

Monthly Economic Letter

U.S. and Global Market Fundamentals



Cotton Incorporated

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www.cottoninc.com

Volatility remains a dominant feature of cotton markets. At 75 cents/lb, the trading range for New York futures since August exceeds the average price for each crop year since 1995/96. After rising exponentially for three months, the rally which produced a series of all-time highs for cotton prices across the globe met a substantial correction in the second week of November. The March New York futures contract, which doubled from values in early August near 75 cents/lb to over 150 cents/lb in early November, fell 25% in the matter of only two weeks and reached levels below 112 cents/lb. In the trading that followed, March prices rebounded and reclaimed more than half of their 38 cents/lb decline. Physical prices, as measured by the A Index, have also been volatile. A Index values fell from a high of 172 cents/lb posted in the second week of November to levels below 145 cents/lb late in the month. While substantial, the 27 cents/lb decline in the A Index was noticeably smaller than the decline in New York futures, suggesting that physical prices are supported by the tight supply situation.

Following the large revisions last month, changes in the latest USDA report are comparatively minor. Due to larger expected harvests from southern hemisphere countries, the world production estimate edged 280,000 bales higher to 115.5 million bales. The Brazilian figure increased 600,000 bales and the Australian figure increased 500,000 bales. These increases were partially offset by reductions to production expectations for northern hemisphere countries, including Pakistan (-300,000 bales), Uzbekistan (-200,000), Greece (-150,000), and the U.S. (-150,000). The world consumption forecast fell 575,000 bales, as expected mill demand in India (-500,000 bales) and Pakistan (-200,000) outweighed increases for the U.S. (+100,000) and Argentina (+25,000). With world production expectations rising and world consumption estimates falling, the latest projection for world ending stocks increased 1.2 million bales relative to last month and the stocks-to-use ratio loosened marginally from 36.1% to 37.3%.

Nonetheless, the world supply and demand situation remains the tightest in the modern globalized era. Much of the tightness at the world level can be attributed to China. With production/consumption gaps in China averaging 17.5 million bales for 2009/10 and 2010/11, China has had to increase imports. Strong import demand from China has been a principal contributor to the global supply squeeze. In the U.S., the country with the world's largest exportable surplus, export sales for 2010/11 delivery totaled a record 13.9 million bales through the first four months of the crop year. When export sales are paired with U.S. mill consumption of 3.6 million bales, the total commitment for U.S. cotton at this early point in the crop year represents 96% (17.5 million bales) of the expected U.S. harvest (18.3 million bales). In previous crop years, the U.S. has served as a reserve supplier to the world, providing a reliable source of cotton when supplies in other countries become unavailable. However, with such a high level of commitment so early this crop year, the U.S. may not be able to fill its traditional role as reserve supplier in 2010/11, despite having a harvest 50% larger than in 2009/10 (18.3 million bales vs. 12.2 million).

With the potential for U.S. cotton to effectively sell out this crop year, market attention remains focused on India's export policy. Reports suggest that the proportion of Indian cotton able to be shipped by the December 15 deadline will fall far short of the 4.1 million (480lb) bales currently permitted. Any official statement regarding an extension of the deadline has yet to be released. In addition to questions related to Indian exports, there are questions surfacing from other exporting countries. Political unrest in Cote d'Ivoire may affect access to ports by land-locked West African exporters and prevent near-term deliveries from arriving as scheduled. There are also questions regarding Australian exports; the USDA identified logistical issues as the reason that the Australian export figure was reduced 500,000 bales in their latest report. In a crop year where conditions are already tight, the denial of any exportable supplies could be expected to provoke a reaction in prices.

Data Tables and Price Charts

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

U.S. Cotton Balance Sheet

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
Beginning Stocks	6.1	9.5	10.1	6.3	2.9	2.9
Production	21.6	19.2	12.8	12.2	18.4	18.3
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	27.7	28.7	22.9	18.5	21.4	21.2
U.S. Mill Use	4.9	4.6	3.6	3.5	3.5	3.6
Exports	13.0	13.6	13.3	12.0	15.8	15.8
Demand	17.9	18.2	16.8	15.5	19.2	19.3
Ending Stocks	9.5	10.1	6.3	2.9	2.2	1.9
Stocks/Use Ratio	53.0%	55.2%	37.6%	19.0%	11.5%	9.8%

Source: USDA

China Cotton Balance Sheet

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
Beginning Stocks	22.5	20.5	20.5	22.4	15.2	15.2
Production	35.5	37.0	36.7	32.0	30.0	30.0
Imports	10.6	11.5	7.0	10.9	15.0	15.0
Supply	68.6	69.1	64.2	65.3	60.2	60.2
China Mill Use	50.0	51.0	44.0	50.0	47.0	47.0
Exports	0.1	0.1	0.1	0.0	0.0	0.0
Demand	50.1	51.1	44.1	50.0	47.0	47.0
Ending Stocks	20.5	20.5	22.4	15.2	13.2	13.2
Stocks/Use Ratio	41.0%	40.2%	50.7%	30.5%	28.1%	28.1%

Source: USDA

World Cotton Balance Sheet

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
Beginning Stocks	61.9	62.3	60.7	60.5	43.6	44.0
Production	121.8	119.7	107.1	101.5	115.2	115.5
Supply	183.7	181.9	167.8	162.1	158.9	159.5
Consumption	123.8	123.3	109.9	118.4	116.8	116.2
Ending Stocks	62.3	60.7	60.5	44.0	42.2	43.4
Stocks/Use Ratio	50.3%	49.2%	55.0%	37.2%	36.1%	37.3%

Source: USDA

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World Cotton Production

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
China	35.5	37.0	36.7	32.0	30.0	30.0
India	21.8	24.0	22.6	23.2	26.0	26.0
United States	21.6	19.2	12.8	12.2	18.4	18.3
Pakistan	9.6	8.6	8.7	9.6	9.1	8.8
Brazil	7.0	7.4	5.5	5.5	7.5	8.1
Uzbekistan	5.4	5.4	4.6	3.9	5.0	4.8
Australia	1.4	0.6	1.5	1.8	3.5	4.0
Turkey	3.8	3.1	1.9	1.8	2.3	2.3
African Franc Zone	3.4	2.3	2.2	2.1	1.7	1.6
Turkmenistan	1.2	1.3	1.4	1.3	1.4	1.4
Argentina	0.8	0.7	0.6	1.0	1.3	1.3
EU-27	1.6	1.7	1.2	1.0	1.2	1.1
Syria	1.0	1.1	1.1	1.0	1.0	1.0
Burkina	1.3	0.7	0.9	0.7	0.9	0.9
Greece	1.4	1.6	1.2	0.9	1.0	0.9
Rest of World	7.7	7.3	6.3	5.3	6.1	6.2
World Total	121.8	119.7	107.1	101.5	115.2	115.5

Source: USDA

World Cotton Exports

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
United States	13.0	13.6	13.3	12.0	15.8	15.8
India	4.9	7.5	2.4	6.6	4.8	4.8
Uzbekistan	4.5	4.2	3.0	3.8	3.9	3.8
Australia	2.1	1.2	1.2	2.1	2.9	2.7
Brazil	1.3	2.2	2.7	2.0	2.4	2.7
African Franc Zone	2.4	1.7	1.5	1.4	1.6	1.5
Turkmenistan	0.8	0.8	0.6	1.1	1.1	1.1
EU-27	1.6	1.6	1.0	1.1	1.1	1.0
Burkina	1.4	0.8	0.8	0.8	0.9	0.9
Greece	1.3	1.3	0.8	0.9	0.9	0.8
Tajikistan	0.6	0.5	0.4	0.5	0.5	0.5
Mali	0.9	0.5	0.3	0.4	0.5	0.5
Zimbabwe	0.4	0.4	0.3	0.4	0.4	0.4
Benin	0.5	0.5	0.4	0.4	0.4	0.4
Argentina	0.0	0.0	0.1	0.1	0.3	0.4
Rest of World	5.9	5.1	3.7	4.6	4.4	4.1
World Total	37.5	39.0	30.1	35.6	38.8	38.7

Source: USDA

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

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World Cotton Consumption

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
China	50.0	51.0	44.0	50.0	47.0	47.0
India	18.1	18.6	17.8	19.5	21.2	21.0
Pakistan	12.0	12.0	11.3	10.9	10.8	10.3
Turkey	7.3	6.2	5.1	5.8	5.9	5.9
Brazil	4.6	4.6	4.2	4.4	4.5	4.5
Bangladesh	3.2	3.5	3.8	3.8	4.0	4.0
United States	4.9	4.6	3.6	3.5	3.5	3.6
Indonesia	2.2	2.2	2.0	2.1	1.9	1.9
Mexico	2.1	2.0	1.9	1.9	1.8	1.8
Thailand	2.0	2.0	1.6	1.8	1.6	1.6
Vietnam	1.0	1.2	1.3	1.6	1.6	1.6
Uzbekistan	0.9	1.0	1.0	1.1	1.1	1.1
South Korea	1.1	1.0	1.0	1.0	1.0	1.0
Taiwan	1.2	1.0	0.8	1.0	1.0	1.0
Argentina	0.8	0.8	0.8	0.8	0.8	0.8
Rest of World	12.5	11.6	10.0	9.3	9.1	9.1
World Total	123.8	123.3	109.9	118.4	116.8	116.2

Source: USDA

World Cotton Imports

Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
China	10.6	11.5	7.0	10.9	15.0	15.0
Bangladesh	3.2	3.5	3.8	3.8	4.0	4.0
Turkey	4.0	3.3	2.9	4.4	3.1	3.1
Indonesia	2.2	2.3	2.0	2.1	1.9	1.9
Thailand	1.9	1.9	1.6	1.8	1.6	1.6
Vietnam	1.0	1.2	1.3	1.7	1.6	1.6
Pakistan	2.3	3.9	1.9	1.4	1.7	1.5
Mexico	1.4	1.5	1.3	1.4	1.3	1.3
South Korea	1.1	1.0	1.0	1.0	1.0	1.0
Taiwan	1.2	1.0	0.8	1.0	1.0	1.0
Brazil	0.5	0.2	0.1	0.2	0.8	0.8
Russia	1.3	1.1	0.7	0.6	0.6	0.6
India	0.5	0.6	0.8	0.6	0.5	0.5
Egypt	0.5	0.4	0.4	0.6	0.5	0.5
Hong Kong	0.4	0.4	0.3	0.4	0.3	0.4
Rest of World	6.1	5.2	4.1	4.1	4.0	4.0
World Total	38.0	39.0	30.0	35.9	38.9	38.7

Source: USDA

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U.S. Cotton Balance Sheet

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
Beginning Stocks	1.3	2.1	2.2	1.4	0.6	0.6
Production	4.7	4.2	2.8	2.7	4.0	4.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	6.0	6.2	5.0	4.0	4.7	4.6
U.S. Mill Use	1.1	1.0	0.8	0.8	0.8	0.8
Exports	2.8	3.0	2.9	2.6	3.4	3.4
Demand	3.9	4.0	3.7	3.4	4.2	4.2
Ending Stocks	2.1	2.2	1.4	0.6	0.5	0.4
Stocks/Use Ratio	53.0%	55.2%	37.6%	19.0%	11.5%	9.8%

Source: USDA

China Cotton Balance Sheet

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
Beginning Stocks	4.9	4.5	4.5	4.9	3.3	3.3
Production	7.7	8.1	8.0	7.0	6.5	6.5
Imports	2.3	2.5	1.5	2.4	3.3	3.3
Supply	14.9	15.0	14.0	14.2	13.1	13.1
China Mill Use	10.9	11.1	9.6	10.9	10.2	10.2
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Demand	10.9	11.1	9.6	10.9	10.2	10.2
Ending Stocks	4.5	4.5	4.9	3.3	2.9	2.9
Stocks/Use Ratio	41.0%	40.2%	50.7%	30.5%	28.1%	28.1%

Source: USDA

World Cotton Balance Sheet

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
Beginning Stocks	13.5	13.6	13.2	13.2	9.5	9.6
Production	26.5	26.1	23.3	22.1	25.1	25.2
Supply	40.0	39.6	36.5	35.3	34.6	34.7
Consumption	27.0	26.9	23.9	25.8	25.4	25.3
Ending Stocks	13.6	13.2	13.2	9.6	9.2	9.4
Stocks/Use Ratio	50.3%	49.2%	55.0%	37.2%	36.1%	37.3%

Source: USDA

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World Cotton Production

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
China	7.7	8.1	8.0	7.0	6.5	6.5
India	4.7	5.2	4.9	5.1	5.7	5.7
United States	4.7	4.2	2.8	2.7	4.0	4.0
Pakistan	2.1	1.9	1.9	2.1	2.0	1.9
Brazil	1.5	1.6	1.2	1.2	1.6	1.8
Uzbekistan	1.2	1.2	1.0	0.8	1.1	1.0
Australia	0.3	0.1	0.3	0.4	0.8	0.9
Turkey	0.8	0.7	0.4	0.4	0.5	0.5
African Franc Zone	0.7	0.5	0.5	0.5	0.4	0.3
Turkmenistan	0.3	0.3	0.3	0.3	0.3	0.3
Argentina	0.2	0.2	0.1	0.2	0.3	0.3
EU-27	0.4	0.4	0.3	0.2	0.3	0.2
Syria	0.2	0.2	0.2	0.2	0.2	0.2
Burkina	0.3	0.1	0.2	0.2	0.2	0.2
Greece	0.3	0.3	0.3	0.2	0.2	0.2
Rest of World	1.7	1.6	1.4	1.2	1.3	1.3
World Total	26.5	26.1	23.3	22.1	25.1	25.2

Source: USDA

World Cotton Exports

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
United States	2.8	3.0	2.9	2.6	3.4	3.4
India	1.1	1.6	0.5	1.4	1.0	1.0
Uzbekistan	1.0	0.9	0.7	0.8	0.8	0.8
Australia	0.5	0.3	0.3	0.5	0.6	0.6
Brazil	0.3	0.5	0.6	0.4	0.5	0.6
African Franc Zone	0.5	0.4	0.3	0.3	0.3	0.3
Turkmenistan	0.2	0.2	0.1	0.2	0.2	0.2
EU-27	0.3	0.4	0.2	0.2	0.2	0.2
Burkina	0.3	0.2	0.2	0.2	0.2	0.2
Greece	0.3	0.3	0.2	0.2	0.2	0.2
Tajikistan	0.1	0.1	0.1	0.1	0.1	0.1
Mali	0.2	0.1	0.1	0.1	0.1	0.1
Zimbabwe	0.1	0.1	0.1	0.1	0.1	0.1
Benin	0.1	0.1	0.1	0.1	0.1	0.1
Argentina	0.0	0.0	0.0	0.0	0.1	0.1
Rest of World	1.3	1.1	0.8	1.0	1.0	0.9
World Total	8.2	8.5	6.5	7.8	8.5	8.4

Source: USDA

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World Cotton Consumption

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
China	10.9	11.1	9.6	10.9	10.2	10.2
India	3.9	4.0	3.9	4.2	4.6	4.6
Pakistan	2.6	2.6	2.4	2.4	2.4	2.2
Turkey	1.6	1.3	1.1	1.3	1.3	1.3
Brazil	1.0	1.0	0.9	1.0	1.0	1.0
Bangladesh	0.7	0.8	0.8	0.8	0.9	0.9
United States	1.1	1.0	0.8	0.8	0.8	0.8
Indonesia	0.5	0.5	0.4	0.4	0.4	0.4
Mexico	0.5	0.4	0.4	0.4	0.4	0.4
Thailand	0.4	0.4	0.3	0.4	0.3	0.3
Vietnam	0.2	0.3	0.3	0.3	0.3	0.3
Uzbekistan	0.2	0.2	0.2	0.2	0.2	0.2
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
Taiwan	0.3	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	2.7	2.5	2.2	2.0	2.0	2.0
World Total	27.0	26.9	23.9	25.8	25.4	25.3

Source: USDA

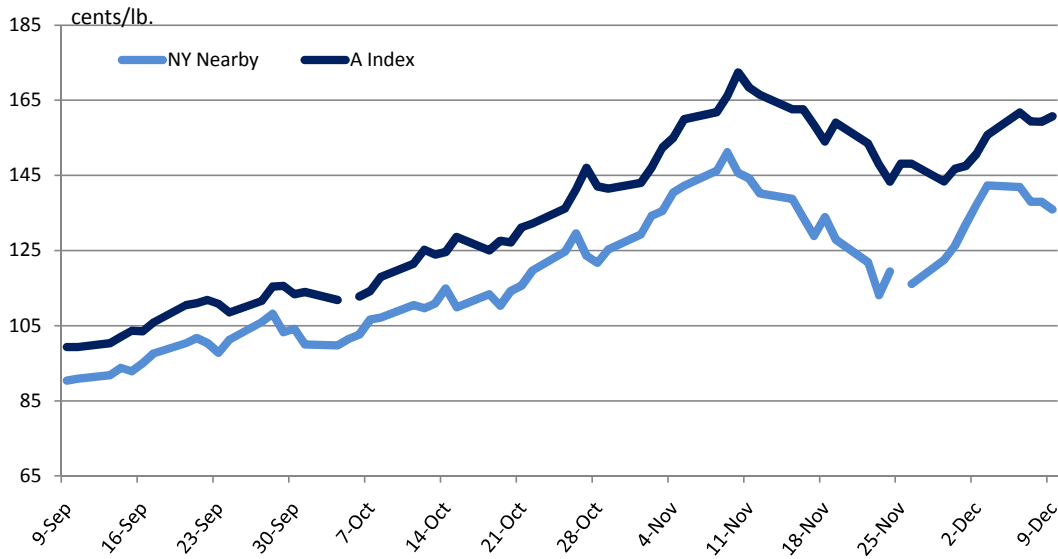
World Cotton Imports

Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 November	2010/11 December
China	2.3	2.5	1.5	2.4	3.3	3.3
Bangladesh	0.7	0.8	0.8	0.8	0.9	0.9
Turkey	0.9	0.7	0.6	1.0	0.7	0.7
Indonesia	0.5	0.5	0.4	0.5	0.4	0.4
Thailand	0.4	0.4	0.3	0.4	0.3	0.4
Vietnam	0.2	0.3	0.3	0.4	0.3	0.3
Pakistan	0.5	0.9	0.4	0.3	0.4	0.3
Mexico	0.3	0.3	0.3	0.3	0.3	0.3
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
Taiwan	0.3	0.2	0.2	0.2	0.2	0.2
Brazil	0.1	0.0	0.0	0.0	0.2	0.2
Russia	0.3	0.2	0.2	0.1	0.1	0.1
India	0.1	0.1	0.2	0.1	0.1	0.1
Egypt	0.1	0.1	0.1	0.1	0.1	0.1
Hong Kong	0.1	0.1	0.1	0.1	0.1	0.1
Rest of World	1.3	1.1	0.9	0.9	0.9	0.9
World Total	8.3	8.5	6.5	7.8	8.5	8.4

Source: USDA

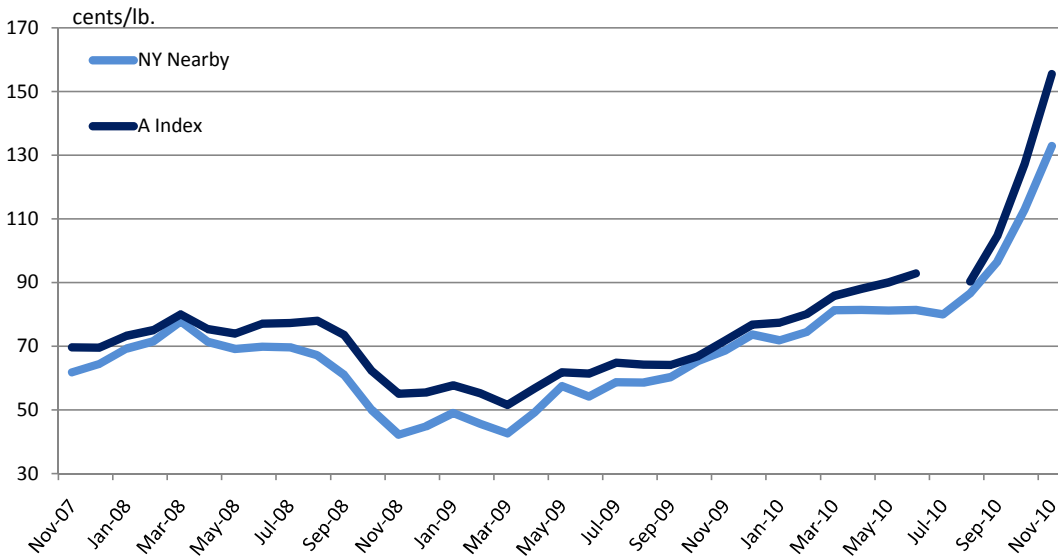
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Daily NY Nearby and A Index Prices: Last Three Months



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

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.

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