

September 2012

[www.cottoninc.com](http://www.cottoninc.com)

Cotton prices fluctuated within ranges over the past month. Following the release of last month's USDA report, values for the December New York futures contract dipped slightly and traded between 72 and 74 cents/lb. More recently, December futures shifted higher, into a range between 74 and 78 cents/lb, before falling nearly two cents/lb with the latest USDA report. Over the past month, the A Index has maintained values between 82 and 86 cents/lb.

The separation between cotton prices and the prices for other agricultural crops, like corn and soybeans, promises to lead to a significant decline in cotton acreage for the 2013/14 season. As corn and soybean prices climbed to all-time highs over the past several months, the threat of reduced cotton acreage and an eventual reduction in cotton supply may have provided some support to cotton prices. However, for a sustained increase in cotton prices to occur, there likely would have to be some tightening of current cotton fundamentals.

This month's USDA report featured a 1.9 million bale increase in global ending stocks, indicating that supply conditions are loosening. At its present level of 76.5 million bales, the projection for 2012/13 global ending stocks is the highest ever. The stocks-to-use ratio climbed to 71.1% - also a record. The global production forecast was essentially unchanged, decreasing only 82,000 bales (from 114.1 million to 114.0 million), as a higher 2012/13 projection for India (+1.0 million bales to 24.5 million) was offset by reduced expectations for Brazil (-650,000 to 6.1 million) and the U.S. (-542,000 to 17.1 million). The figure for 2011/12 Indian production was revised 1.0 million bales higher.

Amplifying the effect of the upward revision in ending stocks on the stocks-to-use ratio was a slight 600,000 bale decrease in the world consumption forecast. Expectations are that the world's mills will consume 107.6 million bales in 2012/13. This represents the lowest volume since the 2003/04 crop year. Driving much of the decline in world consumption for the past several years has been contraction in China. In the latest USDA report, estimates for Chinese mill-use in both 2011/12 and 2012/13 were revised 1.0 million bales lower. The change to China's 2012/13 figure produced an estimate of 38.0 million bales, which is 25% lower (-13.0 million bales) than the 2007/08 peak of 51.0 million bales. At the world-level, the declines in Chinese mill-use have been partially offset by rising consumption in India. The increase in Indian mill-use since 2007/08, however, is only 2.9 million bales (from 18.6 million bales to 21.5 million) and has not been sufficient to compensate for the reductions in Chinese demand.

One potential reason for the decline in Chinese mill-use in recent years is reduced export orders for finished apparel goods from developed economies like the European Union and the U.S., where the combination of slowing economic growth and rising apparel prices have lowered import volumes. For the twelve month period ending in July 2012, U.S. apparel imports (all fibers, all sources) were down 6.4% year-over-year in terms of square meter equivalence. In addition to these macroeconomic factors, Chinese government policies specific to cotton may also be impacting Chinese consumption.

On September 10<sup>th</sup>, China began making purchases for government reserves. These purchases are related to the minimum price guaranteed to Chinese farmers for the 2012/13 crop year. At 20,400 RMB/ton (3% higher than last crop year), the guaranteed price translates to a level equal to 146 cents/lb at current exchange rates (6.33 RMB/USD). In combination with import quotas that regulate the amount of cotton fiber that can be imported, the price guarantee requires many Chinese mills to pay higher prices for fiber than their international competitors. To mitigate some of the price differential, the Chinese government also began selling from reserves in September. Beginning September 3<sup>rd</sup>, mills could purchase the equivalent of one month's consumption from the government at a price of 18,500 RMB/ton (133 cents/lb at current exchange rates). Although this represents a discount relative to the price guaranteed to growers, it also maintains a significant premium relative to A Index prices near 85 cents/lb.

One consequence of the higher fiber prices faced by Chinese spinning mills has been a higher volume of cotton yarn imports, which are not subject to quota. In July, the latest month with data available, China's cotton yarn imports were the highest on record. A separate potential consequence of Chinese cotton fiber prices could be a loss in cotton's market share. Although international cotton prices are competitive with those for artificial fibers, the maintenance of a high cotton price floor in the world's largest cotton consuming country has maintained a premium for cotton prices relative to those for competing fibers. While the importation of yarn can be seen as having a neutral effect on world demand for cotton, as spinning is essentially outsourced to countries that ship yarn to China, any substitution of fibers in response to the high prices maintained by the Chinese government could have a negative effect on cotton consumption growth.

#### Data Tables and Price Charts

Balance Sheets			Production	Exports	Consumption	Imports	Prices
World (bales)	China (bales)	U.S. (bales)	Bales	Bales	Bales	Bales	Last 3 Years
World (tons)	China (tons)	U.S. (tons)	Tons	Tons	Tons	Tons	Last 3 Months

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## World Cotton Balance Sheet

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Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
Beginning Stocks	62.0	62.5	47.8	49.5	67.8	69.9
Production	107.3	102.2	116.4	124.2	114.1	114.0
Supply	169.3	164.7	164.2	173.7	181.9	183.9
Consumption	110.2	118.6	114.3	104.3	108.2	107.6
Ending Stocks	62.5	47.8	49.5	69.9	74.7	76.5
Stocks/Use Ratio	56.7%	40.3%	43.3%	67.0%	69.0%	71.1%

Source: USDA

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## China Cotton Balance Sheet

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Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
Beginning Stocks	20.5	22.4	15.2	11.6	29.3	30.6
Production	36.7	32.0	30.5	33.5	31.0	31.0
Imports	7.0	10.9	12.0	24.5	13.0	12.0
Supply	64.2	65.3	57.7	69.6	73.3	73.6
China Mill Use	44.0	50.0	46.0	39.0	39.0	38.0
Exports	0.1	0.0	0.1	0.1	0.1	0.1
Demand	44.1	50.0	46.1	39.1	39.1	38.1
Ending Stocks	22.4	15.2	11.6	30.6	34.2	35.5
Stocks/Use Ratio	51.0%	30.0%	25.0%	78.0%	87.0%	93.0%

Source: USDA

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## U.S. Cotton Balance Sheet

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Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
Beginning Stocks	10.1	6.3	2.9	2.6	3.3	3.4
Production	12.8	12.2	18.1	15.6	17.7	17.1
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.9	18.5	21.1	18.2	21.0	20.5
U.S. Mill Use	3.5	3.6	3.9	3.3	3.4	3.4
Exports	13.3	12.0	14.4	11.7	12.1	11.8
Demand	16.8	15.6	18.3	15.0	15.5	15.2
Ending Stocks	6.3	2.9	2.6	3.4	5.5	5.3
Stocks/Use Ratio	38.0%	19.0%	14.0%	22.0%	35.0%	35.0%

Source: USDA

[return to text](#)

## World Cotton Production

Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
China	36.7	32.0	30.5	33.5	31.0	31.0
India	22.6	23.8	26.4	27.5	23.5	24.5
United States	12.8	12.2	18.1	15.6	17.7	17.1
Pakistan	8.5	9.2	8.6	10.6	9.7	9.7
Brazil	5.5	5.5	9.0	8.7	6.8	6.1
Australia	1.5	1.8	4.2	5.2	4.3	4.3
Uzbekistan	4.6	3.9	4.1	4.2	4.1	4.1
Turkey	1.9	1.8	2.1	3.4	2.8	2.8
African Franc Zone	2.2	2.1	2.1	2.8	1.7	1.8
Turkmenistan	1.6	1.5	1.8	1.4	1.5	1.5
EU-27	1.2	1.1	1.2	1.6	1.5	1.5
Greece	1.2	0.9	0.9	1.3	1.2	1.2
Mexico	0.6	0.5	0.7	1.2	1.0	1.0
Burkina	0.9	0.7	0.7	0.7	0.9	0.9
Mali	0.4	0.4	0.5	0.9	0.9	0.9
Rest of World	7.6	7.0	7.6	8.4	8.7	7.9
World Total	107.3	102.2	116.4	124.2	114.1	114.0

Source: USDA

## World Cotton Exports

Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
United States	13.3	12.0	14.4	11.7	12.1	11.8
Australia	1.2	2.1	2.5	4.6	4.4	4.2
Brazil	2.7	2.0	2.0	4.8	3.9	4.0
India	2.4	6.6	6.0	10.5	3.7	3.5
Uzbekistan	3.0	3.8	2.7	2.5	2.7	2.6
African Franc Zone	1.5	1.4	1.3	1.2	1.5	1.6
EU-27	1.0	1.1	1.1	1.4	1.4	1.4
Greece	0.8	0.9	0.8	1.0	1.1	1.1
Burkina	0.8	0.8	0.7	0.6	0.8	0.8
Turkmenistan	0.8	1.2	1.1	0.8	0.8	0.8
Mali	0.3	0.4	0.5	0.6	0.8	0.8
Pakistan	0.4	0.7	0.6	1.2	0.5	0.5
Tajikistan	0.4	0.5	0.4	0.5	0.5	0.5
Mexico	0.2	0.1	0.4	0.4	0.4	0.4
Zimbabwe	0.3	0.4	0.4	0.4	0.4	0.4
Rest of World	3.3	3.7	3.9	5.6	5.0	5.0
World Total	30.4	35.6	36.7	45.0	37.2	36.6

Source: USDA

Note: African Franc Zone includes Benin, Burkina Faso, Cameroon, Chad, Cote d'Ivoire, and Mali.

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## World Cotton Consumption

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Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
China	44.0	50.0	46.0	39.0	39.0	38.0
India	17.8	19.8	20.7	20.1	21.5	21.5
Pakistan	11.1	10.4	10.0	10.1	11.0	11.3
Turkey	5.1	5.8	5.6	5.6	5.6	5.6
Brazil	4.2	4.4	4.3	4.0	4.3	4.3
Bangladesh	3.8	3.9	3.7	3.2	3.6	3.6
United States	3.5	3.6	3.9	3.3	3.4	3.4
Indonesia	2.3	2.2	2.1	1.9	2.1	2.1
Mexico	1.9	1.9	1.7	1.7	1.8	1.8
Vietnam	1.3	1.6	1.7	1.6	1.8	1.8
Thailand	1.6	1.8	1.7	1.3	1.6	1.6
Uzbekistan	1.0	1.1	1.3	1.4	1.5	1.5
South Korea	1.0	1.0	1.0	1.1	1.2	1.2
Taiwan	0.8	1.0	0.9	0.8	0.9	0.9
Argentina	0.8	0.8	0.8	0.8	0.8	0.8
Rest of World	10.1	9.4	9.1	8.4	8.4	8.5
World Total	110.2	118.6	114.3	104.3	108.2	107.6

Source: USDA

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## World Cotton Imports

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Millions of 480 lb. Bales	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
China	7.0	10.9	12.0	24.5	13.0	12.0
Bangladesh	3.8	3.9	3.7	3.2	3.6	3.6
Turkey	2.9	4.4	3.4	2.4	3.0	3.0
Pakistan	1.9	1.6	1.7	1.0	2.2	2.4
Indonesia	2.3	2.2	2.1	2.0	2.1	2.2
Vietnam	1.3	1.7	1.6	1.6	1.8	1.8
Thailand	1.6	1.8	1.8	1.3	1.7	1.7
Mexico	1.3	1.4	1.2	1.0	1.2	1.3
South Korea	1.0	1.0	1.0	1.2	1.2	1.2
India	0.8	0.5	0.5	0.6	1.0	1.0
Malaysia	0.2	0.3	0.3	1.2	1.0	1.0
Taiwan	0.8	1.0	0.8	0.9	0.9	0.9
Egypt	0.4	0.6	0.6	0.3	0.5	0.5
Russia	0.9	0.8	0.5	0.5	0.5	0.5
Japan	0.4	0.3	0.4	0.3	0.3	0.3
Rest of World	3.8	4.0	4.5	3.1	3.3	3.4
World Total	30.5	36.3	35.9	44.9	37.2	36.6

Source: USDA

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## World Cotton Balance Sheet

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Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
Beginning Stocks	13.5	13.6	10.4	10.8	14.8	15.2
Production	23.4	22.3	25.3	27.0	24.8	24.8
Supply	36.9	35.9	35.8	37.8	39.6	40.0
Consumption	24.0	25.8	24.9	22.7	23.5	23.4
Ending Stocks	13.6	10.4	10.8	15.2	16.3	16.7
Stocks/Use Ratio	56.7%	40.3%	43.3%	67.0%	69.0%	71.1%

Source: USDA

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## China Cotton Balance Sheet

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Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
Beginning Stocks	4.5	4.9	3.3	2.5	6.4	6.7
Production	8.0	7.0	6.6	7.3	6.7	6.7
Imports	1.5	2.4	2.6	5.3	2.8	2.6
Supply	14.0	14.2	12.6	15.2	16.0	16.0
China Mill Use	9.6	10.9	10.0	8.5	8.5	8.3
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Demand	9.6	10.9	10.0	8.5	8.5	8.3
Ending Stocks	4.9	3.3	2.5	6.7	7.4	7.7
Stocks/Use Ratio	51.0%	30.0%	25.0%	78.0%	87.0%	93.0%

Source: USDA

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## U.S. Cotton Balance Sheet

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Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
Beginning Stocks	2.2	1.4	0.6	0.6	0.7	0.7
Production	2.8	2.7	3.9	3.4	3.8	3.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	5.0	4.0	4.6	4.0	4.6	4.5
U.S. Mill Use	0.8	0.8	0.8	0.7	0.7	0.7
Exports	2.9	2.6	3.1	2.6	2.6	2.6
Demand	3.7	3.4	4.0	3.3	3.4	3.3
Ending Stocks	1.4	0.6	0.6	0.7	1.2	1.2
Stocks/Use Ratio	38.0%	19.0%	14.0%	22.0%	35.0%	35.0%

Source: USDA

[return to text](#)

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## World Cotton Production

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Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
China	8.0	7.0	6.6	7.3	6.7	6.7
India	4.9	5.2	5.7	6.0	5.1	5.3
United States	2.8	2.7	3.9	3.4	3.8	3.7
Pakistan	1.9	2.0	1.9	2.3	2.1	2.1
Brazil	1.2	1.2	2.0	1.9	1.5	1.3
Australia	0.3	0.4	0.9	1.1	0.9	0.9
Uzbekistan	1.0	0.8	0.9	0.9	0.9	0.9
Turkey	0.4	0.4	0.5	0.7	0.6	0.6
African Franc Zone	0.5	0.5	0.5	0.6	0.4	0.4
Turkmenistan	0.3	0.3	0.4	0.3	0.3	0.3
EU-27	0.3	0.2	0.3	0.4	0.3	0.3
Greece	0.3	0.2	0.2	0.3	0.3	0.3
Mexico	0.1	0.1	0.2	0.3	0.2	0.2
Burkina	0.2	0.2	0.1	0.2	0.2	0.2
Mali	0.1	0.1	0.1	0.2	0.2	0.2
Rest of World	1.6	1.5	1.6	1.8	1.9	1.7
World Total	23.4	22.3	25.3	27.0	24.8	24.8

Source: USDA

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## World Cotton Exports

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Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
United States	2.9	2.6	3.1	2.6	2.6	2.6
Australia	0.3	0.5	0.5	1.0	1.0	0.9
Brazil	0.6	0.4	0.4	1.0	0.8	0.9
India	0.5	1.4	1.3	2.3	0.8	0.8
Uzbekistan	0.7	0.8	0.6	0.5	0.6	0.6
African Franc Zone	0.3	0.3	0.3	0.3	0.3	0.3
EU-27	0.2	0.2	0.2	0.3	0.3	0.3
Greece	0.2	0.2	0.2	0.2	0.2	0.2
Burkina	0.2	0.2	0.1	0.1	0.2	0.2
Turkmenistan	0.2	0.3	0.2	0.2	0.2	0.2
Mali	0.1	0.1	0.1	0.1	0.2	0.2
Pakistan	0.1	0.2	0.1	0.3	0.1	0.1
Tajikistan	0.1	0.1	0.1	0.1	0.1	0.1
Mexico	0.0	0.0	0.1	0.1	0.1	0.1
Zimbabwe	0.1	0.1	0.1	0.1	0.1	0.1
Rest of World	0.7	0.8	0.8	1.2	1.1	1.1
World Total	6.6	7.7	8.0	9.8	8.1	8.0

Source: USDA

[return to text](#)

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## World Cotton Consumption

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Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
China	9.6	10.9	10.0	8.5	8.5	8.3
India	3.9	4.3	4.5	4.4	4.7	4.7
Pakistan	2.4	2.3	2.2	2.2	2.4	2.4
Turkey	1.1	1.3	1.2	1.2	1.2	1.2
Brazil	0.9	1.0	0.9	0.9	0.9	0.9
Bangladesh	0.8	0.8	0.8	0.7	0.8	0.8
United States	0.8	0.8	0.8	0.7	0.7	0.7
Indonesia	0.5	0.5	0.4	0.4	0.4	0.5
Mexico	0.4	0.4	0.4	0.4	0.4	0.4
Vietnam	0.3	0.3	0.4	0.3	0.4	0.4
Thailand	0.3	0.4	0.4	0.3	0.3	0.3
Uzbekistan	0.2	0.2	0.3	0.3	0.3	0.3
South Korea	0.2	0.2	0.2	0.2	0.3	0.3
Taiwan	0.2	0.2	0.2	0.2	0.2	0.2
Argentina	0.2	0.2	0.2	0.2	0.2	0.2
Rest of World	2.2	2.1	2.0	1.8	1.8	1.8
World Total	24.0	25.8	24.9	22.7	23.5	23.4

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Source: USDA

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## World Cotton Imports

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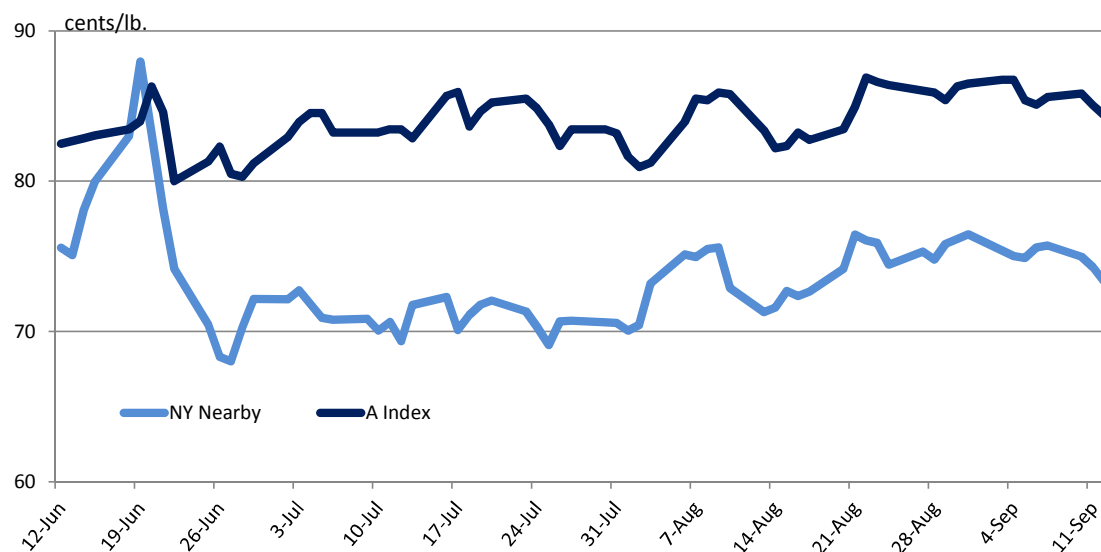
Millions of Metric Tons	2008/09	2009/10	2010/11	2011/12	2012/13 August	2012/13 September
China	1.5	2.4	2.6	5.3	2.8	2.6
Bangladesh	0.8	0.8	0.8	0.7	0.8	0.8
Turkey	0.6	1.0	0.7	0.5	0.7	0.7
Pakistan	0.4	0.3	0.4	0.2	0.5	0.5
Indonesia	0.5	0.5	0.5	0.4	0.5	0.5
Vietnam	0.3	0.4	0.4	0.4	0.4	0.4
Thailand	0.3	0.4	0.4	0.3	0.4	0.4
Mexico	0.3	0.3	0.3	0.2	0.3	0.3
South Korea	0.2	0.2	0.2	0.3	0.3	0.3
India	0.2	0.1	0.1	0.1	0.2	0.2
Malaysia	0.0	0.1	0.1	0.3	0.2	0.2
Taiwan	0.2	0.2	0.2	0.2	0.2	0.2
Egypt	0.1	0.1	0.1	0.1	0.1	0.1
Russia	0.2	0.2	0.1	0.1	0.1	0.1
Japan	0.1	0.1	0.1	0.1	0.1	0.1
Rest of World	0.8	0.9	1.0	0.7	0.7	0.7
World Total	6.6	7.9	7.8	9.8	8.1	8.0

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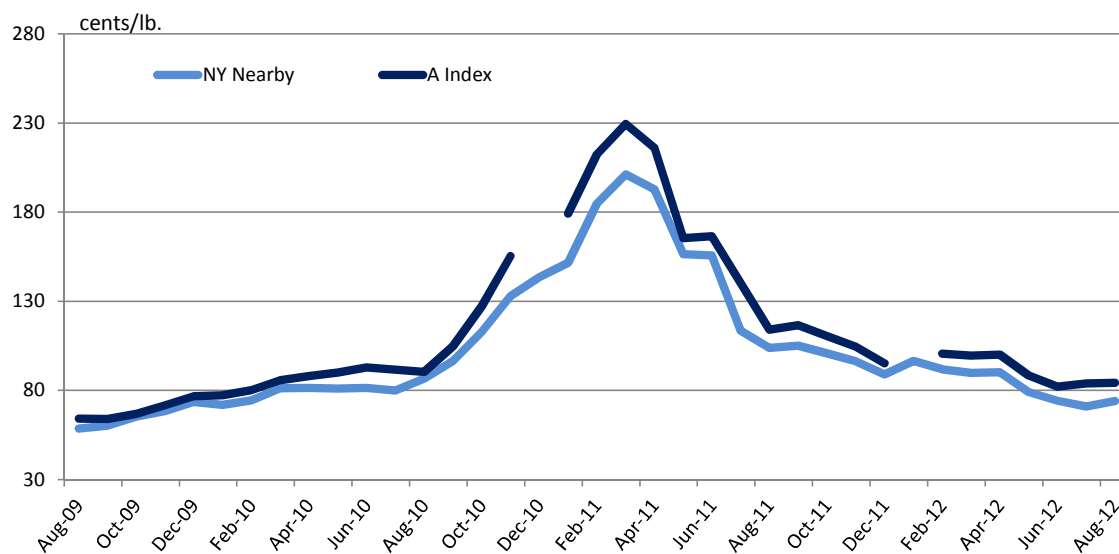
Source: USDA

[return to text](#)

## Daily NY Nearby and A Index Prices: Last Three Months



## Monthly NY Nearby and A Index Prices: Last Three Years



Note: Values for the A Index were unavailable from June 23, 2010 to August 1, 2010 and again from June 10, 2011 to August 1, 2011.

[return to text](#)