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Prepared By: Claudia Hernández

Approved By: Alexander Chinh

Report Highlights:

Post forecasts production for marketing year (MY) 2024/25 at 0.85 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. Constraints on planted area and yield include limited seed technology, high input costs, extreme temperatures, and drought. The Mexican government has restricted glyphosate imports and 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.

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PRODUCTION

Post forecasts Mexico's cotton production at 0.85 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), and lack of access to new genetically engineered (GE) seed varieties. The planting area is forecasted to decrease as farmers switch to other crops (like corn, sorghum, wheat, barley, and oats) due to more attractive market prices for those commodities. However, production yields could increase in some regions if weather conditions improve. During July, there were some rains in Tamaulipas and during August Mexico's National Water Commission (CONAGUA) projects rain in Sonora, Durango, and Chihuahua. Thus, production yields could improve in some areas like Tamaulipas and Coahuila compared to MY 2023/24 production levels. Even though cotton is an attractive alternative crop given current drought conditions, farmers are unmotivated due to the low yields of MY 2023/24, low cotton prices, high price inflation of inputs, and no access to new GE seeds, maintaining planted areas to similar levels as in MY 2023/24. Post forecasts total planted area at 124,090 hectares (ha) in MY 2024/25, with the dominant cotton-producing state of Chihuahua forecast to plant 100,000 ha.

Planted area and yield are constrained by limited access to innovative seed technology, high input costs (such as fertilizers, herbicides, and fuel), high temperatures, and drought conditions. The government of Mexico (GOM) has not approved any GE cotton planting permits since 2018. The only approved genetically engineered 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 GE cotton seed varieties. 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.

The GOM also restricted glyphosate imports under the Corn Decree of February 2023, which calls for the phasing out of glyphosate use by April 2024. However, the GOM postponed part of the 2023 corn decree. 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.

High temperatures and drought conditions have significantly impacted cotton yields in Mexico. For extended periods, many cotton-growing regions experienced record temperatures exceeding 45 degrees Celsius, causing cotton bolls to dehydrate and shrink. While most cotton-planted areas are irrigated, drought conditions have reduced reservoir water availability. According to CONAGUA, as of July 31, the ten dams in Chihuahua were operating at an average of 38% capacity, a 58% 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 other regions claim the lack of access to financing or that it is available at very high cost.

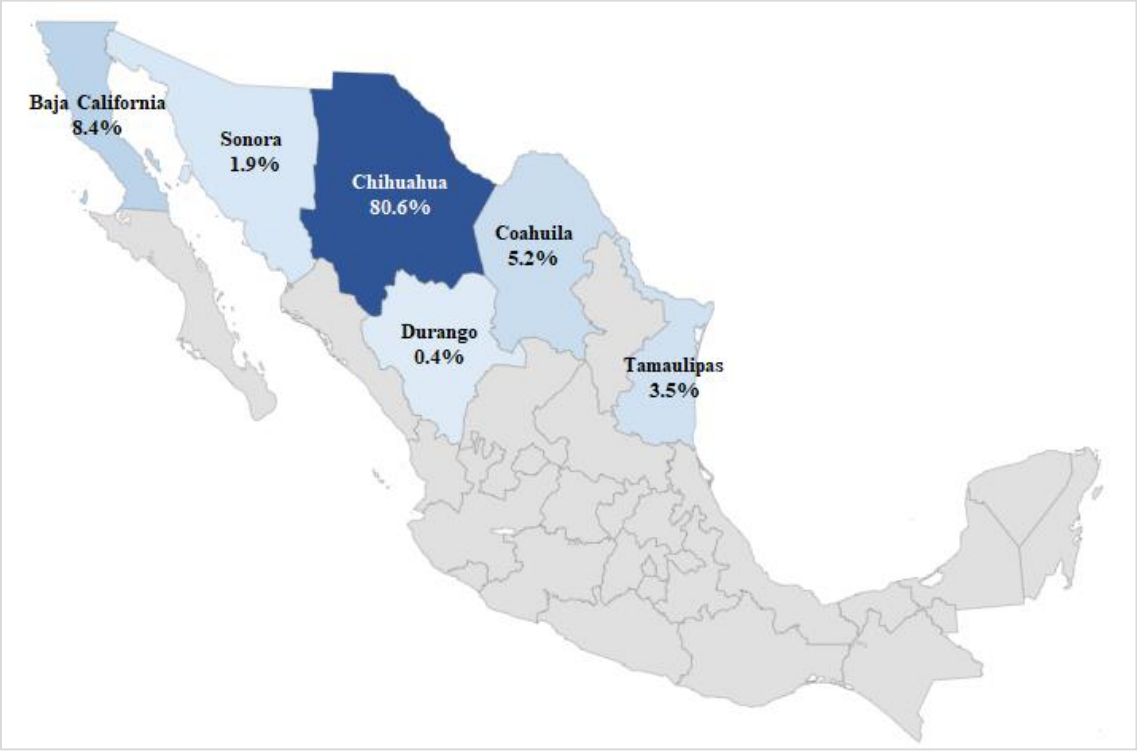
Post forecasts that almost all states will reduce the planted area in MY 2024/25. Post forecasts planted area at 124,090 Ha, a reduction of 6 percent from MY 2023/24, with the forecast area in Chihuahua similar to the MY 2023/24 estimate (see Table 1). Chihuahua is almost entirely irrigated, and final production yields will depend heavily on access to water. Producers continue to report that 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. The constant power supply would allow regular irrigation, thus allowing the cotton plant to grow evenly, overall impacting yields.

Table 1: State Level Forecast MY 2024/2025

State	Area Planted (Ha)	Bales	Yield (Bales/Ha)
Chihuahua	100,000	730,000	7.3
Baja California	10,400	48,000	4.6
Coahuila	6,400	38,000	5.9
Tamaulipas North	3,850	10,400	2.7
Sonora	2,350	15,000	6.4
Tamaulipas South	550	1,150	2.1
Durango	540	3,700	6.9
Total	**124,090**	**846,250**	**6.8**

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	131	132	110	124
Beginning Stocks 1000 480 lb. Bales	315	307	377	344	244	209
Production 1000 480 lb. Bales	1,580	1,580	897	870	800	846
Imports 1000 480 lb. Bales	689	689	695	600	950	800
Total Supply 1000 480 lb. Bales	**2,584**	**2,576**	**1,969**	**1,814**	**1,994**	**1,855**
Exports 1000 480 lb. Bales	407	407	225	180	200	200
Domestic Use 1000 480 lb. Bales	1,800	1,800	1,500	1,400	1,550	1,400
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	1,425
Ending Stocks 1000 480 lb. Bales	**377**	**344**	**244**	**209**	**244**	**230**
Total Distribution 1000 480 lb. Bales	**2,584**	**2,576**	**1,969**	**1,814**	**1,994**	**1,855**
Stock to Use % (PERCENT)	17.08%	15.59%	14.14%	13.20%	13.94%	14.35%
Yield (KG/HA)	1,720	1,720	1,491	1,434	1,583	1,485

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 1.40 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 declining household income
- Imports from Asia reducing incentives for domestic production
- Lower cotton production due to input issues and lack of government support
- Exchange rate fluctuations making Mexican products less competitive in international markets

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 food inflation, is diverting household expenditure away from clothing. 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.

During the past 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, were showing slow signs of recovery. However, some indicators have recently shown setbacks. For instance, Mexico’s headline annual inflation rate surged for the fifth consecutive month, reaching 5.57 percent in July 2024. Additionally, food inflation accelerated to 7.52 percent in July 2024, its highest level since June 2023. Food, beverages and tobacco items represent 37.7 percent of the total household expenditure, while spending on clothing reaches 2.3 percent. As inflation, especially food inflation, continues to rise, household expenditure on food could increase, thereby cutting spending on other items such as clothing. The setback in these indicators could contribute to a decrease in consumer demand for clothes, thus impacting the cotton market.

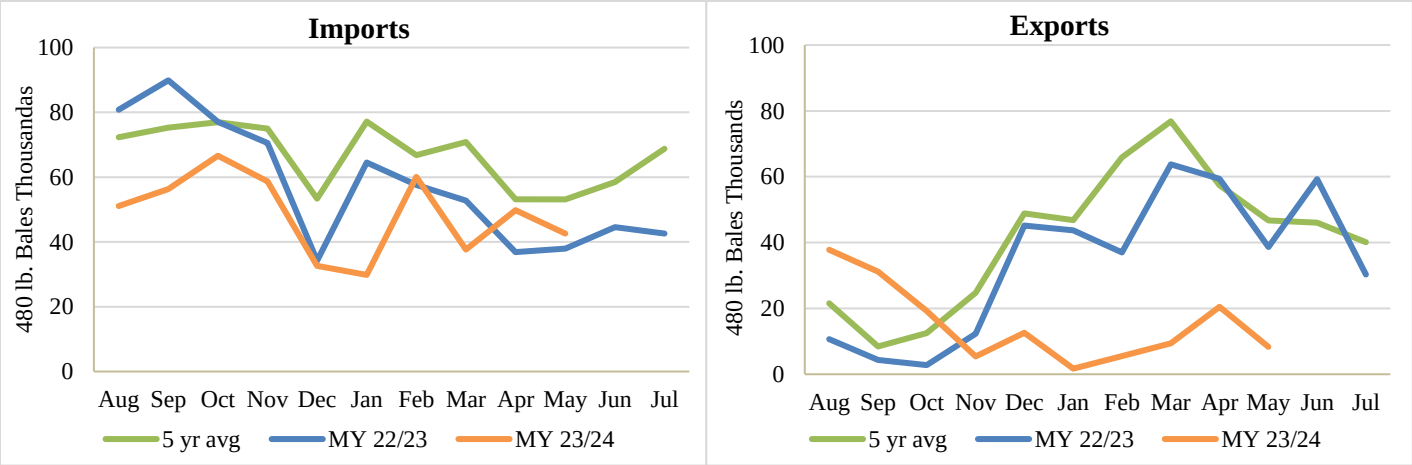
Given quality, trade preferences, and logistical proximity, U.S. cotton is expected to meet 100% of Mexico's textile industry's import needs.

Overall, cotton consumption in Mexico is challenging due to 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.

TRADE

Post forecasts MY 2024/25 cotton imports at 800,000 bales, a 33 percent increase from the previous year's estimate of 600,000 bales due to forecasted low production and low carry-over stocks. As of June 2024 (MY2023/24), Mexico imported 541,117 bales, a 16 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 June 2024, Mexico exported 164,615, which is 56 percent lower than in MY 2022/23.

Figure 1: Mexican Cotton Imports and Exports MY 2021/22 vs. MY 2022/23



Source: Trade Data Monitor

STOCKS

The ending stocks forecast for MY 2024/25 is 230,000 bales, an increase of 10 percent higher than the estimates of previous marketing year (MY 2023/24), mainly due to forecasted higher imports. 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 August 20, 2024, the New York Stock Exchange listed cotton at 69.07 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 May 2024, the cotton price was 1,907 dollars/ton, 4.1 percent lower than a month earlier and 8 percent below the 2,073 dollars/ton of the same month of the previous year.

Attachments:

No Attachments