

MALCOTTON OUTLOOK

January - March, 2017

Prepared by Cotton Unit at AICC

Introduction

Malcotton Outlook is a quarterly cotton outlook periodical. It mainly focuses on future prospects of the cotton value chain in Malawi by analysing previous and current trends in the cotton sector both domestically and globally with the aim of providing up to date information related to cotton for sector vibrancy.

Cotton Market Narratives

The average Cotlook A Index has been hovering between US\$ 0.33 to US\$ 0.40 per Kg since January, 2017 (Fig 1). The current season registered a rapid reduction in global cotton reserves especially for countries in the Southern Hemisphere whose ending stocks in 2015/16 season fell from 2 million tons to

Global world cotton output will rise marginally by 2% to 23.4 million tons. The expansion is the result of an increase in planted area, which is expected to grow from 29 million hectares in 2015/16 to 30.6 million hectares in 2017. The world average yield is projected to decline by 2% to 764 kg/ha. International cotton prices closed on a high note in February suggesting a third consecutive reduction in world stocks which are currently concentrated in China. However, when China is excluded, the global cotton output is projected to be higher than the previous season.

Excluding China, global cotton production is projected to be higher with India leading in production to about

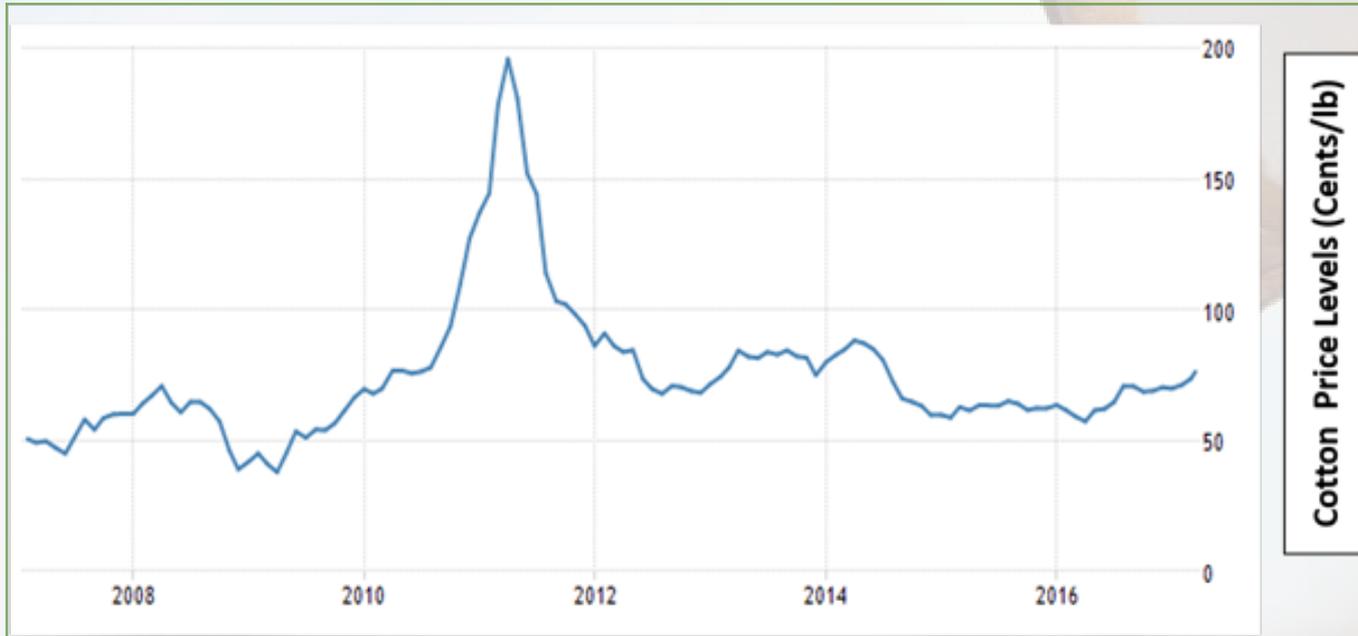


Fig1: Cotton Price Trends, Source: www.tradingeconomic.com

1.6 million tons (-20%). The shortage in supply was transmitted through few months of 2017 season, as the bulk of the crop was still being harvested, keeping prices in check.

6 million tons. China will come second despite a 4% decline to 4.6 million tons followed by the US at 3.6 million tons, Pakistan at 1.8 million tons (representing a sharp rise of 20%) as the malicious pink bollworm

which reigned havoc during the last season has been managed. Brazil and Australia will account for 2.8 million tons cotton output (21%). This increase in global cotton production is likely to put pressure on prices through the end of 2017. World ending stocks are likely to fall from 16.7 million tons to 18 million tons

in part on cotton exports, trends in consumption are mirrored in the top importing countries. Bangladesh and Vietnam, the two important consumers of cotton will account for 1.4 million tons (+1%) and 1.2 million tons (20%) million tons of imports, respectively.

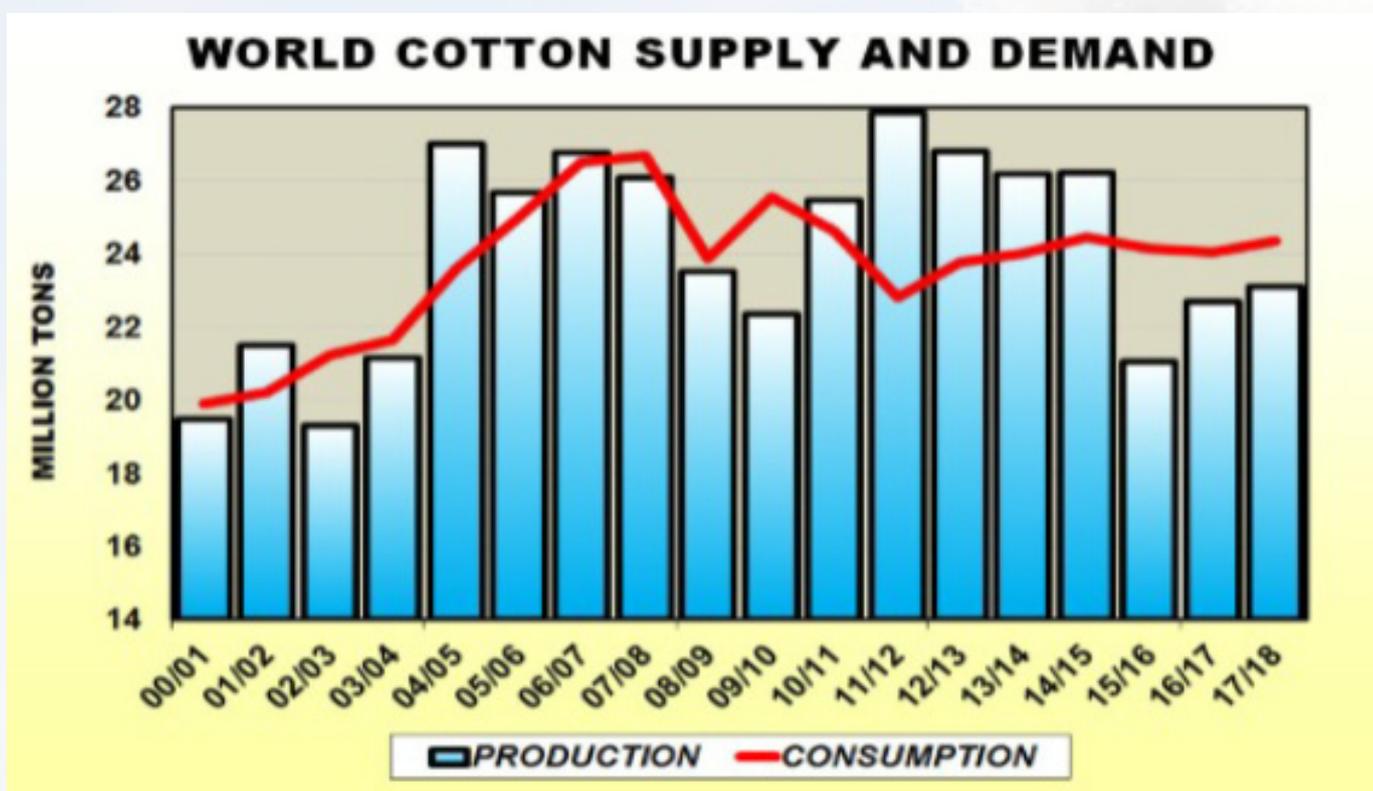


Fig 2: Source: South African Cotton Market Report, March 2017

despite an increase in world cotton output as China, whose reserves account for over 60% of total world cotton reserves continues disposing off of its reserves.

World cotton consumption is likely to stagnate at 24 million tons as prices for polyester still keeps cotton prices in check. Cotton consumption in India and Pakistan is estimated at 5.2 million tons (decline of 1%) and 2.3 million tons (0% change), respectively. Considering that cotton consuming nations depend

Africa Performance

The West Africa region is estimated to produce 2 million tons (15.4% increase) in 2017 with Burkina Faso accounting for 39.4 % of the production followed by Mali at 650,000 tons. Despite the Cotton performance in West Africa has been sluggish, cotton continued to attract demand but unsold reserves had for some time been depleted and resulted in difficulties in sourcing cotton from the West African Countries hence commonly

commanded a premium.

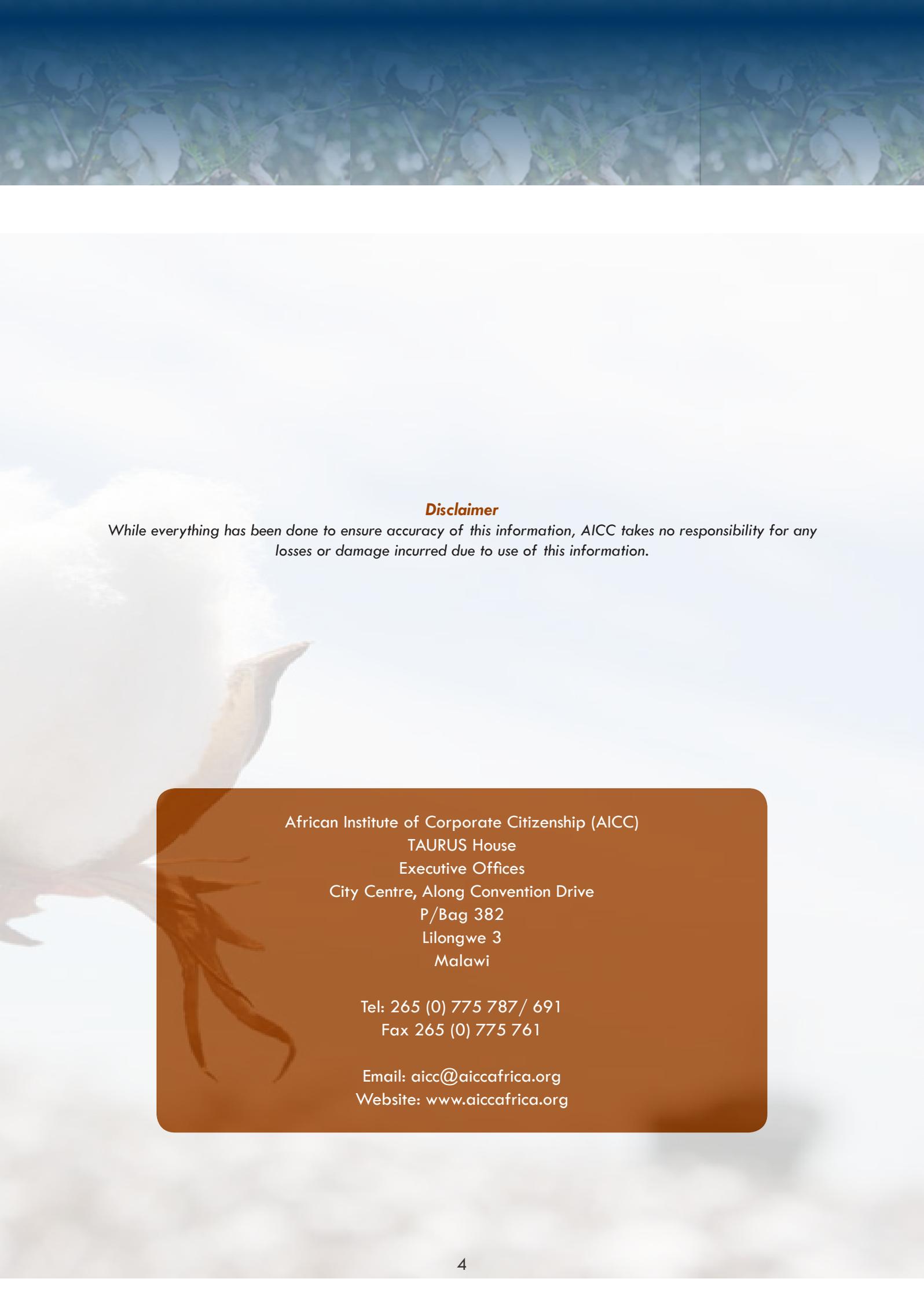
About 15,776 tons of lint is expected to be produced from RSA grown seed cotton, up from 8,677 tons during the previous season. Neighbouring Tanzania, cotton production was expected to increase in 2017 as a result of an increase in prices to US\$ 0.46/Kg up from US\$ 0.35/Kg in the previous season with corresponding levels of 300,000 tonnes (+100% increase in 2016). In Zimbabwe, the Government supported cotton smallholder farmers under the Presidential Input Scheme with inputs worth more than \$40 million to revive the industry after cotton crop was severely affected by severe drought coupled with limited access to inputs by farmers last season resulting in record production low levels of about 30 000 tons. With 8000 tons (2000 carry over stock from previous season) of seed distributed to stallholder farmers under the program, 110,000 tons of seed cotton is expected to be produced in Zimbabwe in 2017.

Malawi Performance over the Past Three Months and Outlook for Six Months

There has not been major activities within the sector as the crop is currently in the field. Spot visits to selected cotton fields show a good crop stand thanks to the good rains that the country has been receiving since December, 2016. The area under cotton has been reduced significantly as smallholder farmers have shifted to other high value crops principally legumes. Production is likely to increase marginally from 15,000 tons achieved in 2015/16 season to about 16,000 to

30,000 tonnes partially owing to the shift in cropping pattern by cotton farmers to other high value crops especially legumes.

The Cotlook A prices index provides some intriguing insights of the likely behaviour over the next six months. Prices averaged US\$ 0.37/Kg towards end of February, 2017 and is likely to move around average for few months as more cotton will arrive especially from the Southern hemisphere which will eventually put downward pressure on prices. Malawi which is renowned for offering the best cotton prices in Africa might be affected by this price trend. While last years' prices averaged US\$ 53/Kg, it is yet to be seen whether smallholder farmers will get higher prices in nominal terms than last year as output will likely drive out some ginneries in business thereby leaving few to participate in the marketing season. Involvement of few ginneries on the market might significantly affect cotton prices.



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