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EXTRA-FINE COTTON UPDATE

From the Secretariat of the ICAC
February 28, 2017

Changes in Supply and Demand Estimates from the December 2016 Report (Producing Countries)

2016/17:

World Production: 487,000 tons (+2,000 tons): China 183,000 tons (+39,000 tons); United States 121,000 (-1,000 tons)

Prices Remain Firm despite Rising Stocks

After reaching record high prices in 2010/11, production of extra-fine cotton production rose by 32% to 641,000 tons in 2011/12. However, as prices fell over the next two seasons, production declined to 397,000 tons in 2013/14, which was the lowest level in over 3 decades. Improved prices for extra-fine cotton relative to upland cotton encouraged production in the following three seasons, which grew from 435,000 tons in 2014/15 to 487,000 tons in 2016/17.

After the record of \$2.28/lb established in 2010/11, quotes for American Pima fell to \$1.53/lb in 2015/16. In the first five and a half months of 2016/17, American Pima quotes rose slightly, averaging \$1.62/lb. At the same time, the Cotlook A Index, which is a measure of international upland prices, fell much more significantly, such that the ratio of American Pima to the Cotlook A Index rose from 1.39 in 2010/11 to 2.22 in 2015/16. The ratio of the two prices from August 2016 to February 16, 2017 is 2.02.

China is the largest producer of extra-fine cotton in 2016/17, with its output increasing by 46% to 183,000 tons. China's extra-fine cotton production declined greatly under its stockpiling policy, reaching just 60,000 tons in 2012/13 due to the fact that prices for upland and extra-fine cotton were essentially the same. Yet, extra-fine cotton has higher production costs. In the last two seasons, however, extra-fine cotton production has received a greater subsidy than production of upland cotton, which has encouraged the expansion in area and production. In addition, the average yield this past season rose significantly due to beneficial weather.

In the United States, production of extra-fine cotton increased by 295 to 121,000 tons. Harvested area expanded by 22% to 77,000 hectares, while the average yield rose by 5% to 1,580 kg/ha. Much of the increase occurred in the state of California, which accounts for 88% of total Pima production in the United States in 2016/17.

While output in India declined by 185 to 77,000 tons, it remains the third largest producer of extra-fine cotton. Production in Egypt has declined in the last three seasons, reaching 47,000 tons in 2016/17, of which 45,000 tons were long staple and 2,000 tons were extra-long staple cotton.

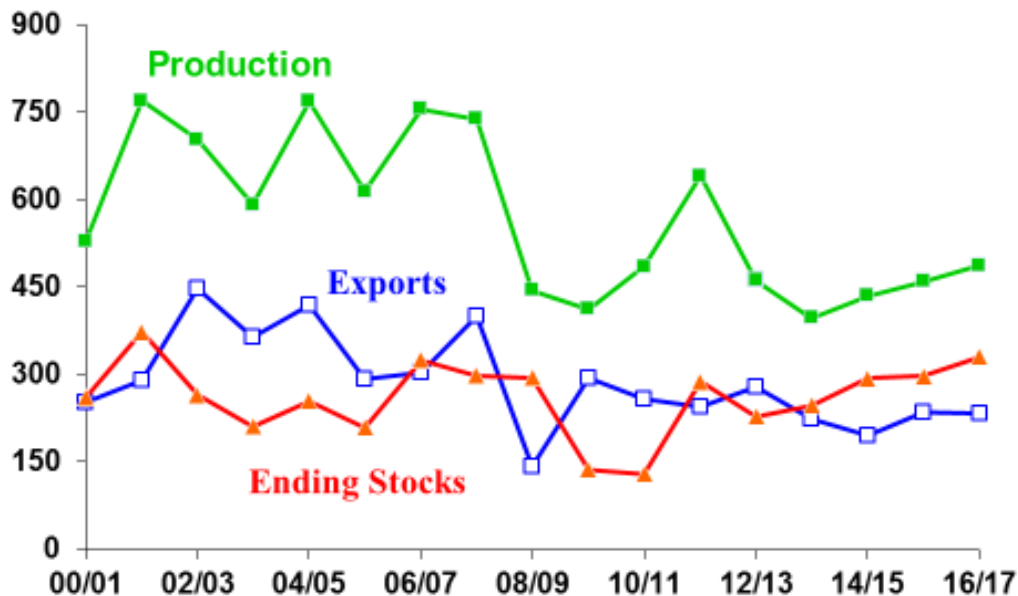
Consumption in countries that produce extra-fine cotton has remained fairly stable since 2013/14, averaging 330,000 tons a year after declining from an average of around 400,000 tons a year in the previous five seasons. Consumption is expected to remain stable at 333,000 tons in 2016/17. Since 2011, India has been the largest consumer of extra-fine cotton and its consumption is expected to remain stable at 147,000 tons in 2016/17. China's consumption may grow by 4% to 135,000 tons in 2016/17. Egypt's consumption of long staple cotton is projected to decrease by 22% to 24,000 tons.

Stocks at the end of 2016/17 are projected to rise by 11% to 330,000 tons. China has not been a significant exporter of extra-fine cotton as it's a fairly large consumer. China's stocks at the end of 2016/17 may grow by 71% to 147,000 tons due to the significant expansion in output this season while consumption has increased minimally. In addition, China is not generally a larger exporter of extra-fine cotton, and its exports in 2016/17 are forecast at around 20,000 tons. Due to strong demand, exports from the two largest extra-fine cotton exporters, the United States and Egypt, are projected to increase by 13% to 131,000 tons and 6% to 36,000 tons respectively. Stocks in both countries are forecast to fall, which is helping to keep prices firm in 2016/17. Stocks at the end of 2016/17 in the United States are expected to decline by 50% to 15,000 tons, while stocks in Egypt will decrease by 10% to 125,000 tons.



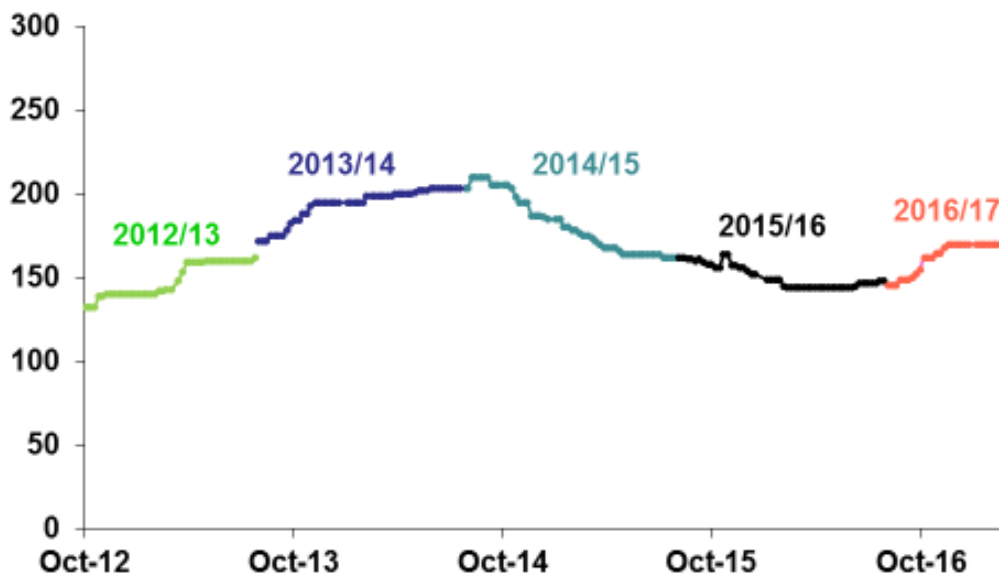
EXTRA-FINE COTTON

thousand tons



Cotlook Quote for American Pima

U.S. cents/lb.



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SALES OF EXTRA-FINE COTTON

World extra-fine cotton export commitments for 2016/17 are estimated at 203,000 tons as of mid-February 2017, accounting for 87% of projected exports for the season. Between mid-December 2016 and mid-February 2017, export commitments for 2016/17 rose by 23,000 tons. About 83% of 2015/16 exports were committed as of mid-February 2016.

U.S. Pima sales for 2016/17 reached 106,000 tons, accounting for 81% of projected exports for the season. As of mid-February 2016, U.S. Pima sales for 2015/16 were at 73,000 tons accounting for 63% of actual exports for the season. The U.S. Pima competitiveness payments are currently not available, as conditions for the payments were not met.

Export commitments by Egypt for 2016/17 are estimated at 35,000 tons as of mid-February 2017 (98% of projected exports) and include carryover sales from 2015/16 estimated at 6,000 tons. Exports commitments by Egypt for 2015/16 were at 33,000 tons (100% of actual exports) as mid-February 2015 and included 14,000 tons of carryover sales from the previous season.

EXTRA-FINE EXPORT COMMITMENTS FOR 2016/17

February 23, 2017

	Total Exports	Commitments January		Sales Remaining
Thousand Tons				
CHINA	20	18	90%	2
EGYPT	36	35	98%	1
ISRAEL	14	14	100%	
SUDAN	1	1	100%	
TAJIKISTAN	0	0	100%	
TURKMENISTAN	22	20	91%	2
UNITED STATES	131	106	81%	25
UZBEKISTAN	0	0	100%	
OTHERS	10	9	87%	1
WORLD TOTAL	234	203	87%	31

Commitments include sales for shipment between August 1, 2016 and July 31, 2017.

SUPPLY OF EXTRA-FINE COTTON*

February 28, 2017

Years Beginning August 1

	2010	2011	2012	2013	2014	2015	2016	2017
				Est.	Est.	Proj.	Proj.	Proj.
BEGINNING STOCKS*								
CHINA	32	37	92	77	70	60	86	147
EGYPT, ELS	7	7	19	11	12	3	1	1
EGYPT, L. STPL.	30	24	48	40	74	119	138	124
INDIA	27	24	24	11	27	27	27	27
ISRAEL	1	1	1	1	1	1	1	1
PERU	3	8	6	5	4	2	6	6
SUDAN	5	0	14	15	8	1	0	0
TAJIKISTAN	1	1	0	0	1	0	0	0
TURKMENISTAN	20	17	22	25	21	21	6	7
UNITED STATES	4	6	59	41	27	56	30	15
UZBEKISTAN	6	2	1	0	1	1	0	0
OTHER PRODUCERS	2	2	2	3	2	2	2	2
TOTAL	137	129	288	228	247	294	297	330
PRODUCTION								
CHINA	125	130	60	38	65	125	183	
EGYPT, ELS	28	37	10	7	4	2	2	
EGYPT, L. STPL.	105	148	99	94	106	82	45	
INDIA	63	70	70	76	88	94	77	
ISRAEL	7	16	14	11	14	19	14	
PERU	14	9	9	8	6	11	9	
SUDAN	4	16	3	1	0	0	1	
TAJIKISTAN	1	1	2	2	0	1	1	
TURKMENISTAN	20	18	18	17	20	23	24	
UNITED STATES	110	185	170	138	123	94	121	
UZBEKISTAN	2	2	2	2	2	1	0	
OTHERS	6	7	6	5	9	9	9	
TOTAL	485	641	461	397	435	459	487	
CONSUMPTION*								
CHINA	180	140	150	120	123	130	135	
EGYPT, ELS	1	2	1	1	1	2	1	
EGYPT, L. STPL.	33	65	72	39	27	31	24	
INDIA	150	154	155	145	146	146	147	
ISRAEL	0	0	0	0	0	0	0	
PERU	14	14	14	13	13	13	13	
SUDAN	0	0	0	0	0	0	0	
TAJIKISTAN	1	1	1	1	1	0	0	
TURKMENISTAN	4	4	3	3	1	1	2	
UNITED STATES	6	5	5	5	5	5	5	
UZBEKISTAN	1	1	1	1	1	1	0	
OTHER PRODUCERS	7	7	7	7	6	6	6	
TOTAL	396	392	407	333	324	335	333	
EXPORTS								
CHINA	5	5	5	5	10	18	20	
EGYPT, ELS	24	25	17	4	12	2	1	
EGYPT, L. STPL.	76	48	35	21	33	32	35	
INDIA	0	0	3	2	3	3	3	
ISRAEL	7	16	14	11	14	18	14	
PERU	0	0	0	0	0	0	0	
SUDAN	9	2	2	8	6	1	1	
TAJIKISTAN	1	1	1	1	0	0	0	
TURKMENISTAN	18	10	12	18	19	37	22	
UNITED STATES	108	129	184	148	89	116	131	
UZBEKISTAN	5	2	1	1	1	1	0	
OTHER PRODUCERS	4	6	5	4	8	8	7	
TOTAL	258	244	280	224	196	236	234	
TOTAL IMPORTS 1/ STOCKS ADJUSTMENT 2/	162 -1	163 -8	166 0	179 -1	131 0	116 0	113 0	
ENDSTOCKS/USE, EGYPT	0.23	0.48	0.41	1.32	1.66	2.08	2.07	
ENDSTOCKS/USE, USA	0.05	0.44	0.22	0.18	0.60	0.24	0.11	
ENDSTOCKS/USE, TOTAL	0.20	0.45	0.33	0.44	0.57	0.52	0.58	
COTLOOK QUOTE, AM. PIMA	228	179	146	194	182	153	162	
COTLOOK QUOTE, GIZA 88 3/	260	156	154	178	113	114	163	
RATIO: AM. PIMA/GIZA 88	0.88	1.15	0.94	1.09	1.61	1.34	0.99	
RATIO: AM. PIMA/A INDEX	1.39	1.79	1.66	2.14	2.57	2.22	2.02	

* Producing countries only. Stocks include all cotton physically present in the country, either committed or uncommitted.

** Am. Pima, Giza 88 and Cotlook A Index through February 16, 2017.

1/ Imports of extra-fine cotton by producing countries.

2/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

3/ For 2013/14, 2014/15 and 2015/16, the quote is for Giza 86 as there are no quotes available for Giza 88.