

MALCOTTON OUTLOOK

April - June, 2016

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.

Understanding the Cotton Sub Sector

The cotton market in Malawi is composed of several players with varying interests. Smallholder cotton producers account for about 99% of total cotton production in Malawi with the rest coming from estate sector mainly Toleza Farm. The number of cotton farmers ranges from 200,000-300,000 while the corresponding area under cotton cultivation varies from 100,000-400,000 Hectares. Production has varied from 100 000 MT obtained in 2011/12 to less than 15,000 MT realised during the 2015/16 agriculture season. The average though over the past 5 years has been 44,000 MT per year. Cotton is exclusively bought by the current eight ginners who run ginning factory in the country. However, during the 2015/16 marketing season, only three private ginning companies and ADMARC were very active on the market buying cotton. Apart from ginning, the private companies also provides inputs to farmers under contract farming yet the system has collapsed in recent years mistrust among the parties involved among others. After ginning, the cotton lint, which accounts for 62-67 % of total seed cotton produced is exported. The major export markets are South Africa which accounted for 30 % of total cotton lint exports. in 2014/15 although Asian countries especially China and India increasingly becoming important and might overtake South Africa in the near future (In our subsequent outlook we will show how the swing to China affects positively and negatively the local value chain).The remaining component

of seed cotton which is mainly seed is absorbed by the cotton seed crushing and cotton seed sub sectors, respectively. The seed is crushed into edible oil and sold domestically while the seed cake, a cotton seed by product is mainly sold in South Africa and Zambia. Presently, there is one sole seed producer of cotton seed.

Malawi Performance over the Past Three Months

The cotton market in the country continues to be influenced by uncertainty in government policies, weak coordination in the chain, developments in other commodity markets and a changing macroeconomic climate. Growth in world cotton demand remains a key concern as global stocks and competition from lower priced manmade fibers such as polyester weigh on the market. The performance of cotton during the 2015/16 agriculture season was negatively affected by the El Niño episode which has affected the whole Southern African region. Official statistics estimated raw cotton production levels of about 35,000 metric tons but actual output is within the range of 12,000-15,000 MT. Figure 1 shows cotton production and price trends from 2011/12 to 2015/16 agriculture seasons.

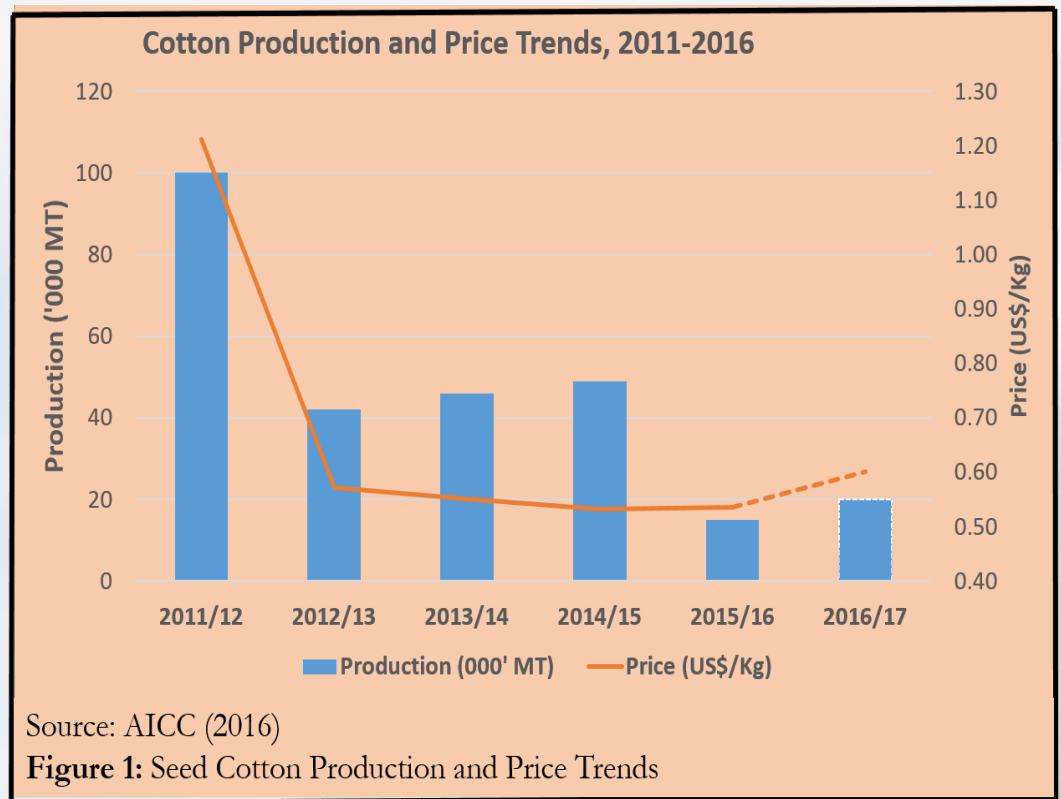
Despite inadequate raw cotton supplies, cotton prices are relatively lower in US\$ terms this year- MK 375/ Kg (US\$ 0.53/Kg)- as compared to MK 250/Kg (US\$ 0.57/Kg) during the same time period last year. The decline in value in terms of US\$ is partly due to the persistent weakening of the kwacha against major trading currencies especially the US dollar. The minimum cotton price of MK 375/Kg coupled with the market distortive machinations of the state marketing parastatal which dampened the cotton market has forced some ginning companies out of buying as well as business this year

The development left only four companies to buy raw cotton. The implication of this withdrawal was that buying companies only concentrated in areas that produced sufficient quantities of cotton to justify their business operations leaving a cross section of farmers with no markets and resorted to selling to unlicensed vendors at prices as low as MK US\$ 0.30 /Kg . The vendors in turn sold the cotton to either

ADMARC or the private companies at government set minimum price. With an estimated combined annual ginning capacity in excess of 250,000 metric tons, the low cotton production has resulted in several ginning mills remaining idle due to inadequate raw material to keep them running economically. In simple terms, the 15,000 MT produced this year was not enough to economically sustain the operations of almost all ginning companies.

Africa Performance

While minimum prices of seed cotton remained relatively stable at US\$ 0.53/Kg in Malawi, Zambia and Zimbabwe registered average seed cotton prices of US\$0.27 and US\$ 0.33 per Kg, respectively. Cotton production generally fell in almost all cotton producing countries during the 2015/16 season as indicated earlier on while consumption remained relatively constant. This meant that only those countries with strategic cotton reserves are likely to cushion the effects brought about by adverse climate patterns by releasing some volumes in the market. Most countries in Sub Saharan Africa are unable to have strategic cotton reserves due to their low levels of production and this has a bearing on prices and output fluctuation.



South Africa lint production in 2015/16 is likely to increase despite the drought experienced in the country. Lint production is estimated at about 18,000 tons, 1000 of which will come from Swaziland. This represents an 89 % increase over the previous season owing to adoption of new technologies. While area under cotton has decreased significantly since 1988/89 in South Africa, yield of irrigated cotton has more than double from 2000 Kg/Ha in 1988/89 to 4,750 Kg/Ha in 2015/16 (estimated). Such developments within the region explains the need for Malawi to embrace advanced technology to increase cotton yields from the current less than 1000 Kg/Ha to over 2000 Kg/Ha.

The decline in seed cotton output in Southern African region has not spared West Africa either. Burkina Faso, Africa's top cotton producer, projected production of 650,000 tons of seed cotton representing an 8 % drop in last year's output. Discussions with Monsanto and other cotton stakeholders continued in Burkina Faso over the short fibre length issue of Bt cotton during the 2015/16 agriculture season as stakeholders plan to phase out the Bt Cotton technology by 2018 if a lasting solution is not found.

World Trend and Performance

The 2015/2016 marks another worst cotton marketing season both globally since 2008 due to continued downward spiral of global lint prices. As of mid-July 2016, the lint was trading at an average of 28.5 cents per Kilogram on the New York Futures market representing a 14 % drop in last year's price at the same time period. During the financial crisis in 2008, lint prices reached low level record of 22 cents per Kilogram. The two factors cited to have reduced yields across major cotton producing areas this year are drought and pest attacks. Additionally, previous prices of raw cotton has forced some cotton farmers to shift to other crops mainly pulses thereby reducing hectareage under the crop. Another emerging threat to the industry is the use of alternative fibres mainly polyester which has also hurt world cotton consumption in 2015/16 due to its relative lower prices than cotton lint.

Cotton reserves in India, the world's biggest producer, are likely to fall by about 33 % to 731,000 Metric tons at the end of 2015/16 season as drought has rein havoc and reduced output to a six year record. China, another world cotton producing giant is holding about 11 million tons, approximately half of annual global consumption in its strategic reserves and only released about one million tons in May 2016 for local demand. China's import policy which saw domestic spinners getting a meagre 64,000 tons from a possible volume of two million has remained subdued. Generally, China's

import policies such as quotas have affected world lint prices significantly.

China forecasts its ending stocks at 12 million, a 7 % decrease of last year's projections while ending stocks for the rest of the world are expected to decline by 9 % to 8.4 million tons. The reduction in reserves is as a result of a 15 % decline in world cotton production and not necessarily growth in consumption. In fact, world cotton consumption is projected to change to 23.9 million tons (a 2 % decrease from last year's). Cotton consumption in China, the world's largest consumer, has declined continuously since 2009/10 when it reached just over 10 million tons. In 2015/16, cotton consumption in China is forecasted at 7.1 million tons, down by 5 % from last season. India's cotton consumption is expected to decline by 2 % to 5.3 million tons. Cotton consumption in Pakistan is projected to decrease by 12 % to 2.2 million tons due to weakened demand from China and the low volume of cotton production this season keeping domestic cotton prices firm. Consumption in Vietnam by contrast, may increase by 22 % to 1.1 million tons in 2015/16 as China continues to invest in spinning mills perhaps with an aim of adopting the trade fragmentation strategies of other developed nations. The five leading 2015/16 world cotton giants (India, China, US, Pakistan and Brazil in that order) produced a combined volume of 16.1 million MT and yet US, India, Brazil and Uzbekistan led in the world cotton exports during the same period. As can be seen China did not make the grade in the top five exporting countries despite being second producing country in 2015/16 as it pursued austerity strategies aimed at satisfying the domestic demand. The US for instance, which despite producing 2.8 million MT of cotton in 2015/16 exported 2.0 million MT (71%) mainly to Asia partly servicing its textile companies located in Vietnam, Bangladesh and other Asianic countries.

Outlook for Malawi for the Next Six Months

The poor performance of cotton this year has made

cotton value chain stakeholders think ahead of rescuing the sector from oblivion. While there was no much active participation by many ginners on the market during the 2015/16 market season, there are strong indications that ginners will again engage cotton producers under contract arrangements considering the fact that abandoning the ginning business is a bit costly in short term. The area under cotton is likely to decrease during the 2016/17 growing season especially in those areas suitable for pigeon peas production and whose cost of switching to alternative cash crops is easy. This enterprise substitution is in reaction to the ever increasing trend of pigeon peas prices which has average MK 450/ Kg while that of cotton stagnated at MK 281.67/Kg for the past three years in nominal value. Unless cotton producers are assured of readily availability of inputs and better prices, the like hood of this switching is very high.

Another expected key highlight for the six months is the establishment of full secretariat for the Cotton Council of Malawi. Establishment of the Secretariat is long overdue and has handicapped the operations of several players within the cotton value chain as some strategic decisions that fall within the ambit of the Council could not be implemented by the chain players. Preliminary work of the Council is expected to commence once the CEO is engaged and steer the institution to

greater heights. With the recent registration of the Cotton Farmers Association (COFA), it is expected that the Council will also work closely with private sector players and other non-state actors in the cotton value chain in revamping COFA to become a farmer mouth piece and a well organised cotton farmer association.

With ginners grappling with unsustainable debt stock in excess MK 1.3 Billion (about US\$ 1,805,500) in outstanding loan defaults by farmers from previous contracts on input loans, there are strong indications that ginners will not provide inputs to farmers during the 2016/17 agriculture season. Another key outlook for the six months is the piloting of a sustainable input supply model for cotton involving the participation of public and private sector players such as seed companies, chemical suppliers, banks, ginners, government and non-state actors to replace the collapsed input supply model that was dominated by ginners. The pilot will be implemented in six Extension Planning Areas (EPAs) across the country targeting 3500 beneficiaries. The ginners will be guaranteed a minimum supply of 3500 MT while the participating farmers will realise a combined MK 1,400,000.00 in 2016/17 assuming that the buying price will slightly increase to MK400/ Kg while every farmer will produce a minimum of 1MT due to timely availability of good quality inputs and relevant extension services on input use among others.

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