INTERNATIONAL COTTON ADVISORY COMMITTEE
1629 K Street NW, Suite 702, Washington, DC 20006 USA
Telephone (202) 463-6660 • Fax (202) 463-6950 • email secretariat@icac.org

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China (Mainland) Remains Key to Cotton Prices

World production is skyrocketing to 26.1 million tons in 2004/05 (up 26%), outpacing world consumption (up 9%) by an estimated 2.9 million tons, the highest gap in twenty seasons. The Cotlook A Index is forecast to average 53 cents per pound in 2004/05, down fifteen cents from a six-year high in 2003/04. The current level of international prices implies a reduction in world production in 2005/06. World production is forecast to decline to 23.4 million tons in 2005/06, down 2.7 million tons (10%) from the record this season, but still the second largest crop on record.

World consumption is projected to climb to a record 23.7 million tons in 2005/06, up half a million tons (2%). China (Mainland) remains the driving force behind world cotton mill use. Cotton consumption in China (Mainland) is expected to reach 8.6 million tons in 2005/06, up 5% from this season, exceeding anticipated production by 2.8 million tons. Mill use in the rest of the world is expected to reach 15.1 million tons, expected increases in India and Pakistan offsetting declines in other countries, mostly developed.

China (Mainland) is the main beneficiary of the abolition of quotas on textile and apparel trade among WTO members since January 1, 2005. Safeguard petitions to limit the growth of imports from China (Mainland) to developed countries are multiplying in numerous textile categories, as allowed until 2008 under WTO rules. An appreciation of the yuan, if it occurs, would benefit China's competitors on the export markets, without stemming the flows into import markets.

Record imports by China (Mainland), combined with lower production and rising consumption in the rest of the world, will lead to 2005/06 world exports of an estimated 8.1 million tons, up 900,000 tons from this season. The Cotlook A Index is expected to average 68 cents per pound in 2005/06. The projected 15-cent jump from the average anticipated for the current season is essentially the result of projected skyrocketing net imports by China (Mainland). The structural imbalance between domestic production and consumption in China (Mainland) is expected to continue supporting cotton prices during the next seasons.

WORLD COTTON SUPPLY AND DISTRIBUTION

	2003/04	2004/05	2005/06	2003/04	2004/05	2005/06
	Million Tons			Million Bales		
Production	20.71	26.13	23.4	95.1	120.0	107
Consumption	21.27	23.24	23.7	97.7	106.7	109
Exports	7.25	7.21	8.1	33.3	33.1	37
Ending Stocks	7.90	10.53	10.2	36.3	48.3	47
Cotlook A Index	68.3	53*	68*	68.3	53*	68*

* US cents per pound. The estimate for 2004/05 IS NOT A PRICE MODEL RESULT. The statistical estimate for 2005/06 is based on current estimates of supply and use; 95% confidence intervals extend 12 cents per pound above and below the estimate.

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