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Prepared By: Claudia Hernández

Approved By: Alexander Chinh

Report Highlights:

Post forecasts marketing year (MY) 2024/25 production at 0.91 million 480-lb bales, basically flat compared to MY 2023/24 due to high input costs, drought conditions, power outages, and lack of access to new genetically engineered seed varieties. Post forecasts MY 2024/25 cotton consumption to be unchanged compared to MY 2023/24 due to remaining 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's cotton production at 0.91 million 480-lb bales for marketing year (MY) 2024/25 (August-July), similar to the estimated MY 2023/24 production of 0.89 million bales. The forecast flat production is based on high input costs, current drought conditions, power outages, and lack of access to new genetically engineered (GE) seed varieties. Local industry contacts project output for the next crop harvest will be close to the previous MY. Planting area is forecasted to decrease as farmers switch to other crops such as sorghum, wheat, barley, and oats. Some experts point to the La Niña phenomenon that might coincide with Mexico's rainy season, during the middle of calendar year 2024, which would bolster production in some areas like Tamaulipas and Coahuila compared to MY 2023/24. Despite cotton being an attractive alternative crop under current drought conditions, due relatively lower water needs, farmers have not increased planted area in MY 2024/25 due to the low yields seen in the prior year. Post forecasts total planted area at 128,750 hectares (ha) in MY 2024/25, a reduction of 1 percent from MY 2023/24, with the dominant cotton-producing state of Chihuahua forecast to plant 105,000 ha.

Planted area and yield are constrained by limited access to innovative seed technology, high input costs (such as fertilizers, herbicides, and fuel), and drought conditions. The government of Mexico (GOM) has not approved any GE cotton planting permits since 2019. The GOM also restricted glyphosate imports under the Corn Decree of February 2023, which calls for the phasing out of glyphosate use by March 31, 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) is moving forward with the approval process for new cotton seed varieties. This process can take up to two years. These industry and government sources report that the varieties currently going through the approval process are 7-10 years old and thus will not help increase production yields. For instance, in Coahuila, production yields reached a 30-year low in MY 2023/24. Yields decreased to 2.5/3 tons per hectare from an average of 8 tons per hectare due to non-tested GE cotton seeds for the region.

In addition to seed constraints, drought conditions have impacted yields. Although most cotton-planted areas are irrigated and rely on water from dams and underground aquifers, drought conditions have reduced water reservoirs, decreasing water availability for irrigation. For instance, according to Mexico's National Water Commission (CONAGUA), the water remaining in the dams in Chihuahua only guarantees irrigation for around 40 percent of the agricultural land in the state in 2024. As of January 2024, the ten dams in Chihuahua are, on average, at 41 percent of their capacity, which is 50 percent less compared to the same period of 2023. The lower levels in the dams are due to the lack of rain and scorching temperatures.

Some cotton producers, mainly in Chihuahua, 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, limited access to new seed varieties, and low cotton prices. Furthermore, producers from other regions claim that there is a need for more access to financing or access at a very high cost.

Post forecasts that almost all states will reduce planted area in MY 2024/25. Chihuahua is almost entirely irrigated, and final production yields 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 1: State Level Forecast MY 2024/2025

State	Area Planted (Ha)	Bales	Yield (Bales/Ha)
Chihuahua	105,000	777,000	7.4
Baja California	10,000	65,000	6.5
Coahuila	6,000	34,800	5.8
Tamaulipas North	3,500	12,250	3.5
Sonora	2,500	15,500	6.2
Tamaulipas South	550	1,150	2.1
Durango	1,200	8,760	7.0
Total	**128,750**	**914,660**	**7.1**

Source: Post forecast based on data from State Committees of Plant Health and the National Information System for Agricultural Production (SIAP).

Map 1: Percentage by State of Total Forecast Cotton Planted Area (MY 2024/25)

Source: Post forecast based on data from State Committees of Plant Health and SIAP.

Table 2: Cotton Production, Supply and Distribution

Cotton	2022/2023		2023/2024		2024/2025	
Market Year Begins	Aug 2022		Aug 2023		Aug 2024	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested (1000 HA)	200	200	130	131	0	129
Beginning Stocks 1000 480 lb. Bales	315	307	427	344	0	196
Production 1000 480 lb. Bales	1,580	1,580	925	897	0	915
Imports 1000 480 lb. Bales	689	689	700	650	0	740
Total Supply 1000 480 lb. Bales	**2,584**	**2,576**	**2,052**	**1,891**	**0**	**1,851**
Exports 1000 480 lb. Bales	407	407	250	220	0	200
Domestic Use 1000 480 lb. Bales	1,750	1,800	1,500	1,450	0	1,450
Loss 1000 480 lb. Bales	0	25	0	25	0	25
Domestic Use and Loss 1000 480 lb. Bales	1,750	1,825	1,500	1,475	0	1,475
Ending Stocks 1000 480 lb. Bales	**427**	**344**	**302**	**196**	**0**	**176**
Total Distribution 1000 480 lb. Bales	**2,584**	**2,576**	**2,052**	**1,891**	**0**	**1,851**
Stock to Use % (PERCENT)	19.8%	15.59%	17.26%	11.74%	0	10.64%
Yield (KG/HA)	1,720	1,720	1,549	1,491	0	1,544

CONSUMPTION

Cotton demand is driven by spinning mills use for yarn production, which depends on textile demand and competition from polyester and other synthetic fibers. Mexico's textile consumption is greatly impacted by household income and other macroeconomic variables, including exchange rate and inflation. Post forecasts cotton consumption at 1.45 million bales in MY 2024/25, the same level as the previous marketing year, based on projected slow growth in domestic demand, tougher competition from synthetic fibers and yarn imports from Asia, a lower forecasted cotton production, and the peso's appreciation against the dollar. The exchange rate appreciation makes Mexico´s products more expensive in international markets, reducing their competitiveness. Furthermore, imports of yarns, fabrics, and finished products (mainly from Asia) are cheaper than those produced in Mexico. The country's exports of these products are more expensive, dampening domestic cotton consumption. Additionally, the textile industry is reporting slow demand growth due to remaining stocks from previous years. These stocks reduce domestic and international demand for new textile products, further weakening domestic demand for cotton.

Another challenge facing domestic cotton consumption is incorporating sustainable practices in clothing manufacturing, with some textile producers beginning to adopt circular economy practices for new clothing production. For instance, clothes that were never sold are now recycled and incorporated into the production of new fabrics and clothes. Cotton consumption could decrease as consumer preferences shift towards clothing produced using sustainable practices. However, the prices of such fabrics and clothes could be higher than conventional manufactured clothes. While the effects on cotton consumption are unknown, the impact will be highly price-dependent.

Source: FAS Mexico visit to KALTEX facilities, February 2024. Incorporation of sustainable practices in clothing manufacturing.

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. Some macroeconomic indicators, such as inflation and household income, have shown slow signs of recovery. For instance, Mexico's headline annual inflation rate was 4.40 percent as of February 2024, reaching its lowest level since November 2023. The recovery of these indicators could contribute to increasing consumer demand for clothes, but it could take a while to see an impact in the cotton market.

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

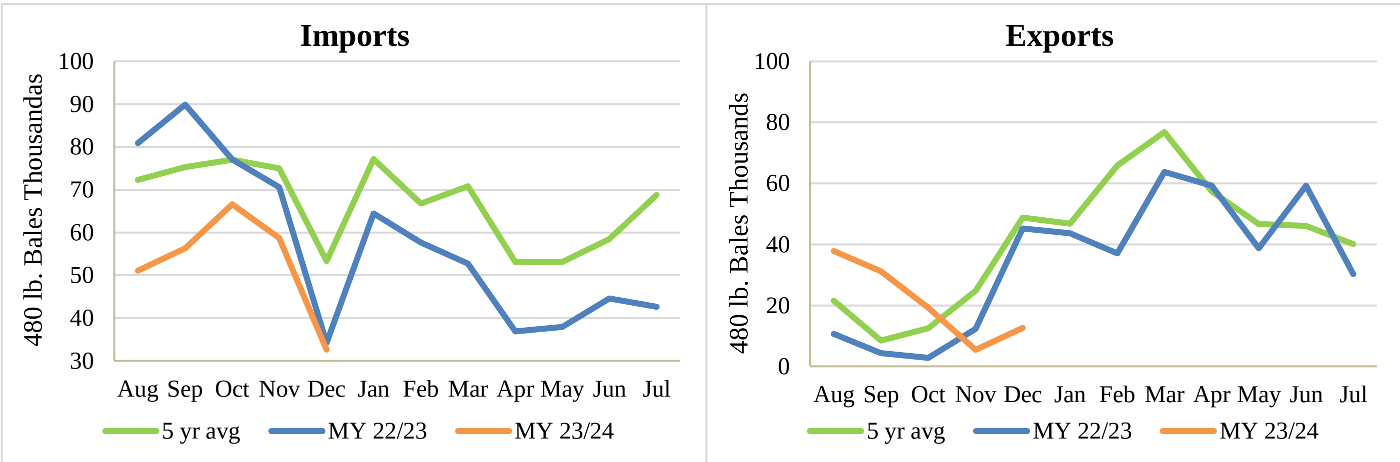
Post forecasts cotton loss at 25,000 bales in MY 2024/25, based on local industry estimates of average annual loss to theft during bale transportation. Security issues continue to impact the supply chain in Mexico.

TRADE

Post forecasts MY 2024/25 cotton imports at 740,000 bales, a 14 percent increase from the previous year's estimate of 650,000 bales due to forecasted low production and low carry-over stocks. As of December 2023, Mexico imported 265,322 bales, a 25 percent decrease compared to the same period of MY 2022/23.

Post forecasts MY 2024/25 cotton exports at 200,000 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. As of December 2023, Mexico exported 106,202, which is 41 percent higher than in MY 2022/23.

Figure 1: Mexican Cotton Imports and Exports MY 2022/23 vs. MY 2023/24



Source: Trade Data Monitor

TRADE MATRICES

Mexico's main source of imported cotton is the United States. Mexico exports a proportion of its domestic production, mainly to Asia. The United States is the main trading partner for cotton fiber and yarn. However, the main source for cotton fabrics is China.

Mexico Cotton Fiber Imports (Metric Tons)						**Year to Date**		
Country / Year	**MY 18/19**	**MY 19/20**	**MY 20/21**	**MY 21/22**	**MY 22/23**	**08/2022 - 12/2022**	**08/2023 - 12/2023**	**%Δ**
World	182,597	128,559	202,002	208,772	150,096	76,755	57,768	-24.7%
United States	181,686	128,518	201,917	140,473	83,400	41,829	45,580	9.0%
Unidentified	-	-	-	68,235	66,696	34,926	12,260	-64.9%
Egypt	21	41	63	64	-	-	-	NA
India	290	-	-	-	-	-	-	NA
Brazil	-	-	22	-	-	-	-	NA
Argentina	601	-	-	-	-	-	-	NA

Mexico Cotton Fiber Exports (Metric Tons)						Year to Date		
Country / Year	MY 18/19	MY 19/20	MY 20/21	MY 21/22	MY 22/23	08/2022 - 12/2022	08/2023 - 12/2023	%Δ
World	113,414	143,676	106,301	87,731	88,680	16,389	23,123	41.1%
United States	7,350	709	9	3	-	-	-	NA
Unidentified	-	-	-	58,327	70,125	15,208	20,522	34.9%
Tukey	19,390	49,925	46,729	12,367	-	-	-	NA
Pakistan	17,338	38,092	25,098	1,554	932	932	-	NA
China	18,376	8,706	15,089	2,289	11,353	-	1,820	NA
Others	50,960	46,244	19,376	13,191	6,270	249	781	213.7 %

Mexico Cotton Yarn Imports (Metric Tons)						Year to Date		
Country / Year	MY 18/19	MY 19/20	MY 20/21	MY 21/22	MY 22/23	08/2022 - 12/2022	08/2023 - 12/2023	%Δ
World	22,287	11,806	4,113	2,985	955	646	877	35.8%
United States	20,652	10,531	3,043	1,623	176	117	112	-4.3%
Unidentified	-	-	-	906	732	498	559	12.2%
Spain	101	64	47	40	-	-	-	NA
India	1,105	963	745	323	-	-	206	NA
China	210	69	44	6	47	31	-	NA
Others	219	179	234	87	-	-	-	NA

Mexico Cotton Yarn Exports (Metric Tons)						Year to Date		
Country / Year	MY 18/19	MY 19/20	MY 20/21	MY 21/22	MY 22/23	08/2022 - 12/2022	08/2023 - 12/2023	%Δ
World	11,263	7,682	17,277	16,431	5,897	2,252	2,843	26.2%
United States	3,138	1,812	3,205	3,574	1,509	435	670	54.0%
Unidentified	-	-	-	6,422	4,388	1,817	1,897	4.4%
Honduras	2,232	2,691	7,640	4,618	-	-	-	NA
Guatemala	1,333	572	580	72	-	-	-	NA
Colombia	2,389	1,679	2,098	687	-	-	276	NA
Others	2,171	928	3,754	1,058	-	-	-	NA

Mexico Cotton Fabric Imports (Million Square Meters)						Year to Date		
Country / Year	**MY 18/19**	**MY 19/20**	**MY 20/21**	**MY 21/22**	**MY 22/23**	**08/2022 - 12/2022**	**08/2023 - 12/2023**	**%Δ**
World	67,124	45,133	45,685	63,072	62,195	28,462	27,567	-3.1%
United States	3,889	3,133	4,121	502	308	107	33	-68.7%
Unidentified	-	-	-	8,887	11,061	4,844	3,645	-24.8%
Pakistan	6,729	7,579	2,749	1,800	36	-	153	NA
India	5,448	4,791	2,921	3,133	1,443	481	525	-9.1%
China	43,323	24,192	32,252	46,218	48,953	22,755	23,063	1.4%
Others	7,735	5,438	3,642	2,532	394	275	148	-46.3%

Mexico Cotton Fabric Exports (Million Square Meters)						Year to Date		
Country / Year	**MY 18/19**	**MY 19/20**	**MY 20/21**	**MY 21/22**	**MY 22/23**	**08/2022 - 12/2022**	**08/2023 - 11/2023**	**%Δ**
World	5,732	8,027	8,709	5,339	1,984	569	2,209	289%
United States	1,621	1,665	2,839	3,122	273	4	269	7573%
Unidentified	-	-	-	776	1,711	565	1,941	243%
Guatemala	1,218	642	1,082	143	-	-	-	NA
El Salvador	150	2,839	1,577	1,251	-	-	-	NA
Colombia	180	1,276	2,042	38	-	-	-	NA
Others	2,563	1,605	1,170	9	-	-	-	NA

Source: Trade Data Monitor.

STOCKS

The ending stocks forecast for MY 2024/25 is 176,000 bales, a decrease of 10 percent over the previous marketing year, mainly due to forecasted 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 losses during the transport of the bales.

Source: FAS Mexico field trip to Ojinaga, Chihuahua. December 2023. Bales stored outdoors.

PRICES

On March 22, 2024, the New York Stock Exchange listed cotton at 91.5 cents/pound. The international cotton price has been falling since the end of 2022. According to Mexico's National Information System for Agricultural Production (SIAP), as of January 2024, the cotton price was 2,030 dollars/ton, 1.7 percent above a month earlier and 8 percent below the 2,211 dollars/ton of the same month of the previous year.

Attachments:

No Attachments