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Report Highlights:

After four successive years of big cotton crop production in Australia, the forecast for marketing year (MY) 2025/26 falls to 4.1 million bales, 13 percent above the previous 10-year average. This decline is mainly due to an anticipation of reduced irrigation water resources and below-average cotton prices. Currently, irrigation water storages are lower compared to the same time in the previous year, and the Australian Bureau of Meteorology is forecasting a likelihood of average to below-average rainfall for the coming months. Under these circumstances, exports are forecast to fall to 4.9 million bales in MY 2025/26, a drop of 600,000 bales from the MY 2024/25 estimate. This occurs despite a larger drop in production, as the first nine months of trade in the forecast year will still benefit from a bigger MY 2024/25 crop.

EXECUTIVE SUMMARY

After four consecutive years of strong cotton production, Australia's marketing year (MY) 2025/26 output is forecast to decline to 4.1 million bales, which remains 13 percent above the previous 10-year average. This decline is primarily driven by anticipated reductions in irrigation water availability, leading to a smaller planted area. Additionally, cotton prices have fallen below the previous 10-year average and are expected to remain low, further discouraging planting.

Below-average rainfall in 2023 and 2024 has gradually reduced irrigation scheme water levels, while on-farm water storage levels have also broadly declined. Recent wet season rains in Queensland and northern New South Wales have replenished on-farm irrigation dams. However, overall irrigation storage levels remain low and are expected to constrain the planted area for the forecast year. While there is still time for water storage to recover before cotton planting begins in October 2025, the Australian Bureau of Meteorology's May to July 2025 outlook indicates a higher likelihood of below-average rainfall.

As a result, the forecast planted area is expected to decrease by 28 percent to 460,000 hectares, down from an estimated 638,000 hectares in MY 2024/25. The expected continuation of below-average cotton prices will likely impact irrigated and dryland cotton planting, with dryland cotton being more affected due to its higher production risk.

Exports are forecast to decline by 11 percent to 4.9 million bales in MY 2025/26. However, the drop in export volume will be less pronounced than the decline in production, as trade for the first nine months of this marketing year is influenced by the much higher production from the prior MY 2024/25.

COTTON

Overview of Cotton Production

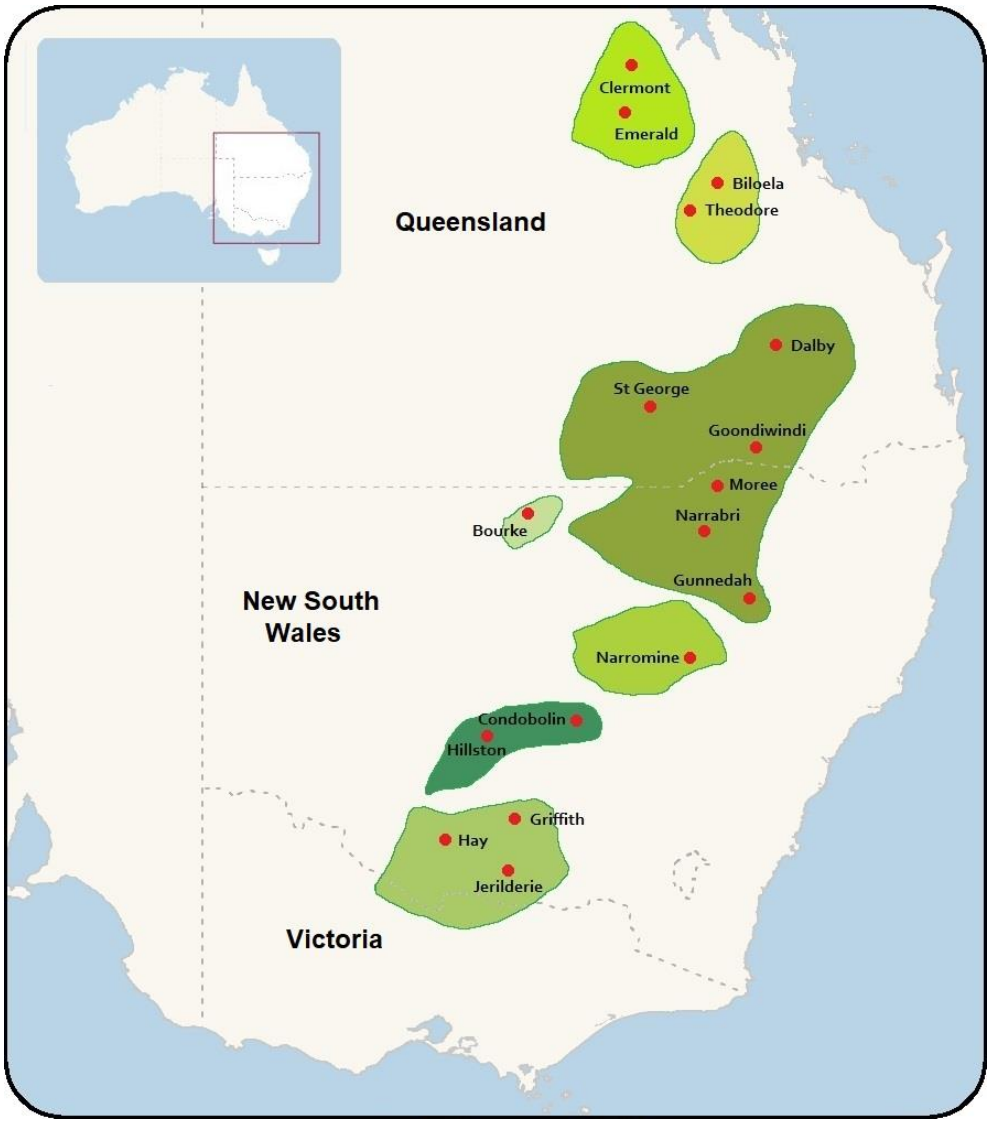
Australia is a major producer and exporter of cotton, typically representing 10 to 20 percent of world exports. There are up to 1,500 cotton farmers in Australia of which 90 percent are family farms, producing 80 percent of the total crop. Cotton in Australia is primarily grown in New South Wales and Queensland. In a typical year, New South Wales and Queensland produce around two-thirds and one-third of the national production, respectively. The main growing areas in Queensland are in the central and southern parts of the state. Within New South Wales, the majority of the cotton is grown in north and central areas, although the southern areas are increasing in importance. The map in Figure 1 below shows the cotton-growing areas in Australia.

With improvements in cotton varieties suitable for differing growing conditions, farmers have expanded cotton areas in southern New South Wales and northern Victoria. Cotton growing is also in its early stages of development in far north Queensland, Northern Territory, and Western Australia in the Ord River Irrigation Scheme. These areas offer substantial scope for expansion. Growers initially transported their cotton to southern Queensland for ginning, some 3,400 kilometers (2,070 miles) from the Western Australian production area. In January 2024, a new cotton ginning facility in the Northern Territory near Katherine commenced operations. A new cotton gin in Western Australia's Kununurra area is under construction to service the growing potential in the Ord River Irrigation Scheme area and nearby areas. These cotton gin developments could trigger significant growth in cotton production in this region.

Cotton is a summer crop, and in the major growing regions in Australia, soil preparation typically occurs between July and September to prepare for planting in October/November and as late as December. Picking typically occurs from March to June. The further north the growing area (such as central Queensland), the earlier the season can start with a wider growing window due to the warmer climate. Some growers have successfully trialed planting as early as August, and some extend their production to a top crop (second set of bolls) to produce higher yields. In these regions, picking can be as early as January and finish as late as July. In the far northern regions of Queensland, Northern Territory, and Western Australia - where the industry is in its infancy - planting is typically in November/December, prior to the onset of the tropical wet season. In these regions, harvesting is typically in June/July. Growers in these regions have yet to invest in cotton-picking equipment and rely on contractors to travel from the southern regions after their season ends.

In a typical season, approximately 85 to 90 percent of cotton production is irrigated, and 10 to 15 percent is dryland. However, cotton classified as having been produced by irrigation includes crops that may have received only one irrigation for the season. Over the last two decades, the Australian cotton industry has improved water efficiency by advancing cotton varieties, irrigation techniques, soil moisture monitoring, and whole-farm irrigation planning to recycle runoff water.

Figure 1 - Map of Cotton Growing Areas in Australia



Source: Cotton Australia / FAS/Canberra

The dependence on irrigation water decreases further north towards central Queensland due to the most northern areas being subject to tropical wet season rainfall, primarily between January and March (typically in the mid to late growing period). These regions have a greater proportion of their water requirements met by in-crop rainfall than regions further south, particularly in New South Wales. Similarly, production is mainly based on in-crop rainfall in Far North Queensland, Northern Territory, and the adjacent Ord River region in Western Australia. However, there is an opportunity for some irrigated cotton crops, particularly in the Ord River area. The major growing regions in central and southern Queensland and New South Wales depend highly on irrigation water availability. Irrigation water is derived from a combination of sources, including:

1) Water from overland flow is harvested and stored in on-farm dams. This can occur after high rainfall events typically in the more northern cotton production regions.
2) Water is harvested and stored from waterways during high-flow periods and after high rainfall events. This is most prominent across southern Queensland and the northern and central cotton production regions of New South Wales.
3) Underground water is also a source of irrigation water, although it is relatively small compared to the other sources. However, it is a reliable source, and in drought years with little water from other sources, it can become very important.
4) Irrigation schemes based on large storage dams. Multiple systems exist across Queensland and New South Wales cotton-producing areas and, in a typical year, form the largest part of a range of irrigation water sources for cotton production. The southern cotton production region is almost entirely dependent upon this source, whereas the central region and most northern regions have a high dependence on this source.

The main irrigation schemes in New South Wales cotton growing regions from north to south are:

- Border Rivers
- Gwyder Valley
- Namoi Valley
- Macquarie
- Lachlan Valley
- Murrumbidgee

The locations of the irrigation schemes for cotton are shown in Figure 2 below. These irrigation schemes are part of a wider group of irrigation schemes and are overseen by the Murray Darling Basin Authority.

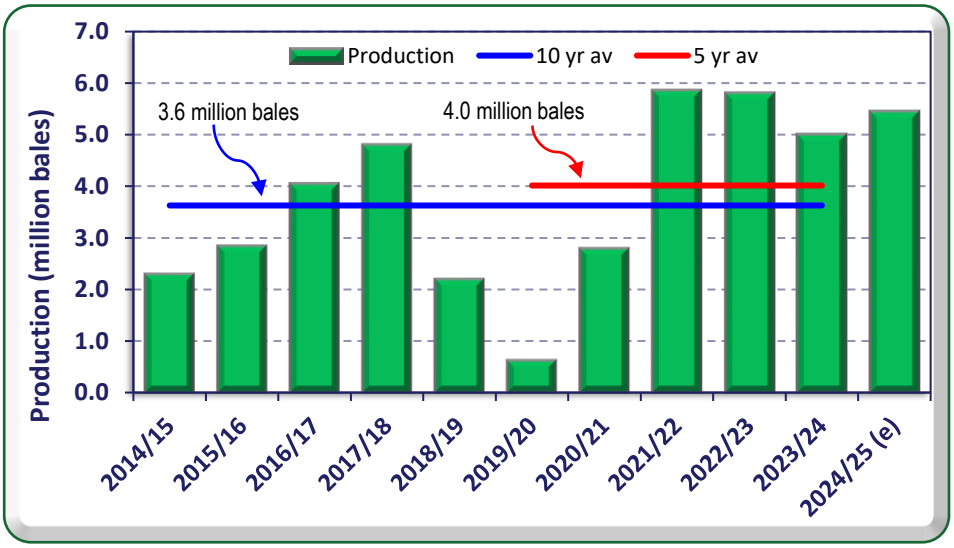
Australian cotton production is highly volatile from year to year (see Figure 3), primarily driven by irrigation water availability.

Bt cotton was introduced into Australia in 1996, and it is estimated that 99 percent of cotton grown now has some form of genetic modification trait. Bolgard 3 and Roundup Ready varieties are now grown in Australia. Meanwhile, integrated pest management techniques have reduced pesticide use, which the industry estimates to have been down as much as 95 percent since 1993.

Figure 2 – Major NSW Cotton Growing Irrigation Catchment Map

Source: *Murray Darling Basin Authority*

Figure 3 – Australian Cotton Production



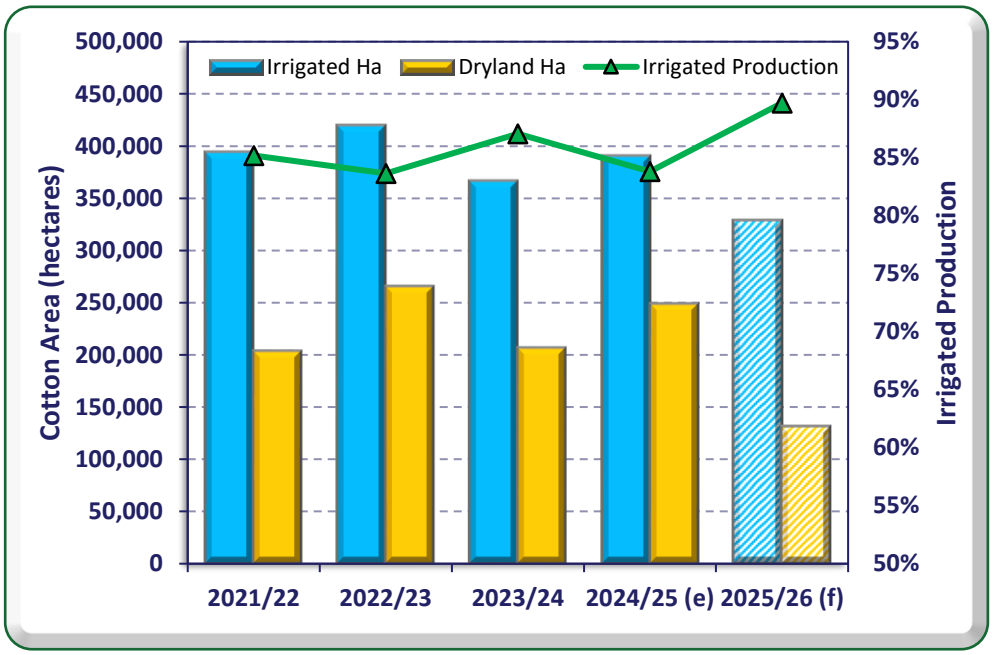
Source: *Australian Bureau of Statistics / FAS/Canberra*

Production

FAS/Canberra forecasts a significant decline in Australia's cotton crop for MY 2025/26, following four consecutive years of high production, including the two largest on record. Cotton production is projected to decrease by 25 percent to 4.1 million bales, down from an estimated 5.45 million bales in MY 2024/25. This decline is primarily attributed to anticipated reductions in irrigation water availability, leading to a smaller planted area and cotton prices remaining below the previous 10-year average.

The planted area is forecast to shrink to 460,000 hectares, down from an estimated 638,000 hectares in MY 2024/25. The decline is expected to be more pronounced in dryland cotton production than in irrigated areas (see Figure 4), leading to a higher proportion of irrigated cotton in the overall crop.

Figure 4 – Irrigated and Dryland Cotton Area History and Forecast



Source: *Cotton Australian / FAS/Canberra*
Note: *(e) = estimate, (f) = forecast*
Note: *Australia Marketing Year is Aug to Jul (eg MY 2024/25 = Aug 2024 to Jul 2025)*

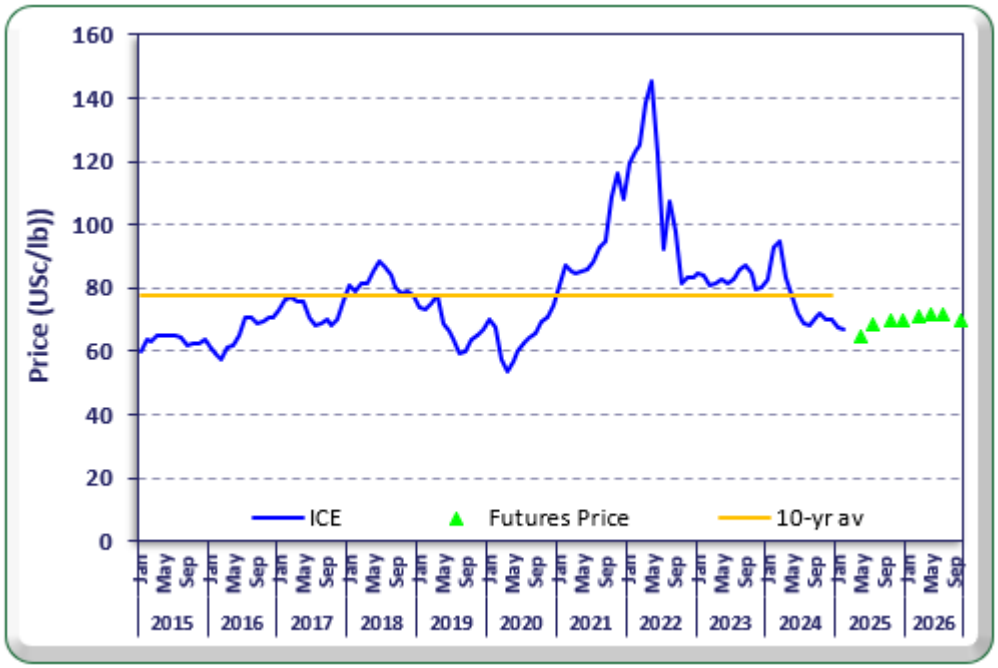
Factors Affecting Cotton Production

Impact of Cotton Prices

The steeper decline in dryland cotton planting is linked to falling prices and persistently low-price expectations for the forecast year. Dryland cotton in Australia typically yields 3.0 to 3.5 bales per hectare. It is highly dependent on soil moisture at planting and in-season rainfall, making it a higher-risk option compared to irrigated cotton. Due to lower yields and higher production risks, dryland growers require higher prices to justify planting.

Australian cotton prices are closely tied to global markets, as nearly all production is exported. The global cotton price benchmark, ICE (Intercontinental Exchange) #2, has fallen sharply in recent months, just ahead of Australia's MY 2024/25 cotton harvest, and is now well below the 10-year average (see Figure 5). This price decline is expected to reduce grower profitability in MY 2024/25 and limit cash reserves for the upcoming MY 2025/26 planting season.

Figure 5 – ICE #2 Cotton Price History & Futures



Source: *Intercontinental Exchange (ICE) #2 – historical prices*
www.investing.com - historic prices
www.barchart.com/futures - futures prices

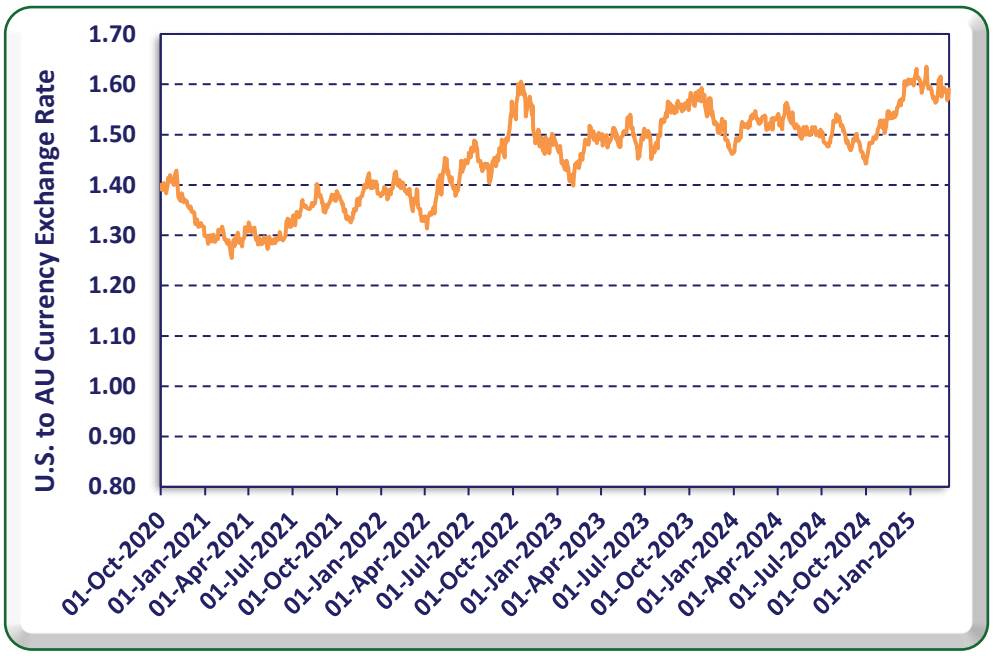
Additionally, futures prices leading up to the MY 2025/26 planting period and projections beyond the harvest, suggest that cotton prices will remain below the 10-year average. Given the rising costs of production in recent years, lower-than-average cotton prices are expected to have a more significant negative impact on the area of dryland cotton planted for MY 2025/26 compared to irrigated cotton area.

Exchange Rate Influence

Partly negating the impact of the lower cotton price expectation for the forecast crop is that the Australian dollar has been relatively weak, at around AU$1.58 to one U.S. dollar. It is at its weakest point since the last quarter of 2022 (see Figure 6), a spike associated with COVID-19 market disruptions. A weakened Australian currency throughout 2025 provides a positive market competitiveness for Australian cotton exporters. Economists indicate that while there is a risk of further depreciation in the coming months, the broad expectation is for a gradual strengthening of the Australian dollar throughout 2025. However, even if the exchange rate returns to levels seen in the first three

quarters of 2024, Australia's cotton exporters are expected to retain some degree of price competitiveness.

Figure 6 – US:AU Currency Exchange Rate – 2020 to Mar 2025



Source: Reserve Bank of Australia

Irrigation Water Availability

The expectation of lower cotton prices for the forecast year are anticipated to have some downward impact on the area of irrigated cotton planted. However, the greater impact is associated with the likelihood of lower irrigation water availability for MY 2025/26.

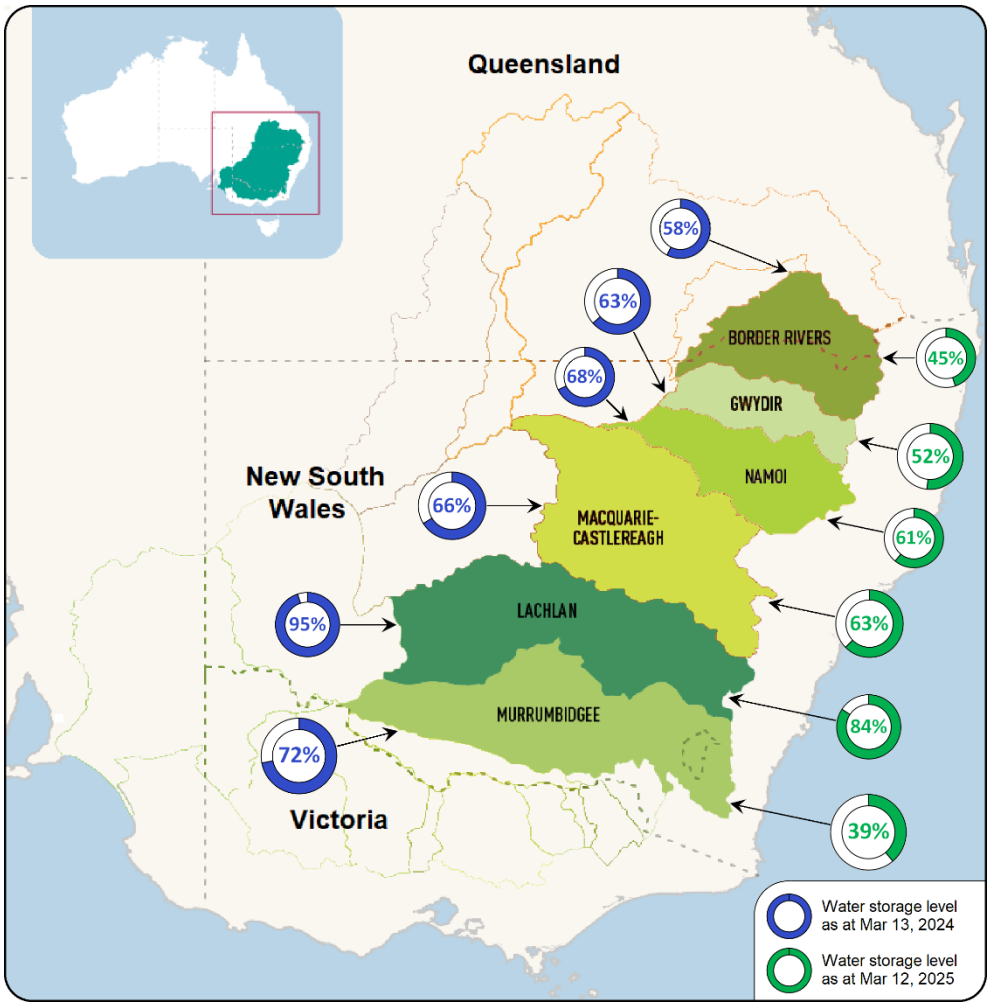
As previously outlined, irrigated cotton growers source their irrigation water in various forms. In northern Australia, farmers primarily collect overland flow and draw from waterways during high-flow periods, storing water in large on-farm dams. In contrast, southern growers rely more on irrigation schemes, with less emphasis on on-farm water harvesting.

Between 2020 and 2022, eastern Australia's cotton-growing regions experienced above-average rainfall, significantly replenishing irrigation storages and enabling record-high cotton production in MY 2021/22 and MY 2022/23. However, rainfall in 2023 and 2024 has been below average, leading to a gradual decline in irrigation scheme water levels. On-farm water storage levels have also broadly declined, though recent wet-season rains in Queensland and northern New South Wales have provided some replenishment.

As the MY 2024/25 irrigation season nears its end, major irrigation schemes across key cotton-producing regions have lower water levels than in the previous year (see Figure 7). The current levels

are significantly lower than in recent past years and reflect lower irrigation water availability expectations for the MY 2025/26 season. This situation reduces the potential area of irrigated cotton for the forecast year.

Figure 7 – Irrigation Storage Levels - March 13, 2024 and March 12, 2025

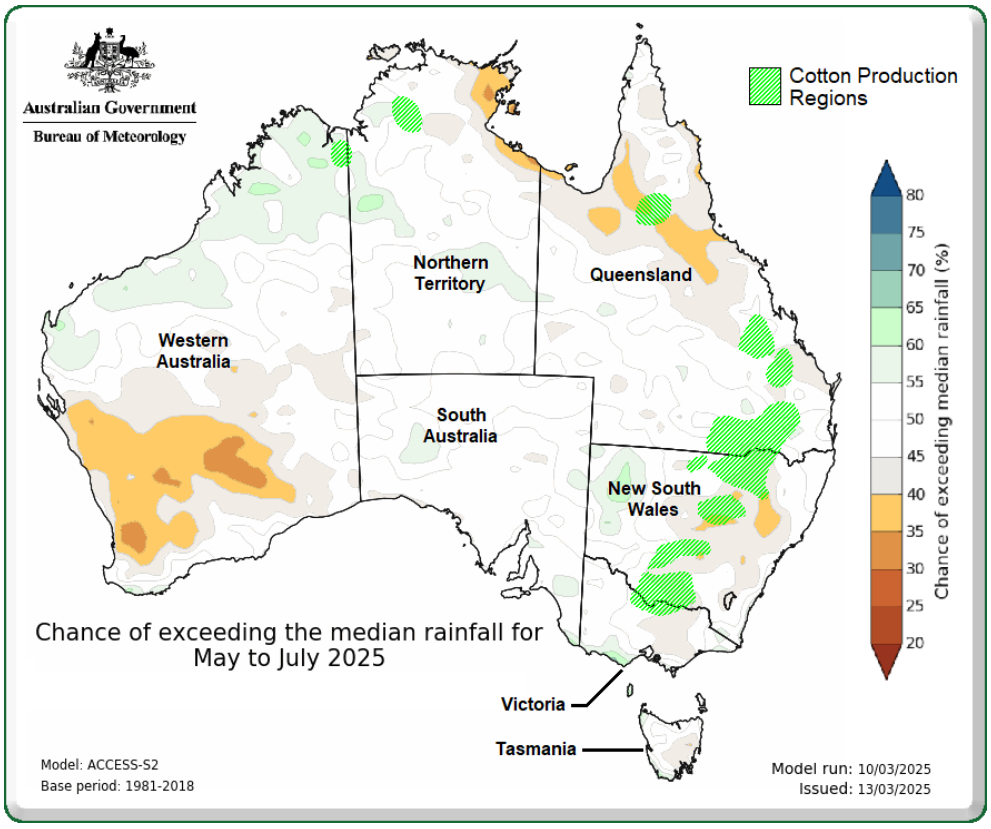


Source: *Murray Darling Basin Authority*

Potential for Rainfall Recovery

Irrigation water schemes typically refill during the winter and spring months, leading up to the planting of summer crops. Above-average rainfall during this period could help restore irrigation scheme storage levels and on-farm water supplies. However, the Australian Bureau of Meteorology's May–July 2025 outlook suggests a higher likelihood of average to below-average rainfall (see Figure 8). While there is still potential for above-average rainfall between July and October—when water inflows are typically highest—current conditions suggest that MY 2025/26 growers will face lower water availability, restricting the area of irrigated cotton.

Figure 8 – Australian Rainfall Forecast – May to July 2025



Source: Australian Bureau of Meteorology / Cotton Australia

MY 2024/25 Production Estimate

FAS/Canberra's cotton production estimate for MY 2024/25, with harvest just about to commence in April 2025, is downward revised slightly to 5.45 million bales from its forecast twelve months earlier of 5.50 million bales. Cotton growers have generally benefited from broadly very good growing conditions from planting and right throughout the growing season, supporting good yield and quality expectations for this crop.

Consumption

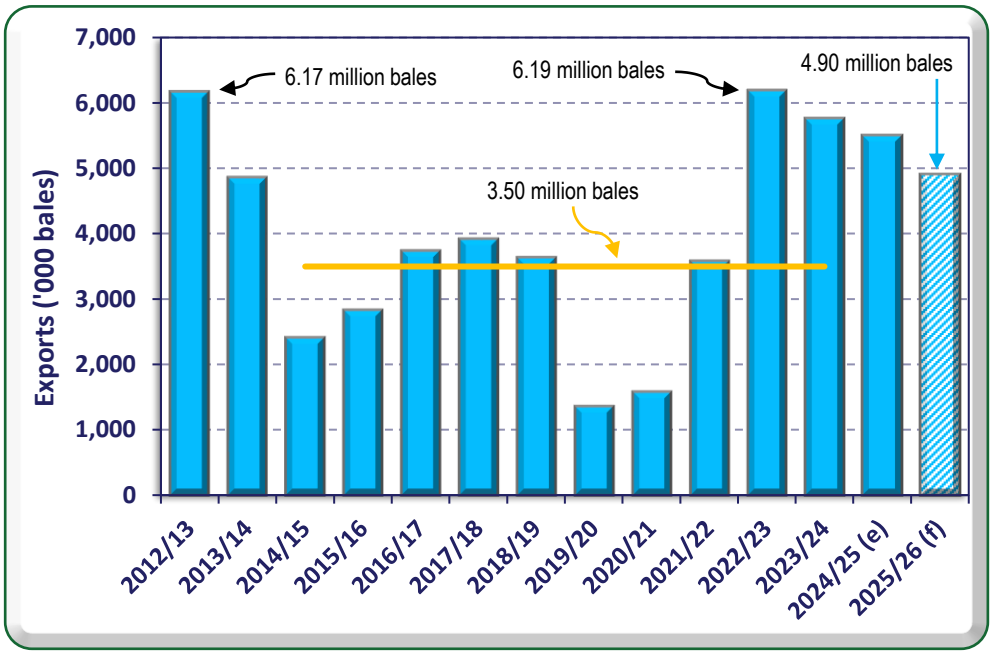
Manufacturing in Australia is uncompetitive due to the high cost of labor relative to the major cotton processing countries such as China, Vietnam, India, Indonesia, and Bangladesh. This situation is not anticipated to change, and domestic consumption is forecast to remain at very low.

Trade

FAS/Canberra forecasts that Australian cotton exports will decline by 11 percent to 4.9 million bales in MY 2025/26, down from an estimated 5.5 million bales in MY 2024/25. Despite this projected decrease, exports are expected to remain 40 percent above the previous 10-year average (see Figure 9). Given that Australia processes virtually no cotton domestically, export volumes are closely linked to production

levels. However, in instances where there are large changes in production from one season to another, the cross over of production from one marketing year trade in the next can have an even greater influence.

Figure 9 – Australian Cotton Exports History



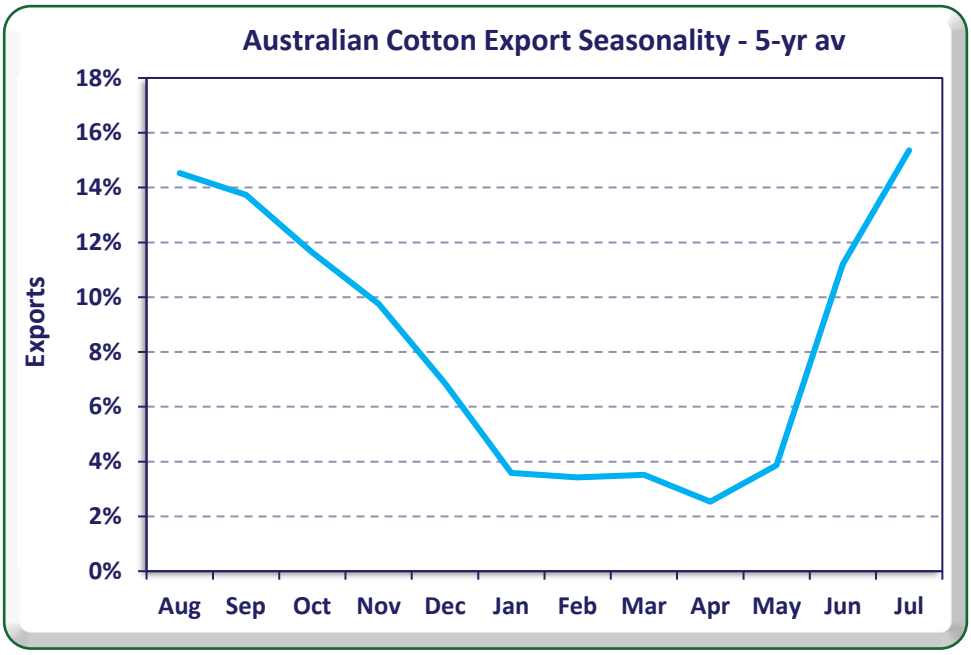
Source: *PSD Online / FAS/Canberra*

Seasonality and Trade Dynamics

An essential factor in forecasting exports is understanding trade seasonality and its relationship with the timing of cotton harvesting and ginning—particularly when production varies sharply between marketing years. In Australia, cotton picking and ginning primarily take place between April and June, near the end of the August–July marketing year. As a result, production from one marketing year significantly impacts exports in the final three months (May–July) of that same year, while exports from the first nine months (August–April) are largely sourced from the previous season's harvest (see Figure 10).

Given the high production in MY 2024/25, cotton from this season is expected to support export shipments throughout the first nine months of MY 2025/26. Consequently, while production is forecast to decline in MY 2025/26, exports will remain relatively high due to this carryover effect.

Figure 10 – Australian Cotton Export Seasonality – 5-year average



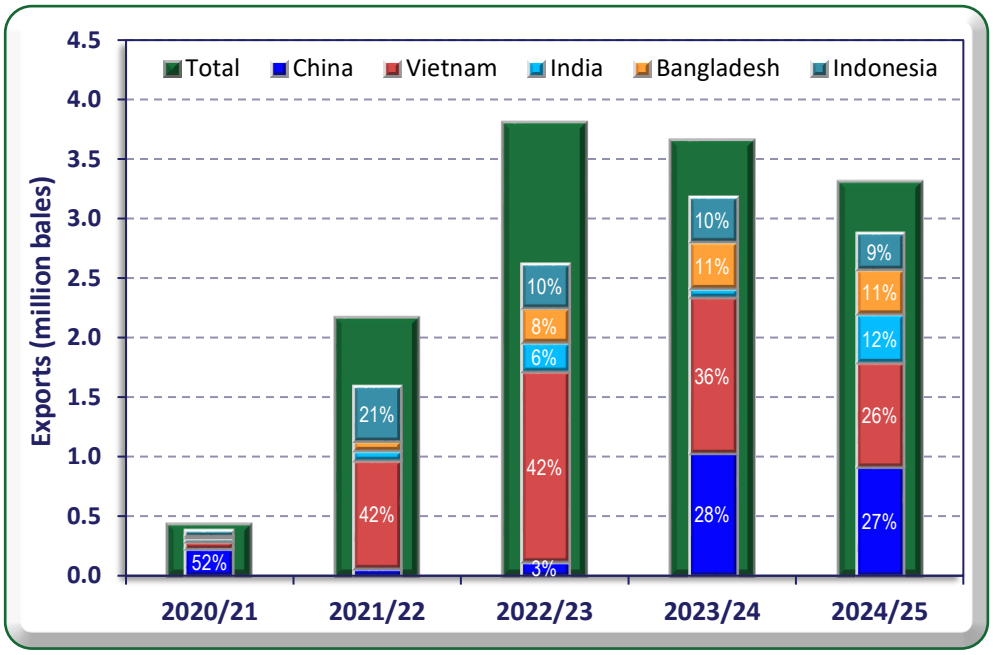
Source: Australian Bureau of Statistics

Key Export Markets

In recent years, China has been Australia's primary cotton export destination, with Vietnam also playing a crucial role. Bangladesh and Indonesia have historically been significant buyers, and India has emerged as an equally important market (see Figure 11).

Trade tensions between China and Australia led to a sharp decline in cotton exports to China during MY 2021/22 and MY 2022/23. However, trade has since resumed, returning to pre-disruption levels. Over the past two marketing years, the top five cotton export destinations have accounted for approximately 90 percent of total exports. This marks a significant increase compared to MY 2021/22 and MY 2022/23, when China was absent from the market. At present, no trade disruptions are expected with Australia's top five cotton buyers, and recent trade patterns are anticipated to remain stable in the forecast year.

Figure 11 – Australian Cotton Exports – Aug to Jan MY 2020/21 to MY 2024/25



Source: *Australian Bureau of Statistics*

Australia's Position in the Global Market

Typically, Australia ranks as the fourth-largest cotton exporter, accounting for approximately 10 to 13 percent of global exports, behind the United States, Brazil, and India. However, due to strong production seasons, Australia has surpassed India since MY 2022/23 to become the world's third-largest exporter, contributing around 15 to 20 percent of total global cotton exports.

MY 2024/25 Export Estimate

FAS/Canberra's cotton export estimate for MY 2024/25 has been downward revised to 5.5 million bales from the 5.9 million bales forecast twelve months prior. In the first six months of MY 2024/25 (August 2024–January 2025), exports have reached 3.3 million bales. Considering seasonal trade patterns and the upcoming large harvest in April 2025, which will influence exports in the final three months of the marketing year, the revised estimate reflects a modest five percent reduction from earlier projections.

Stocks

With the forecast of lower production for the forecast year, which is at the tail end of the marketing year, ending stocks are also expected to decline for MY 2025/26.

Table 1 - Production, Supply, and Distribution of Cotton

Cotton	2023/2024		2024/2025		2025/2026	
Market Year Begins	Aug 2023		Aug 2024		Aug 2025	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	505	573	600	638	0	460
Beginning Stocks 1000 480 lb. Bales	4780	4780	4204	4204	0	4334
Production 1000 480 lb. Bales	5000	5000	5400	5450	0	4100
Imports 1000 480 lb. Bales	0	0	0	0	0	0
Total Supply 1000 480 lb. Bales	9780	9780	9604	9654	0	8434
Exports 1000 480 lb. Bales	5741	5764	5400	5500	0	4900
Domestic Use 1000 480 lb. Bales	10	10	10	10	0	10
Loss 1000 480 lb. Bales	-175	-198	-190	-190	0	-150
Domestic Use and Loss 1000 480 lb. Bales	-165	-188	-180	-180	0	-140
Ending Stocks 1000 480 lb. Bales	4204	4204	4384	4334	0	3674
Total Distribution 1000 480 lb. Bales	9780	9780	9604	9654	0	8434
Stock to Use % (PERCENT)	73.1	72.81	81.04	78.66	0	74.83
Yield (KG/HA)	2156	1900	1960	1860	0	1941
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						
OFFICIAL DATA CAN BE ACCESSED AT: PSD Online Advanced Query						

Attachments:

No Attachments