dryland	1 013	1 059	1 550
Total lint bales	**71 001**	**73 000**	**77 600**



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