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Cotton, Wool Markets Face Turbulent Year: Rabobank

International markets for wool and cotton have seen much volatility through the course of 2022 – with the lingering impacts of COVID and escalated geopolitical and economic uncertainty affecting the trade – and the year ahead could be equally turbulent, agribusiness banking specialist Rabobank says in a new industry podcast.

Speaking on the podcast, [Turbulent 2022 for Cotton and Wool Prices](#), Rabobank associate analyst Edward McGeoch said local and global extreme weather events have significantly impacted cotton production while Australian wool production is on the rise.

Year in review – Cotton

There has been a lot of fluctuation with cotton prices through 2022, Mr McGeoch said.

“Cotton prices opened well off the back of strong performances in 2021 – kicking off the year with a local price of roughly \$740 per bale. And we saw the price trend up significantly to an 11-year high, with rises of 29 per cent to achieve just under \$1000 per bale.

“Unfortunately, we have seen a steady decline from those high prices, which almost halved during the year, recovering slightly in recent months to sit at approximately \$600 per bale.”

Speaking on the podcast with Rabobank agriculture analyst Dennis Voznesenski, Mr McGeoch said there were a number of factors “playing into” the dramatic cotton price fluctuations seen through 2022.

“Reduced global production being one of the chief drivers of the market volatility,” he said. “The US cotton crop has been affected by ongoing drought conditions – particularly in Texas, one of the major cotton-producing states.

“Retail sales have also been strong off the back of COVID lockdowns and cotton mills have been very active in the market – driving prices up.

“Global container logistics also played a role in the cotton price fluctuations, with high container rates and uncertainty about delivery times, which led to some over buying and ordering from cotton mills to ensure they had a continuity of supply.”

Year in review – Wool

Mr McGeoch said Australian wool producers – like cotton growers – had experienced similar volatile market conditions throughout the course of the year.

“The Eastern Market Indicator (EMI) climbed significantly through the first half of 2022 to reach a high of approximately 1474 cent/kg,” he said. “And subsequently we have seen the EMI slide back by roughly 20 per cent from those high prices seen earlier in the year.”

Mr McGeoch said within the various wool micron ranges – there have been significant drops in prices paid for the finer micron wools, with falls between six to 15 per cent since the beginning of the year. “There were slight increases for some mid-micron wools. But the biggest price drops, of up to 30 per cent, have been in the higher micron type wools. Looking at prices across the last 10 years, some of those high-micron wools are at their lowest price for that period,” he said.

Mr Voznesenski said there is a range of factors contributing to the price decline for high-micron wools. “Including when the Chinese property market slows down and there is a reduced need for carpeting – a major market for high-micron wool.

“High micron wool is also used in the production of fake-fur, and when there was a downturn in the demand for fake-fur during COVID this affected the market for the courser types of wool,” he said.

Mr McGeoch said falling international consumer confidence in major wool markets, such as China and the US, through 2022 is the major factor behind the downturn in Australian wool prices.

“International retail apparel sales drive the Australian wool market and while there was a strong start to the year, growing international economic uncertainty has seen a negative effect on the sale of wool apparel and hence local prices,” he said.

“Key markets for wool suits – US, Japan and France – have seen reduced product appetite with sales down between 20 and 50 per cent.

“And the long COVID lockdowns in China through the year have affected the country’s wool milling capacity and saw reduced demand for Australian wool.”

Production outlook – Cotton

Mr McGeoch said there have been recent industry adjustments made to the 2023 production outlook – globally and locally, due to weather events.

“US production was down this year by roughly 3.5 million bales due to drought conditions. And flooding and heatwaves in Pakistan during the year saw a reduction in the nation’s cotton production of approximately 1.5 million bales.”

Looking at the Australian cotton production outlook, Mr McGeoch said, the sector is coming off a very strong 2021/22 season of around 5.75 million bales – a big increase on the previously drought-impacted years.

Australia’s production estimate for 2022/23 was around six million bales, however, the excessive rainfall and flooding in southern Queensland and across cotton-growing areas of New South Wales has put a “serious dint” in the outlook for the 2022/23 production season, he said.

Mr McGeoch said Rabobank is now expecting to see a cotton harvest next year of under five million bales due to the impacts of the wet weather.

Production outlook – Wool

“Since 2019, we have seen the Australian sheep flock recover in numbers, following years of drought – the increased sheep numbers have subsequently contributed to a lift in wool production,” Mr McGeoch said.

“In 2021, Australian wool production was approximately 294 million kilograms which we saw increase in 2022 to around 324 million kilograms.

“Through the course of this year, there has been a growth in wool production in Queensland and Tasmania – with sheep numbers increasing in Queensland and improved seasons seen in Tasmania.”

New markets

New export destinations for Australian wool and cotton are opening up in 2023, Mr McGeoch said.

“In October 2020, China imposed a soft-ban on Australian cotton imports, and at the time Australia was sending a significant amount of cotton to that market – around 66 per cent of cotton exports,” he said. “There was then an urgent need to look for alternate markets and now in 2022, we’ve seen Vietnam emerge as a key new market – with the largest growth in demand for Australian cotton – with that nation now importing approximately 38 per cent of Australian cotton exports.”

Australian cotton exports to India have also jumped dramatically with 13 per cent now going to that market – compared with four per cent in 2020, Mr McGeoch said. “And Turkey has also emerged as a new market, taking roughly 10 per cent of Australian cotton exports this year.”

For Australian wool exports, Mr McGeoch said there is still a heavy reliance on the Chinese market – with approximately 80 per cent of the national wool clip going to China.

“We are seeing recent growth of some smaller markets for Australian wool – not to the same extent as in cotton markets – however, India is now accounting for five per cent of Australia’s total wool exports. That is a 40 per cent increase on 2021 exports to the country – which is considerable growth off the back of COVID disruptions.”

Mr Voznesenski said in recent years, Turkey, Vietnam and Indonesia have been purchasing and importing textile spinning and weaving machinery which will further open up these markets for Australian wool and cotton imports.