Cotton This Month

26 July 2023

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Cautious Optimism Abounds as We Begin the 2023/24 Season

With the 2022/23 season now behind us, it is time to completely shift our focus to the 2023/24 season. Before we move on, though, I will recap a few of the most impactful situations that occurred in 2022/23.

The final production number for the closing season is 24.68 million tonnes of cotton lint, about 2% below the 2021/22 season. Global demand for cotton (consumption) remains below production and will close the season at 23.88 million tonnes — 7.55% below the 2021/22 season, which is a significant drop. It is no surprise, then, that trade numbers are also lower than the previous season. Overall, imports are down 12.13% and exports are down 13.34%. With low consumption and trade numbers, we would expect to see an increase in the ending stocks — and we do, with the balance sheet for ending stock increasing 4% over the 2021/22 season and now sitting at 20.21 million tonnes.

There were several primary factors that played into this season’s overall lower performance. Pakistan experienced early season flooding which caused catastrophic damage to the crop. The United States experienced a severe...
drought in their largest cotton growing region (West Texas) that wiped out a non-trivial amount of the crop. Between these two large producing countries alone, the cotton industry lost 1.1 million tonnes compared to the previous season. In addition to weather-related issues, the world was — and still is — dealing with complicated geopolitical issues in Europe and recession fears across the globe. The central banks in all of the developed nations initiated a campaign of raising interest rates in an effort to tame inflation and it has largely been successful. Inflation in many of the developed nations has subsided and the central banks have avoided pushing the economies into recession so far. The only developed nation that is officially in recession is Germany, and theirs is a very mild recession. These recession fears drove down consumer sentiment which slowed spending on cotton-related items. This was clearly seen in the data with lower consumption and trade in the 2022/23 season. I expect this trend will carry into the 2023/24 season.

How We Arrived at These Figures Before we dig into our projections for the 2023/24 season, we should briefly discuss how we arrive at our numbers. These preseason and early-season forecasts/projections are based on individual country reports from desired targets. In most of the large cotton-producing nations, the responsible agency, ministry or committee will announce the guiding policy and desired production targets for the new season. The ICAC evaluates these targets and in almost all cases, plug these forecasted numbers into our balance sheets. The numbers from individual countries are then combined to generate our global projections for the 2023/24 season. We refine our projections as the season progresses and we obtain more clarity on how the season is moving.

For example, if extreme temperatures and drought conditions occur during peak planting time, we will consider this in the area projections for the affected region. If area is decreased, then production is also likely to decrease, and yield will change consequently. We can also start to move consumption and trade estimates based on global economic conditions. There is no magical formula that drives these forecasts and estimates. We employ statistical modelling, country reports, expert analysis, and intuition to arrive at our forecasts and projections for the cotton industry. We expect that our original numbers will increase or decrease depending on what occurs as the season progresses. We have a tradition of evaluating how our projections panned out mid-season, so look for these in the January edition of the CTM publication.

So how does the 2023/24 season look pre-season? Well, according to current balance sheets, the season looks very promising. Every variable that we track is above the 2022/23 season: Area, yield, production, consumption, trade, and stocks are all up. Literally, every variable has increased.

Area shows a 5% increase over the 2022/23 season, which is a bit of a surprise given the current recession fears and lower international price on cotton. With increased area comes increased production, which is expected to result in a 7% increase over 2022/23 to 26.53 million tonnes. Consumption is up 2.2% at 24.41 million tonnes. Trade has
increased an impressive 12.9% despite concerns over decreased spending and mild to moderate recession. If these projections hold up it will truly be a glorious time for the cotton industry.

However, I suspect that this rosy outlook may not play out through the entire 2023/24 season. My suspicion is that area under cotton will be very close to the 2022/23 seasons (32.15 million hectares) rather than the optimistic 33.76 million hectares currently being projected for 2023/24. Using history as a guide, lower cotton prices and recent droughts and floods in high production regions tend to result in lower area planted under cotton. If we have fewer hectares under cotton, I would expect lower cotton production. I also suspect that the consumption and trade numbers will be adjusted down as the season moves forward. Consumer sentiment is still depressed and recession fears are still moderate to strong. I am not convinced we have avoided a global recession at this point, as some economists suggest, and would not be surprised if the 2023/24 season looked very similar to the 2022/23 season. In all honesty, given the challenges faced in 2022/23, that would not be such a terrible outcome.

In short, given all the challenges we just faced in 2022/23, the season posted respectable production numbers overall, and while consumption and trade were both depressed, they were sufficiently higher than the 2019/20 numbers. We are all looking forward to the 2023/24 season with hope and anticipation.

For the most up-to-date statistics please refer to the ICAC Data Dashboard. The dashboard is updated with new data constantly and that new information is immediately reflected in the Dashboard, making it a valuable, up-to-date resource all month long. You can view a video tutorial on how to use the ICAC Data Dashboard on the ICAC’s YouTube page Here.