Required Report: Required - Public Distribution

Date: April 04, 2023

Report Number: MX2023-0016

Report Name: Cotton and Products Annual

Country: Mexico

Post: Mexico City

Report Category: Cotton and Products

Prepared By: Adriana Otero

Approved By: Alexander Chinh

Report Highlights:

FAS Mexico forecasts for marketing year (MY) 2023/24 reductions in production, consumption, and trade due to low domestic and global demand for textiles and Government of Mexico (GOM) refusal to approve new genetically engineered (GE) seeds. Farmers continue to store and hold older GE seeds as global prices remain elevated. Consequently, recent crop harvests are much lower than in previous years. Post forecasts for MY 2023/24 production at 1.3 million 480-bales, a 14 percent reduction from the last MY due to limited access to innovative seed technology and higher input costs.

Table 1: Mexico Cotton Production, Supply and Distribution (PS&D)

Cotton	2021/2022		2022/2023		2023/2024	
Market Year Begins	**Aug 2021**		**Aug 2022**		**Aug 2023**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted (1000 HA)	-	-	-	205	-	172
Area Harvested (1000 HA) (a)	154	154	200	203	0	171
Beginning Stocks 1000 480 lb. Bales	454	454	370	257	0	232
Production 1000 480 lb. Bales	1220	1222	1400	1500	0	1295
Imports 1000 480 lb. Bales	959	959	900	900	0	900
MY Imports from U.S. 1000 480 lb. Bales	0	0	0	0	0	0
Total Supply 1000 480 lb. Bales	2600	2635	2670	2657	0	2427
Exports 1000 480 lb. Bales	43	403	500	450	0	300
Domestic Use 1000 480 lb. Bales	1850	1950	1800	1950	0	1850
Loss 1000 480 lb. Bales	10	25	10	25	0	25
Total Dom. Cons. 1000 480 lb. Bales	1860	1975	1810	1975	0	1875
Ending Stocks 1000 480 lb. Bales	370	257	360	232	0	252
Total Distribution 1000 480 lb. Bales	**2633**	**2635**	**2670**	**2657**	**0**	**2427**
Stock to Use % (PERCENT) (b)	16.42	10.92	15.65	9.67	0	11.72
Yield (KG/HA) (c)	1725	1728	1524	1609	0	1649
Figures in Thousand 480-lb bales, except where indicated: (Percent), (kg/ha)						

Production

Post forecasts Mexico cotton production at 1.3 million 480-lb bales for MY 2023/2024, a reduction of 14 percent from MY 2022/23, which Post estimates will reach 1.5 million bales. This reduction is due to a decrease in cotton planting area as famers switch to other crops like sorghum and corn due to attractive selling prices for feed crops and the lack of cotton production inputs, for example, GE seeds and glyphosate-based herbicides.

Planted area and yield are constrained by limited access to innovative seed technology and high input costs. The GOM has not approved any genetically engineered cotton planting permits since 2019. The GOM also restricted glyphosate imports due to the Corn Decree of February 2023, which phases out glyphosate use by 2024. The only approved GE cotton seeds permitted in Mexico are obsolete varieties from the United States that few, if any, growers in the United States still use.

Cotton is the only GE crop produced commercially in Mexico, with traits that include resistance to lepidopteran insects, glyphosate tolerance, and tolerance to other herbicides including dicamba and glufosinate ammonium. Due to the GOM's continued refusal to approve new GE seeds, producers have faced a cotton seed shortage since 2019. The government cites the precautionary principle and concerns about GE varieties intermixing with traditional wild cotton populations in the country's south as grounds for not approving new permits for GE seeds. The only events approved for planting in Mexico are outdated and mostly unavailable on the world market, and producers report that they don't have sufficient seeds to meet Mexico's demand. Cotton is grown in various parts of the country, with drastically varying growing conditions. Available varieties are often incompatible with all areas, creating even more volatility, quality uncertainty, and increasing production costs.

In Mexico, obtaining approval to plant cotton is granted through permits from Secretariat of Agriculture and Rural Development (SADER). The companies need to apply for a specific number of hectares and for certain growing seasons. After obtaining permits, companies sell seeds to producers within the approved area (see Report MX2022-0070). As of February 2023, there are two new events of GE cotton that SADER is evaluating for experimental planting in 2024. Both traits are glyphosate tolerant, and sources have indicated that these events may be approved.

All states are forecast to reduce planted area in MY 2023/24. For example, in Chihuahua, the country's largest producer, forecasted area is 135,000 ha, down x percent from the year prior. This area is almost entirely irrigated, and final production will depend heavily on access to water. Producers continue to report that electricity shortages are limiting the use of irrigation systems critical to fields.

Table 2: State Level Production Forecast MY 2023/2024

State	Area Planted (Ha)	Yield (Bales/Ha)	Bales
Chihuahua	135,000	7.7	1,042,200
Baja California	15,000	6.5	97,500
Coahuila	11,000	8.2	90,200
Tamaulipas North	4,500	6.0	27,000
Sonora	3,000	6.6	19,800
Tamaulipas South	1,500	4.5	6,750
Durango	1,500	7.8	11,700
Total	171,500	7.2	1,295,150

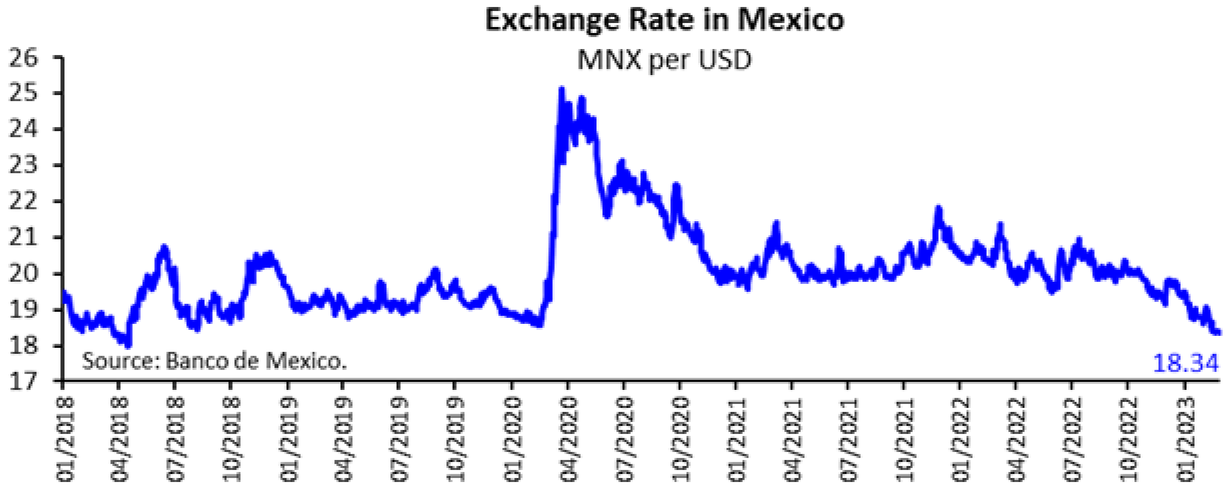
Source: Post Forecast with information of State Committees of Plant Health, and Producer Associations.

Consumption

Post forecasts cotton consumption at 1.88 million bales in MY 2023/24, a 5 percent decrease from the previous MY based on projected slow growth in domestic demand and the peso's appreciation against the dollar. In addition, higher labor costs from the new GOM requirement for an increase in the minimum wage and the increase in the number of vacation days, reduces the competitiveness of the textile sector in Mexico.

Due to rising concerns with national and global macro-economic conditions, consumers are spending less on clothes. The volatility of markets and domestic inflation has accelerated to levels not observed in two decades, increasing food and fuel prices, and leading to high interest rates. The National Consumer Price Index (NCPI) indicates the average change in prices over time, using a weighted basket of goods and services representative of household consumption in Mexico. The annual variation rate of the NCPI in February 2023 was 7.6 percent, lower than the 7.9 percent rate in the previous month. The monthly variation of the NCPI is 0.6 percent, so the accumulated inflation in 2023 is 1.2 percent. Inflation will undercut consumer demand, pushing consumers to spend less on clothes.

The peso's appreciation against the dollar has been around 9 percent in the last 6 months. It is currently the third most traded currency among emerging economies, only after those of China and India. Imports of yarns, fabrics, and finished products are cheaper, while the country's exports are more expensive, reducing domestic cotton consumption.



Source: [Bank of Mexico]

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 as well as preferential trade terms and logistical proximity.

Trade

Post forecasts MY 2023/24 cotton imports at 900,000 bales, unchanged from the previous MY. Despite lower domestic supply, flagging demand/use negates any need for higher imports. Post MY 2022/23 cotton import estimate represents a 10 percent decrease from the previous forecast due to a reduction in estimated consumption.

As Mexico is a significant yarn, fabric, textile, and apparel producer, most cotton produced or imported is used domestically, with only a minor quantity exported. During the last five years, exports have been mainly to Turkey, Pakistan, and China. MY 2023/24 cotton exports are forecast at 300,000 bales, a reduction of 33 percent from the previous MY due to lower global consumption. Turkey's earthquake also adversely affected mills that would source some cotton from Mexico.

Stocks

Ending stocks for MY 2023/24 are forecasted at 252,000 bales, an increase of 8 percent over the previous MY. 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 in the transport of the bales.

Prices

On March 16, 2023, cotton was listed at 79 cents/pound on the New York Stock Exchange. The average cotton price on the Exchange exhibits similar volatility to other agricultural products. Cotton futures were trading around 82 cents per pound, close to a nearly two-year low of 71.6 in late October 2022, amid subdued global demand and recession fears.

Trade Matrices
As previously mentioned, the main source of imported cotton comes from the United States. Mexico exports a small proportion of its domestic production, mainly to Asia. The U.S.-Mexico-Canada Agreement (USMCA) ensures Mexico's importance as a trade partner of the United States. USMCA includes important protections and updated rules of origin. To qualify for duty-free treatment under the USMCA, goods exported to the United States must conform to the Rules of Origin set forth in Chapter 4 of the agreement. This explains why the United States is the trading partner of preference not only for cotton fiber, but also for cotton yarn and fabrics. One exception is the importation of cotton fabric, for which the main source is China.

Tables 3-8: Mexico's Cotton and Products Imports/Exports, by-Country

Partner Country	**Mexico Cotton Fiber Imports**					**Year to Date**		
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**08/21-12/21**	**08/22-12/22**	**%Δ**
World	212345	182598	128558	202001	208773	85138	76755	-9.85
United States	212256	181686	128517	201917	140474	72357	41829	-42.19
Unidentified	0	0	0	0	68234	12716	34926	174.66
Argentina	0	602	0	0	0	0	0	0

Partner Country	**Mexico Cotton Fiber Exports**					**Year to Date**		
	2018	**2019**	**2020**	**2021**	**2022**	**08/21-12/21**	**08/22-12/22**	**%Δ**
World	71323	113414	143675	106301	87730	17406	6546	-62.39
Unidentified	0	0	0	0	58326	6150	5366	-12.75
Pakistan	11731	17339	38092	25097	1554	1554	932	-40.03
Ecuador	492	581	362	528	283	283	249	-12.01
France	2911	471	0	0	0	0	0	0
Germany	0	0	413	0	0	0	0	0

Partner Country	Mexico Cotton Yarn Imports					Year to Date		
	2018	2019	2020	2021	2022	08/21-12/21	08/22-12/22	%Δ
_World	24628	22288	11807	4113	7058	1925	1962	1.92
Unidentified	0	0	0	0	4980	144	1815	1160
United States	23472	20652	10531	3041	1623	1325	116	-91.2
China	190	210	68	44	6	6	31	416.6
Dominican Republic	0	0	3	0	0	0	0	0
Egypt	3	1	5	11	1	1	0	-100

Partner Country	Mexico Cotton Yarn Exports					Year to Date		
	2018	2019	2020	2021	2022	08/21-12/21	08/22-12/22	%Δ
_World	15811	11261	7682	17277	33117	9325	3924	-57.92
Unidentified	0	0	0	0	23107	708	3489	392.8
United States	3982	3139	1811	3204	3573	2408	435	-81.94
Panama	437	40	0	0	0	0	0	0
Peru	19	53	303	1592	469	469	0	-100
Portugal	0	0	8	19	0	0	0	0
El Salvador	844	816	391	1453	410	410	0	-100

Partner Country	Mexico Cotton Fabric Imports					Year to Date		
	2018	2019	2020	2021	2022	08/21-12/21	08/22-12/22	%Δ
World	69.24	67.12	45.13	45.69	63.07	28.97	27.69	-5
China	45.38	43.32	24.19	32.25	46.22	22.01	22.76	3.41
India	4.50	5.45	4.79	2.92	3.13	2.04	0.48	-76.46
Pakistan	5.62	6.73	7.58	2.75	1.80	1.45	0	-100
Unidentified	0	0	0	0	8.89	1.13	4.07	258.4
Israel	2.08	1.44	0.99	0.80	0.43	0.43	0.00	-100
Hong Kong	0.12	0.12	0.61	0.66	0.39	0.39	0.00	-100
United States	4.05	3.89	3.13	4.12	0.50	0.38	0.11	-71.68

Partner Country	Mexico Cotton Fabric Exports					Year to Date		
	2018	2019	2020	2021	2022	08/21-12/21	08/22-12/22	%Δ
World	6.71	5.73	8.03	8.71	5.34	3.63	0.56	-155
Unidentified	0	0	0	0	0.78	0.19	0.56	200.9
United States	3.91	1.62	1.67	2.84	3.12	2.01	0.00	-99.83
Haiti	0	0	0	0.50	0	0	0	0

Source: Trade Data Monitor, LLC. Cotton fiber and yarn in Metric Tons, Cotton fabric in million square meters.

Attachments:

No Attachments