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Date: 3/29/2017 GAIN Report Number: AS1705

Australia

Cotton and Products Annual

April, 2017

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Report Highlights:

In 2017/18, Post forecasts Australian cotton production to reach 5 million bales from a harvested area of 590,000 hectares. This compares to production of 4.6 million bales in 2016/17 from a harvested area of 557,000 hectares. Exports are expected to increase to 4.8 million bales in 2017/18 because of the larger harvest and strong international demand. These forecasts assume average seasonal conditions over the year.

Commodities: Cotton

EXECUTIVE SUMMARY

In 2017/18, cotton production is forecast by Post at 5 million bales, assuming the continuation of average seasonal conditions. Production in 2016/17 is estimated at 4.6 million bales, as a result of favorable seasonal conditions and an expansion in harvested area. The harvested area for 2017/18 is forecast to increase slightly to 590,000 hectares, compared to 557,000 hectares in 2016/17, which is slightly above the official estimate.

Cotton growing in Australia is expanding because of high returns relative to many other crops and in response to improving water availability. In recent years, cotton farms have extended further into New South Wales (NSW) in competition with rice, citrus and summer crops such as sorghum. Post forecasts an increase in cotton exports in 2017/18 to 4.8 million bales as a result of higher production.

OVERVIEW AND SEASONAL OUTLOOK

Australia is one of the world's largest exporters of raw cotton with over 90 percent of the domestic crop exported, mainly to China, Indonesia and Thailand. Cotton is predominantly irrigated and grown in NSW and southern Queensland. The major production area in NSW stretches south from the Macintyre River on the Queensland border and covers the Gwydir, Namoi and Macquarie valleys. In NSW, cotton is also grown along the Barwon and Darling Rivers in the west and the Lachlan and Murrumbidgee rivers in the south and has been spreading into new regions such as Forbes. In Queensland, cotton is grown mostly in the south in the Darling Downs, St George, Dirranbandi and Macintyre Valley regions. The remainder is grown near Emerald, Theodore and Biloela in Central Queensland.

Cotton is planted from September in Queensland to mid-November in NSW and then harvested from March to June respectively. Australia is an efficient producer with the world's highest cotton yields due to the predominance of irrigation and the use of genetically modified varieties. Dryland cotton has declined in recent years because of low soil moisture but accounts for around one third of cotton grown in 2016/17.

In Australia, variations in seasonal conditions have a significant impact on the cotton industry. Post notes that continued heat and lower than average rainfall over the first two months of 2017 could significantly reduce yields and production. An expanded area of dryland cotton was planted in Queensland and NSW mainly from September to October 2016 due to good soil moisture, but high temperatures and low rainfall in January and February 2017 impacted these crops. Significant rains occurred in March 2017, which may offset some of this impact. The Bureau of Meteorology's (BOM) latest rainfall outlook points to below average rainfall for most eastern and central parts of Australia for the three month period to May.

In the traditional planting window for cotton of September to October 2016, growers in central Queensland, St George and the Darling Downs faced cooler than average temperatures, which also contributed to higher than average insect populations in the region. In north Queensland, cotton yields and quality have been downgraded because of high temperatures for the first two months of 2017,

although March 2017 rains alleviated some of these conditions. Wet conditions in the southern Australian cotton regions could depress regional yields on cotton production.

The emergence of southern NSW as a major producer of cotton has helped increase resilience to seasonal variations as water reliability is higher in this region than in northern NSW or Queensland. Production in the Lachlan, Murrumbidgee and Murray is expected to account for at least a quarter of the Australian cotton crop in 2017/18 and has been supported by an expansion in dryland cotton plantings and in the number of cotton gins in this region.

The outlook for irrigated cotton is also more positive because of higher than average water storage levels in many dams. Post estimates that irrigated cotton will account for around two thirds of the total crop in both 2016/17 and 2017/18. Widespread winter and spring rains have contributed to increased dam storage levels throughout southern Queensland and NSW. The Dartmouth, Hume and Eildon dams were over 75 per cent of capacity in February 2017, compared to below 50 per cent at the same time in 2016 and significant rains occurred in March 2017.

Dam	Region	Full Capacity (ML)	Actual Capacity (%)				
			2013	2014	2015	2016	2017
Beardmore	Emerald	82	82	60	84	82	15
Leslie	Darling Downs	106	74	36	27	18	15
Glenlyon	Border Rivers	250	94	37	28	28	60
Pindari	Border Rivers	312	63	17	14	36	81
Copeton	Gwydir Valley	1,362	73	32	18	17	45
Split Rock	Namoi Valley	397	87	21	7	22	30
Keepit	Namoi Valley	425	40	16	6	12	55
Burrendong	Macquarie Valley	1,188	46	27	16	63	88
Windamere	Macquarie Valley	368	56	49	44	40	50
Wyangala	Lachlan Valley	1,220	71	57	37	42	88
Burrinjuck	Murrumbidgee	1,026	67	85	32	38	73
Total		8,037	66%	43%	39%	30%	55%

Table 1: Water storages for the Australian cotton industry, 2013-2017 (megaliters)

Note: The assessment of water in storage does not include water in private storage.

Source: Murray Darling Basin Authority and Post estimates for March of each year.

Post notes that the latest BOM projections warn of 'below average' rainfall and 'above average' temperatures across some cotton producing regions. Charts 1 and 2 below provide details of forecasts for rainfall and temperatures across Australia's main cotton producing regions.



Chart 1: Chance of exceeding the median rainfall in the three months to May 2017

Source: Bureau of Meteorology (2017).

Chart 2: Chance of exceeding the median temperature in the three months to May 2017



Source: Bureau of Meteorology (2017).

PRODUCTION

Australian cotton production is forecast to be 5.0 million bales in 2017/18, slightly above expected production of 4.6 million bales in 2016/17. The estimate for 2016/17 is roughly 5 percent above the official forecast of 4.5 million bales. This figure was revised by Post because of attractive cotton prices, cheap water and strong overseas demand. These factors encouraged Australian cotton growers to increase plantings for the 2017/18 season and the share of dryland cotton has increased significantly. Yields are expected to decline slightly as a result of this trend and because dryland cotton relies on good seasonal conditions.

Over 2016, above average rainfall provided good soil moisture to support increased dryland cotton plantings on an estimated 200,000 hectares. Irrigated cotton areas also increased due to increased water storage levels in most reservoirs supplying cotton growing regions to an estimated 370,000 hectares. One reason is the greater availability of water in cotton growing areas in 2017/18 following a change in policy under the Murray Darling Basin Plan. Nevertheless, Post notes the vulnerability of the dryland cotton crop to seasonal conditions given the above average temperatures and below average rainfall experienced in early 2017 in many northern growing regions, although higher rainfall in March 2017 offset some of this impact.

Post further notes that the Bollard III genetically modified and insect resistant cotton variety was approved in 2016 and has been grown widely for the first time in the 2017/18 season. Traditionally, cotton growers have planted in the September/October timeframe, with harvesting from January. However, an increasing number of cotton growers in Queensland used early sowing in August 2016 to take advantage of the wider planting window offered by the new Bollard III varieties of cotton seed. Cotton picking started in February 2017 in central Queensland, the earliest start to harvest so far recorded. This compares to the traditional start to cotton planting in mid-September.

TRADE

Cotton exports from Australia are forecast to be 4.8 million bales in 2017/18. Exports for 2016/17 have been revised to 4.2 million bales, slightly above the official estimate because of greater production and strong international demand. Australia usually ranks as the world's third largest raw cotton exporter, behind the United States and India. Australia exports around 95 percent of its raw cotton as there is no domestic textiles industry.

China is still expected to be the main destination for Australian exports, but its high levels of stocks have reduced demand in recent years. The next largest export markets are India, Vietnam and Indonesia. India is emerging as a larger market for Australian cotton, accounting for 25 percent of exports in 2016/17 compared to only 2-3 percent in previous years (see chart 3).



Chart 3: Australian cotton exports by country, 2013-2016 ('000 MT)

Source: Global Trade Atlas.

Chart 4: Geographical distribution of cotton production in Australia



Source: USDA

Cotton Australia	2015/2016		2016/2017		2017/2018	
	Market Year Beginning August 2015		Market Year Beginning August 2016		Market Year Beginning August 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	312	312	550	557		590
Beginning Stocks	1,818	1,818	1,933	1,933		2,448
Production	2,850	2,850	4,500	4,600		5,000
MY Imports	0	0	0	0		0
Total Supply	4,668	4,668	6,433	6,533		7,448
Exports	2,850	2,850	4,100	4,200		4,800
Use	35	35	35	35		35
Loss	-150	-150	-150	-150		-150
Total Domestic	-115	-115	-115	-115		-115
Consumption						
Ending Stocks	1,933	1,933	2,448	2,448		2,763
Total Distribution	4,668	4,668	6,433	6,533		7,448

Table 2: Production, Supply and Demand Estimates: Cotton, 2015/16 to 2017/18

Notes: (a) 'New Post' assessments are not official data.

(b) Data in the table is in '000 bales with one MT equal to 4.593 bales.