

# MARKET FUNDAMENTALS



Commercial Trade Section  
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## MEXICO: COTTON

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### RECENT POLICY DEVELOPMENTS

#### **Economic Pact Putting Squeeze on Cotton Producers**

The Economic Solidarity Pact, initiated in December 1987 and renewed twice since then, has raised real interest rates to historic levels. As a result, cotton producers faced rising production costs and falling prices this year. While low-income producers are still eligible for below-market interest rates and other production subsidies, most cotton producers are not because they are higher income farmers. (FAS)

#### **Demand For Domestic Cotton Could Be Affected By Trade Policy**

Longer term prospects of demand for domestic cotton are clouded by Mexico's changing import policies. Mexico is reducing trade barriers in order to control domestic prices and to meet international lender guidelines for opening its economy. A more liberal policy toward cotton textile imports could result in larger textile imports and lower demand for domestic cotton. (ERS)

Market Fundamentals are updated twice a year. All information in this report is from sources believed to be reliable. Not all data are U.S.D.A. official data. Official U.S.D.A. data are clearly indicated. Sources for statements in text are indicated in parentheses at the end of each paragraph. See glossary for acronyms.

### Government Sells Public Cotton Trading Company

In an effort to reduce public deficit spending, the GOM has committed itself to selling those state enterprises that are not considered in the public interest. In March 1989, the Algodonera Comercial Mexicana (Mexican Commercial Cotton Company) was sold to the private sector. The ACM was one of the four largest cotton traders in Mexico. (FAS)

### Cotton Export Policy

Currently, there are no volume controls on cotton lint exports. An export permit is only required for seed cotton. Cotton exporters are required to convert foreign exchange earnings at the official U.S. dollar exchange rate, which has been lower than the "free" market rate during most of the 1980's. The spread between the official and market exchange rates has narrowed to the point where there is little disadvantage to exporters in converting at the official rate. (FAS, ERS)

### Import Tariffs Raised

Import tariffs were raised to 10 percent in January 1989 for most categories of raw cotton. Previous tariffs were 0-5 percent. Imports of cotton yarn and fabrics are currently taxed at 15 percent. Import permits are not required for raw cotton or most cotton products. Phytosanitary regulations apply to cotton imports. (FAS)

## SUPPLY DEVELOPMENTS AND OUTLOOK

### 1988 Production Highest in Seven Years

Higher world prices in 1987 encouraged Mexican cotton producers to expand production in 1988 to 1.4 million bales (480 lbs.each). This was the highest output since 1981 when production also reached the same level (fig. 1). Estimates indicate that area increased by 38 percent to over 300,000 hectares (table 1). In spite of drought conditions in the major growing regions of the Northwest, producers gave priority to irrigating cotton which prevented yields from falling below normal levels (fig. 3). (CO, FAS)

### Production Downturn In 1989

Production for 1989 is currently estimated at 850,000 bales, each), which is down by 530,000 bales, or 38 percent (fig. 1). It is one of the lowest outputs in recent years. Area and yield reductions both contributed to the decline in production. (FAS)

Following a larger than normal crop in 1988, cotton area may have fallen by one third this year to 200,000 hectares (fig. 2). Producers faced a cost/price squeeze which resulted in an abandonment of cotton land. Cotton area was likely replaced by sorghum and winter vegetables in the irrigated sections of the Northwest and by non-traditional alternatives, such as soybeans. (FAS, ERS)

Below normal rainfall in major growing areas of the Northwest lowered earlier prospects for cotton yields. Yields are expected to be below last year's record (fig. 3). Although over 80 percent of Mexican cotton is irrigated, low rainfall reduced reservoirs which supply most of the water for irrigation. (FAS)

Figure 1 - Mexican Cotton Production



Figure 2 - Mexican Cotton Area



Figure 3 - Mexican Cotton Yields

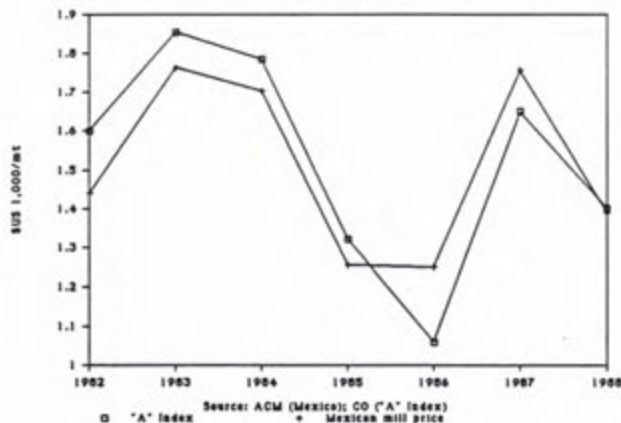




### Cotton Prices Fall In Real Terms

Average peso prices of cotton delivered to textile mills increased by 30 percent in 1988, but fell by 21 percent in U.S. dollars (converted at the official exchange rate). Since there is less Government intervention in the cotton market than for other basic crops, producers are subject more to the vagaries of world cotton prices, which fell 15 percent in 1988 (fig. 4). (ERS)

Figure 4 - Mexican/World Cotton Prices



### DEMAND DEVELOPMENTS AND OUTLOOK

#### Cotton Consumption Increases in Spite of Slow Economic Growth

Cotton consumption has increased during the past three years because of a growing preference for cotton fabrics, and in spite of falling real per capita income (fig. 5). Rising synthetic fiber prices over the past few years may have also helped to shift the demand towards more cotton, especially in clothing. The cotton content of total fiber consumption rose from 27 percent in 1987 to 35 percent in 1988. Consumption is expected to increase to over 700,00 bales in MY1989/90 (August/July). (FAS, ERS)

#### Stocks At Near-Record Levels

Stocks increased to near-record levels during MY1988/89 because of low international prices and low quality (fig. 6). Lower quality cotton is normally not profitable to export and is sold to domestic mills for blending. However, higher quality stocks are being drawn down this year in order to meet export commitments. (FAS,ERS)

Figure 5 - Mexican Cotton Consumption



Figure 6 - Mexican Cotton Stocks

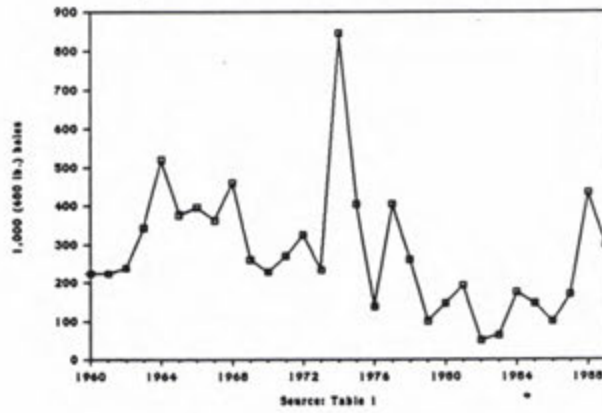


Figure 7 - Mexican Cotton Exports



## TRADE DEVELOPMENTS AND OUTLOOK

### Mexico's Exports Decline as Imports Increase

Once a world leader in the cotton trade, Mexican exports have fallen dramatically since the 1960's (fig. 7). Since the early 1980's, exports have ranged from 300-500,000 bales. Factors contributing to the long-term demise of the Mexican cotton industry include more attractive production alternatives, limited water supplies, and increasing domestic demand. (ERS)

Mexico did not import cotton until 1983 when a drought forced domestic mills to seek foreign supplies to meet demand. Since then, GOM policy has been favorable towards imports in order to keep mills operating, to provide higher quality (longer staple) cotton for blending, and to help hold down domestic prices. The United States supplies most of Mexico's import needs. Other suppliers include Argentina and Central American countries. (ERS,FAS)

### MY1988/89 Cotton Exports Reflect Production Increase

Cotton exports during MY1988/89 rose by over 40 percent to 500,000 bales. The jump in production was sufficient to boost export availabilities in spite of increases in stocks and consumption (table 1). (FAS)

### Cotton Exports to Fall In MY1989/90

Lower production and higher domestic demand will reduce export prospects in MY1989/90. Cotton exports are estimated to drop by 150,000 bales to 350,000 bales, or a 30 percent reduction (fig. 7). The decline in exportable supplies will be partially offset by a reduction in stocks by 35,000 bales (fig. 6). The released cotton will likely be used in domestic textile production which will free this year's production for export. Improved world cotton prices could encourage additional use of Mexican stocks for export. (FAS, ERS)

### Market for Mexican Cotton Shows Diversification

The Asian and European markets continue to dominate sales of Mexican cotton. Japan, China, and West Germany have been the principal markets. Mexico is diversifying cotton exports by expanding sales to Eastern Europe and Chile, both non-traditional markets. The United States is a relatively small market, although the bulk of Mexican cotton sales to Asia are shipped through U.S. ports. (FAS, ERS)

### Raw Cotton Imports To Increase in MY1989/90

Mexico is expected to increase imports of raw cotton in order to meet increased domestic textile industry demand. This year's imports are expected to increase by one-third over last year, to 75,000 bales. This would be the second largest import volume ever (table 1). (FAS)

## GLOSSARY

ACM.....	Algodonera Comercial Mexicana (Mexican Commercial Cotton Company)
"A" Index.....	price for Middling 1-3/32", CIF, Northern Europe
CO.....	Cotton Outlook (London)
ERS.....	Economic Research Service (USDA)
FAS.....	Foreign Agricultural Service (USDA)
GOM.....	Government of Mexico
MY.....	Marketing year for Mexican cotton, August-July



TABLE 1  
Mexican Cotton Supply and Utilization, 1,000's of 480 lb. bales

Year	Harvest Area	Avg. Yield	Production	Beginning Stocks	Total Imports	Total Supply	Total Exports	Domestic Use	Ending Stocks
	1,000 Has	bales/ha							
1960	904	2.32	2,100	248	0	2,348	1,613	515	225
1961	817	2.44	1,994	225	0	2,219	1,484	515	225
1962	835	2.91	2,426	225	0	2,651	1,898	515	239
1963	795	2.65	2,109	239	0	2,348	1,424	579	345
1964	783	3.07	2,403	345	0	2,748	1,617	611	519
1965	793	3.31	2,628	519	0	3,148	2,127	639	377
1966	701	3.21	2,252	377	0	2,628	1,521	717	395
1967	689	2.90	1,999	395	0	2,394	1,328	708	363
1968	720	3.40	2,449	363	0	2,812	1,640	712	460
1969	542	3.23	1,751	460	5	2,215	1,268	685	262
1970	422	3.44	1,452	262	5	1,719	804	685	230
1971	461	3.71	1,709	230	0	1,939	947	726	271
1972	500	3.58	1,792	271	0	2,063	942	800	326
1973	431	3.41	1,470	326	0	1,797	767	795	234
1974	585	3.82	2,233	234	0	2,468	891	726	845
1975	235	3.83	901	845	0	1,746	538	809	404
1976	246	4.09	1,006	404	0	1,411	542	735	138
1977	389	4.15	1,613	138	0	1,751	597	749	404
1978	350	4.42	1,549	404	0	1,953	965	726	262
1979	380	3.95	1,503	262	0	1,764	914	749	101
1980	360	4.43	1,594	101	0	1,696	818	735	147
1981	350	4.07	1,424	147	0	1,571	758	620	193
1982	204	4.23	864	193	14	1,071	395	625	51
1983	245	4.09	1,002	51	9	1,061	473	519	64
1984	320	3.88	1,241	64	0	1,305	574	556	175
1985	213	4.55	970	175	18	1,163	381	675	147
1986	150	4.26	639	147	92	878	221	561	100
1987	230	4.39	1,010	100	15	1,125	351	605	170
1988*	318	4.34	1,381	170	50	1,601	500	666	434
1989*	200	4.25	850	434	75	1,359	350	712	299

Note: Year refers to the first year of the Aug/Sept marketing year, i.e., 1989 = MY1989/90.  
1 metric ton = 4.595 bales of cotton

Source: USDA and Cotton Outlook. Un-official data is identified by an asterisk (\*)



TABLE 2  
Mexican Cotton Supply and Utilization, 1,000 metric tons

Year	Harvest Area 1,000 Has	Avg. Yield mt/ha	Production	Beginning Stocks	Total Imports	Total Supply	Total Exports	Domestic Use	Ending Stocks
1960	904	0.51	457	54	0	511	351	112	49
1961	817	0.53	434	49	0	483	323	112	49
1962	835	0.63	528	49	0	577	413	112	52
1963	795	0.58	459	52	0	511	310	126	75
1964	783	0.67	523	75	0	598	352	133	113
1965	793	0.72	572	113	0	685	463	139	82
1966	701	0.70	490	82	0	572	331	156	86
1967	689	0.63	435	86	0	521	289	154	79
1968	720	0.74	533	79	0	612	357	155	100
1969	542	0.70	381	100	1	482	276	149	57
1970	422	0.75	316	57	1	374	175	149	50
1971	461	0.81	372	50	0	422	206	158	59
1972	500	0.78	390	59	0	449	205	174	71
1973	431	0.74	320	71	0	391	167	173	51
1974	585	0.83	486	51	0	537	194	158	184
1975	235	0.83	196	184	0	380	117	176	88
1976	246	0.89	219	88	0	307	118	160	30
1977	389	0.90	351	30	0	381	130	163	88
1978	350	0.96	337	88	0	425	210	158	57
1979	380	0.86	327	57	0	384	199	163	22
1980	360	0.96	347	22	0	369	178	160	32
1981	350	0.89	310	32	0	342	165	135	42
1982	204	0.92	188	42	3	233	86	136	11
1983	245	0.89	218	11	2	231	103	113	14
1984	320	0.84	270	14	0	284	125	121	38
1985	213	0.99	211	38	4	253	83	147	32
1986	150	0.93	139	32	20	191	48	122	22
1987	230	0.96	220	22	3	245	82	133	37
1988*	318	0.94	300	37	11	348	109	147	95
1989*	200	0.93	185	95	16	296	76	155	65

Note: Year refers to the first year of the Aug/Sept marketing year, i.e., 1989 = MY1989/90.  
1 metric ton = 4.595 bales of cotton

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