

# Monthly Economic Letter

## U.S. and Global Market Fundamentals



Cotton Incorporated

August 2010

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

After falling from mid-June through mid-July, NY futures rebounded over the past two weeks. The most actively traded December contract climbed from levels near 73 cents/lb to life-of-contract highs over 80 cents/lb. After being unavailable from June 23 to the July 31 conclusion of the 2009/10 crop year due to insufficient quotes necessary for the derivation of the index, values for the A Index began being published again with the beginning of the new crop year. Since August 2, the A Index rose from 86.30 cents/lb to 89.05 cents/lb. The value of the A Index on June 22 was 95.70 cents/lb.

The lower A Index values thus far into 2010/11 are a likely reflection of expectations of some easing in tight supply conditions as the new crop becomes available. This month's revisions to world supply and demand figures, however, emphasize that cotton stocks can be expected to remain tight throughout the crop year. Featuring a 3.4 million bale reduction to estimated world beginning stocks (from 51.0 million bales to 47.6 million), which is primarily a result of the auction from Chinese governmental reserves and historical revisions for Pakistan and India dating back to 2005/06, the changes in the latest report bring the stocks-to-use estimate for 2010/11 to 37.7%. This marks the first time since 1994/95 that the stocks-to-use ratio has fallen below 40% and represents the lowest stocks-to-use value since the 1993/94 crop year.

This crop year's 2.7 percentage point decline in the stocks-to-use ratio is expected to occur despite a 14.4% increase in world cotton production (from 102.1 million bales in 2009/10 to 116.9 million bales in 2010/11). World production expectations rose 834,000 bales from last month in the latest USDA report. Due to favorable growing conditions, 65% of the U.S. crop is reported to be in good or excellent condition and the U.S. production figure increased another 234,000 bales this month, bringing the current U.S. estimate to 18.5 million. Weather reports in India have also been largely positive, and the India production figure was raised 1.0 million bales to 26.0 million. Excessive rainfall and flooding in Pakistan contributed to a 700,000 bale decline in the production estimate for the country (from 10.2 million to 9.5 million). Turkey (+200,000 bales) and Australia (+100,000) also had notable revisions to production figures.

The world consumption estimate rose 1.2 million bales from 119.7 million bales to 120.9 million. Revisions to estimates for China (+1.0 million bales to 50.0 million bales), Turkey (+300,000 to 6.0 million bales), and Pakistan (-100,000 to 11.5 million bales) accounted for virtually all of the revisions at the world level. Mill demand and tight domestic supply conditions are expected to increase trade in 2010/11. The world export estimate increased 1.2 million bales to 38.2 million in the latest report. The U.S. export estimate increased 700,000 bales to 15.0 million; India's increased 600,000 bales to 6.5 million. Import expectations grew for China (+850,000 bales to 12.5 million bales), Brazil (+300,000), and Turkey (+100,000), while they fell for Mexico (-100,000).

Current production and consumption forecasts indicate a 4.0 million bale production/consumption gap in 2010/11. Representing the sixth consecutive crop year where production has been lower than consumption, ending stocks are expected to fall another 2.0 million bales by the end of 2010/11. Higher prices, brought about by lower supply relative to demand, should eventually bring production levels back in line with consumption figures. However, with only one harvest per crop year, the corrective process could take several seasons to reverse and begin to increase stocks. In the meantime, retailers at the end of the cotton supply chain face a challenging consumer environment in developed economies where it may be difficult to pass on higher costs posed by higher cotton 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

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## U.S. Cotton Balance Sheet

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Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
Beginning Stocks	6.1	9.5	10.1	6.3	2.9	3.1
Production	21.6	19.2	12.8	12.2	18.3	18.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	27.7	28.7	22.9	18.5	21.2	21.6
U.S. Mill Use	4.9	4.6	3.6	3.4	3.4	3.4
Exports	13.0	13.7	13.3	12.0	14.3	15.0
Demand	17.9	18.2	16.9	15.4	17.7	18.4
Ending Stocks	9.5	10.1	6.3	3.1	3.5	3.2
Stocks/Use Ratio	52.8%	55.1%	37.6%	20.1%	19.8%	17.4%

Source: USDA

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## China Cotton Balance Sheet

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Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
Beginning Stocks	22.5	20.5	20.5	22.4	20.5	19.3
Production	35.5	37.0	36.7	32.5	33.0	33.0
Imports	10.6	11.5	7.0	10.9	11.7	12.5
Supply	68.6	69.1	64.2	65.8	65.1	64.8
China Mill Use	50.0	51.0	44.0	48.5	49.0	50.0
Exports	0.1	0.1	0.1	0.0	0.0	0.0
Demand	50.1	51.1	44.1	48.5	49.0	50.0
Ending Stocks	20.5	20.5	22.4	19.3	18.6	16.8
Stocks/Use Ratio	41.0%	40.2%	50.7%	39.7%	38.0%	33.5%

Source: USDA

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## World Cotton Balance Sheet

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Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
Beginning Stocks	61.8	62.1	60.7	60.5	51.0	47.6
Production	121.7	119.8	107.2	102.1	116.0	116.9
Supply	183.6	181.9	167.8	162.7	167.0	164.4
Consumption	123.8	123.3	109.9	117.7	119.7	120.9
Ending Stocks	62.1	60.7	60.5	47.6	49.9	45.6
Stocks/Use Ratio	50.2%	49.2%	55.1%	40.4%	41.7%	37.7%

Source: USDA

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## World Cotton Production

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Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
China	35.5	37.0	36.7	32.5	33.0	33.0
India	21.8	24.0	22.6	23.5	25.0	26.0
United States	21.6	19.2	12.8	12.2	18.3	18.5
Pakistan	9.6	8.6	8.7	9.6	10.2	9.5
Brazil	7.0	7.4	5.5	5.4	7.0	7.0
Uzbekistan	5.4	5.4	4.6	4.0	4.8	4.8
Turkey	3.8	3.1	1.9	1.8	2.1	2.3
Australia	1.4	0.6	1.5	1.6	2.2	2.3
African Franc Zone	3.4	2.3	2.2	2.0	1.7	1.7
EU-27	1.6	1.7	1.2	1.0	1.4	1.4
Turkmenistan	1.2	1.3	1.4	1.3	1.3	1.3
Greece	1.4	1.6	1.2	0.9	1.2	1.2
Syria	1.0	1.1	1.1	1.0	1.0	1.0
Argentina	0.8	0.7	0.6	0.8	0.9	0.9
Burkina	1.3	0.7	0.9	0.7	0.9	0.9
Rest of World	7.7	7.4	6.3	5.5	6.3	6.3
World Total	121.7	119.8	107.2	102.1	116.0	116.9

Source: USDA

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## World Cotton Exports

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Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
United States	13.0	13.7	13.3	12.0	14.3	15.0
India	4.9	7.5	2.4	6.6	5.9	6.5
Uzbekistan	4.5	4.2	3.0	3.8	3.8	3.8
Brazil	1.3	2.2	2.7	2.0	2.2	1.9
Australia	2.1	1.2	1.2	2.1	1.9	2.0
African Franc Zone	2.4	1.7	1.5	1.4	1.6	1.6
EU-27	1.6	1.6	1.0	1.1	1.3	1.3
Turkmenistan	0.8	0.8	0.6	1.1	1.0	1.1
Greece	1.3	1.3	0.8	0.9	1.0	1.0
Burkina	1.4	0.8	0.8	0.8	0.9	0.9
Pakistan	0.2	0.3	0.4	0.8	0.4	0.3
Tajikistan	0.6	0.5	0.4	0.5	0.4	0.4
Mali	0.9	0.5	0.3	0.4	0.5	0.5
Kazakhstan	0.9	0.5	0.3	0.4	0.3	0.3
Zimbabwe	0.4	0.4	0.3	0.4	0.4	0.4
Rest of World	4.9	4.3	3.1	3.6	3.6	3.7
World Total	37.6	39.0	30.1	35.7	37.0	38.2

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	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
China	50.0	51.0	44.0	48.5	49.0	50.0
India	18.1	18.6	17.8	19.6	20.4	20.4
Pakistan	12.0	12.0	11.3	11.5	11.6	11.5
Turkey	7.3	6.2	5.1	5.8	5.7	6.0
Brazil	4.6	4.6	4.2	4.4	4.6	4.6
Bangladesh	3.2	3.5	3.8	4.0	4.3	4.3
United States	4.9	4.6	3.6	3.4	3.4	3.4
Indonesia	2.2	2.2	2.0	2.1	2.2	2.1
Mexico	2.1	2.0	1.9	1.9	1.9	1.9
Vietnam	1.0	1.2	1.3	1.6	1.8	1.8
Thailand	2.0	2.0	1.6	1.8	1.8	1.8
Uzbekistan	0.9	1.0	1.0	1.1	1.2	1.2
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
Egypt	1.0	1.0	0.9	0.9	0.9	0.9
Rest of World	12.3	11.5	9.9	9.3	9.2	9.2
World Total	123.8	123.3	109.9	117.7	119.7	120.9

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Source: USDA

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## World Cotton Imports

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Millions of 480 lb. Bales	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
China	10.6	11.5	7.0	10.9	11.7	12.5
Bangladesh	3.2	3.5	3.8	4.0	4.3	4.3
Turkey	4.0	3.3	2.9	4.3	3.3	3.4
Indonesia	2.2	2.3	2.0	2.1	2.2	2.2
Pakistan	2.3	3.9	2.0	1.5	2.3	2.3
Thailand	1.9	1.9	1.6	1.8	1.8	1.8
Vietnam	1.0	1.2	1.3	1.7	1.8	1.8
Mexico	1.4	1.5	1.3	1.4	1.5	1.4
South Korea	1.1	1.0	1.0	1.0	1.0	1.0
Taiwan	1.2	1.0	0.8	1.0	0.9	0.9
Russia	1.3	1.1	0.7	0.7	0.7	0.7
India	0.5	0.6	0.8	0.6	0.6	0.6
Egypt	0.5	0.4	0.4	0.6	0.5	0.5
Hong Kong	0.4	0.4	0.3	0.4	0.4	0.4
Iran	0.3	0.3	0.3	0.3	0.3	0.3
Rest of World	6.3	5.1	3.9	3.9	3.9	4.3
World Total	38.1	39.0	30.1	36.2	37.1	38.2

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Source: USDA

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## U.S. Cotton Balance Sheet

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Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
Beginning Stocks	1.3	2.1	2.2	1.4	0.6	0.7
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	4.6	4.7
U.S. Mill Use	1.1	1.0	0.8	0.7	0.7	0.7
Exports	2.8	3.0	2.9	2.6	3.1	3.3
Demand	3.9	4.0	3.7	3.4	3.9	4.0
Ending Stocks	2.1	2.2	1.4	0.7	0.8	0.7
Stocks/Use Ratio	52.8%	55.1%	37.6%	20.1%	19.8%	17.4%

Source: USDA

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## China Cotton Balance Sheet

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Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
Beginning Stocks	4.9	4.5	4.5	4.9	4.5	4.2
Production	7.7	8.1	8.0	7.1	7.2	7.2
Imports	2.3	2.5	1.5	2.4	2.5	2.7
Supply	14.9	15.0	14.0	14.3	14.2	14.1
China Mill Use	10.9	11.1	9.6	10.6	10.7	10.9
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Demand	10.9	11.1	9.6	10.6	10.7	10.9
Ending Stocks	4.5	4.5	4.9	4.2	4.1	3.6
Stocks/Use Ratio	41.0%	40.2%	50.7%	39.7%	38.0%	33.5%

Source: USDA

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## World Cotton Balance Sheet

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Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
Beginning Stocks	13.5	13.5	13.2	13.2	11.1	10.4
Production	26.5	26.1	23.3	22.2	25.3	25.4
Supply	40.0	39.6	36.5	35.4	36.4	35.8
Consumption	27.0	26.9	23.9	25.6	26.1	26.3
Ending Stocks	13.5	13.2	13.2	10.4	10.9	9.9
Stocks/Use Ratio	50.2%	49.2%	55.1%	40.4%	41.7%	37.7%

Source: USDA

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## World Cotton Production

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Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
China	7.7	8.1	8.0	7.1	7.2	7.2
India	4.7	5.2	4.9	5.1	5.4	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	2.2	2.1
Brazil	1.5	1.6	1.2	1.2	1.5	1.5
Uzbekistan	1.2	1.2	1.0	0.9	1.0	1.0
Turkey	0.8	0.7	0.4	0.4	0.5	0.5
Australia	0.3	0.1	0.3	0.3	0.5	0.5
African Franc Zone	0.7	0.5	0.5	0.4	0.4	0.4
EU-27	0.4	0.4	0.3	0.2	0.3	0.3
Turkmenistan	0.3	0.3	0.3	0.3	0.3	0.3
Greece	0.3	0.3	0.3	0.2	0.3	0.3
Syria	0.2	0.2	0.2	0.2	0.2	0.2
Argentina	0.2	0.2	0.1	0.2	0.2	0.2
Burkina	0.3	0.1	0.2	0.2	0.2	0.2
Rest of World	1.7	1.6	1.4	1.2	1.4	1.4
World Total	26.5	26.1	23.3	22.2	25.3	25.4

Source: USDA

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## World Cotton Exports

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Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
United States	2.8	3.0	2.9	2.6	3.1	3.3
India	1.1	1.6	0.5	1.4	1.3	1.4
Uzbekistan	1.0	0.9	0.7	0.8	0.8	0.8
Brazil	0.3	0.5	0.6	0.4	0.5	0.4
Australia	0.5	0.3	0.3	0.5	0.4	0.4
African Franc Zone	0.5	0.4	0.3	0.3	0.3	0.3
EU-27	0.3	0.4	0.2	0.2	0.3	0.3
Turkmenistan	0.2	0.2	0.1	0.2	0.2	0.2
Greece	0.3	0.3	0.2	0.2	0.2	0.2
Burkina	0.3	0.2	0.2	0.2	0.2	0.2
Pakistan	0.0	0.1	0.1	0.2	0.1	0.1
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
Kazakhstan	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
Rest of World	1.1	0.9	0.7	0.8	0.8	0.8
World Total	8.2	8.5	6.6	7.8	8.1	8.3

Source: USDA

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## World Cotton Consumption

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Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
China	10.9	11.1	9.6	10.6	10.7	10.9
India	3.9	4.0	3.9	4.3	4.4	4.4
Pakistan	2.6	2.6	2.4	2.5	2.5	2.5
Turkey	1.6	1.3	1.1	1.3	1.2	1.3
Brazil	1.0	1.0	0.9	1.0	1.0	1.0
Bangladesh	0.7	0.8	0.8	0.9	0.9	0.9
United States	1.1	1.0	0.8	0.7	0.7	0.7
Indonesia	0.5	0.5	0.4	0.4	0.5	0.5
Mexico	0.5	0.4	0.4	0.4	0.4	0.4
Vietnam	0.2	0.3	0.3	0.3	0.4	0.4
Thailand	0.4	0.4	0.3	0.4	0.4	0.4
Uzbekistan	0.2	0.2	0.2	0.2	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
Egypt	0.2	0.2	0.2	0.2	0.2	0.2
Rest of World	2.7	2.5	2.1	2.0	2.0	2.0
World Total	27.0	26.9	23.9	25.6	26.1	26.3

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Source: USDA

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## World Cotton Imports

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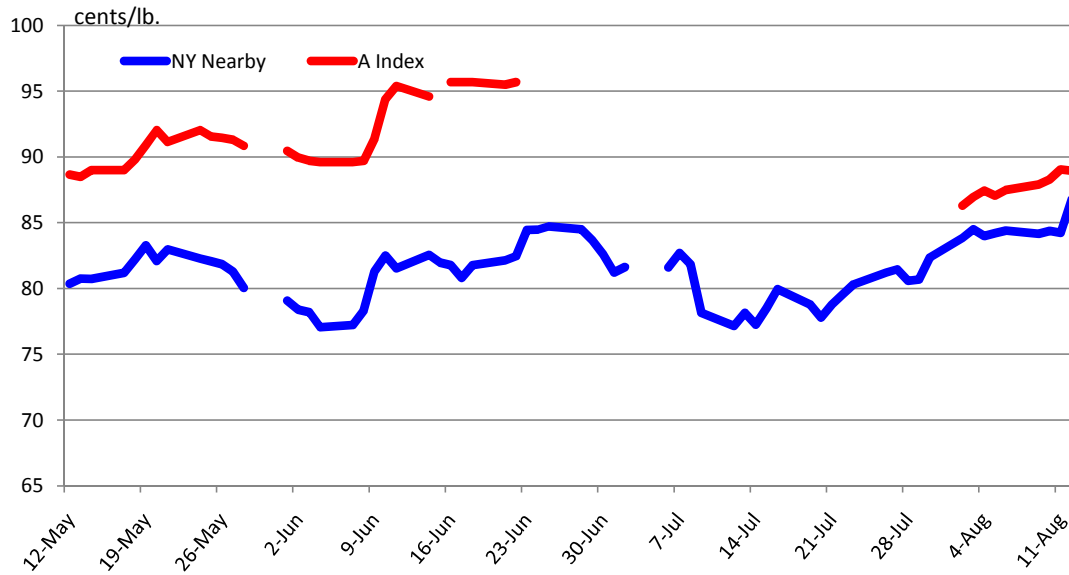
Millions of Metric Tons	2006/07	2007/08	2008/09	2009/10	2010/11 July	2010/11 August
China	2.3	2.5	1.5	2.4	2.5	2.7
Bangladesh	0.7	0.8	0.8	0.9	0.9	0.9
Turkey	0.9	0.7	0.6	0.9	0.7	0.7
Indonesia	0.5	0.5	0.4	0.5	0.5	0.5
Pakistan	0.5	0.9	0.4	0.3	0.5	0.5
Thailand	0.4	0.4	0.3	0.4	0.4	0.4
Vietnam	0.2	0.3	0.3	0.4	0.4	0.4
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
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
Iran	0.1	0.1	0.1	0.1	0.1	0.1
Rest of World	1.4	1.1	0.8	0.9	0.9	0.9
World Total	8.3	8.5	6.5	7.9	8.1	8.3

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Source: USDA

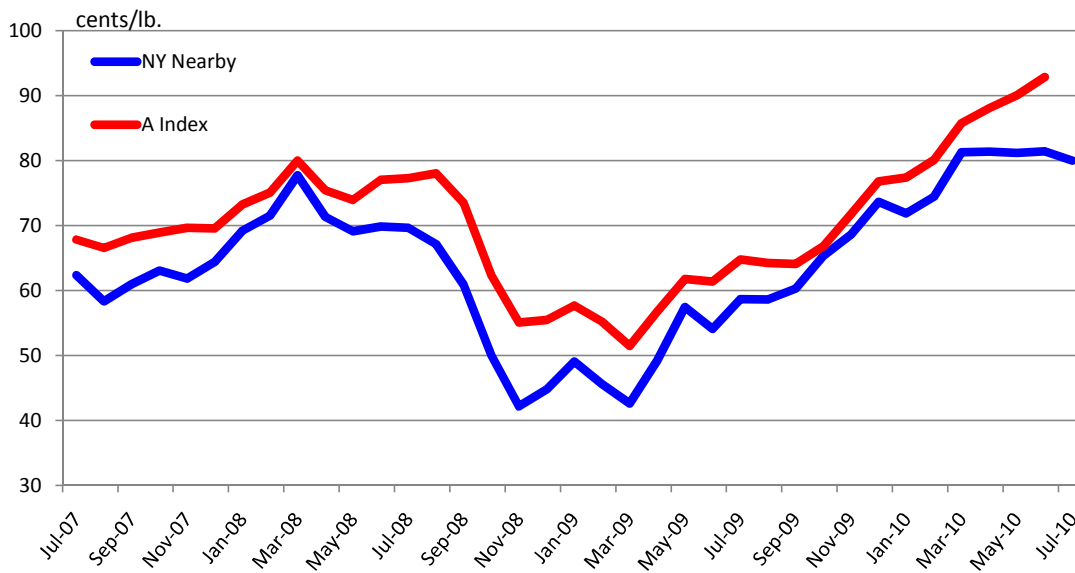
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## Daily NY Nearby and A Index Prices: Last Three Months



Note: A Index values were not published from June 23, 2010 through August 2, 2010 due to insufficient quotes.

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



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