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Report Highlights:

Mexico cotton production is forecast to increase 22 percent for marketing year (MY) 2021/22, on increased global prices and ongoing drought conditions that favor cotton production over other more water reliant crops. However, final production and fiber quality is likely to fluctuate, as producers continue to face a number of challenges including seed, water, and input availability. Poor quality supplies are typically destined for export to Asia, as the domestic industry prefers high quality domestic supplies and imports from the United States. Post forecasts an increase in MY 2021/22 imports based on uncertainty of domestic fiber quality. Meanwhile, consumption is forecast down from MY 2020/21 levels on low consumer purchasing power after a significant contraction in the Mexican economy in 2020 and a forecasted sluggish recovery.

Production

Post forecasts MY 2021/22 cotton production at 1.25 million bales, a 22 percent rebound from the previous MY which saw the lowest production level in four years, but still significantly lower than MY 2019/20. Increased production is attributed to increased planting after *la Niña* conditions (extreme drought and high temperatures) in the beginning months of the year drove producers to plant drought resistant cotton over other more water reliant crops. Additionally, an unusual winter storm in mid-February destroyed a significant portion of the corn and sorghum crops in Tamaulipas, which led producers to diversify plantings to include cotton. Higher futures prices for fiber also encouraged increased cotton plantings, and Post forecasts planted area for MY 2021/22 to reach 180,000 hectares, up 21 percent from the previous year.

Table 1. Cotton Production, Supply and Distribution

Cotton	2019/2020		2020/2021		2021/2022	
Market Begin Year	Aug 2019		Aug 2020		Aug 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	230	0	148	0	180
Area Harvested	225	230	150	146	0	179
Beginning Stocks	694	694	669	765	0	226
Production	1570	1661	1050	1021	0	1254
Imports	590	570	800	800	0	1000
MY Imports from U.S.	0	570	0	800	0	1000
Total Supply	2854	2925	2519	2586	0	2280
Exports	660	660	350	360	0	400
Use	1500	1475	1600	1975	0	1875
Loss	25	25	25	25	0	25
Total Dom. Cons.	1525	1500	1625	2000	0	1900
Ending Stocks	669	765	544	226	0	180
Total Distribution	2854	2925	2519	2586	0	2280
Stock to Use %	30.97	35.83	27.9	9.68	0	8.67
Yield	1519	1572	1524	1523	0	1525

Area planted forecasts are based on information from the State Committees of Plant Health and producer associations, as the National Information System for Agricultural Production (SIAP) has not yet published official data. Planted area in Chihuahua, the country’s largest producer, is forecast to reach 140,000 ha, a 34 percent increase from the previous MY. As mentioned above, the increase is mainly due to higher prices, as well as cotton’s resistance to ongoing drought conditions in the area. Planted area in Chihuahua relies almost entirely on irrigation, and final production will depend heavily on access to water. Producers continue to report that electricity shortages are limiting use of irrigation systems critical to fields. Tamaulipas is also forecast to increase area planted, after producers of corn and sorghum suffered losses from the winter storm in February and decided to plant cotton.

Cotton is grown during the spring-summer cycle, with planting between February and April, and harvest in August. Tamaulipas typically has a second fall-winter growing season, but producers opted to not plant this year due to a lack of or delay in seasonal rains, and poor production and quality of last year’s crop.

Despite the forecasted increase in production, cotton producers continue to face challenges that threaten prolonged and sustainable growth in the sector, as the approval of new genetically engineered seed planting permits continue to be delayed by the government, and a reduction to federal support for pest mitigation practices puts production levels and quality at risk. Additional information on challenges to the sector can be found in the Policy section below.

Table 2. Forecast: Production and Planting Dates by State

State	Area Planted (Ha)	Yield (Bales/Ha)	Bales	Planting dates
Chihuahua	140,000	7.3	1,022,000	04/20 - 05/31
Baja California	14,000	6	84,000	03/15 - 04/15
Tamaulipas	12,000	3.5	42,000	02/15 - 03/15
Coahuila	8,500	8.3	70,550	03/15 - 04/15
Sonora	4,300	6.5	27,950	03/15 - 05/31
Durango	1000	7.5	7,500	03/15 - 04/15
Total	179,800	6.97	1,254,000	

Source: Secretariat of Agriculture and Rural Development (SADER), State Committees of Plant Health, and Producer Associations

Consumption

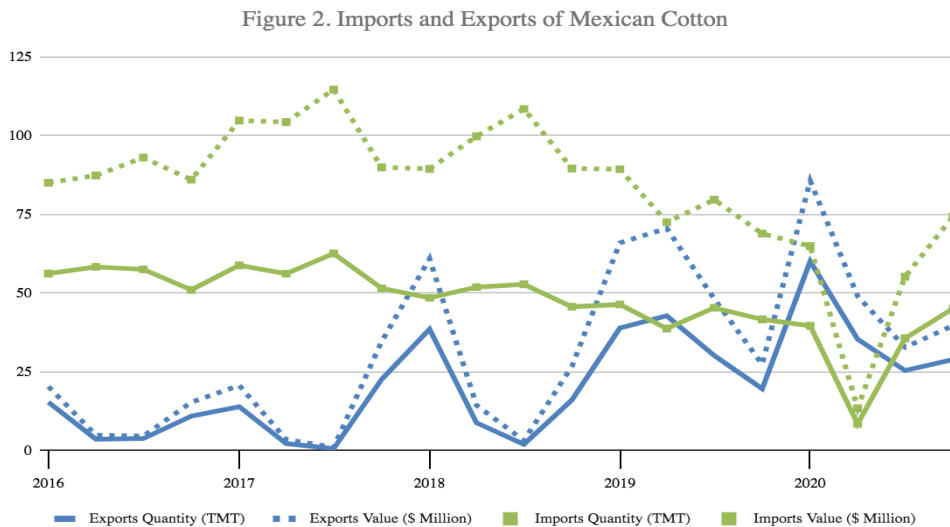
Post forecasts MY 2021/22 cotton consumption at 1.9 million bales, a slight reduction from MY 2020/21 levels, based on an expected lag in economic recovery in Mexico due to the COVID-19 pandemic. According to the National Statistics and Geography Agency (INEGI), Mexico’s 2020 GDP

contracted to the lowest level since the Great Depression. Due to the grave economic effects of the COVID-19 pandemic and a lack of governmental economic support for individuals or businesses, the economy contracted 8.6 percent. Slow recovery is expected to dampen consumer purchasing power.

MY 2020/21 consumption is revised to 2 million bales, 23 percent higher than previously forecasted due to quicker than expected recovery in the textile industry after initial COVID-19 milling suspensions and drops in consumer demand. Additionally, the textile sector was able to adjust product offerings in April and June to include essential items such as masks, gowns, and sheets for both domestic and international use. Industry contacts have mentioned an increase in the production of household products like sheets, towels, and curtains, as well as cotton clothing. These adaptations and changes in consumer preferences have helped the sector avoid a worst-case scenario.

Trade

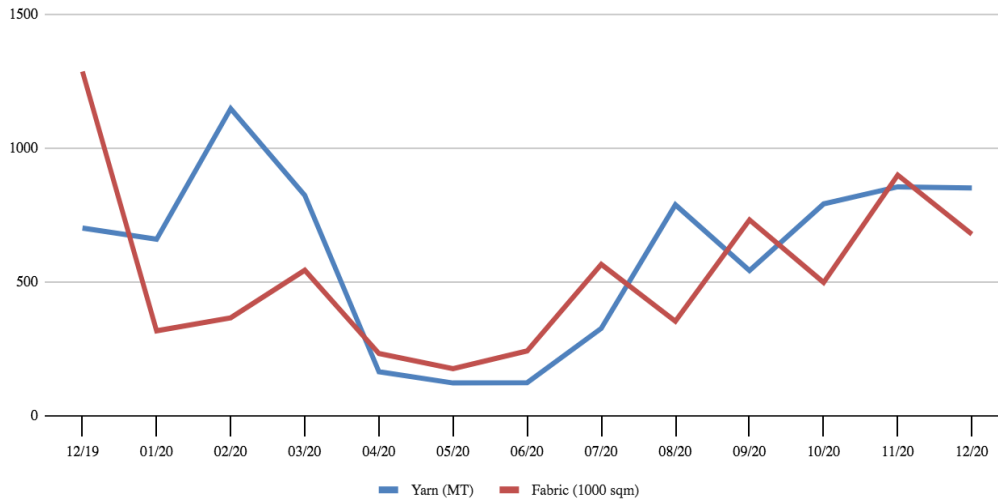
Post forecasts MY 2021/22 cotton exports at 0.4 million bales. Exports levels depend heavily on cotton quality, as exports in previous years rose after rejection from the domestic textile industry. MY2020/21 exports are revised up 80 percent to 0.36 million bales, on unexpected high levels of poor-quality cotton exports to Turkey, Pakistan, and China. Figure 2 below shows the increase of Mexican exports due to poor quality supplies not suitable for the domestic industry.



Source: Trade data Monitor (TDM)

The below chart illustrates the noticeable effects to Mexican yarn and fabric exports in the beginning months of the COVID-19 pandemic. Demand shocks and the closure of textile mills throughout the country resulted in sharp reductions in April, May, and June, with recovery beginning in July.

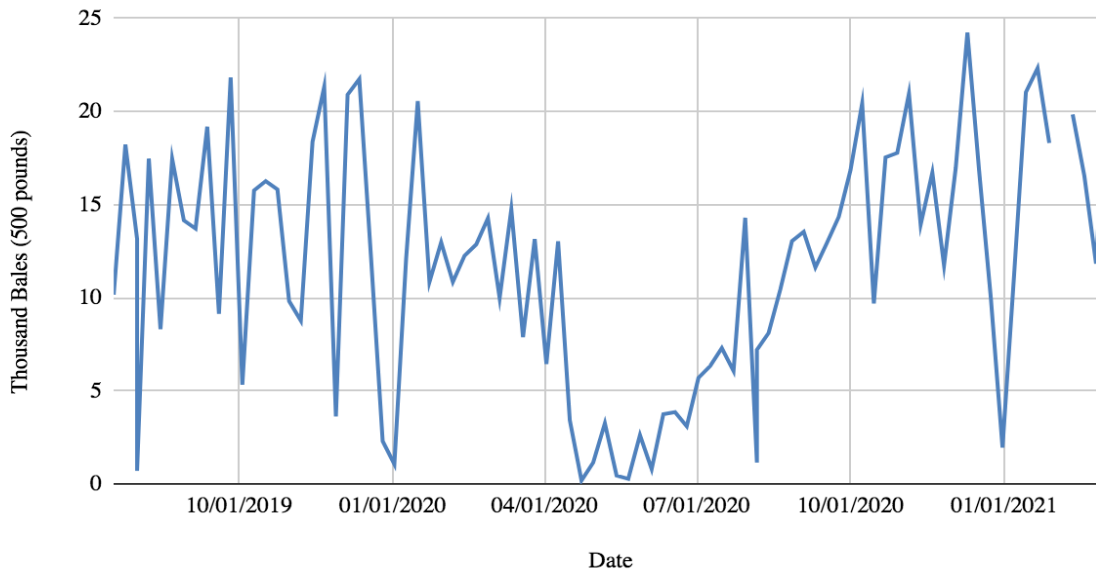
Figure 1. Mexican Exports of Cotton Yarn and Fabric



Source: Trade data Monitor (TDM)

The Post forecast for MY 2021/22 cotton imports is one million bales, an increase of 20 percent from the previous year, due to an increase in exports. Mexico depends on U.S. cotton to fulfill 50 percent of domestic industry needs. Cotton imports from the United States are expected to increase for MY 2021/22 on global demand recovery for cotton products and clothing.

Figure 3. U.S. Exports of Cotton to Mexico



Source: USDA ERS Export Sales

Note: The week of February 4 is missing 85,000 bales, due to a lag in reporting.

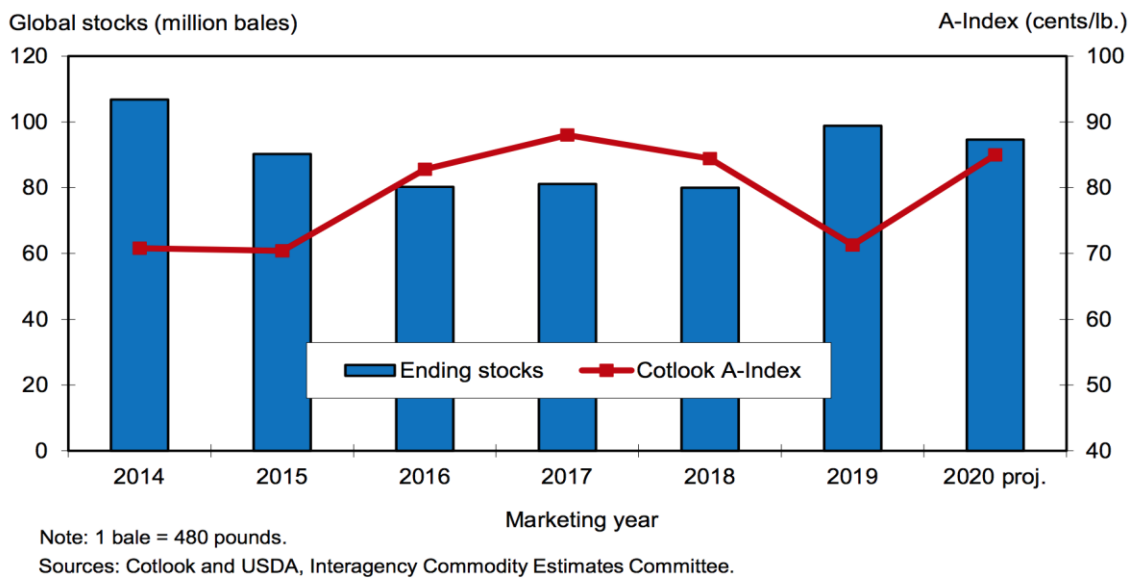
Stocks

The Post MY 2021/22 ending stocks forecast is 0.18 million bales. MY 2020/21 ending stocks are revised 70 percent lower to 0.22 million bales, due to a quicker than expected reactivation of the domestic textile industry, and an increase in exports.

Prices

Increased global cotton prices on forecasted lower global production, have prompted Mexican producers to plant cotton, with strong futures contracts incentivizing planting over other crops.

Figure 4. Global Cotton Stocks and Prices



Policy

Seed Availability

The Secretariat of Environment and Natural Resources (SEMARNAT) has not approved genetically engineered cottonseed planting permits since 2019. SEMARNAT is responsible for reviewing and issuing binding opinions for permits, while the secretariat of Agriculture and Rural Development, through the National Service for Plant Health, Food Safety and Agri-Food Quality, supplies permits directly to seed companies. Permit rejections have had significant ramifications for cotton planting in Mexico, as producers now only have access to a few outdated GE seed varieties that are not compatible in all growing areas. This has created a highly uncertain situation in the country, with high variability in production and quality.

Glyphosate Permits

SEMARNAT has not issued import permits for the herbicide glyphosate since November 2019, and the government published a [decree](#) that announces plans for a phase-out of use of glyphosate over the next three years, with a total ban in January 2024. Producers have mentioned that if they do not have access to this herbicide it will increase the cost of production, because they will need to use other herbicides that have higher toxicity levels. To date, existing glyphosate supplies have been sufficient for current plantings.

New Energy Law and Potential Impacts on the Textile Industry

On March 3, the Mexican congress passed a new energy law that returns Mexico to the policy of prioritization of the use of state-owned petroleum company (PEMEX) produced fossil fuels -that are dirtier and more expensive- over cleaner energies mostly generated by private and foreign companies. While many questions on feasibility and logistics of the law remain (Mexico does not produce enough fossil fuels for its needs, for example), the law presents yet another challenge to the cotton sector. The law rolls back many of Mexico's 2014 reforms that allowed for a slow opening to private sector investments in renewable energy generation, which offered cheaper alternatives (from 10 to 20 percent lower) for the textile industry. Currently, prices for PEMEX energy supplies are priced at a fluctuating rate based on demand and can increase up to 84 percent for medium voltage energy, and up to 45 percent for high voltage energy needed for the operation of milling machines. Energy is the second highest cost of production (between 30 and 35 percent) after raw materials (50 percent). The law is currently under an injunction, after the Supreme Court ruled it unconstitutional. Post will continue to report on updates.

Attachments:

No Attachments