Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

Afreximbank Research
Commodity Market
Updates
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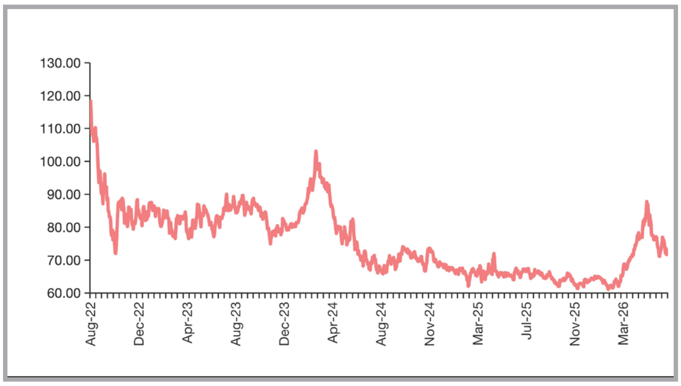
Cotton: A global recovery and Africa's opportunity

Cotton has been one of the best-performing agricultural commodities in the first half of the year, with its performance marking a break from a prolonged bearish cycle that began in 2023 and continued through Q1-2026. Generic front-month cotton futures are currently trading at around 80.5 cents per pound (USc/lb) on the Intercontinental Exchange (ICE), a 35 percent rally from this year's low recorded in February (Figure 1). And while the market is comparatively softer relative to the historic highs reached during the post-pandemic commodity super-cycle, supply and demand fundamentals have improved notably.

Figure 1: Cotton no. 2 nearby futures



Sources: ICE; Afreximbank Research 2026

This recovery in cotton prices has been driven by a combination of tightening global supplies, improving textile demand, weather-related production risks across several major producing regions, especially in the United States, and geopolitical uncertainty related to events in the Middle East. The temporary disruption to shipping through the Strait of Hormuz, together with higher crude oil and naphtha prices, has reinforced cotton's competitive position relative to petroleum-based synthetic fibres, providing an additional source of fundamental support. At the same time, declining global inventories and resilient Asian mill demand have contributed to a more constructive outlook compared with the preceding season.

From a cyclical surplus to market tightening

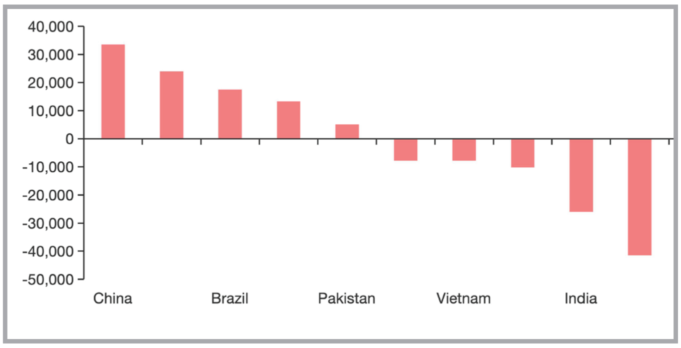
The second half of 2025 marked the beginning of a significant transition for global cotton markets, following bumper harvests in 2024/25 and 2025/26. According to data from the US Department of Agriculture (USDA), global cotton output is forecast to fall to 116 million bales in the 2026/27 season. This is down approximately 5.5 percent compared to 122.7 million bales in the prior season and 119.3 million bales in the 2024/25 season. In contrast, global mill consumption is forecast to rise to approximately 122 million bales, implying that demand will exceed production and reduce global ending stocks to their lowest level since the 2018/19 season. The resulting decline in the stocks-to-use ratio, from 63.8 percent in 2025/26 to a projected 58.4 percent in 2026/27, is a critical structural change underpinning the current price recovery and is also a reflection of the recent improvement in China's demand for cotton.

China – Central to the demand uplift in cotton markets

Although its dominance is gradually being challenged by rapidly expanding textile industries in India, Bangladesh, Pakistan and Vietnam, China remains the single most important determinant of global fibre demand, accounting for more than one-third of world mill consumption (Figure 2). Industry reports estimate spindle count in China at around 110 million, more than half of global capacity. According to the USDA, cotton mill use is forecast to reach 41.5 million bales in the 2026/27 season, its highest level since 2010/11, reflecting a combination of policy support, inventory rebuilding and resilient textile production.

Central to this recovery is a strategic decision from China's policymakers to make the expansion of domestic consumption the foremost economic priority for 2026, shifting growth away from investment- and export-led drivers towards stronger household spending. Some of the measures being deployed by China's government include policies to boost disposable incomes and strengthen consumer confidence as pathways to supporting higher discretionary spending, including on clothes, textiles and apparel. For instance, government subsidy programmes covering home textiles in nearly half of China›s provinces, together with an industry-wide replenishment of depleted yarn and fabric inventories, have been put in place to provide additional support to the sector.

Figure 2: top cotton producers (+) and consumers (-), 2026, thousand bales



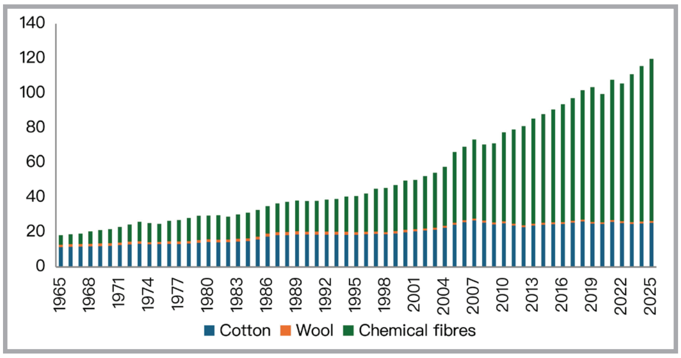
Sources: USDA, Afreximbank Research, 2026

China's textile industry is also undergoing a significant geographical and industrial transformation centred on Xinjiang, which is rapidly evolving into one of the world's largest integrated cotton-textile manufacturing clusters. Under the region's long-term industrial development strategy, cotton and textiles have been designated a strategic pillar industry, supported by substantial investment in spinning, weaving and logistics infrastructure. Since 2020, Xinjiang's spindle capacity has expanded by 59.5%, while the number of weaving looms has increased by an extraordinary 327.6%, raising the region's cotton-to-textile conversion rate to 45% in 2025. Reports also indicate improved operational efficiency in Xinjiang with spinning mills operating at utilisation rates exceeding 90% compared with the national average of around 70–75%.

Boosted by energy markets and the Strait of Hormuz

Beyond traditional supply and demand fundamentals, 2026 has also seen a closer interaction between cotton and global energy markets. Although cotton is an agricultural commodity, its competitiveness is increasingly influenced by developments in the petrochemical sector because its principal substitute (polyester) is manufactured from petroleum-derived feedstocks (Figure 3). Consequently, movements in crude oil and naphtha prices are significant determinants of cotton's relative attractiveness within the global textile industry.

Figure 3: Historical trends in consumption of textile fibres, million tonnes



Sources: ICAC, OECD, Afreximbank Research 2026

Over recent decades, rising populations, urbanisation and income growth, particularly across emerging and developing economies, have driven a substantial increase in global fibre consumption. However, much of this additional demand has been met by synthetic fibres rather than natural fibres. Advances in polyester production, broader functional applications and consistently lower production costs have enabled synthetic fibres to capture an increasing share of the textile market. By 2025, chemical fibres accounted for almost four-fifths of global fibre consumption, while cotton represented just over one-fifth, according to OECD data. This long-term structural shift is also evident in per capita fibre consumption, with synthetic fibre use continuing to expand steadily while per capita cotton consumption has remained broadly flat and has softened in recent years.

It is against this backdrop that the renewed rise in energy prices during 2026, triggered in part by geopolitical tensions surrounding the Strait of Hormuz, has altered this competitive balance. Higher crude oil and naphtha prices have increased the production costs of polyester and other synthetic fibres, narrowing their traditional price advantage over cotton. While this is unlikely to reverse the long-term structural substitution towards man-made fibres, it has improved cotton's short-term competitiveness and provided an additional source of support for global cotton demand during 2026.

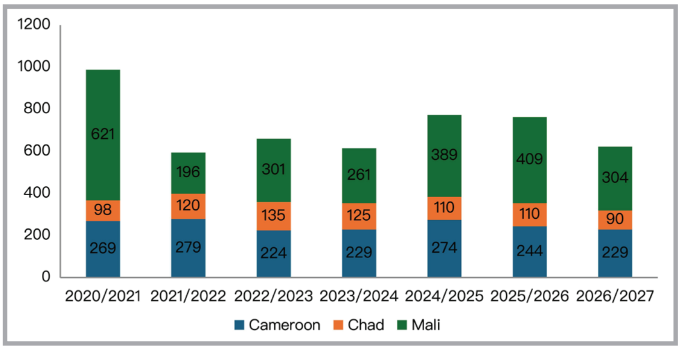
Weather continues to impact supply fundamentals

The weather remains the single largest source of uncertainty for global cotton production. The United States, traditionally one of the world's largest exporters, experienced another challenging production season. Persistent drought across large parts of the Cotton Belt reduced yield expectations and reinforced expectations of lower export availability. While rainfall improved conditions in some producing regions during early summer, crop ratings remain below historical averages, and production is projected to fall compared with the previous season. Outside the United States, production prospects have also softened across several major exporters. Although India is expected to maintain relatively stable production following government investment in productivity enhancement, output is forecast to decline across several competing origins. Brazil remains the principal exception. Having overtaken the United States as the world's largest cotton exporter, Brazil continues to benefit from large-scale commercial farming, favorable logistics and competitive production costs. Record exports are expected again during 2026/27, enabling Brazil to consolidate its growing influence over global trade flows.

Africa can benefit from a resurgent sector but must emphasise value addition

The tightening global supply balance and price recovery are creating an opportunity for exporters across Africa. However, the ability of producers on the continent to capture this upside is being constrained by flat or declining output in several key cotton producing-countries like Chad, Cameroon and Mali, where adverse weather, rising input costs and persistent productivity challenges are undermining exportable surpluses. Output in the current marketing season for these three origins is estimated to be around 1.3 million bales, compared with 1.9 million bales in the 2021/22 season (Figure 4). At the same time, cotton from West African producers such as Benin, Burkina Faso, Côte d'Ivoire, and Mali remain valued by Asian spinning mills for their quality, traceability and relatively low contamination characteristics.

Figure 4 :Cotton output in Cameroon, Chad and Mali, thousand bales



Sources: USDA, Afreximbank Research 2026

Producers in Africa are also facing growing pressure from Brazil, which has emerged as the world's largest cotton exporter, with production scale, integrated logistics infrastructure and the ability to provide large, reliable shipments, strengthening its position with major Asian buyers and challenging the market share traditionally held by smaller exporting origins. As such, the continent's longer-term competitiveness will depend on improving yields, strengthening supply-chain efficiency and accelerating investment beyond raw fibre exports into domestic spinning, textile manufacturing and value-added processing. Without such structural transformation, African producers risk remaining exposed to intense competition from larger, more integrated exporters despite possessing important quality advantages and a strong position in the global cotton trade.

Against this backdrop, the development of cotton processing capacity in Africa has become a strategic priority for Afreximbank to move the continent beyond the export of raw fibre towards higher-value textile and apparel manufacturing. Through its cotton industrialisation programme, the Bank is supporting the establishment of dedicated cotton-processing special economic zones in countries including Cameroon, Chad and Mali, while advancing similar initiatives in markets such as Kenya, Rwanda and Nigeria. In Nigeria, the Bank has committed up to US$2 billion to support the transformation of the cotton and textile sector. More broadly, the Bank is implementing an integrated approach that combines industrial infrastructure, trade finance, quality certification and supply-chain development. The experience of Glo-Djigbé Industrial Zone in Benin illustrates the potential economic impact of this approach: cotton that previously generated approximately US$40 million in export earnings as raw fibre has the potential to generate up to US$800 million when transformed into finished garments. Scaling this model continent-wide will position Africa as a global textiles and apparel powerhouse, accelerating industrialisation, boosting external exports and intra-African trade under the AfCFTA.

Outlook for cotton prices

The outlook for cotton prices has improved materially compared with the second half of 2025. Global supply fundamentals are now considerably tighter, inventories are projected to decline further, and mill consumption continues to recover gradually across Asia. Our base case remains constructive. Provided weather-related production risks persist, and global economic growth remains broadly resilient, cotton futures are expected to remain supported through the remainder of 2026. Downside risks remain. A sharper-than-expected slowdown in global consumer spending, easing geopolitical tensions that reduce energy prices, stronger-than-anticipated harvests in the United States or Brazil, or renewed substitution towards synthetic fibres could moderate the current recovery.

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