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Report Name: Cotton and Products Update

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Report Highlights:

Post forecasts marketing year 2023/24 production at 1.1 million 480-bales, a 30 percent decline compared to the previous year due to higher input costs and lack of access to new genetically engineered seed varieties. Local industry and government officials project output from the recent crop harvests will be significantly lower than in previous years. Consumption is forecast to decline due to slow growth in domestic demand, increased competition from synthetic fibers and yarn imports from Asia, and the peso's appreciation against the dollar.

PRODUCTION

Post forecasts Mexico cotton production at 1.1 million 480-lb bales for marketing year (MY) 2023/2024, a reduction of 30 percent from the MY 2022/23 Post estimate of 1.58 million bales. This reduction is due to a decrease in cotton planting area as farmers switch to other crops like sorghum and corn due to attractive selling prices, as well as the lack of access to new genetically engineered (GE) cotton seeds. Post forecasts total planted area at 155,600 hectares (ha) in MY2023/24, with the dominant cotton-producing state of Chihuahua forecast to plant 120,000 ha.

Planted area and yield are constrained by limited access to innovative seed technology and high input costs. The government of Mexico (GOM) has not approved any genetically engineered cotton planting permits since 2019. The GOM also restricted glyphosate imports under the Corn [Decree](#) of February 2023, which calls for the phasing out glyphosate use by 2024. The only approved GE cotton seeds permitted in Mexico are obsolete varieties and mostly unavailable on the world market. According to cotton producers, ginning companies, and government officials in the Secretariat of Agriculture and Rural Development (SADER), the Secretariat of Environment and Natural Resources (SEMARNAT) will soon approve new cotton seed varieties. However, these sources claim the new varieties are around 7-10 years old, which will not help increase production yields.



Field in Chihuahua relying on older GE seed varieties, Source: FAS field visit, August 16, 2023

Some cotton producers have attempted to overcome the production challenges they face by investing in new irrigation systems that are more efficient in water and fertilizer use. However, the new systems are expensive and subject to damage from frequent power outages. Even with financing provided by ginning companies, producers have no real incentive to keep investing when considering the other constraints on yield, including drought conditions and limited access to new seed varieties.

All states are forecast to reduce planted area in MY 2023/24, with forecast area in Chihuahua down eleven percent compared to the MY2023/24 forecast in the April 2023 Cotton Annual report. Chihuahua

is almost an entirely irrigated area, and final production will depend heavily on access to water. Gins in Chihuahua are reporting that they will only operate for 2 to 3 months this year, as opposed to a 3 to 4 month operational window in recent years. The ginning process depends on the harvest, which in Chihuahua is expected to begin around November.

Table 1: State Level Forecast MY 2023/2024

State	Area Planted (Ha)	Bales	Yield (Bales/Ha)
Chihuahua	120,000	864,000	7.2
Baja California	15,000	97,500	6.5
Coahuila	10,500	86,000	8.2
Tamaulipas North	4,200	11,800	2.8
Sonora	2,500	17,000	6.8
Tamaulipas South	1,800	8,100	4.5
Durango	1,600	11,700	7.3
Total	155,600	1,096,100	7.0

Source: State Committees of Plant Health and the National Information System for Agricultural Production (SIAP).

Map 1: Cotton Area Planted Forecast MY 2023/24



Source: Post with information from State Committees of Plant Health and SIAP.

Table 2: Cotton Production, Supply and Distribution

Cotton Market Year Begins	2021/2022		2022/2023		2023/2024	
	Aug 2021		Aug 2022		Aug 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Area Harvested (1000 HA)	154	154	200	204	170	156
Beginning Stocks 1000 480 lb. Bales	439	454	365	257	495	312
Production 1000 480 lb. Bales	1,220	1,222	1,580	1,580	1,275	1,096
Imports 1000 480 lb. Bales	959	959	700	750	1,000	900
Total Supply 1000 480 lb. Bales	2,618	2,635	2,645	2,587	2,770	2,308
Exports 1000 480 lb. Bales	403	403	400	350	400	300
Domestic Use 1000 480 lb. Bales	1,850	1,950	1,750	1,900	1,950	1,800
Loss 1000 480 lb. Bales	-	25	-	25	-	25
Domestic Use and Loss 1000 480 lb. Bales	1,850	1,975	1,750	1,925	1,950	1,825
Ending Stocks 1000 480 lb. Bales	365	257	495	312	420	183
Total Distribution 1000 480 lb. Bales	2,618	2,635	2,645	2,587	2,770	2,308
Stock to Use % (PERCENT)	16.20%	10.92%	23.02%	13.87%	17.87%	8.71%
Yield (KG/HA)	1,725	1,728	1,720	1,686	1,633	1,530

CONSUMPTION

Post forecasts cotton consumption at 1.8 million bales in MY 2023/24, a 6 percent decrease from the previous marketing year based on projected slow growth in domestic demand, tougher competition from synthetic fibers and yarn imports from Asia, and the peso's appreciation against the dollar. The exchange rate appreciation makes Mexico's products more expensive in international markets, which reduces its competitiveness. Furthermore, imports of yarns, fabrics, and finished products (mainly from Asia) are relatively cheaper than those produced in Mexico, while the country's exports of these products are more expensive, dampening domestic cotton consumption.

During the past few months, textile market dynamics were driven by significant consumer discretionary spending cuts due to rising concerns with national and global macroeconomic conditions, especially domestic inflation. However, macroeconomic indicators such as inflation and household income show signs of recovery. For instance, Mexico's headline annual inflation rate was 4.79 percent as of July 2023, reaching its lowest level since March 2021. The recovery of these indicators could boost consumer demand, but it will take a while to see an impact in the cotton market.

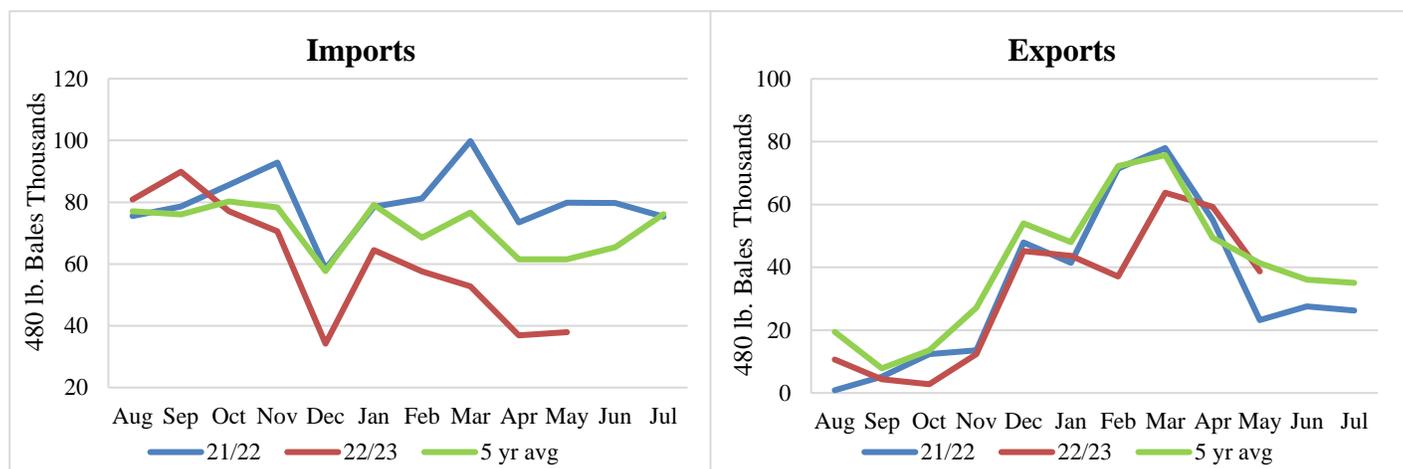
Investments in more efficient machinery and increased mill capacity could permit the Mexican textile industry to adapt and respond quickly if consumer demand increases. U.S. cotton is expected to capture a 100 percent share of the Mexican textile industry's import needs, due to quality and consistency preferences, preferential trade terms, and logistical proximity.

Post forecasts cotton loss at 25,000 bales in MY 2023/24, based on local industry estimates of average annual loss to theft during bale transportation. Security issues continue to impact the supply chain in Mexico.

TRADE

Post forecasts MY 2023/24 cotton imports at 900,000 bales, a 20 percent increase from the previous year due to forecast lower production. Post estimates MY 2022/23 cotton imports at 750,000 bales, a 22 percent decrease from previous MY based on the latest available trade data. Post forecasts MY 2023/24 cotton exports at 300,000 bales. As Mexico is a major yarn, fabric, textile, and apparel producer, most of the cotton produced or imported is used domestically, with only a small portion exported. Based on the latest available data reported by Mexico (May 2023), Mexico exported 317,791 bales for the first 10 months of MY 2022/23, which is 9 percent lower than the same period in MY 2021/22. As of May 2023, Mexico's MY 2022/23 imports are at 602,196 bales, 25 percent lower compared to the same period in 2021/22.

Figure 1: Mexican Cotton Imports and Exports MY 2021/22 vs. MY 2022/23



Source: Post with information from Trade Data Monitor

STOCKS

Ending stocks for MY 2023/24 are forecast at 183,000 bales, a decrease of 41 percent over the previous marketing year mainly due to forecast lower production. There are no government-held stocks in Mexico, and private-sector storage capacity is limited to a minimal volume in Chihuahua. Bales are stored outdoors and vulnerable to loss. Producers have also reported some loss during transport of the bales.

PRICES

On August 18, 2023, the New York Stock Exchange listed cotton at 84 cents/pound. The international cotton price has continued downward since the end of 2022. According to Mexico's National Information System for Agricultural Production (SIAP), as of June 2023, the cotton price was 2,039 dollars/ton, 1.7 percent below the 2,103 dollars/ton a month earlier and 40 percent below the same month of the previous year.

Attachments:

No Attachments