SOUTH AFRICA

STATEMENT
ON THE COTTON SITUATION

78TH PLENARY MEETING
OF THE
INTERNATIONAL COTTON
ADVISORY COMMITTEE

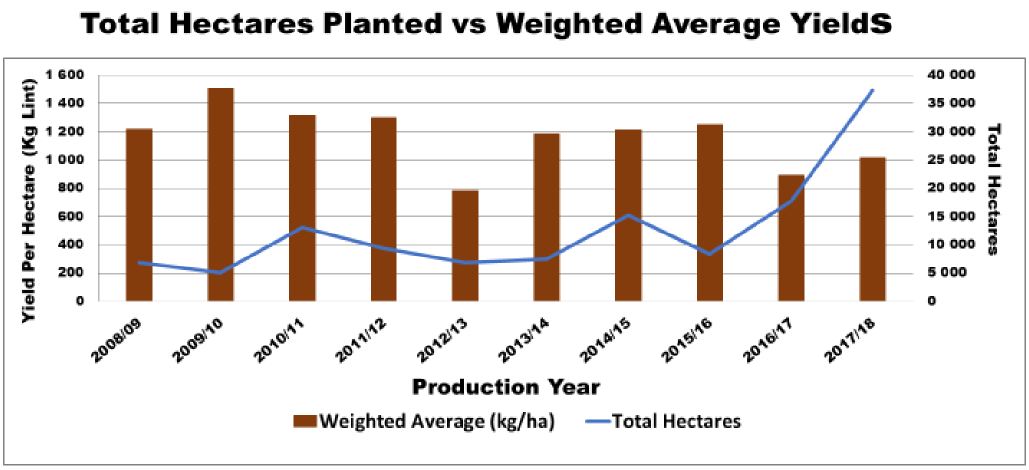
BRISBANE, AUSTRALIA
2-6 DECEMBER 2019

LOCAL COTTON SITUATION AND OUTLOOK

PRODUCTION

Production of cotton lint totalled 37 650 tons for the 2018/19 marketing year (1 April 2018 to 31 March 2019), which represents a 140% increase over the previous season. An estimated 37 352 hectares were dedicated to cotton production in South Africa with 19 677 under irrigation and 17 675 under rainfed conditions.

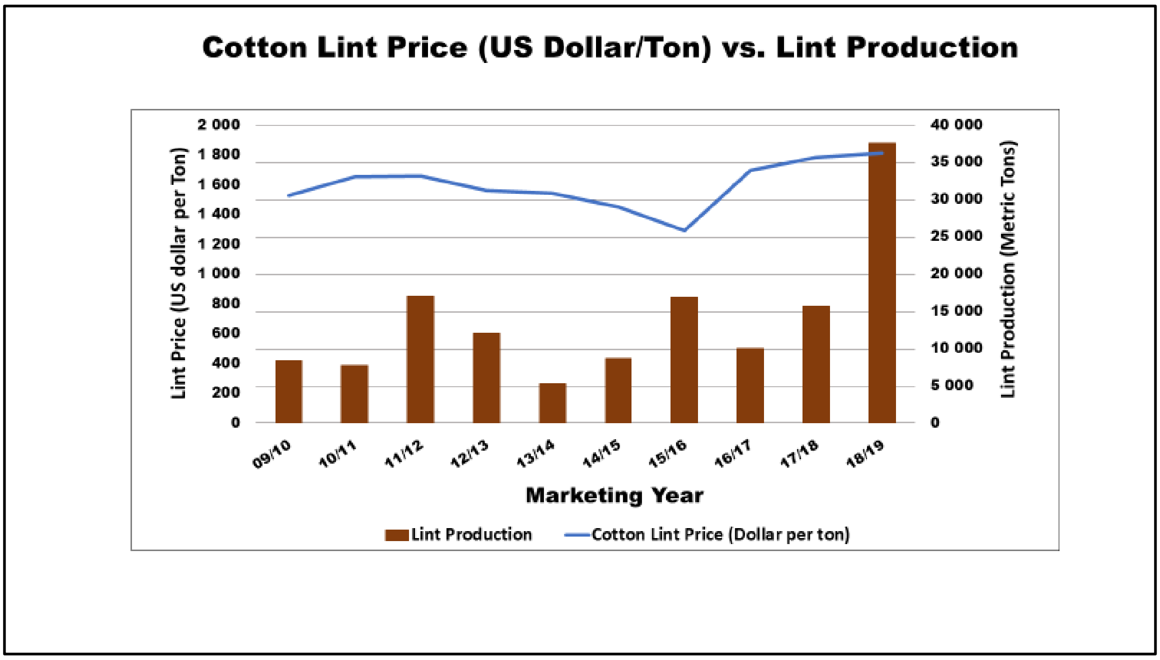
The South African cotton crop for the 2019/20 marketing year is estimated at about 49 000 tons, which represents a 30% increase over the previous season.



Although rainfed hectares over the past 5 years increased by over 500%, the biggest production increase came from irrigated cotton which accounted for more than 80% of cotton lint production. The growth in total cotton hectares of close to 400% over the past 5 years, can mainly be attributed to two factors: first being the more favourable prices of cotton in relation to competing crops, and the establishment of the Cotton Cluster which generated renewed interest by farmers in cotton production. The latter is an initiative of Cotton SA, producers, government and like-minded cotton industry value chain stakeholders to create an enabling environment for cotton producers and manufacturers to supply local and international customers with fully traceable and sustainable products.

The improvement in technology that supported the expansion in production, was mostly on the harvest side. The new generation round bale cotton pickers and strippers, although very expensive, has played a major role in the revival of cotton production in SA, with specific reference to rainfed cotton.

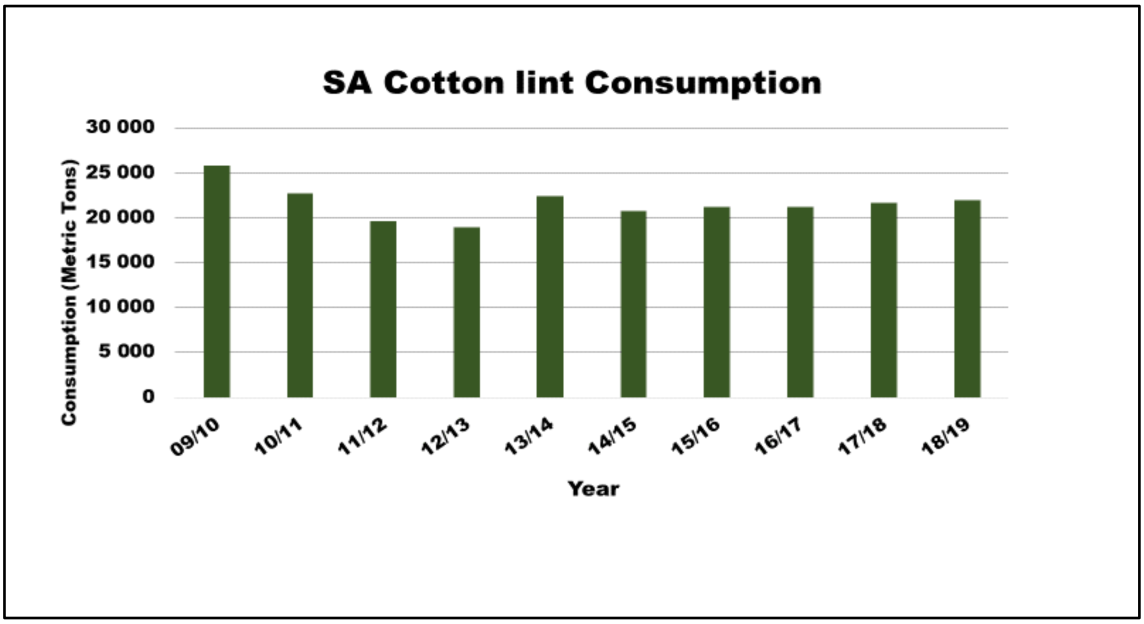
Production prospects for the approaching planting season which begins in October 2019 remains favourable but proper rainfall over the dryland regions will be a determining factor for further growth.



CONSUMPTION

The total lint consumption by South African cotton spinning mills for the 2018/19 marketing year totalled 18 958 tons, representing a 12% decrease compared to the previous season. Approximately 16% of the mills' total cotton consumption was sourced from local ginners. The 12% decrease in cotton mill use can mainly be ascribed to the closing down of a cotton spinner in the 2017/18 marketing year and the fact that most of its cotton spinning business was not taken up by the remaining cotton spinning mills.

Following the demise of the textile industry since 2005, local cotton mill use declined significantly to stabilise between 19 000 and 22 000 tons for a number of years as can be seen from the cotton lint consumption graph on the next page. The overall decrease in local cotton consumption in recent years is mainly due to stiff competition from subsidised textile imports from mainly Asian countries and loss of spinning capacity.



TRADE

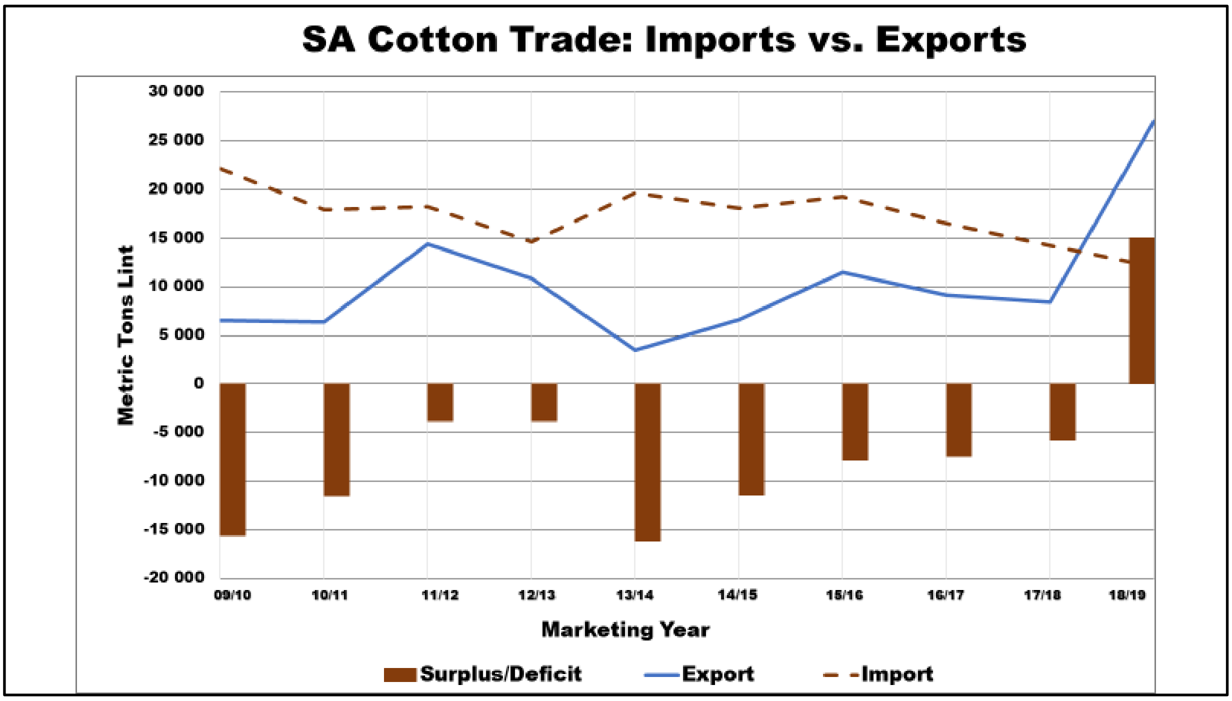
Local cotton spinning mills imported 84% of their cotton requirements during the 2018/19 marketing season, 65% of which originated from Zambia. The two other main suppliers in 2018/19 were Zimbabwe and India, respectively accounting for 28% and 5% of spinners' cotton lint imports. Total cotton lint imports amounted to 15 856 tons. As a rule, more than 90% of all cotton imports originate from countries within the Southern African Development Community (SADC) as there is no import duty applicable on cotton lint imports from these countries in terms of a free trade agreement.

During the 2018/19 marketing season, a record 26 039 tons of locally produced cotton lint were exported, which represents 72% of SA's 2018/19 cotton lint production. The trade surplus of 15 000 tons lint will only be the second time since 1989/90 that exports will surpass imports and projections for the new season are that the trade surplus will further increase to hit the highest point ever recorded.

SOUTH AFRICAN TEXTILE & CLOTHING SECTOR

In South Africa real economic growth slowed, gross value added contracted and output growth slowed down. South Africa's trade surplus with the rest of the world increased over 2018, as the value of merchandise exports increased while that of imports decreased.

The total turnover during 2018 for the South African manufacturing industry showed an increase of 9 per cent compared to 2017, while it is estimated to show an increase of approximately one per



cent for 2019 compared to 2018. The turnover for the local textile and clothing industries in 2018 amounted to R43.6 billion, estimated to be approximately the same for 2019. Ex-factory sales for the spinning, weaving and finishing sector decreased by 15 per cent from 2017 to 2018, while it is expected to increase by 2 per cent from 2018 to 2019. The value of sales for knitting mills (total for fabrics and garments) for 2018 showed a decrease of 2 per cent compared to 2017 and is expected to increase by 2 per cent during 2019. Clothing's sales decreased by 12 per cent from 2017 to 2018, while it showed an expected further decrease of 4 per cent during 2019.

According to the average volume of production index (seasonally adjusted 2015=100) for the spinning, weaving and finishing sector, production for 2018 decreased by about 1.7 per cent compared to 2017. The estimated figure for 2019 showed a decline of 0.4 per cent compared 2018. The average volume of production for the knitting sector (fabrics and garments) for 2018 was approximately 0.4 per cent higher than in 2017. During 2019 production for the knitting sector is expected to decline by approximately 8 per cent compared to the same period in 2018. Clothing's index showed a decline of about 1.3 per cent from 2017 to 2018, while clothing's index is expected to decrease further to approximately 1.7 per cent in 2019.

Capacity utilization in the textile sector was 66 per cent during 2018 with an expected utilization of 66 per cent during 2019. It is expected that the capacity utilization for clothing would increase from 75.3 per cent in 2018 to 75.8 per cent in 2019.

Employment growth in general remained lacklustre, with more informal sector jobs than formal sector jobs created during 2018. Job losses were widespread across the manufacturing subsectors. Unemployment, at a rate of more than 27 per cent, remains the most challenging of South Africa's problems. During 2018 employment in the textile and clothing sector was approximately 73 600 workers, just over one per cent less than in 2017. It is expected that employment in the textile and clothing sector could be unchanged from 2018 to 2019.

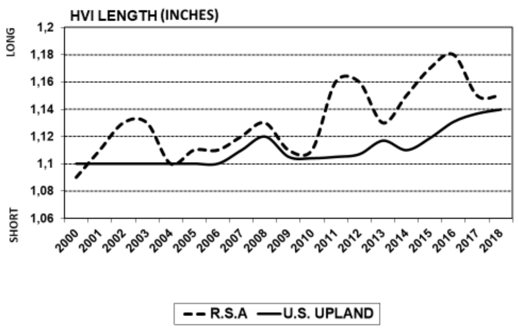
During 2018 the value of imports of textiles have increased by 28 per cent from 2017 and amounted to R20.1 billion. The value of clothing imports was R24.4 billion, an increase of 9.5 per cent. The value of textile exports has increased by 8 per cent and amounted to R12.6 billion, while clothing exports increased by only one per cent to R5.3 billion. These figures include trade with the South Africa's customs union partners.

Total retail trade sales for South Africa at current prices showed an increase of approximately 4 per cent from 2017 to 2018. Retail trade sales (at current prices) of textiles, clothing, leather and footwear increased by about 2 per cent in 2018, compared to 2017. It is expected that this figure could decline by 7 per cent during 2019 as consumers are continually bombarded with additional expenses like increased electricity and fuel prices.

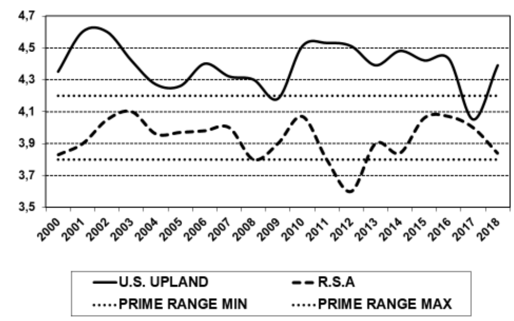
Weak output growth in the manufacturing sector could be ascribed to a gradual weakening in domestic demand, low and deteriorating business confidence, rapidly rising input costs, a loss of competitiveness and skills shortages. This all could affect investments and would result in further employment loss.

PERFORMANCE OF THE SOUTH AFRICAN COTTON FIBRE CROP versus US UPLAND COTTON

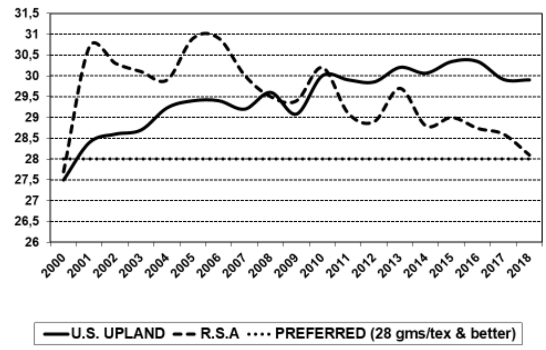
AVERAGE STAPLE LENGTH(UHML) DISTRIBUTION



AVERAGE MICRONAIRE DISTRIBUTION



AVERAGE STRENGTH DISTRIBUTION GM/TEX – HVI LEVEL



LENGTH UNIFORMITY INDEX TREND