

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Malaysia

Cotton and Products Annual

2015

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Report Highlights:

After declining consistently in recently years, cotton use and imports for the domestic spinning industry are hovering around 40,000 to 45,000 tons, annually. While many spinners have been forced out of production, others are expanding output and some entities are investing in new operations. As a result, on balance, cotton use is expected to increase through 2015/16. Separate from demand in the domestic spinning sector, in recent years Malaysia was a transshipment hub for cotton destined to nearby markets in the region. This trade has declined significantly.

Executive Summary:

Due to some spinners' plans to expand production to meet new orders, cotton use is forecast to rebound in 2014/15. This would follow a continuous fall in use, which has dropped about 32 percent since 2009. The spinning sector has become increasingly uncompetitive relative to neighboring countries, and in fact much of the local cloth manufacturers rely on imported yarn. However, capitalizing on a competitive advantage in infrastructure, financing, labor management, and a positive environmental and ecological record, some local companies have been able to secure new orders with key retailers in the U.S. and EU. This has caused a renewal in optimism in the industry, curbing the slide in cotton use of previous years. In line with expectations for a rebound in local spinning activity, cotton imports for Malaysia's domestic use are forecast to be around 44,000 tons in 2014/15. Cotton stocks held by local spinners are around 15,000 tons.

In addition to the cotton imports and stocks listed above, from 2011-2013 about 150,000-175,000 tons of cotton was trans-shipped via Malaysia's two key ports: Port Tanjung Pelepas in Johor and Port Klang near Kuala Lumpur. This trading activity was completely independent of and separate from the performance and demand of the domestic spinning industry. International cotton merchandizers used the financial incentives and logistical advantages offered at Malaysia's ports to pre-position inventories for shorter-time and smaller quantity deliveries to yarn makers in other South-East Asian countries. Based on exporting countries' reported shipments to Malaysia, the quantity of this trade is quite variable, and diminished significantly beginning in 2014.

Production:

Malaysia does not produce cotton.

UseCotton Yarn Production for market year begin August

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Tons	55,899	48,831	53,399	53,332	42,639	37,862

Source: Department of Statistics Malaysia

Cotton Use

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Tons	57,628	50,341	55,050	54,981	43,958	39,033

Per the tables above, yarn output has been decreasing, falling from 55,899 tons in 2009 to 37,862 tons in 2014, or down about 32 percent in the past five years. There has been a commensurate fall in cotton use. The decline in yarn production can be attributed to rising costs and declining competitiveness of the local sector relative to other manufacturers in the region. This is a trend that has been ongoing for three decades. However, for 2015 onwards, cotton use and yarn production is expected to rebound with one company's expansion plans and the addition of one spinning company. Currently, there are 4 existing companies. Although use among a leading spinner will increase, activity among the others continues to decline, curbing overall cotton demand expectations.

A leading local integrated textile company is capitalizing on Malaysia's political stability, a robust economic climate, strong transport infrastructure, and competitive energy and financial costs to secure new contracts with leading European and U.S. retailers. It's positive image on ecological, environmental, and sociological factors has also been appealing to overseas buyers. More than 90 percent of the large integrated companies' production is destined to the export market, so these factors can be instrumental in establishing a competitive edge to overcome other factors where Malaysia is at a disadvantage, such as labor costs. The industry also has great expectations that the successful conclusion of the Trans-Pacific Partnership trade agreement will result in greater access to the U.S. market vis-à-vis other countries.

Imports

Cotton imports for domestic use are a direct function of demand from yarn manufacturers and are in line with trends described above. Malaysia imports most of its cotton from 3 major countries: Cote d'Ivoire (30%), Brazil (28.5%) and Australia (24%). Consistent with expectations for yarn manufacturing, cotton imports for Malaysia's domestic use are forecast to hover around 45,000 tons.

Trans-Shipments

In recent years international cotton merchandizers used Malaysia's Port Klang and the southern port in Johor to warehouse cotton for onward shipment to nearby countries. This trading activity was separate and independent from Malaysia's cotton imports for domestic use. Based on exporting countries' reported shipments to Malaysia, between 2011 and 2013, about 80 percent of cotton shipped to Malaysian ports was trans-shipped. This activity stemmed from tax incentives, the ports' good storage facilities, and overall lower costs relative to Singapore, the region's traditional hub for transshipments. Two major transport lines that handle cotton serve these ports. International cotton merchants used these lines to send cotton in big vessels, which were then offloaded, and prepositioned for eventual distribution to regional markets on smaller feeder lines. This service was extremely valuable to regional smaller buyers, who didn't want to be burdened with stock-holding, and needed smaller quantity-sized deliveries relatively quickly.

Based on reported exporter shipments, the quantity of this trade began to decline significantly in 2013/14. Furthermore, with Malaysia's recent implementation of a 6 percent Good and Service Tax

(GST), and reports of potential implementation of stricter phytosanitary requirements on cotton imports, the convenience and cost-effectiveness of using Malaysian ports for onward shipment may have become less attractive. It is still unclear whether the GST will be applied to the services in these port free economic zones. As a result, the future of this trade is questionable. Similarly, the quantity of the pipeline stocks inventoried at any given time in the port warehouses is forecast to decline significantly.

Production, Supply and Demand Data Statistics:

PSD Cotton in 1000 – 480lb Bales

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		Aug 2015	
Malaysia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	32	32	132	94	0	97
Production	0	0	0	0	0	0
Imports	1,100	379	1,150	280	0	230
MY Imports from U.S.	0	14	0	11	0	0
Total Supply	1,132	411	1,282	374	0	327
Exports	825	137	800	75	0	20
Use	175	180	185	202	0	211
Loss	0	0	0	0	0	0
Total Dom. Cons.	175	180	185	202	0	211
Ending Stocks	132	94	297	97	0	96
Total Distribution	1,132	411	1,282	374	0	327

PSD Cotton in MT

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		Aug 2015	
Malaysia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	6,967	6,967	28,739	20,584	0	21,234
Production	0	0	0	0	0	0
Imports	239,495	82,452	250,381	61,000	0	50,000
MY Imports from U.S.	0	3,161	0	2,500	0	0
Total Supply	246,462	89,419	279,120	81,584	0	71,234
Exports	179,621	29,802	174,178	16,350	0	4,370
Use	38,101	39,033	40,279	44,000	0	46,000
Loss	0	0	0	0	0	0
Total Dom. Cons.	38,101	39,033	40,279	44,000	0	46,000
Ending Stocks	28,739	20,584	64,664	21,234	0	20,864
Total Distribution	246,462	89,419	279,120	108,584	0	71,234

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