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Prepared By: Claudia Hernández

Approved By: Alexander Chinh

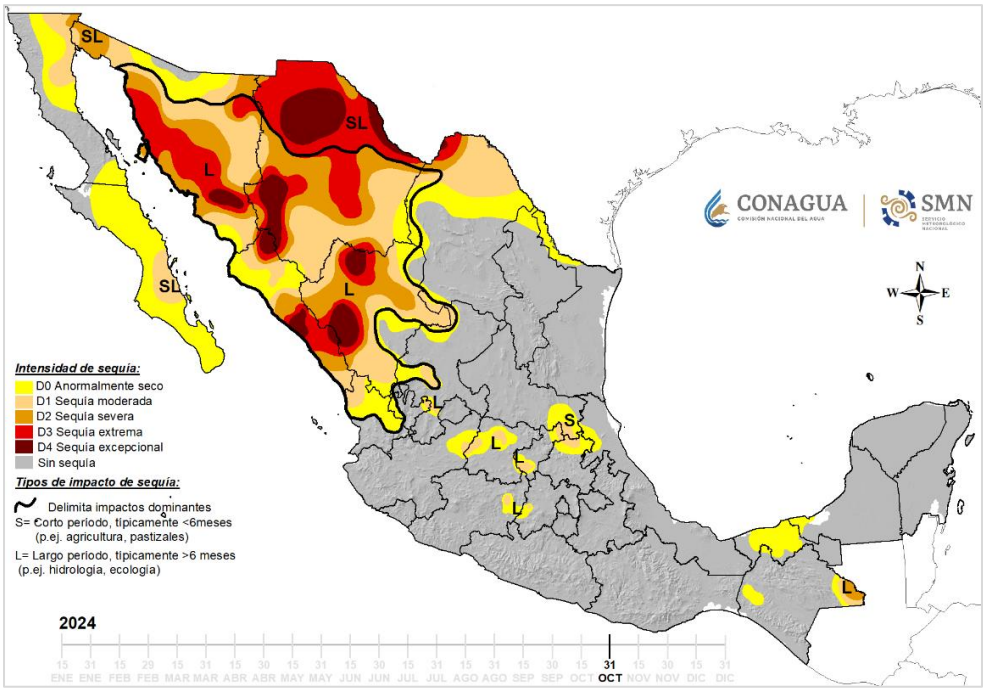
Report Highlights:

Post forecasts production for marketing year (MY) 2024/25 at 0.89 million 480-lb bales, a similar level as in MY 2023/24. The planting area is expected to decrease due to farmers switching to more profitable crops, drought conditions, and limited access to water from dams. Constraints on planted area and yield include limited seed technology, high input costs, extreme temperatures, and drought. The Mexican government has not approved new genetically engineered cotton seeds, further limiting production potential. Despite these challenges, some producers are investing in new irrigation systems to improve efficiency.

PRODUCTION

Post forecasts Mexico's cotton production at 0.89 million 480-lb bales for marketing year (MY) 2024/25 (August-July), a similar level as in MY 2023/24, which Post estimates at 0.87 million bales. The forecast is based on high input costs, current drought conditions (mainly in Sonora, Chihuahua, and Durango – see Map 1), low cotton prices, and lack of access to new genetically engineered (GE) seed varieties. The planting area is forecasted to decrease as farmers switch to other crops, including corn, sorghum, wheat, barley, jalapeño, and melons, due to more attractive market prices for those commodities. Production yields are forecasted to increase in some regions, like Coahuila, Durango, and Baja, California, due to some rains from August to October. Even though cotton is an attractive alternative crop given current drought conditions, farmers are moving away from cotton due to the low yields of MY 2023/24, low cotton prices, high price inflation for inputs, and lack of access to new GE seeds. Post forecasts total planted area at 126,060 hectares (ha) in MY 2024/25, similar to MY 2023/24 planted area, with the dominant cotton-producing state of Chihuahua forecast to harvest 102,000 ha.

Map 1: Drought Monitor Map October 31, 2024



Source: CONAGUA

Planted area and yield are constrained by limited access to innovative seed technology, high costs for inputs such as fertilizers, herbicides, and fuel, temperatures above 122 degrees Fahrenheit in some areas, and drought conditions. The government of Mexico (GOM) has not approved any genetically engineered (GE) cotton planting permits since 2018. The only approved GE cotton seeds in Mexico are obsolete varieties that are 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 GE cotton seed varieties. However, these industry and government sources

report that the approvals might take several months. Further, the contacts report that the varieties currently going through the approval process are 7-10 years old and thus would have a limited impact on yields.

The GOM restricted glyphosate imports under the Corn Decree of February 2023, which called for the phasing out of glyphosate use by April 2024. However, on March 26, 2024, before the glyphosate ban took effect, the Secretariats of Economy (SE), SADER, SEMARNAT, and Federal Commission for the Protection against Sanitary Risks (COFEPRIS) released a joint statement stating that the GOM will postpone the ban on glyphosate until a viable alternative is found. Meanwhile, glyphosate imports continue to be permitted with quotas assigned to each of the importing companies.

High temperatures and drought conditions have significantly impacted cotton yields in Mexico. Many cotton-growing regions experienced periods of record temperatures exceeding 122 degrees Fahrenheit, causing cotton bolls to dehydrate and shrink. While most cotton-planted areas are irrigated, drought conditions have reduced reservoir water availability. According to Mexico's National Water Commission (CONAGUA), as of November 11, the ten dams in Chihuahua were operating at an average of 36 percent capacity, a 23 percent decrease compared to the same period in 2023. The decline in dam levels is attributed to a lack of rainfall 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 different regions claim that there is a need for increased access to financing and lower-cost financing.

Post forecasts MY 2024/25 planted area at 126,060 Ha, a reduction of 4 percent from MY 2023/24, with the forecast area in Chihuahua similar to the MY 2023/24 estimate (see Table 1). Chihuahua is almost entirely irrigated, and final production yields will depend heavily on access to water. Producers continue to report that some electricity shortages are limiting the use of irrigation systems critical to fields. However, power outages are expected to decrease as the Federal Electricity Commission (CFE) has been reviewing irregular connections, thus reducing power outages. A constant power supply would allow regular irrigation, allowing cotton plants to grow evenly thus increasing yields.

Table 1: State Level Forecast MY 2024/2025

State	Area Planted (Ha)	Bales	Yield (Bales/Ha)
Chihuahua	102,000	750,000	7.4
Baja California	10,350	63,000	6.1
Coahuila	6,500	50,000	7.7
Tamaulipas North	3,850	10,000	2.6
Sonora	2,270	13,750	6.1
Tamaulipas South	550	1,150	2.1
Durango	540	4,400	8.1
Total	**126,060**	**892,300**	**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	132	132	120	126
Beginning Stocks 1000 480 lb. Bales	315	307	377	344	242	211
Production 1000 480 lb. Bales	1,580	1,580	870	870	825	892
Imports 1000 480 lb. Bales	689	689	695	600	925	750
Total Supply 1000 480 lb. Bales	**2,584**	**2,576**	**1,942**	**1,814**	**1,992**	**1,853**
Exports 1000 480 lb. Bales	407	407	200	178	200	200
Domestic Use 1000 480 lb. Bales	1,800	1,800	1,500	1,400	1,550	1,425
Loss 1000 480 lb. Bales	0	25	0	25	0	25
Domestic Use and Loss 1000 480 lb. Bales	1,800	1,825	1,500	1,425	1,500	1,450
Ending Stocks 1000 480 lb. Bales	**377**	**344**	**242**	**211**	**242**	**203**
Total Distribution 1000 480 lb. Bales	**2,584**	**2,576**	**1,942**	**1,814**	**1,992**	**1,853**
Stock to Use % (PERCENT)	17.08%	15.59%	14.24%	13.34%	13.83%	12.48%
Yield (KG/HA)	1,720	1,720	1,435	1,434	1,497	1,542

CONSUMPTION

Cotton demand in Mexico is primarily driven by spinning mills that produce yarn for the textile industry. This demand is influenced by overall textile consumption, competition from synthetic fibers like polyester, and macroeconomic factors such as household income, exchange rates, and inflation. Post forecasts cotton consumption in Mexico at 1.42 million bales for the marketing year 2024/25, significantly below pre-pandemic levels of 1.8-1.9 million bales. This projection is based on several factors:

- Slow domestic demand growth due to rising inflation and reduced household income for clothing and textile purchases
- Price competitive imports from Asia reducing incentives for domestic production
- Lower cotton production due to input challenges and lack of government support
- Exchange rate fluctuations

Since the elections in Mexico (June 2024), the exchange rate has fluctuated with depreciation in recent months. The depreciation of Mexico's peso against the U.S. dollar could contribute to an increase in Mexico's product competitiveness in the world. As Mexico's exports of cotton products increase, domestic cotton consumption could show a slow recovery.

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.

Rising inflation, particularly for food prices, could shift household spending away from non-essential items like clothing. In recent months, the textile market has been impacted by significant cuts in consumer discretionary spending due to concerns over domestic and global economic conditions, especially rising inflation. While some macroeconomic indicators, such as inflation and household income, were showing signs of recovery, recent data indicates a setback.

Mexico's annual inflation rate climbed to 4.76 percent in October 2024, up from 4.58 percent in September. Food inflation accelerated to 6.29 percent in October, reversing the downward trend of the previous two months. Given that food, beverages, and tobacco account for 37.7 percent of household expenditure, while clothing represents only 2.3 percent, rising food prices could further squeeze spending on clothing. This decline in consumer demand for clothes could have ripple effects on the cotton market. However, Mexico's consumer confidence index reached its highest monthly growth since November 2021 in October, indicating increased optimism among households.

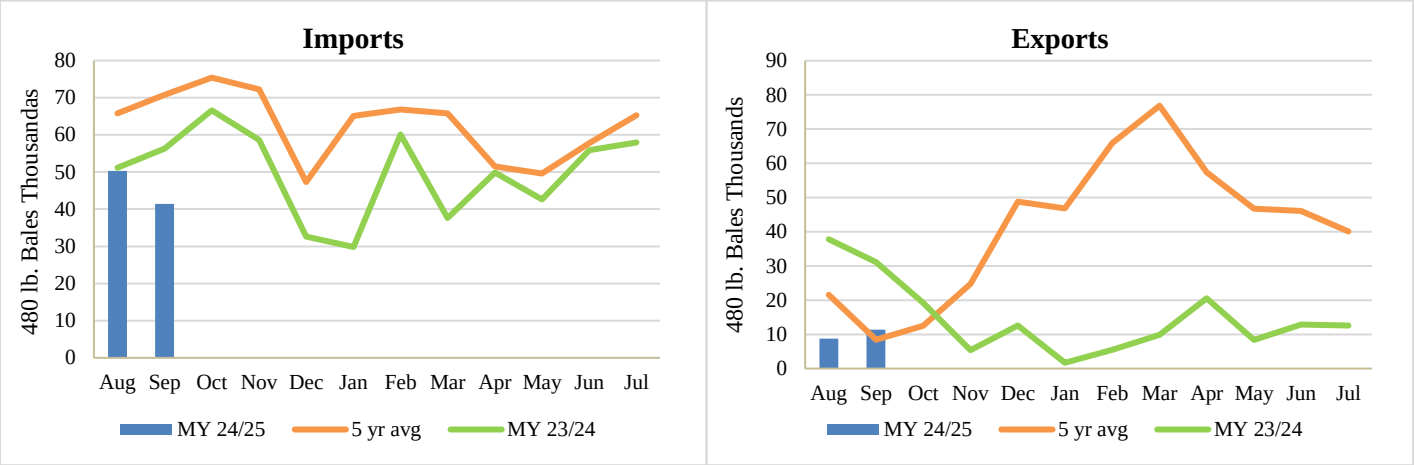
Given quality, proximity, and preferential market access under USMCA, U.S. cotton is expected to meet 100 percent of Mexico's textile industry's import needs. Overall, cotton consumption in Mexico faces constraints based on economic factors, competition from synthetic fibers, and the growing emphasis on sustainability. The country's reliance on imported cotton from the United States highlights the importance of stable trade relationships and addressing supply chain challenges.

Theft during bale transportation is a significant challenge for the cotton supply chain, impacting supply and increasing costs. Polyester and other synthetic fibers are becoming more popular due to their lower cost and versatility.

TRADE

Post forecasts MY 2024/25 cotton imports at 750,000 bales, a 25 percent increase from the previous year’s estimate of 600,000 bales due to forecasted low production and low carry-over stocks. As of September 2024, Mexico imported 91,720 bales, a 15 percent decrease compared to the same period of MY 2023/24. 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 September 2024, Mexico exported 20,069, which is 71 percent lower than in MY 2023/24.

Figure 1: Mexican Cotton Imports and Exports MY 2023/24 vs. MY 2024/25



Source: Trade Data Monitor

STOCKS

The ending stocks forecast for MY 2024/25 is 203,000 bales, 4 percent lower than the estimates for marketing year MY 2023/24, mainly due to forecasted higher exports and domestic use. 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.

PRICES

On November 18, 2024, the New York Stock Exchange listed cotton at 66.62 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 September 2024, the cotton price was 1,818 dollars/ton, 3.2 percent higher than the previous month but 16 percent below the 2,159 dollars/ton of the same month of the previous year.

Attachments:

No Attachments