Australian Cotton: Looking beyond market cycles

Q3 2026

Foreword

Over the past decade, the Australian cotton industry has experienced both reward and challenge, with a period of high pricing otherwise offset by periods of persistent lows. Global cotton production has generally outpaced demand, causing downward pressure on prices for extended periods.

For the season ahead of us, however, the dynamics are changing: the cotton harvest will shrink globally, particularly in developed countries, as production continues to shift towards South America and Asia. With lower production in mind, there are some encouraging signs for prices, supported by higher oil prices and concerns about global supply.

We know, however, that agricultural businesses are complex, and that successive years of lower prices have only been part of the story for Australian cotton producers. Despite low prices and, in some cases, low production, irrigated cotton producers have shown remarkable financial resilience. Financial performance data indicates that the median cotton grower has maintained a strong earnings base and has been effective at managing costs and protecting margins. The main trade-off is higher debt levels compared with the average Australian broadacre farmer, reflecting the capital-intensive nature of irrigated farming, and the sheer volume of investment on the line in any given year by our Australian producers.

Overall, and most pleasingly, Australian cotton producers remain well positioned for the future. Their financial standing, combined with the potential for renewed demand driven by changing consumer preferences, supports a positive outlook for both the Australian cotton industry and the global cotton market, of which we look forward to continuing to support.

Mark Bennett
Head of Agribusiness, Business and Private Bank

Global cotton market update

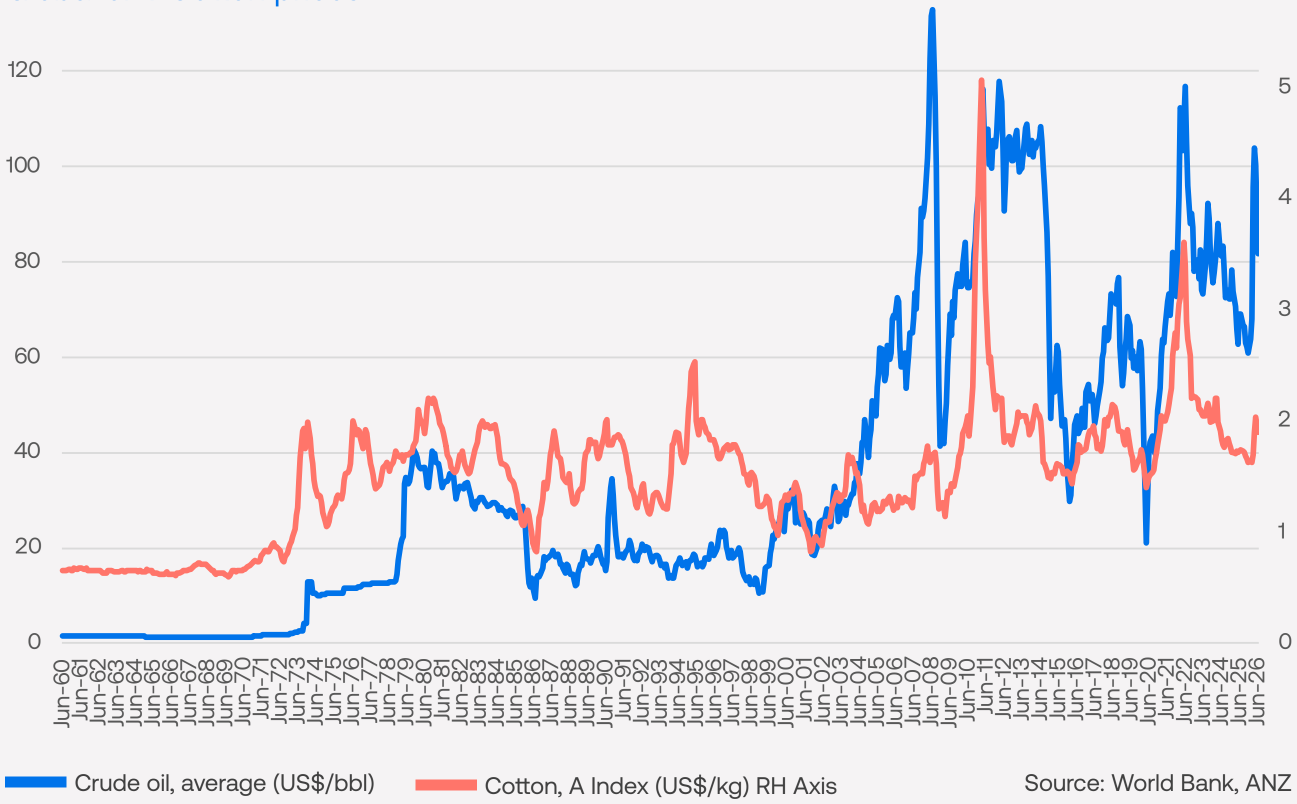
The global cotton price has sat at stubbornly low levels since around the middle of 2022, on the back of ample global production and subdued demand. Recent gains in cotton prices have been underpinned by two key factors: increased oil prices, which have improved cotton's competitiveness relative to synthetic fibres, and emerging concerns over global cotton supply.

The most recent United States Department of Agriculture Cotton Outlook sends a strong message that cotton prices should be on the way up, as ending stocks are projected to fall to their lowest level in eight years. While prices have softened slightly from the spike seen in May, they remain at stronger levels than we have seen in the past few years. A decline in global stocks stems from both lower supply and stronger demand, with higher forecasted mill use further tightening supplies.

Many major cotton-producing nations are expected to see a fall in production for 2026/27, with China and Brazil forecast to produce 4 and 6.5 per cent less cotton respectively. The world's other major producer, India, is expected to deliver only a marginal increase in total production at this year's harvest. Global production declines are a factor of both area planted and yield, with the area of cotton harvested in 2026/27 expected to fall to around 26.2 million hectares (below the five-year average), and yields tipped to fall by almost five per cent from last year's record. The decline in China and Brazil's production – and in particular, yield – is the primary factor behind lower global yields.

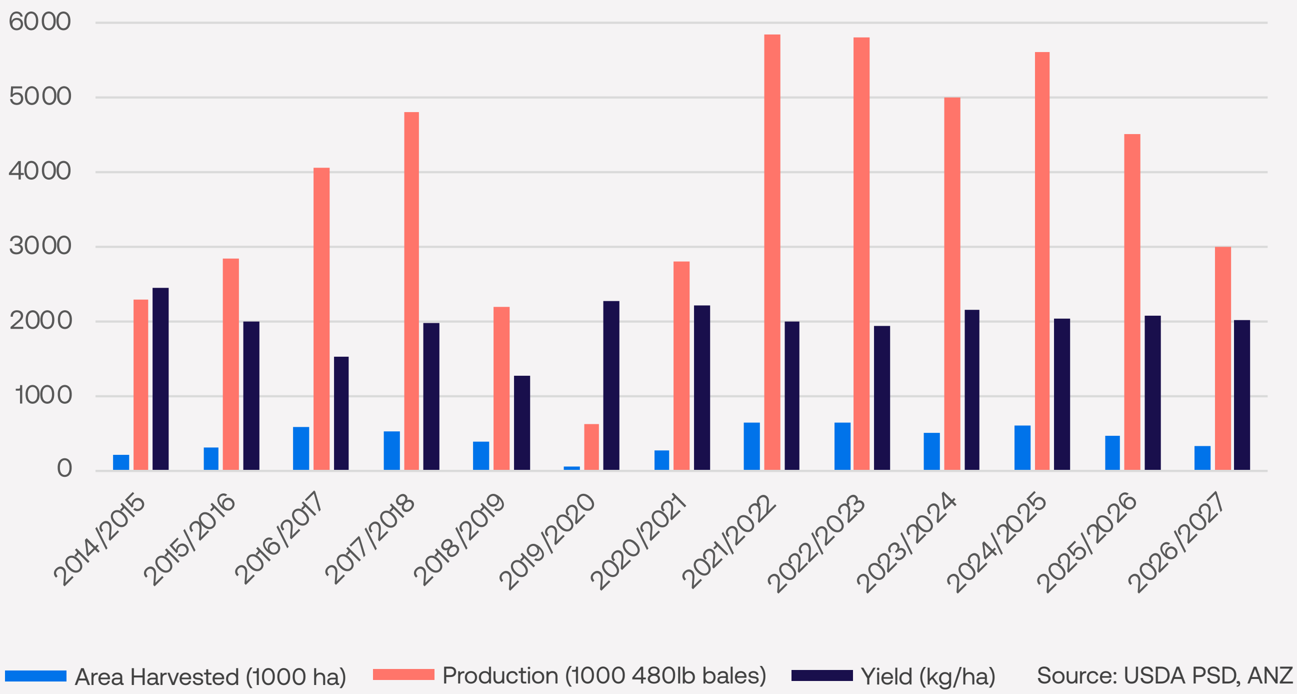
Cotton mill use is also expected to hit a six-year high as a return of global economic growth is anticipated to drive demand for cotton apparel. A possible contradiction to this, however, would be a fall in global oil prices, as this is expected to increase the attractiveness of synthetics. The continued drive of India to build their textile and manufacturing sectors is also expected to see the continued growth in demand for cotton, back to record levels seen in 2020/21.

Global oil v Cotton prices



Source: World Bank, ANZ

Australian cotton production



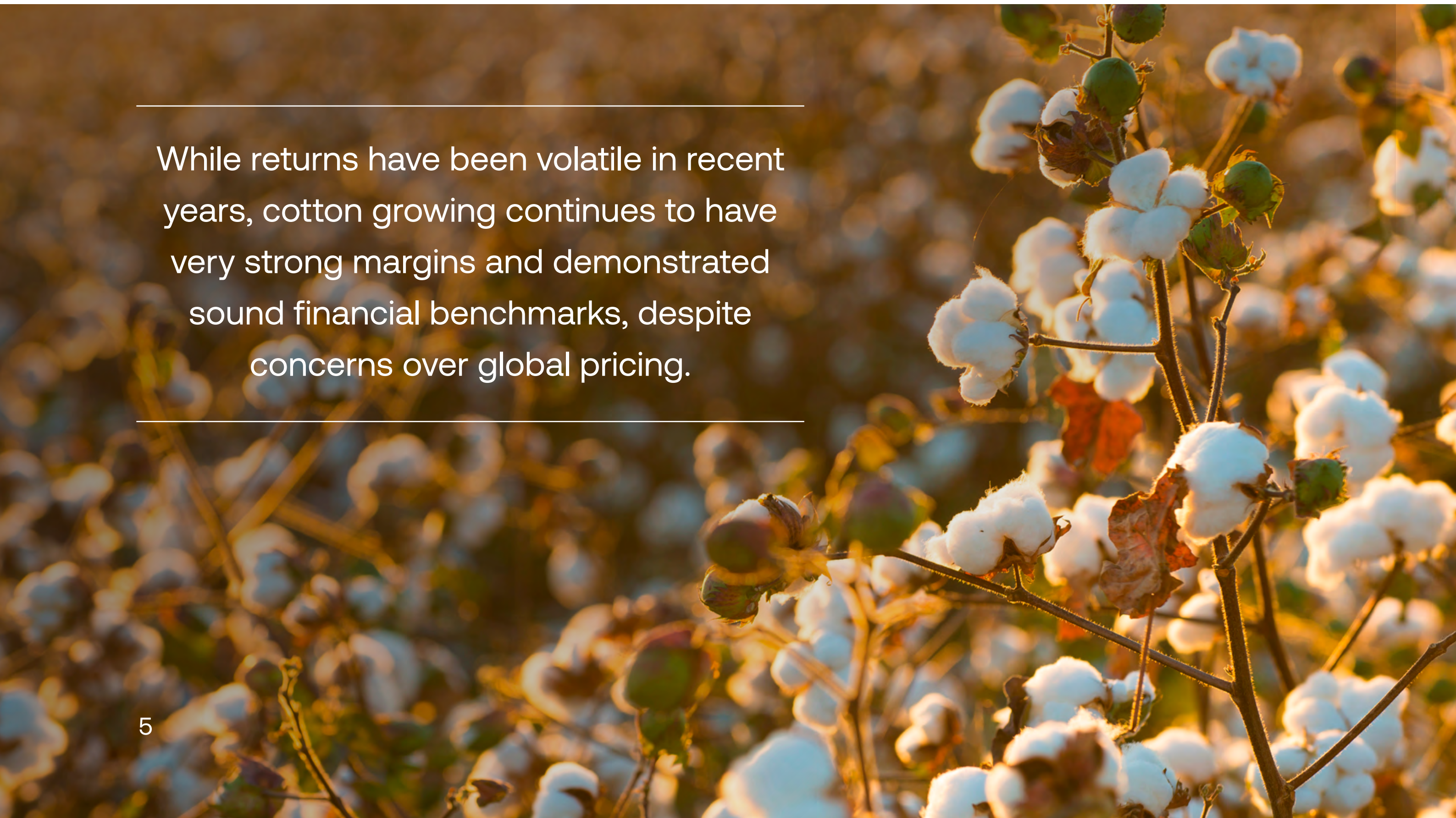
Source: USDA PSD, ANZ

Cotton production and financial performance

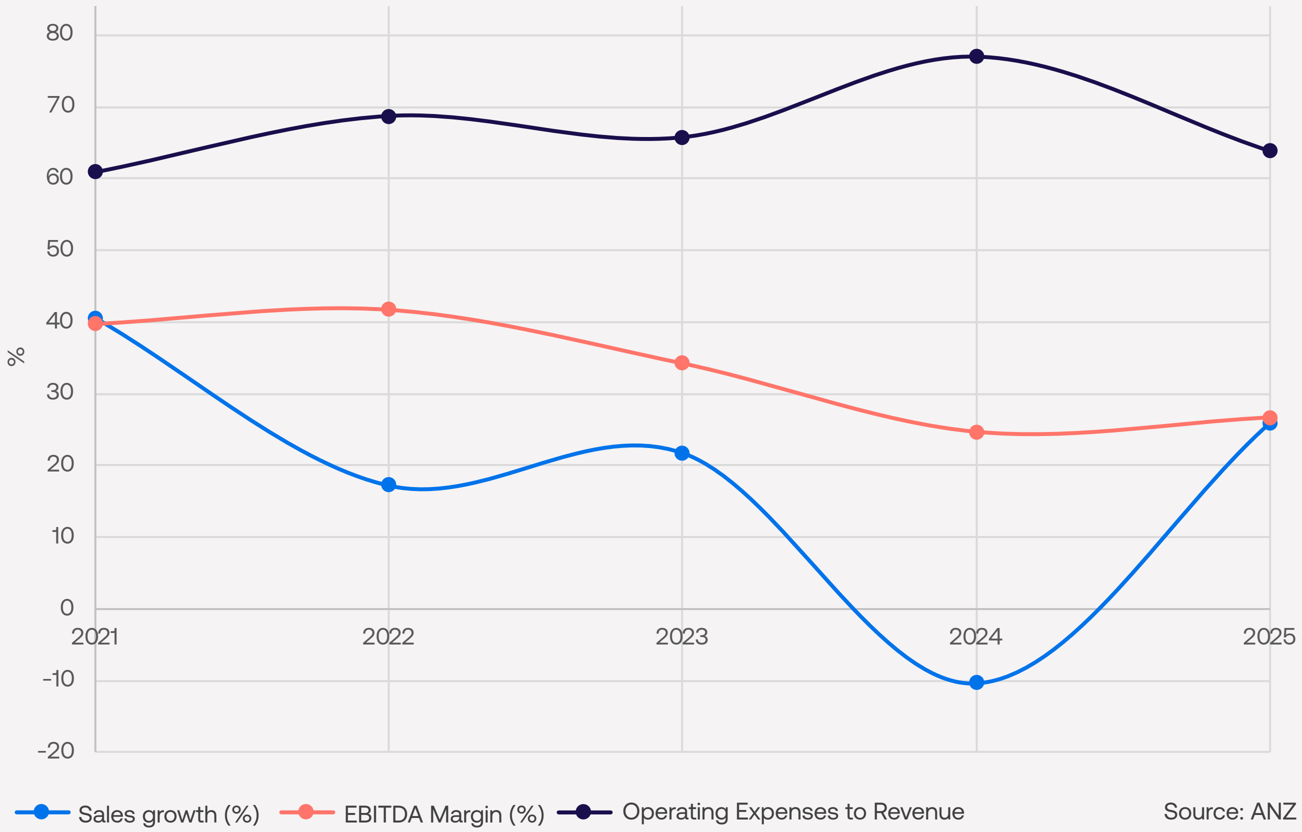
While global cotton prices are showing some signs of improving, price is never the whole story, nor is it the only indicator of how producers are performing. ANZ analysis of the financial performance of irrigated cotton producers demonstrates the bottom line impact caused by the decline in prices since 2022, as well as the role of the rapid growth in cotton production in Australia in the early 2020s.

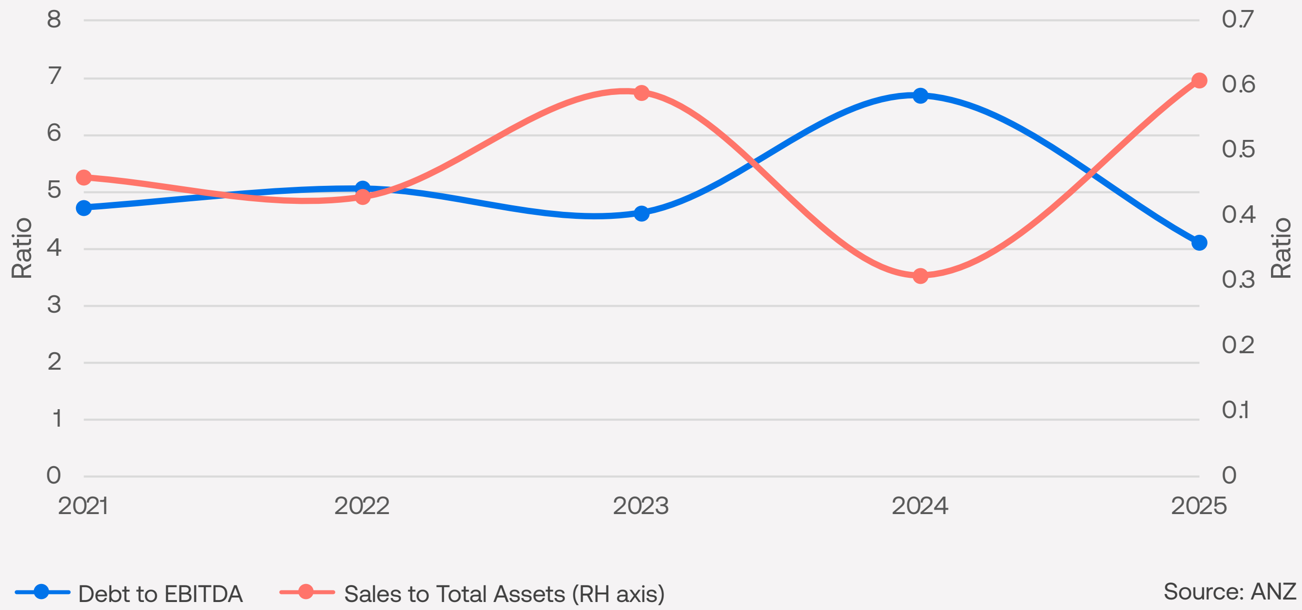
The volatility in prices and production has led to the emergence of a number of key themes:

- Industry investment in increased production area through the early 2020s saw median farm debt increase rapidly in irrigated cotton businesses;
- The combined impact of a drop in production and price in 2023/24 saw sales and EBITDA decline considerably;
- This decline also saw an increase in operating expenses relative to revenue, as previously highly cost-effective businesses were challenged by the operating environment;
- Despite this, the median EBITDA margin fell to only just under 25 per cent – demonstrating solid returns were still achieved despite the combination of low-price and low production;
- Unlike many other commodities, the quantum of capital infrastructure and inputs into an irrigated cotton crop are relatively set – meaning that declines in sales are more directly correlated with increases in business debt than they may be in a general broadacre farming situation;
- 2025 saw a solid recovery and increase in sales and EBITDA, despite continuing lower prices and increased debt;
- While returns have been volatile in recent years, cotton growing continues to have very strong margins and demonstrated sound financial benchmarks, despite concerns over global pricing.



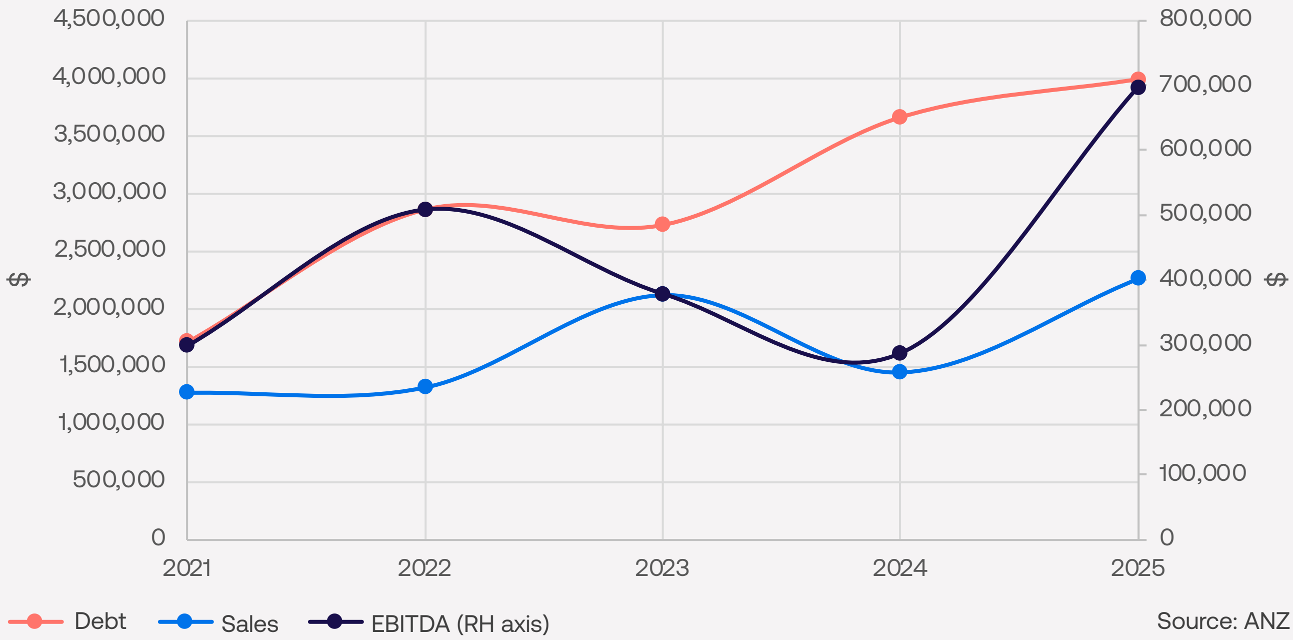
Median financial performance – Irrigated cotton producers





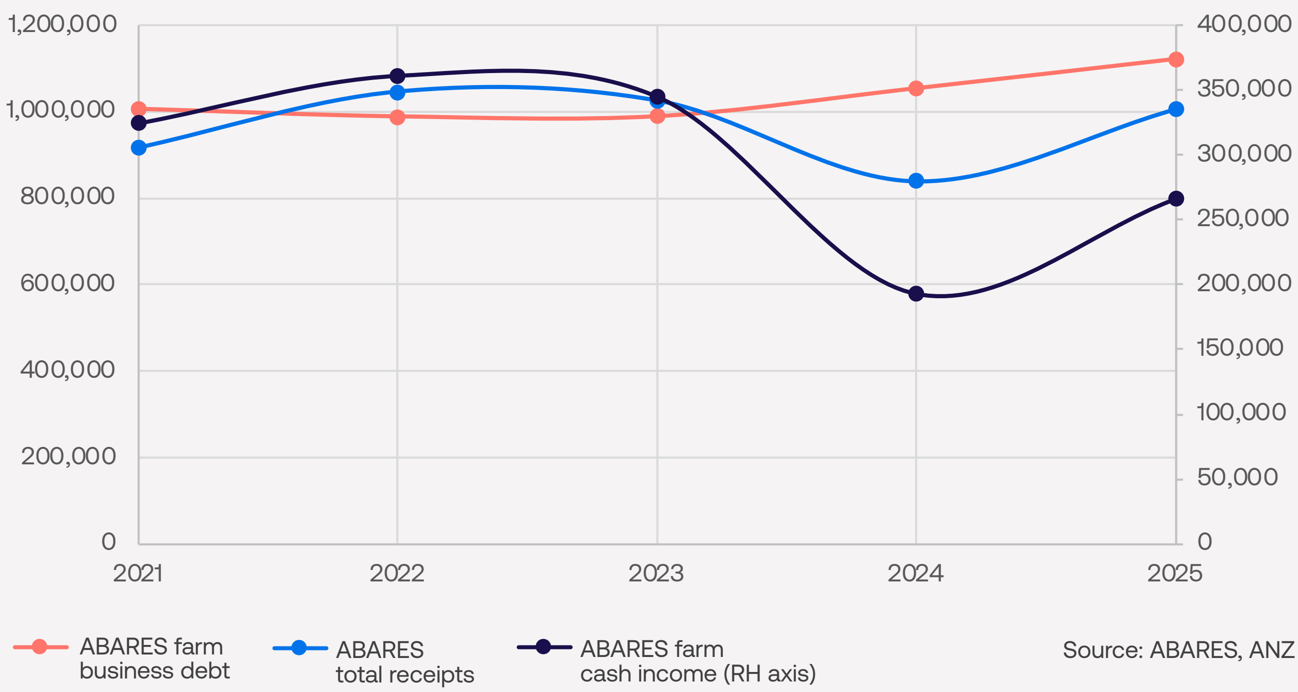
Financial performance of irrigated cotton production v ABARES broadacre production

Median irrigated cotton production



Source: ANZ

Median broadacre production (ABARES)



Source: ABARES, ANZ

The trend toward sustainable, natural fibres

Anyone on social media, or who frequents the gyms of our major cities, may have picked up on the growing trend towards natural fibres – but the question remains as to the longevity of this movement and the overall impact on demand. The reasons behind the trend towards natural fibres range from environmental and sustainability preferences, to a very real preference for non-plastic based goods, particularly in clothing and food preparation products, to a trend away from 'fast-fashion'.

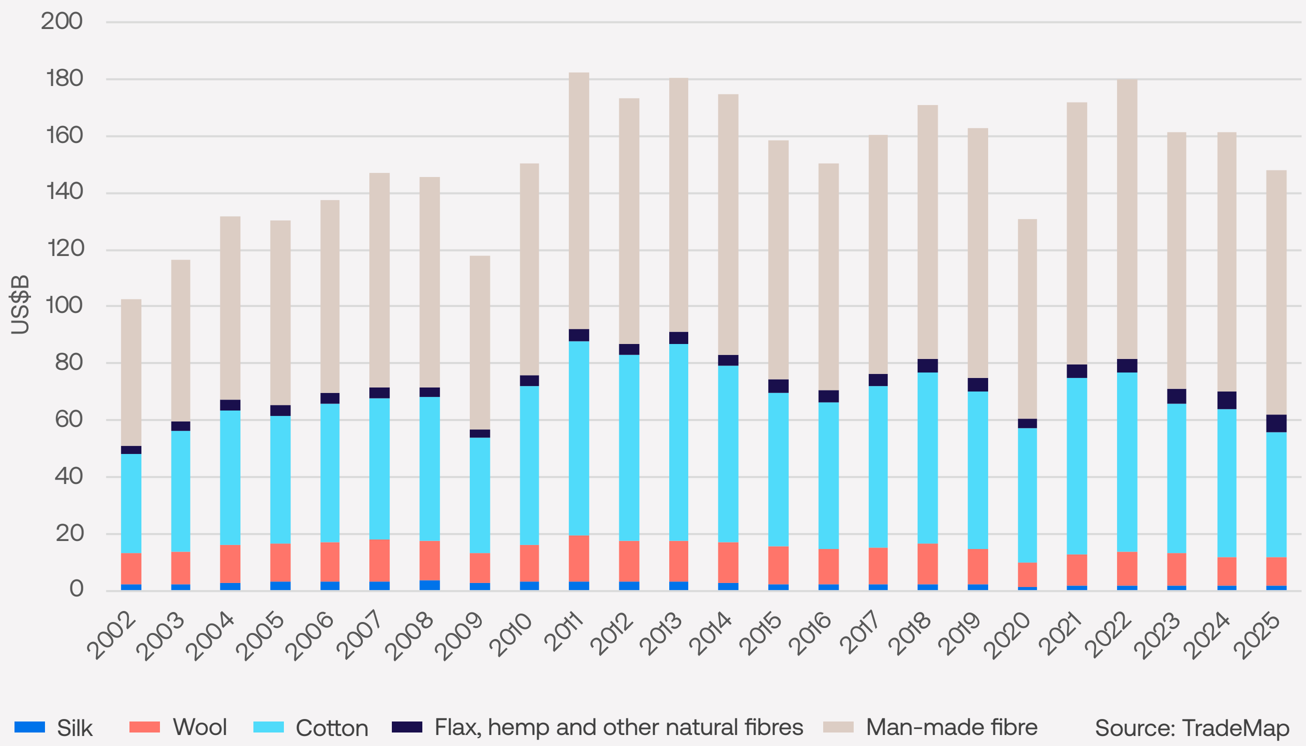
As yet, while the trend appears to be prevalent in certain parts of the economy, on a global stage, it is yet to bother the scorers. It is no secret that the rise of fast-fashion has almost exclusively benefitted man-made and synthetic fibres, with total man-made fibre trade going from under 50 per cent of total trade in the early 2000s to around 58 per cent last year.

Looking to the future, OECD forecasts for the long-term trend toward natural fibres would point to modest annual growth in cotton consumption of around 1.6 per cent per annum in value over the next 10 years. In comparison, growth in the use of synthetic fibres is forecast to outstrip growth in natural fibres, despite a growing aversion to plastics in developed countries. The continuing growth in income in developing countries is the underlying driver behind fast-fashion and synthetic-based textiles.

Mill use is expected to remain focused in Asia, and while China's share of total use is expected to continue to decline, flowing from increasing labour costs and the removal of price support, mill use in India, Pakistan, Vietnam and Bangladesh is expected to increase. As China continues to be the world's largest producer of polyester, the increasing growth in the textile industry in India and other Asian nations will support further growth in cotton use, as their textile industries are primarily cotton-based.

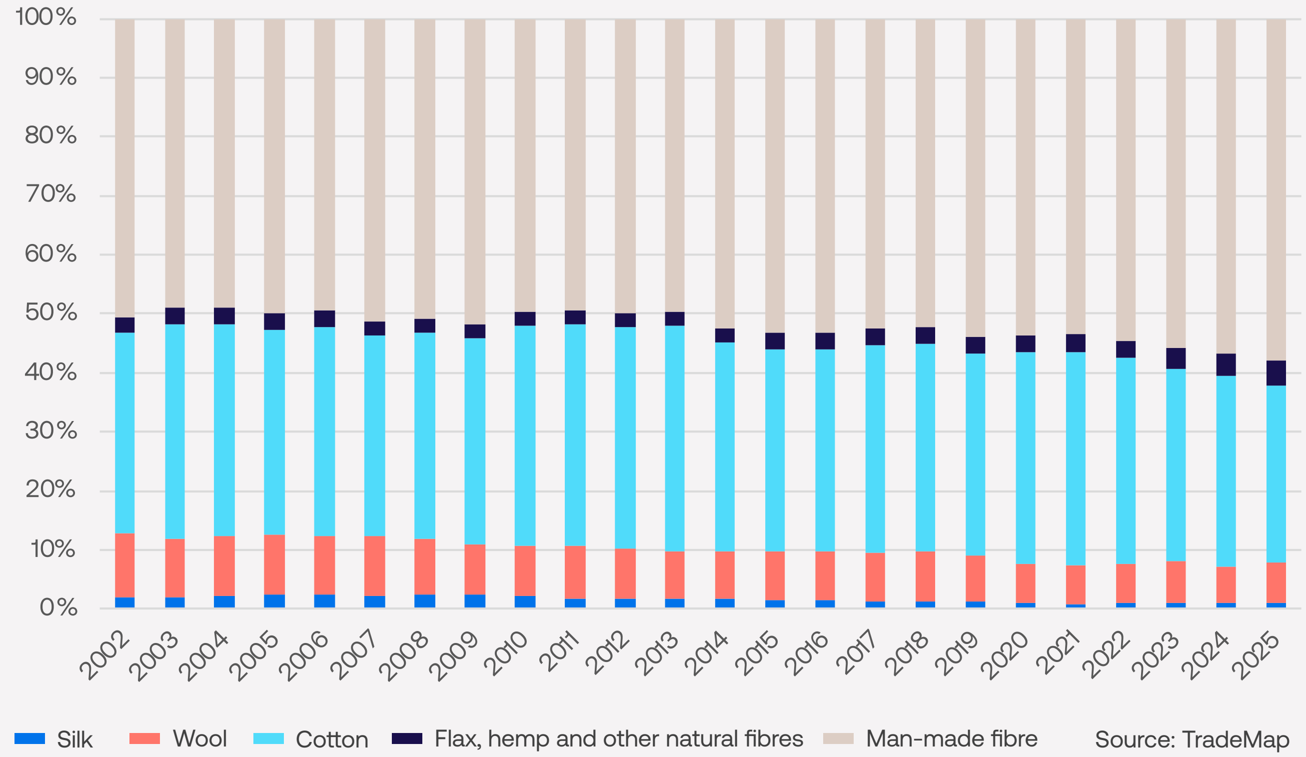
A trend toward natural fibres points to modest annual growth in cotton consumption over the next 10 years

Global trade of selected fibres (by total value)



Source: TradeMap

Global trade of selected fibres (by share of total value)



Source: TradeMap

What this means for Australian cotton

While recent market conditions have been challenging, the broader outlook for the global cotton industry remains strong, and increasingly supported by favourable structural trends. The focus of the industry has shifted from competing with synthetics – which have, by virtue of their low cost, in some ways 'created' their own industry in disposable, or fast fashion. Instead, the path forward for global cotton appears to be in tapping into the growing market for sustainable, environmentally friendly, non-plastic based products. While moves in countries such as France to educate consumers and direct consumption away from disposable, plastic-based materials have created an interesting precedent for other countries, the Australian cotton industry will continue to focus on high quality, sustainable and profitable production that should see it continue as one of our highest performing agricultural sectors.

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