

# Monthly Economic Letter

## U.S. and Global Market Fundamentals



Cotton Incorporated

January 2012

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

After declining in early December, cotton prices rebounded late in the month and into early January. Contracts for March New York futures fell from prices between 90 and 94 cents/lb to levels below 87 cents/lb in the first half of December. Following this decline, prices for March New York futures climbed higher to establish a new trading range between 93 and 97 cents/lb. Over the same time period, A Index values dipped below 93 cents/lb before rising above 100 cents/lb in early January. While demand continues to generally be regarded as weak, there have been reports of increased mill interest, notably in India, and international yarn prices posted slight increases in the most recent data.

For a second straight month, revisions in the USDA report reflected weakness on the demand side of the balance sheet. In December, world mill consumption estimates for 2011/12 were reduced 2.9 million bales. In January, the world demand figure declined another 1.4 million bales. At its current level of 110.0 million bales, the USDA's world consumption forecast for 2011/12 is estimated to be 300,000 bales lower than it was during the recession in 2008/09 and represents the lowest level of consumption since 2004/05. Most of January's decline in the global demand projection resulted from a 1.0 million bale reduction in Chinese consumption expectations. At 44.0 million bales, the current Chinese consumption forecast for 2011/12 is equal to the volume consumed in 2008/09. Thai consumption was revised 150,000 bales lower, while mill demand in Bangladesh, Indonesia, and Vietnam all declined 50,000 bales.

Global production figures were also reduced in the latest report, with the estimated size of the 2011/12 world cotton harvest declining 583,000 bales, from 123.4 million bales to 122.8 million. Virtually all of the change at the world level was a result of lower harvest expectations in India (-500,000 bales) and the U.S. (-153,000 bales). Even after these revisions, the USDA estimate for 2011/12 world production remains the highest on record.

With the decline in world production being smaller than the decline in world consumption, world ending stocks were revised higher, increasing 688,000 bales relative to last month's report. At 58.4 million bales, the current world ending stocks figure for 2011/12 is 13.0 million bales higher than in 2010/11, representing the largest year-to-year increase in ending stocks in twenty-five years. However, even with this very large increase, the amount of cotton stocks expected to be carried forward at the conclusion of the 2011/12 crop year remains lower than the levels in excess of 60.0 million bales that occurred between 2004/05 and 2008/09.

The increase in the world ending stocks figure for 2011/12, along with the reduction in the world consumption estimate, resulted in a higher stocks-to-use projection in January. The current estimate is 53.1%, 1.3 percentage points higher than the 51.8% forecast in December, representing the highest value since 2008/09. While the USDA stocks-to-use estimate for cotton is slightly higher than historical averages, stock-to-use figures for other crops that can compete for cotton acreage, such as corn, soybeans, and peanuts, are all estimated to be lower in 2011/12 than in 2010/11. The tightening of supply for these crops at the same time that cotton stocks are relatively loose, could be expected to result in lower levels of acreage devoted to cotton in the spring and a smaller 2012/13 harvest. Price ratios relating new crop futures for cotton to those for corn and soybeans also suggest a drop in cotton acreage.

Given the on-going harvest in India and slow mill-related demand around the world, it could be difficult for cotton prices to develop a significant upward trend over the next month. Later in the winter and into the spring, price direction could be influenced by projections regarding 2012/13 cotton acreage. However, even with a reduction in acreage, and therefore production, in 2012/13, demand will have to improve for prices to increase and there are several challenges related to demand growth. Among them is persistent weakness in developed economies, the question whether emerging market consumers can compensate for the weakness in end-use demand in developed economies, and the extent to which cotton may have lost share relative to competing fibers in the wake of last year's record price levels and volatility. Further complicating these demand-related issues relative to prices is the Chinese reserve system. The Chinese government has signaled it is taking an active role to support cotton prices by being an active buyer. However, it remains to be seen how the Chinese government will act as a seller of cotton to support mills if prices do develop an upward trend.

### 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

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## U.S. Cotton Balance Sheet

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Millions of 480 lb. Bales	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
Beginning Stocks	9.5	10.1	6.3	2.9	2.6	2.6
Production	19.2	12.8	12.2	18.1	15.8	15.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	28.7	22.9	18.5	21.1	18.4	18.3
U.S. Mill Use	4.6	3.5	3.6	3.9	3.6	3.6
Exports	13.6	13.3	12.0	14.4	11.3	11.0
Demand	18.2	16.8	15.6	18.3	14.9	14.6
Ending Stocks	10.1	6.3	2.9	2.6	3.5	3.7
Stocks/Use Ratio	55.2%	37.7%	18.9%	14.2%	23.5%	25.3%

Source: USDA

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## China Cotton Balance Sheet

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Millions of 480 lb. Bales	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
Beginning Stocks	20.5	20.5	22.4	15.2	11.6	11.6
Production	37.0	36.7	32.0	30.5	33.5	33.5
Imports	11.5	7.0	10.9	12.0	15.5	16.0
Supply	69.1	64.2	65.3	57.7	60.6	61.1
China Mill Use	51.0	44.0	50.0	46.0	45.0	44.0
Exports	0.1	0.1	0.0	0.1	0.1	0.1
Demand	51.1	44.1	50.0	46.1	45.1	44.1
Ending Stocks	20.5	22.4	15.2	11.6	15.6	17.1
Stocks/Use Ratio	40.2%	50.7%	30.5%	25.2%	34.5%	38.7%

Source: USDA

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## World Cotton Balance Sheet

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Millions of 480 lb. Bales	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
Beginning Stocks	62.4	60.9	60.8	44.4	45.5	45.3
Production	119.7	107.3	101.7	115.3	123.4	122.8
Supply	182.2	168.2	162.5	159.7	168.9	168.2
Consumption	123.6	110.3	119.0	114.3	111.3	110.0
Ending Stocks	60.9	60.8	44.4	45.3	57.7	58.4
Stocks/Use Ratio	49.3%	55.1%	37.3%	39.7%	51.8%	53.1%

Source: USDA

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## World Cotton Production

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Millions of 480 lb. Bales	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
China	37.0	36.7	32.0	30.5	33.5	33.5
India	24.0	22.6	23.0	25.4	27.5	27.0
United States	19.2	12.8	12.2	18.1	15.8	15.7
Pakistan	8.6	8.7	9.6	8.8	10.0	10.0
Brazil	7.4	5.5	5.5	9.0	9.0	9.0
Australia	0.6	1.5	1.8	4.2	5.0	5.0
Uzbekistan	5.4	4.6	3.9	4.1	4.2	4.2
Turkey	3.1	1.9	1.8	2.1	3.1	3.1
EU-27	1.7	1.2	1.1	1.1	1.6	1.6
African Franc Zone	2.3	2.2	2.1	2.1	1.5	1.5
Turkmenistan	1.4	1.6	1.5	1.8	1.4	1.4
Greece	1.6	1.2	0.9	0.9	1.4	1.4
Argentina	0.7	0.6	1.0	1.3	1.2	1.2
Mexico	0.6	0.6	0.5	0.7	1.2	1.2
Syria	1.1	1.1	1.0	0.7	0.9	0.9
Rest of World	6.7	5.7	4.8	5.4	7.6	7.6
World Total	119.7	107.3	101.7	115.3	123.4	122.8

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Source: USDA

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## World Cotton Exports

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Millions of 480 lb. Bales	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
United States	13.6	13.3	12.0	14.4	11.3	11.0
India	7.5	2.4	6.6	5.1	6.0	6.0
Australia	1.2	1.2	2.1	2.5	4.0	4.0
Brazil	2.2	2.7	2.0	2.0	3.8	3.9
Uzbekistan	4.2	3.0	3.8	2.7	2.8	2.8
EU-27	1.6	1.0	1.1	1.0	1.3	1.3
African Franc Zone	1.7	1.5	1.4	1.3	1.2	1.2
Greece	1.3	0.8	0.9	0.8	1.0	1.0
Turkmenistan	0.9	0.8	1.2	1.1	0.9	0.9
Burkina	0.8	0.8	0.8	0.7	0.6	0.6
Mali	0.5	0.3	0.4	0.5	0.6	0.6
Pakistan	0.3	0.4	0.7	0.6	0.5	0.5
Tajikistan	0.5	0.4	0.5	0.4	0.4	0.4
Egypt	0.6	0.1	0.4	0.4	0.4	0.4
Zimbabwe	0.4	0.3	0.4	0.4	0.4	0.4
Rest of World	4.3	3.3	3.4	3.7	3.7	3.8
World Total	39.1	30.2	35.6	35.7	36.6	36.5

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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	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
China	51.0	44.0	50.0	46.0	45.0	44.0
India	18.6	17.8	19.8	20.7	19.5	19.5
Pakistan	12.0	11.3	10.8	10.0	10.3	10.3
Turkey	6.2	5.1	5.8	5.6	5.3	5.3
Brazil	4.6	4.2	4.4	4.3	4.3	4.3
United States	4.6	3.5	3.6	3.9	3.6	3.6
Bangladesh	3.5	3.8	3.9	3.7	3.5	3.4
Indonesia	2.5	2.3	2.2	2.1	2.0	2.0
Mexico	2.0	1.9	1.9	1.7	1.7	1.7
Thailand	2.0	1.6	1.8	1.7	1.6	1.5
Vietnam	1.2	1.3	1.6	1.7	1.6	1.6
Uzbekistan	1.0	1.0	1.1	1.3	1.3	1.3
South Korea	1.0	1.0	1.0	1.0	1.0	1.0
Taiwan	1.0	0.8	1.0	0.9	0.9	0.9
Argentina	0.8	0.8	0.8	0.8	0.8	0.8
Rest of World	11.6	10.1	9.5	9.1	9.0	9.0
World Total	123.6	110.3	119.0	114.3	111.3	110.0

Source: USDA

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## World Cotton Imports

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Millions of 480 lb. Bales	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
China	11.5	7.0	10.9	12.0	15.5	16.0
Bangladesh	3.6	3.8	3.9	3.7	3.3	3.2
Turkey	3.3	2.9	4.4	3.4	2.5	2.5
Indonesia	2.6	2.3	2.2	2.1	2.1	2.0
Thailand	1.9	1.6	1.8	1.8	1.6	1.4
Vietnam	1.2	1.3	1.7	1.6	1.6	1.5
Pakistan	3.9	1.9	1.6	1.5	1.4	1.3
Mexico	1.5	1.3	1.4	1.2	1.1	1.1
South Korea	1.0	1.0	1.0	1.0	1.1	1.1
Taiwan	1.0	0.8	1.0	0.8	0.9	0.9
Russia	1.1	0.9	0.8	0.5	0.6	0.6
Egypt	0.4	0.4	0.6	0.6	0.5	0.5
India	0.6	0.8	0.5	0.5	0.5	0.5
Japan	0.6	0.4	0.3	0.4	0.4	0.4
Peru	0.3	0.2	0.3	0.3	0.3	0.3
Rest of World	4.9	3.9	4.0	4.4	3.5	3.5
World Total	39.3	30.5	36.3	35.7	36.5	36.5

Source: USDA

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## U.S. Cotton Balance Sheet

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Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
Beginning Stocks	2.1	2.2	1.4	0.6	0.6	0.6
Production	4.2	2.8	2.7	3.9	3.4	3.4
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	6.2	5.0	4.0	4.6	4.0	4.0
U.S. Mill Use	1.0	0.8	0.8	0.8	0.8	0.8
Exports	3.0	2.9	2.6	3.1	2.5	2.4
Demand	4.0	3.7	3.4	4.0	3.2	3.2
Ending Stocks	2.2	1.4	0.6	0.6	0.8	0.8
Stocks/Use Ratio	55.2%	37.7%	18.9%	14.2%	23.5%	25.3%

Source: USDA

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## China Cotton Balance Sheet

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Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
Beginning Stocks	4.5	4.5	4.9	3.3	2.5	2.5
Production	8.1	8.0	7.0	6.6	7.3	7.3
Imports	2.5	1.5	2.4	2.6	3.4	3.5
Supply	15.0	14.0	14.2	12.6	13.2	13.3
China Mill Use	11.1	9.6	10.9	10.0	9.8	9.6
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Demand	11.1	9.6	10.9	10.0	9.8	9.6
Ending Stocks	4.5	4.9	3.3	2.5	3.4	3.7
Stocks/Use Ratio	40.2%	50.7%	30.5%	25.2%	34.5%	38.7%

Source: USDA

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## World Cotton Balance Sheet

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Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
Beginning Stocks	13.6	13.3	13.2	9.7	9.9	9.9
Production	26.1	23.4	22.1	25.1	26.9	26.7
Supply	39.7	36.6	35.4	34.8	36.8	36.6
Consumption	26.9	24.0	25.9	24.9	24.2	23.9
Ending Stocks	13.3	13.2	9.7	9.9	12.6	12.7
Stocks/Use Ratio	49.3%	55.1%	37.3%	39.7%	51.8%	53.1%

Source: USDA

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## World Cotton Production

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Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
China	8.1	8.0	7.0	6.6	7.3	7.3
India	5.2	4.9	5.0	5.5	6.0	5.9
United States	4.2	2.8	2.7	3.9	3.4	3.4
Pakistan	1.9	1.9	2.1	1.9	2.2	2.2
Brazil	1.6	1.2	1.2	2.0	2.0	2.0
Australia	0.1	0.3	0.4	0.9	1.1	1.1
Uzbekistan	1.2	1.0	0.8	0.9	0.9	0.9
Turkey	0.7	0.4	0.4	0.5	0.7	0.7
EU-27	0.4	0.3	0.2	0.2	0.4	0.4
African Franc Zone	0.5	0.5	0.5	0.5	0.3	0.3
Turkmenistan	0.3	0.3	0.3	0.4	0.3	0.3
Greece	0.3	0.3	0.2	0.2	0.3	0.3
Argentina	0.2	0.1	0.2	0.3	0.3	0.3
Mexico	0.1	0.1	0.1	0.2	0.3	0.3
Syria	0.2	0.2	0.2	0.2	0.2	0.2
Rest of World	1.5	1.2	1.1	1.2	1.6	1.7
World Total	26.1	23.4	22.1	25.1	26.9	26.7

Source: USDA

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## World Cotton Exports

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Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
United States	3.0	2.9	2.6	3.1	2.5	2.4
India	1.6	0.5	1.4	1.1	1.3	1.3
Australia	0.3	0.3	0.5	0.5	0.9	0.9
Brazil	0.5	0.6	0.4	0.4	0.8	0.8
Uzbekistan	0.9	0.7	0.8	0.6	0.6	0.6
EU-27	0.4	0.2	0.2	0.2	0.3	0.3
African Franc Zone	0.4	0.3	0.3	0.3	0.3	0.3
Greece	0.3	0.2	0.2	0.2	0.2	0.2
Turkmenistan	0.2	0.2	0.3	0.2	0.2	0.2
Burkina	0.2	0.2	0.2	0.1	0.1	0.1
Mali	0.1	0.1	0.1	0.1	0.1	0.1
Pakistan	0.1	0.1	0.2	0.1	0.1	0.1
Tajikistan	0.1	0.1	0.1	0.1	0.1	0.1
Egypt	0.1	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	0.9	0.7	0.8	0.8	0.8	0.8
World Total	8.5	6.6	7.7	7.8	8.0	8.0

Source: USDA

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## World Cotton Consumption

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Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
China	11.1	9.6	10.9	10.0	9.8	9.6
India	4.0	3.9	4.3	4.5	4.2	4.2
Pakistan	2.6	2.4	2.4	2.2	2.2	2.2
Turkey	1.3	1.1	1.3	1.2	1.2	1.2
Brazil	1.0	0.9	1.0	0.9	0.9	0.9
United States	1.0	0.8	0.8	0.8	0.8	0.8
Bangladesh	0.8	0.8	0.8	0.8	0.8	0.7
Indonesia	0.5	0.5	0.5	0.4	0.4	0.4
Mexico	0.4	0.4	0.4	0.4	0.4	0.4
Thailand	0.4	0.3	0.4	0.4	0.3	0.3
Vietnam	0.3	0.3	0.3	0.4	0.3	0.3
Uzbekistan	0.2	0.2	0.2	0.3	0.3	0.3
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
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	2.5	2.2	2.1	2.0	2.0	2.0
World Total	26.9	24.0	25.9	24.9	24.2	23.9

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Source: USDA

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## World Cotton Imports

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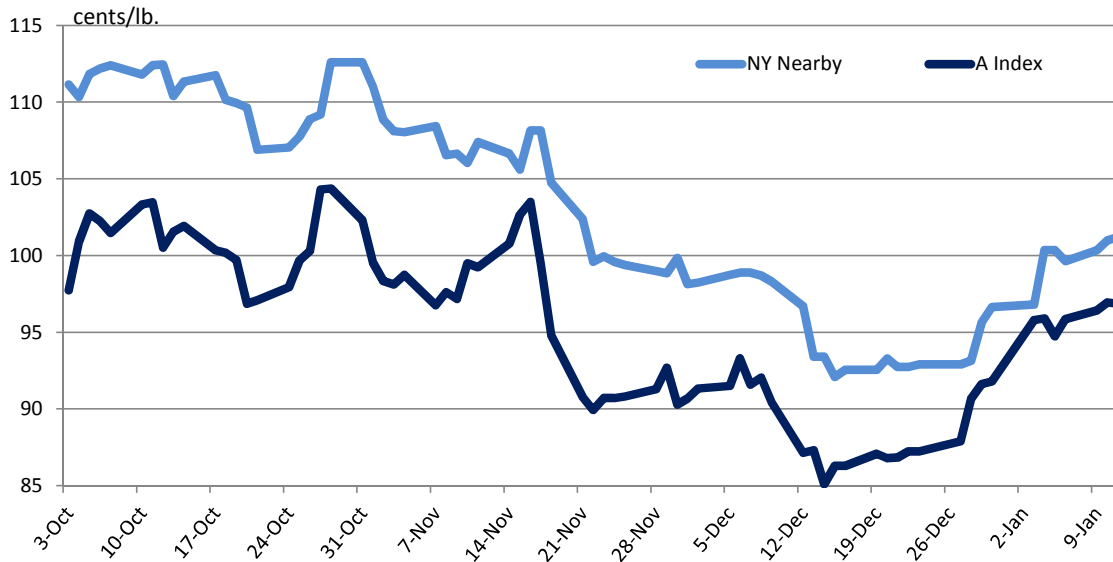
Millions of Metric Tons	2007/08	2008/09	2009/10	2010/11	2011/12 December	2011/12 January
China	2.5	1.5	2.4	2.6	3.4	3.5
Bangladesh	0.8	0.8	0.8	0.8	0.7	0.7
Turkey	0.7	0.6	1.0	0.7	0.5	0.5
Indonesia	0.6	0.5	0.5	0.5	0.4	0.4
Thailand	0.4	0.3	0.4	0.4	0.4	0.3
Vietnam	0.3	0.3	0.4	0.4	0.3	0.3
Pakistan	0.9	0.4	0.3	0.3	0.3	0.3
Mexico	0.3	0.3	0.3	0.3	0.2	0.2
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
Taiwan	0.2	0.2	0.2	0.2	0.2	0.2
Russia	0.2	0.2	0.2	0.1	0.1	0.1
Egypt	0.1	0.1	0.1	0.1	0.1	0.1
India	0.1	0.2	0.1	0.1	0.1	0.1
Japan	0.1	0.1	0.1	0.1	0.1	0.1
Peru	0.1	0.0	0.1	0.1	0.1	0.1
Rest of World	1.1	0.8	0.9	1.0	0.8	0.8
World Total	8.6	6.6	7.9	7.8	8.0	7.9

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Source: USDA

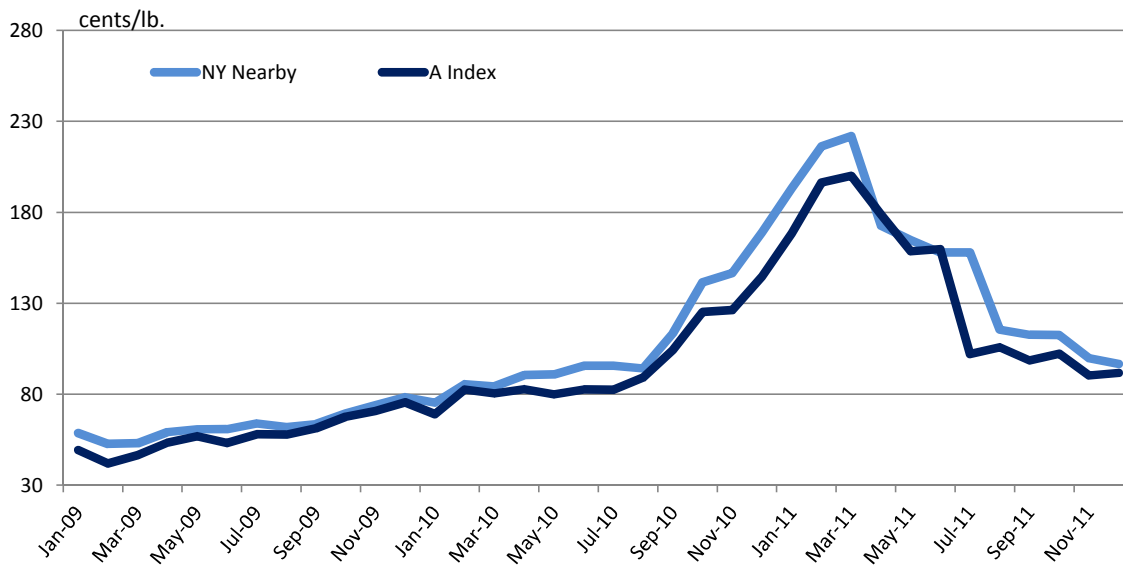
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### Daily NY Nearby and A Index Prices: Last Three Months



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

### 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.

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