The World Cotton Market: Structure and Outlook

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Senior Economist

International Cotton Advisory Committee

Texas International Cotton School
Lubbock, TX
13 August 2013

Overview

- ICAC
- Season 2012/13
  - Market fundamentals
  - Country Market Shares
- Past trends
  - Supply & demand
  - Prices
  - Government interventions
- Outlook 2013/14

INTERNATIONAL COTTON ADVISORY COMMITTEE

40 Governments

Formed in 1939

$1.8 million

9 employees, 9 countries

Washington, DC

ICAC MISSION

Assist governments in fostering a healthy world cotton economy, by

- **Providing transparency**
- **Clearinghouse for technical information on cotton production**
- **Forum for discussion of cotton issues of international significance**

ICAC
FOUR PRIMARY FUNCTIONS

Statistics

Technical Information

Forum for Discussion and Cooperation

Liaison with International Community

ICAC SOURCES

- Coordinating Agencies
- National Organizations
- World Bank, FAO, UN
- Trade Publications
- Government Reports
- Business Contacts
- Researchers

ICAC Publications


INTERNATIONAL COTTON
ADVISORY COMMITTEE

CATALOG
2013

ARGENTINA - AUSTRALIA - BELGIUM
BRAZIL - BURKINA FASO
CAMEROON - CHAD
COLOMBIA - COTE D'IVOIRE
EGYPT - FRANCE
GERMANY - GREECE - INDIA
ITALY - IRAN - KAZAKHSTAN
KENYA - KOREA, REP. OF - MALI
MOZAMBIQUE - NIGERIA
PAKISTAN - PARAGUAY - PERU
POLAND - RUSSIA
SOUTH AFRICA - SPAIN
SUDAN - SWITZERLAND
SYRIA - TAIWAN - TANZANIA
TOGO - TURKEY - UGANDA
UNITED STATES OF AMERICA
UZBEKISTAN - ZAMBIA - ZIMBABWE

(list of member countries as of August 2012)

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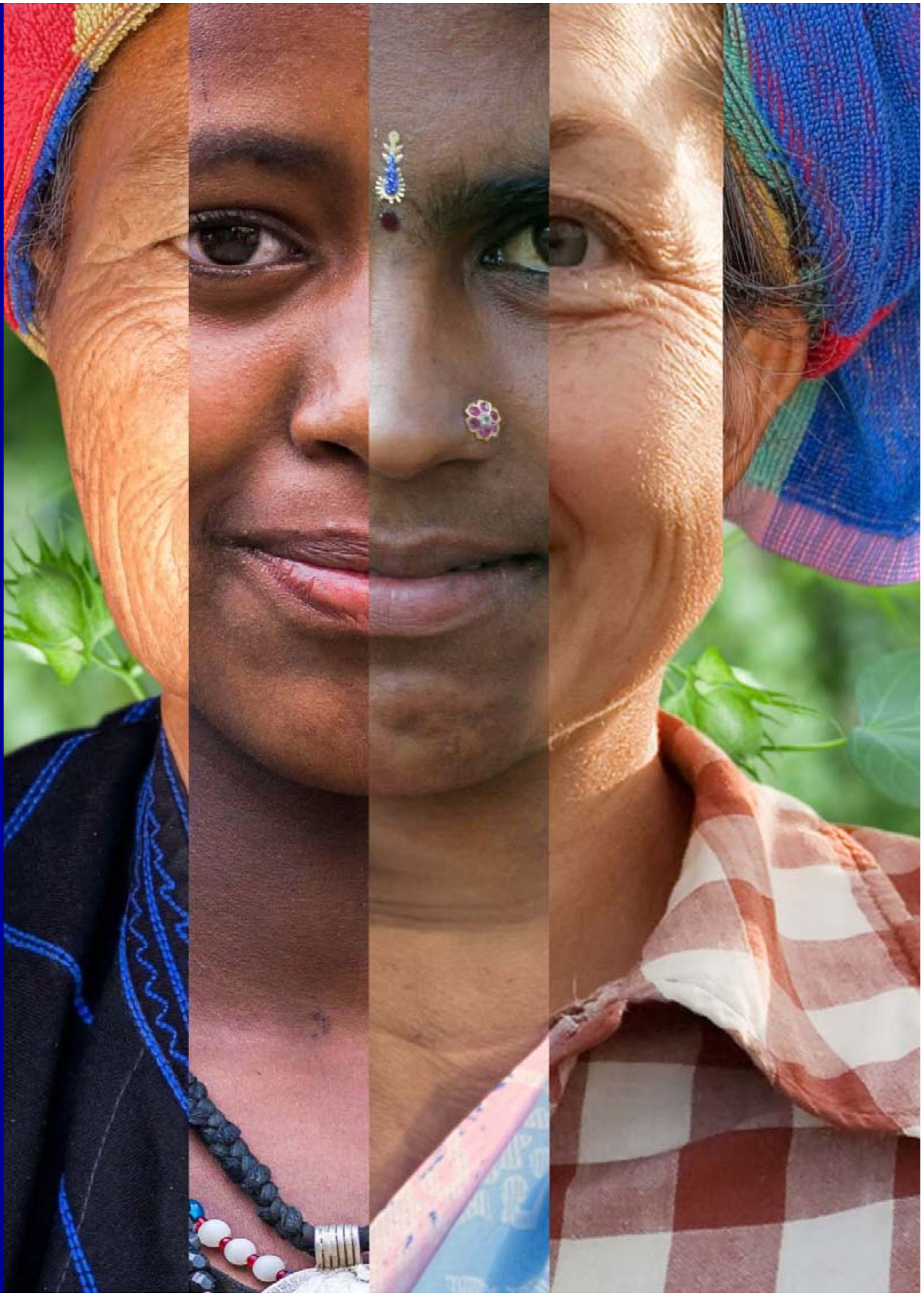
MEASURING SUSTAINABILITY OF COTTON FARMING SYSTEMS

Toward a guidance framework



FAO and ICAC

www.icac.org

International Cotton Advisory Committee

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About Committees Economics Technical Meetings Programs Topics

72nd Plenary Meeting of the International Cotton Advisory Committee

Cartagena, Colombia, September 29 to October 4, 2013

The preliminary agenda includes non-traditional topics for a cotton industry meeting, such as encouraging younger entrepreneurs, giving visibility to women and the impacts of land ownership patterns on investments in irrigation, soil conservation and other infrastructure.

Building upon the successful experiment with the World Café at the Plenary Meeting in Switzerland, all participants will have an opportunity to contribute to the Statement of the Meeting via discussions during a World Café on Tuesday morning, followed by a consensus-building World Café session on Wednesday.

Registration and for more details

Cost of Production of Raw Cotton

The Technical Information Section is updating the data on cost of production to prepare a report for the 72nd Plenary Meeting. Purchase the new report.

World Cotton Supply and Distribution

(million tons)	2012/13	2013/14
Production	26.39	25.01
Consumption	23.78	24.33
Imports	09.79	09.19
Exports	09.79	09.19
Ending Stocks	17.88	18.57

Upcoming Events

World Cotton Research Conference — 6
20 Jun, 2016 Goiânia, Goiás, Brazil

72nd Plenary Meeting
29 Sep, 2013 Cartagena, Colombia

525th Standing Committee Meeting
22 Aug, 2013 Cary (NC), USA

524th Meeting of the Standing Committee
06 Jun, 2013 Washington, DC, USA

All Meetings >

Bookstore
Standing Committee
ICAC Statistical Database
World Cotton Map
CSITC Round Trials
Surveys

UPDATE

The data have been updated on May 1st, 2013. Order Now: Cotton: World Statistics, World Textile Demand, World Cotton Trade, Plenary Package.

Press Releases

Effects of the Great Recession on Apparel Fibre Consumption
24 Jul, 2013

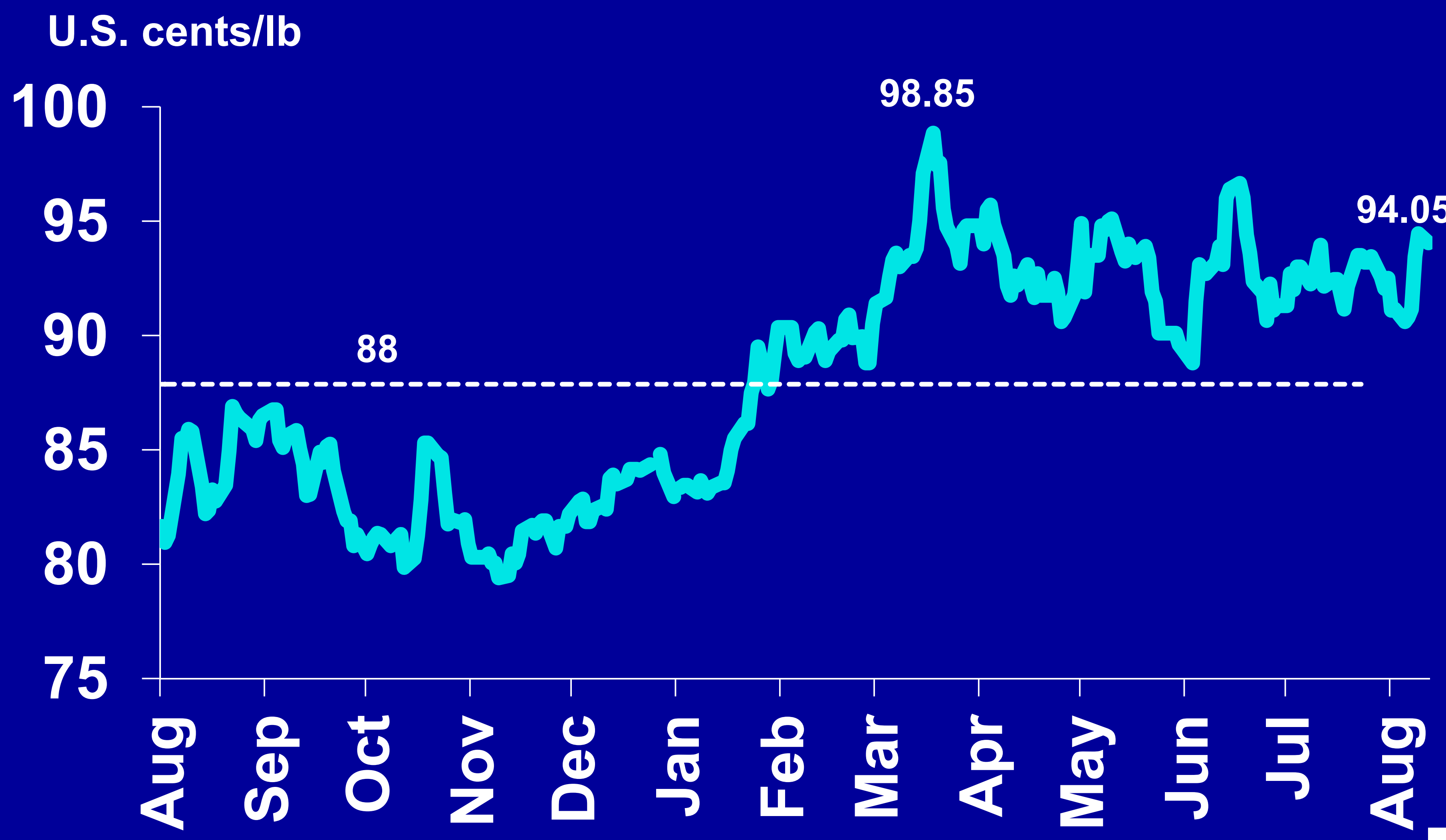
Technical Tour Descriptions
19 Jul, 2013

Metrics for Measuring Sustainability
11 Jul, 2013

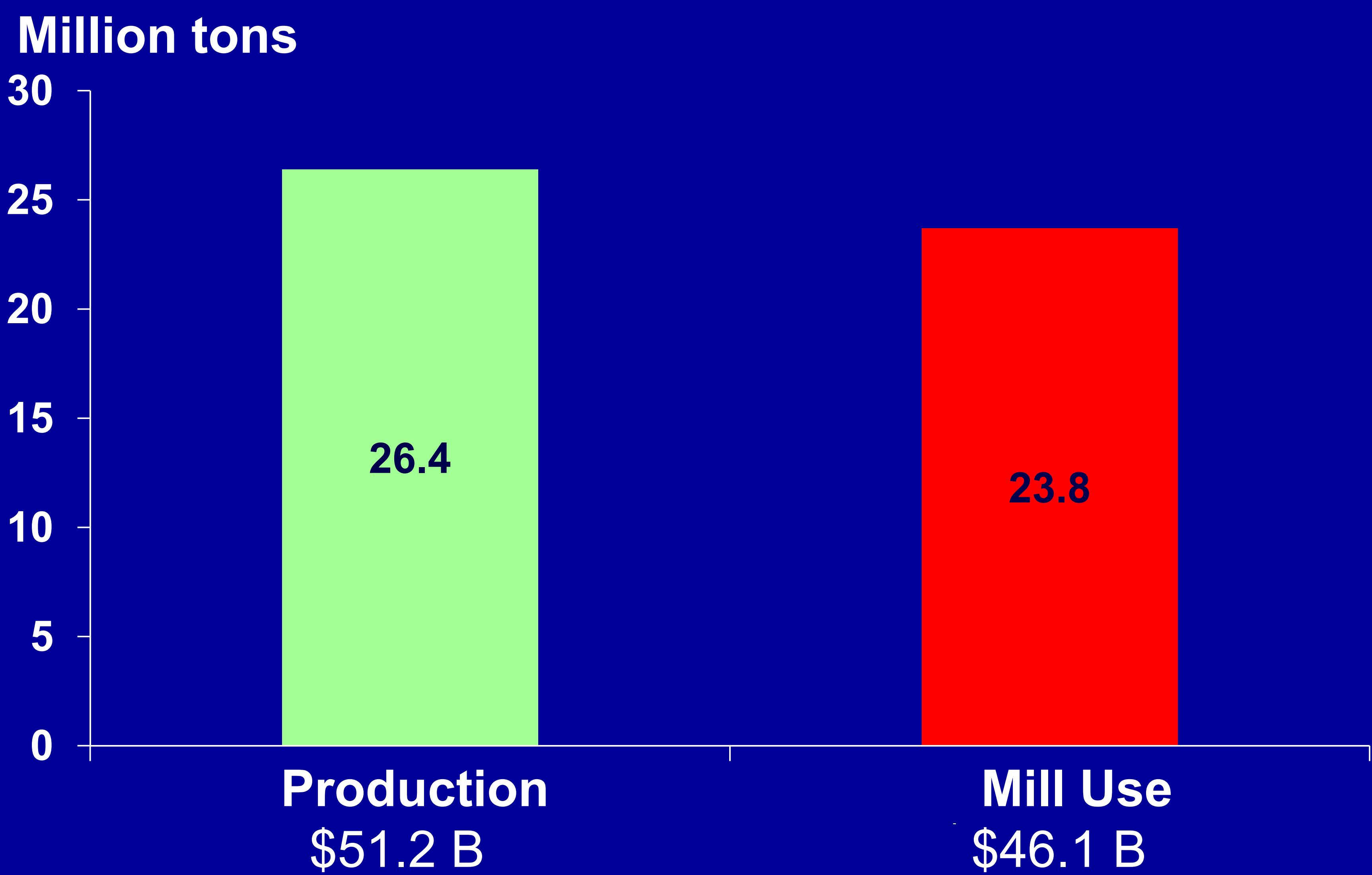
All Press Releases >

Season 2012/13

Cotlook A Index Since Aug 2012



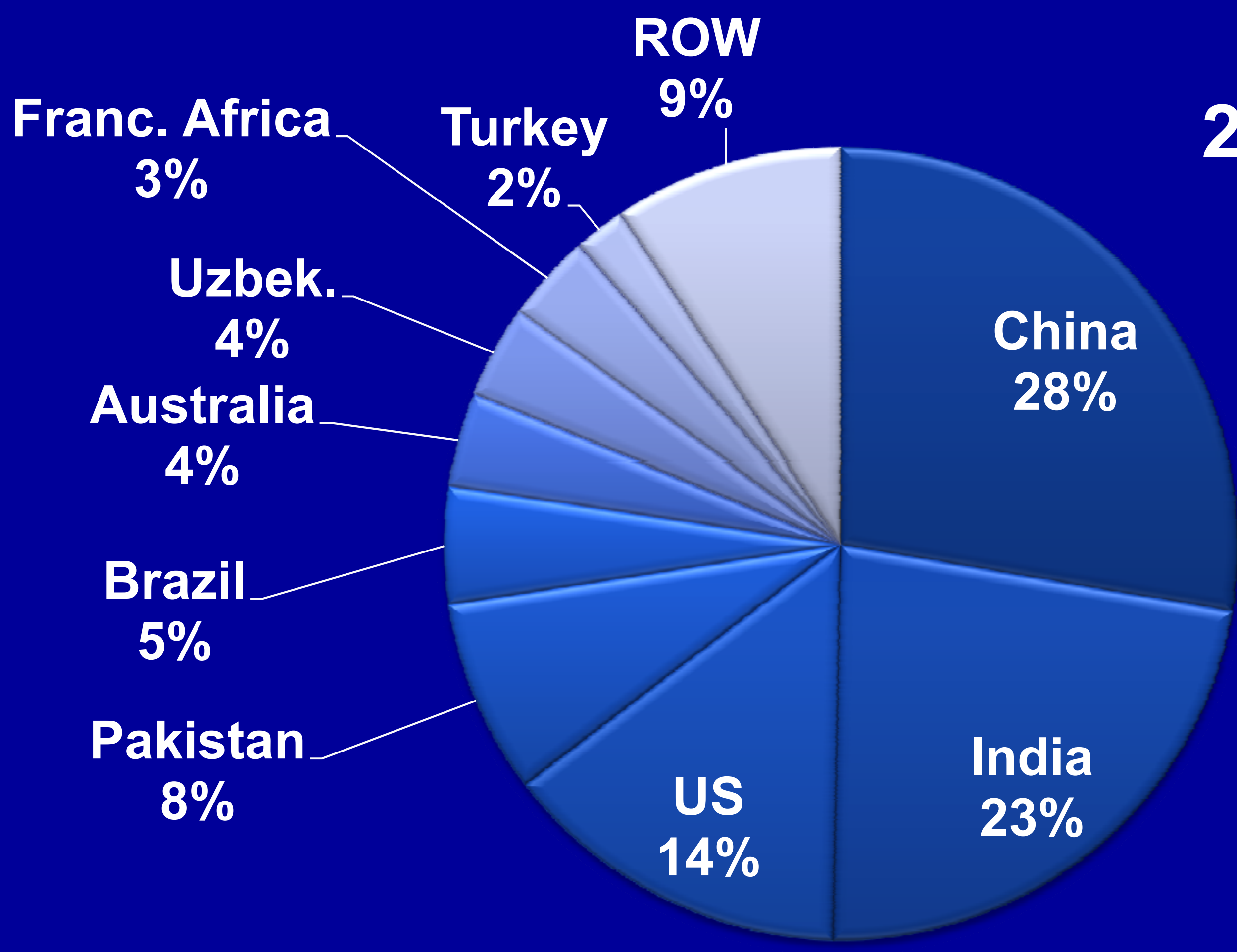
World Cotton Fundamentals 2012/13



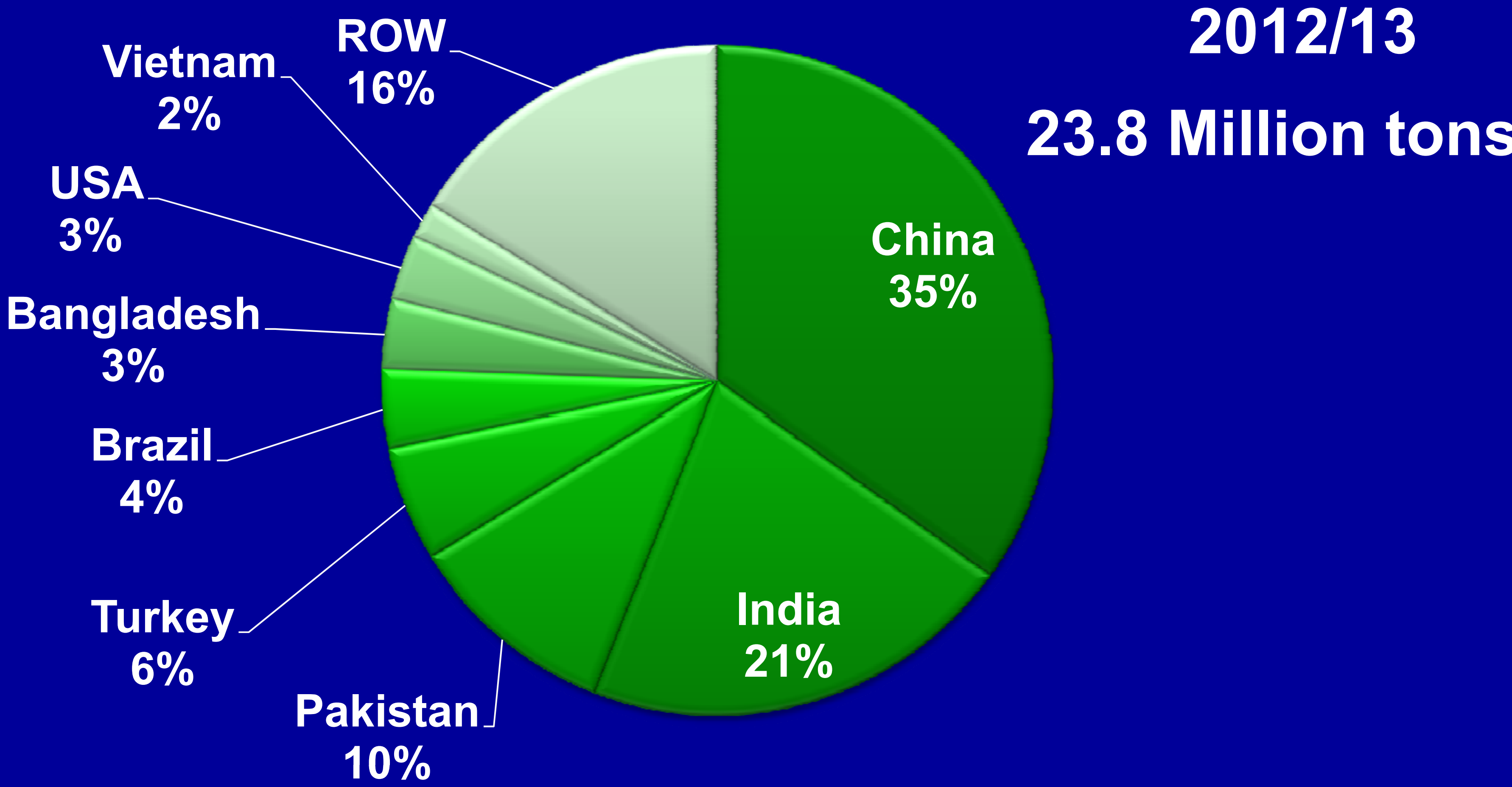
Cotton Production by Country

2012/13

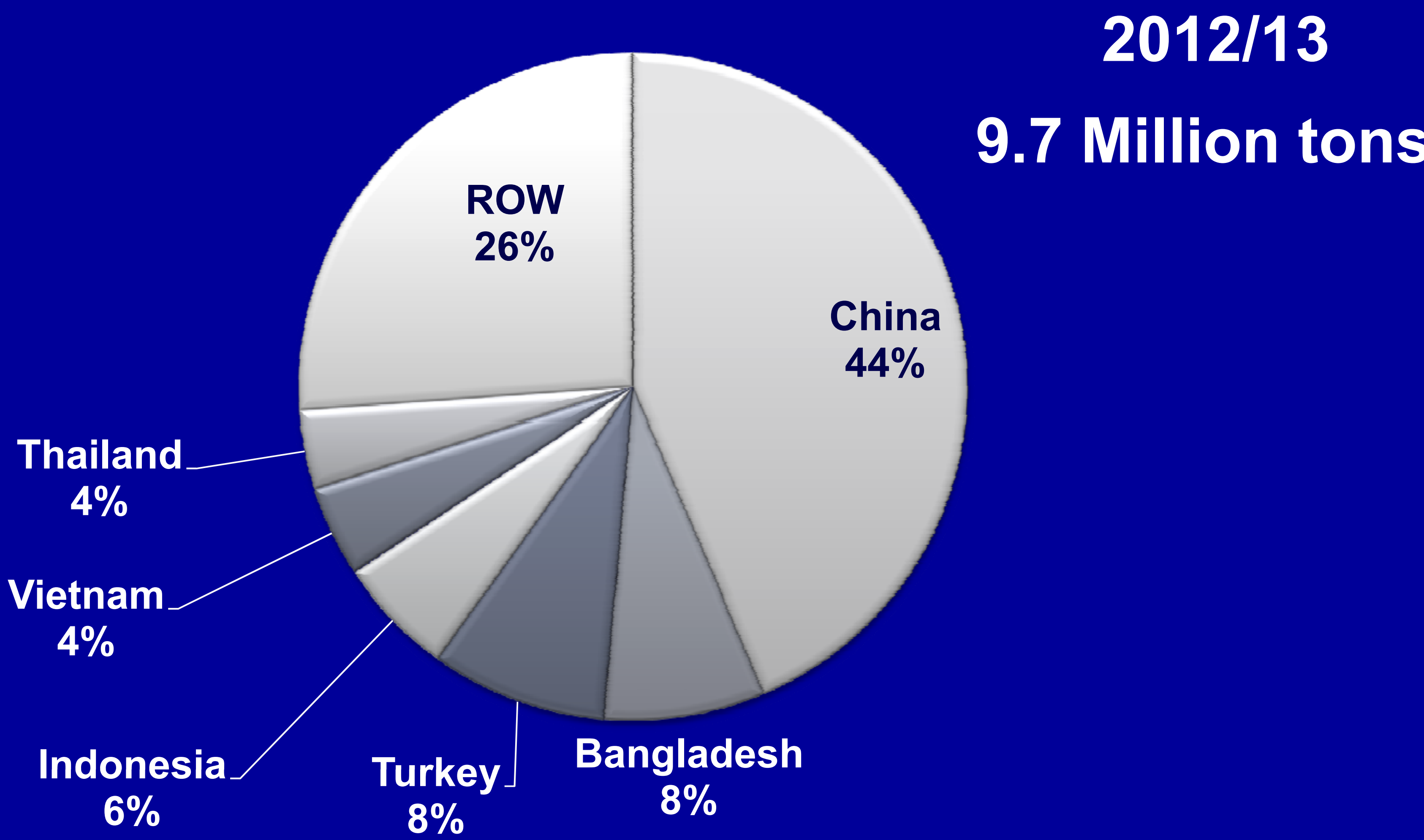
26.4 Million tons



Cotton Mill Use by Country



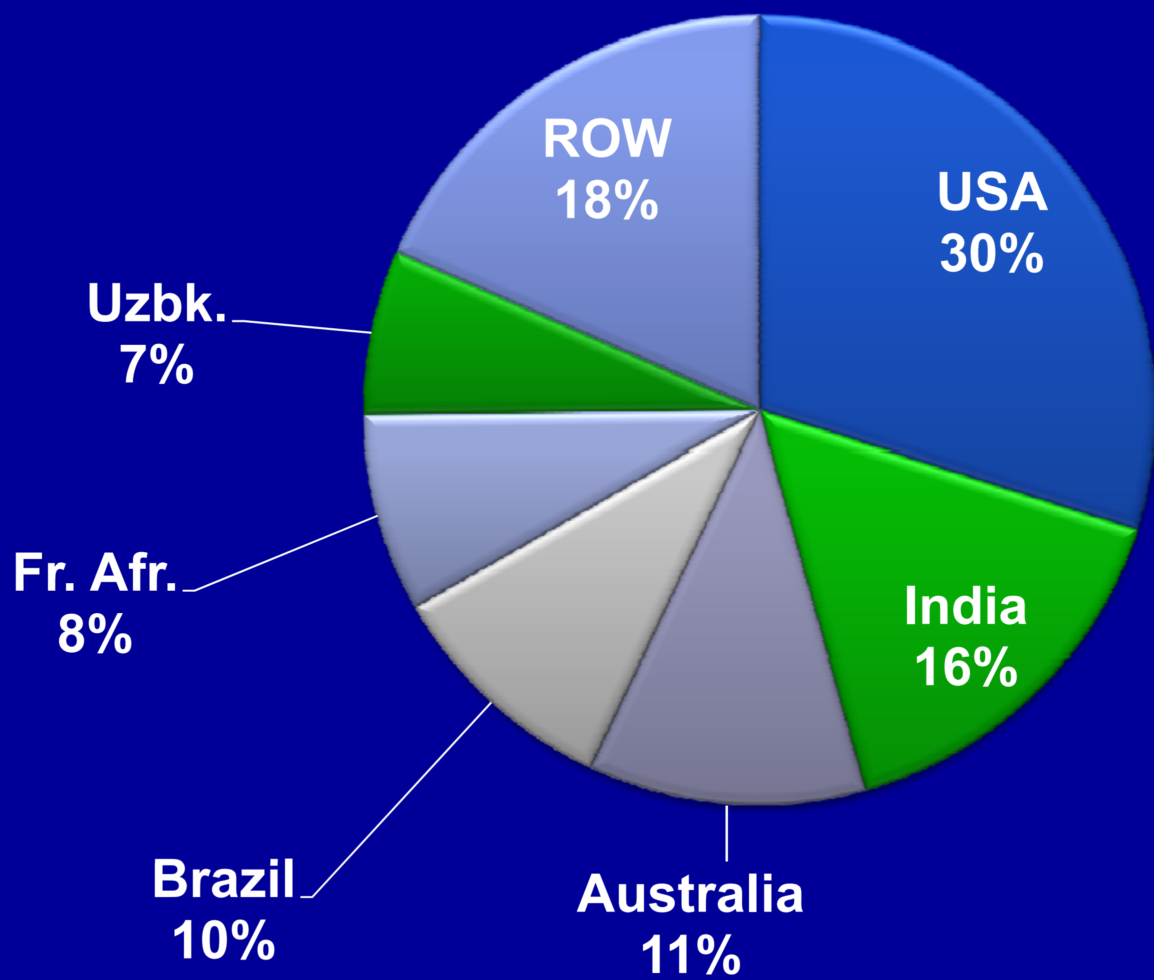
Cotton Imports by Country



Cotton Exports by Country

2012/13

9.7 Million tons



World Supply =

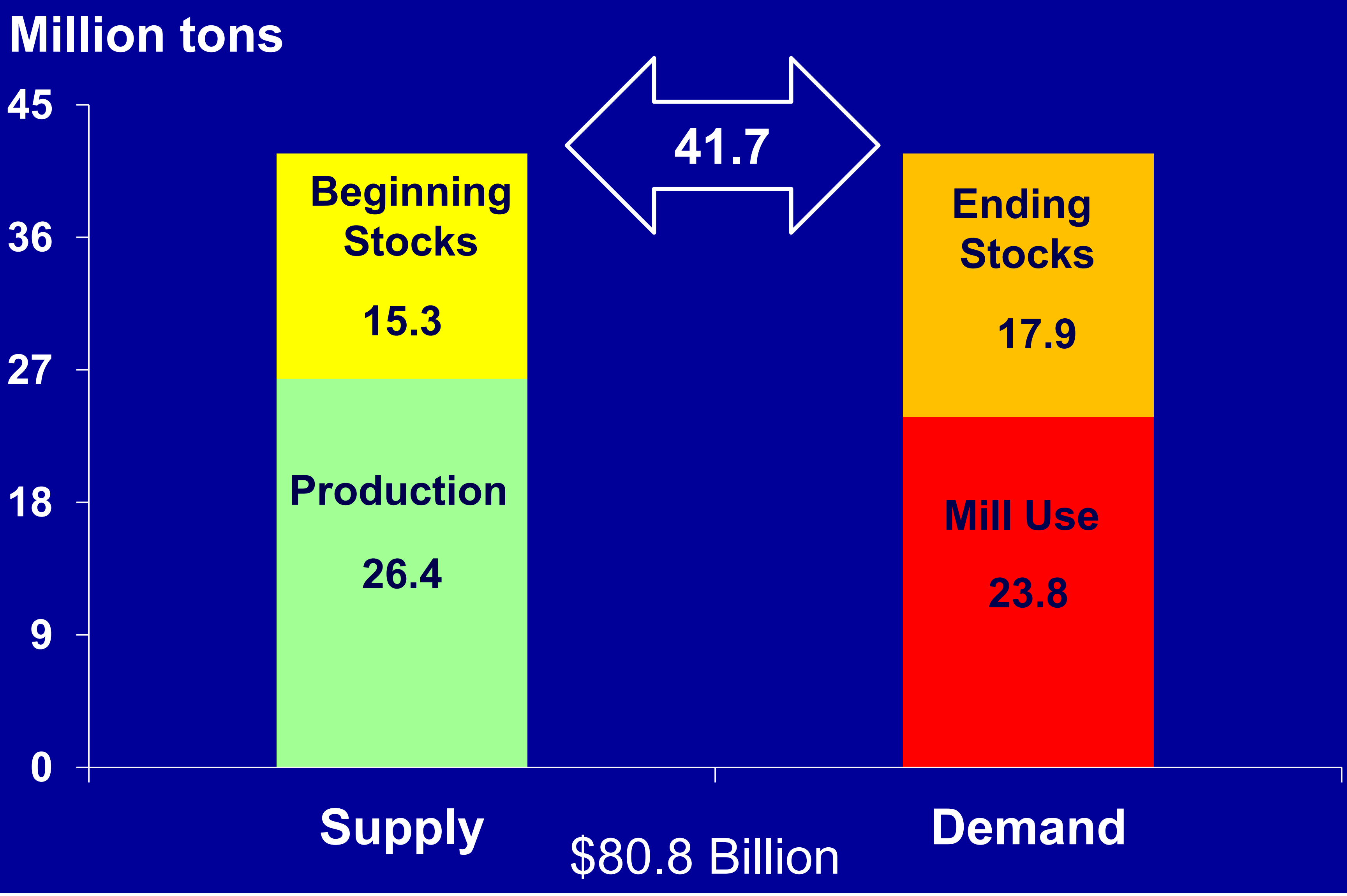
Beginning Stocks + Production

World Demand =

Mill Use + Ending Stocks

<u>World Supply = World Demand</u>

World Cotton Fundamentals 2012/13



Supply = Demand

higher/lower production

=

higher/lower Ending Stocks

Supply = Demand

higher/lower mill use

=

lower/higher Ending Stocks

Country Supply =

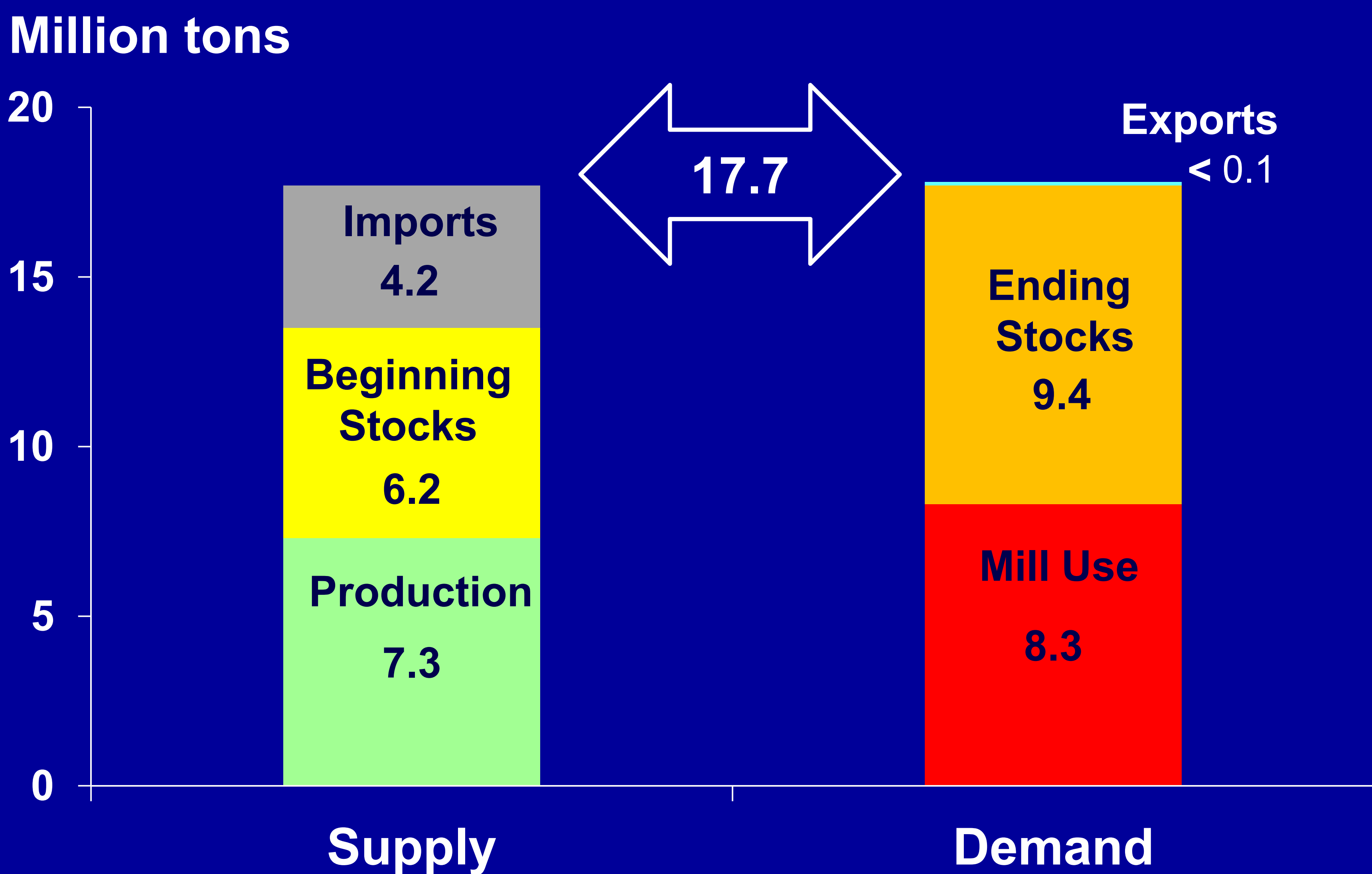
Beginning Stocks + Production + Imports

Country Demand =

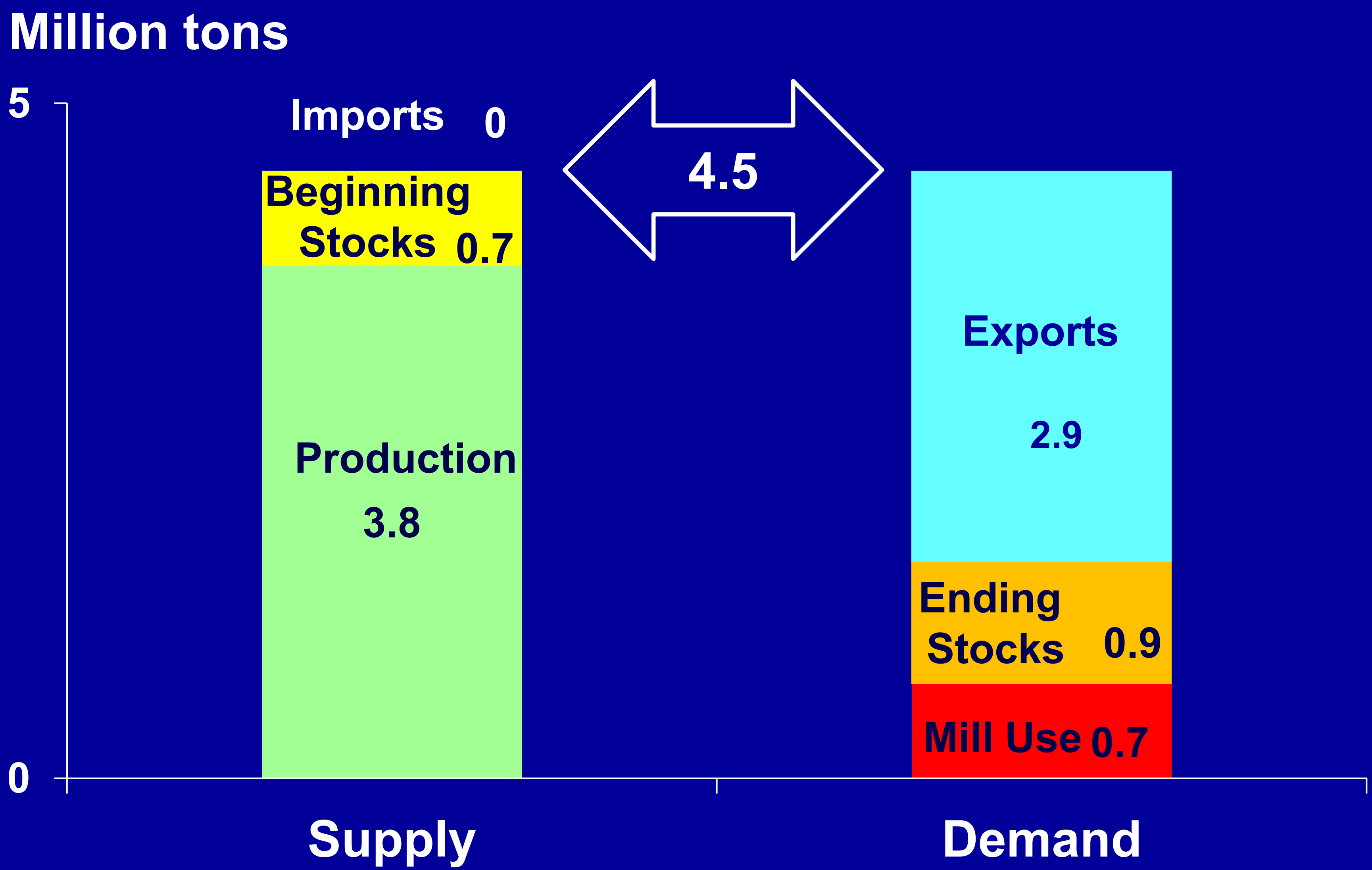
Mill Use + Ending Stocks + Exports

Country Supply = Country Demand

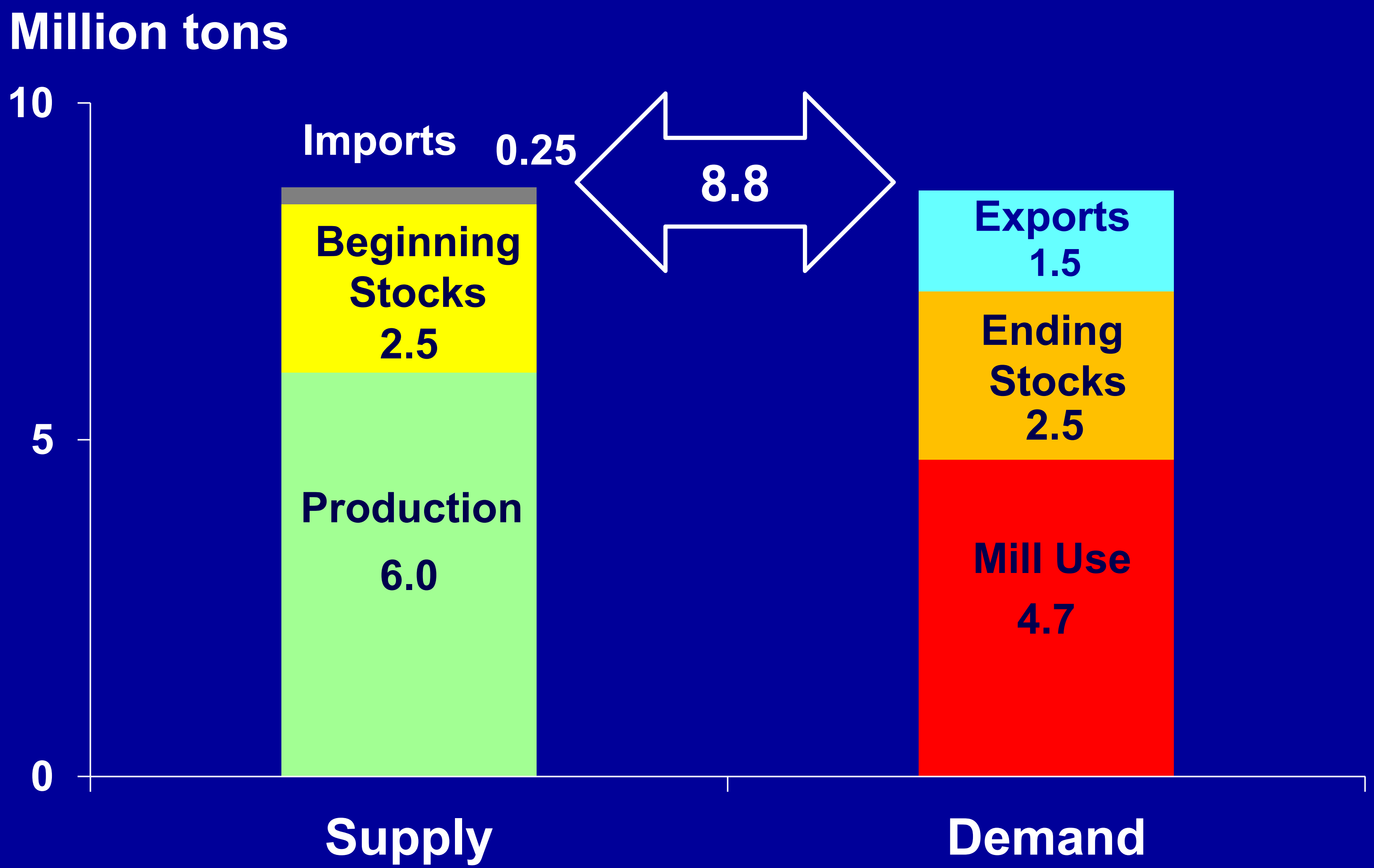
Cotton Fundamentals 2012/13
China



Cotton Fundamentals 2012/13
USA



Cotton Fundamentals 2012/13 India



Important Concepts

- World Ending Stocks =
  Beginning Stocks + Production – Mill Use

- World Stocks to Use Ratio =
  Ending Stocks / Mill Use

World Ending Stocks 2012/13 = 18.2

World Stocks to Use Ratio 2012/13 = 18.2 / 23.5

= 0.78

Important Concepts

- Country Ending Stocks =

Beg. Stocks + Prod. + Imports – Exports – Mill Use

- Country Stocks to Mill Use Ratio =

    Ending Stocks / Mill Use

- Country Stocks to Use Ratio =

    Ending Stocks / (Mill Use + Exports)

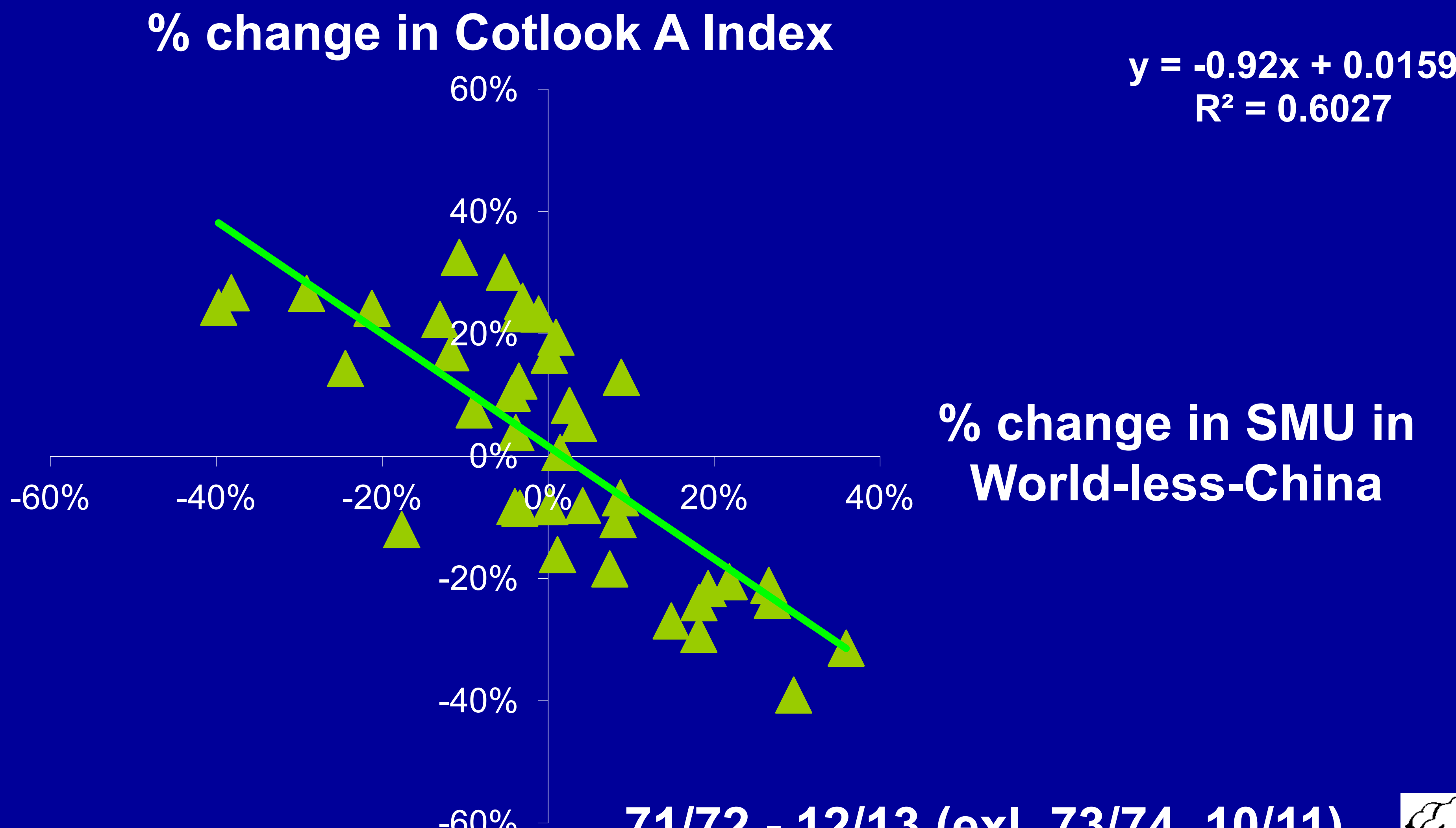
INDIA:

Ending Stocks 2012/13 = 2.5

Stocks to Mill Use Ratio 12/13 = 2.5 / 4.7 = 0.53

Stocks to Use Ratio 12/13= 2.5/ (4.7 + 1.5)= 0.40

A Index and Stock-to-Mill Use Ratio in World Less-China

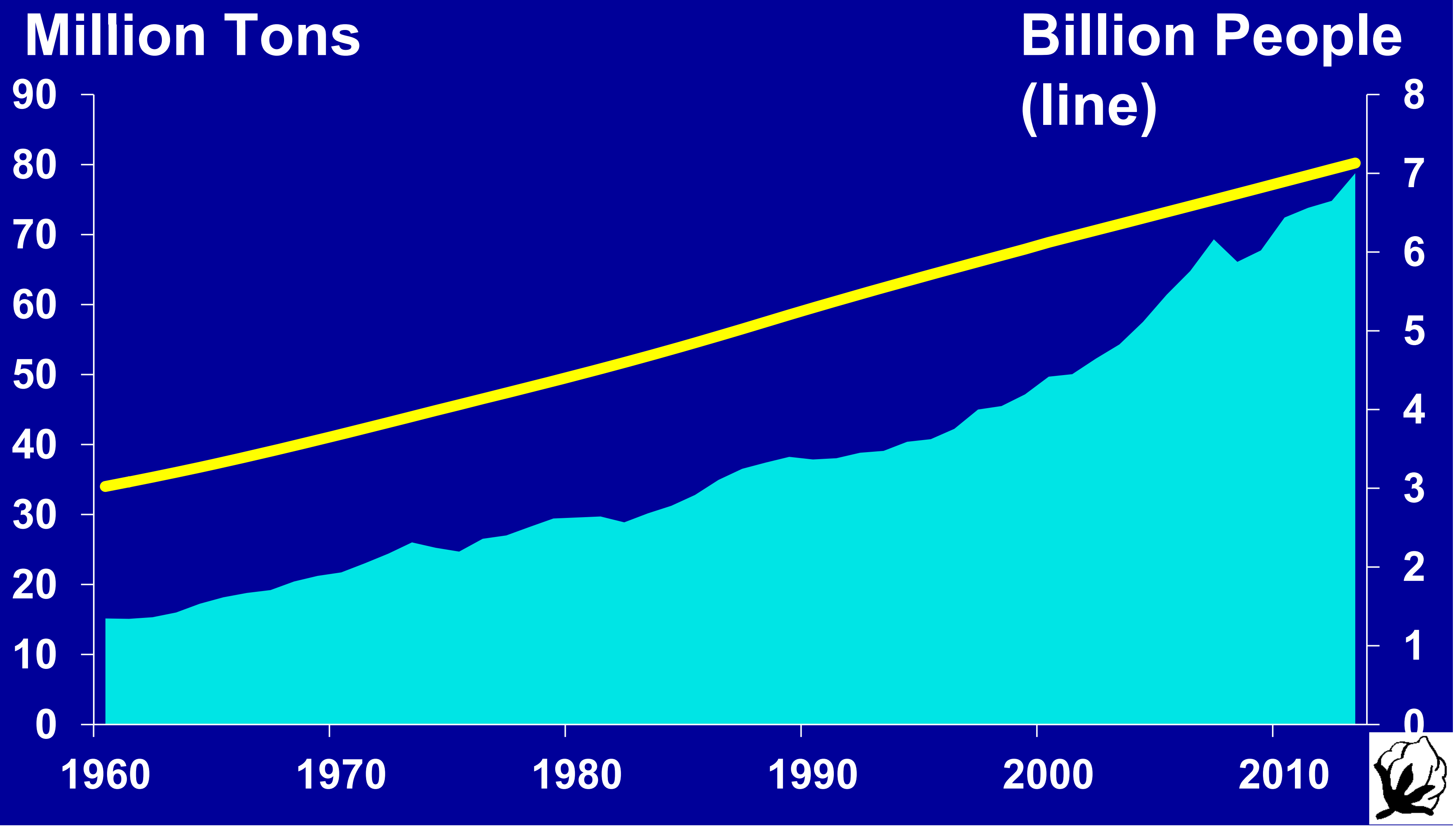


71/72 - 12/13 (exl. 73/74, 10/11)

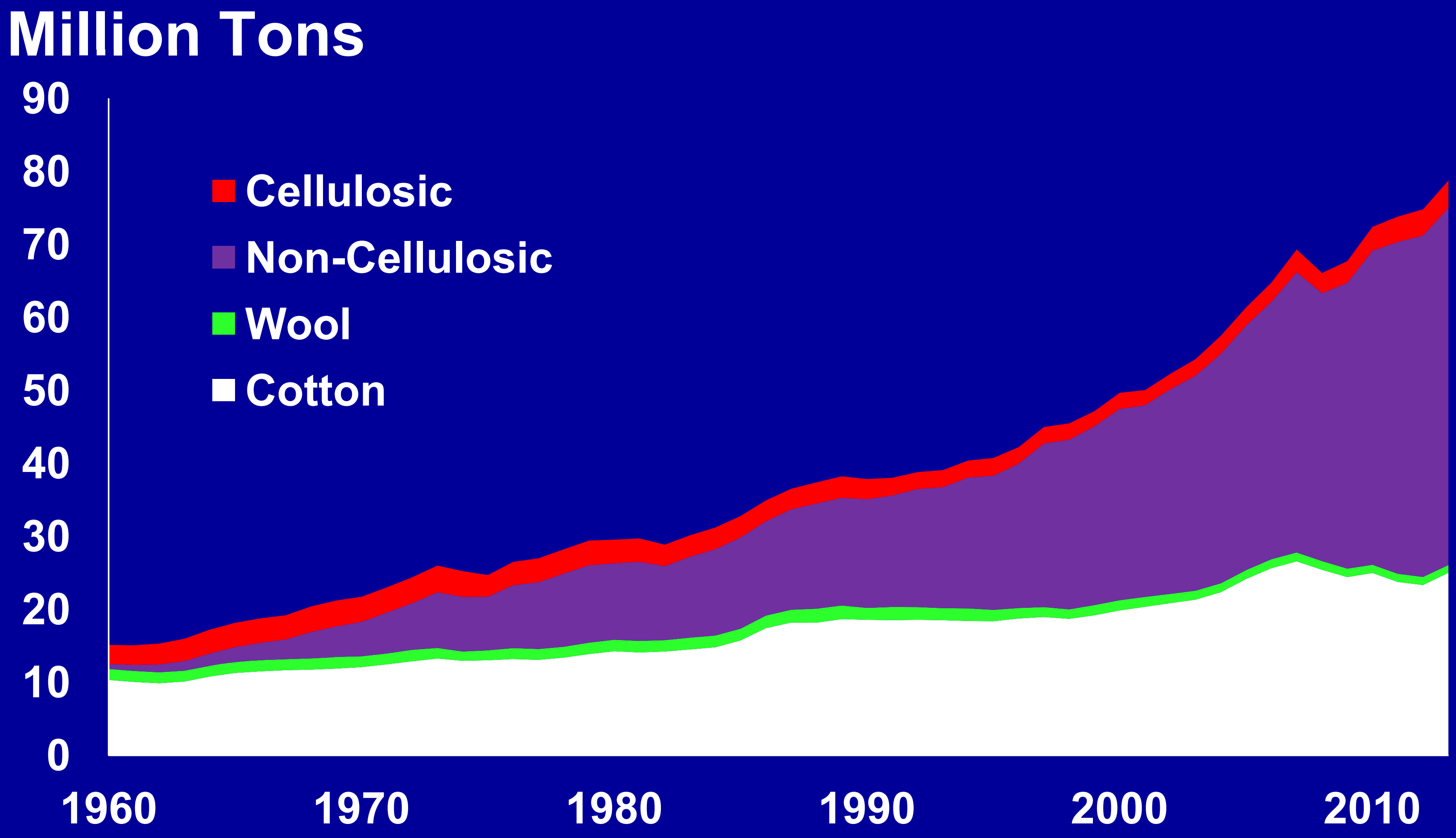
Past Trends

- Textile consumption at retail (end-use)
- Supply & demand
- Prices
- Government interventions

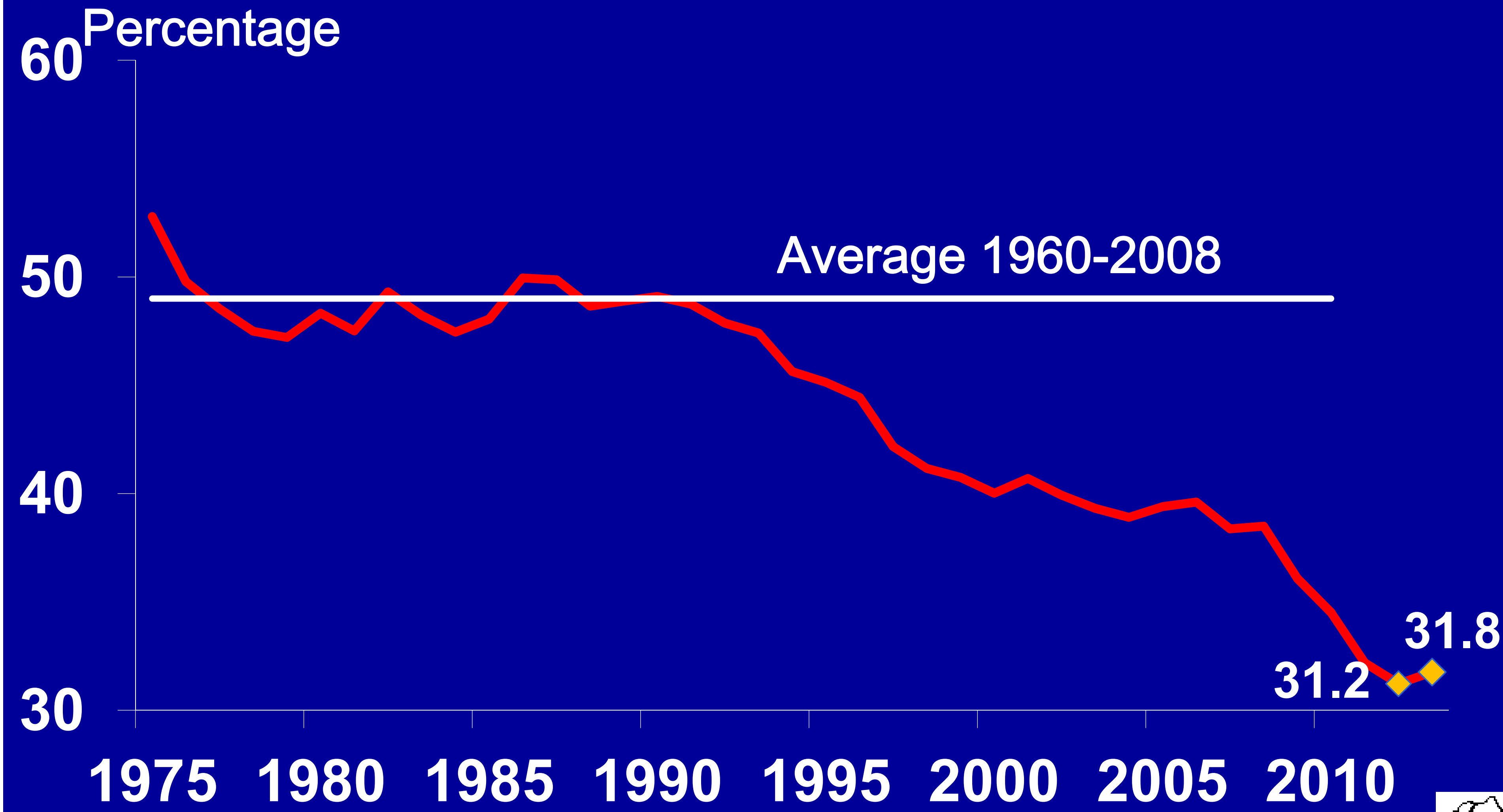
World Consumption of Textile Fibers and Population



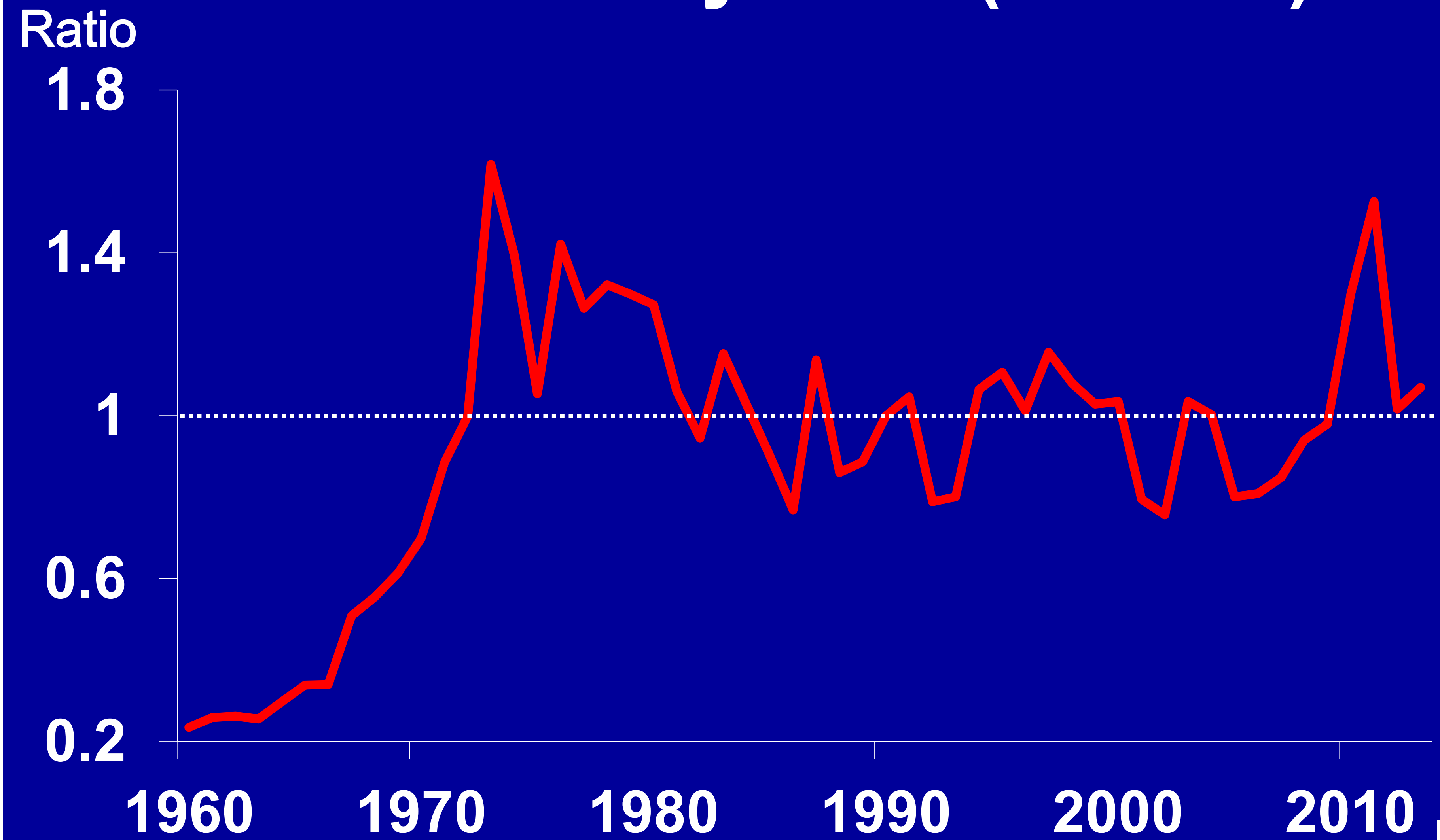
World Consumption of Textile Fibers



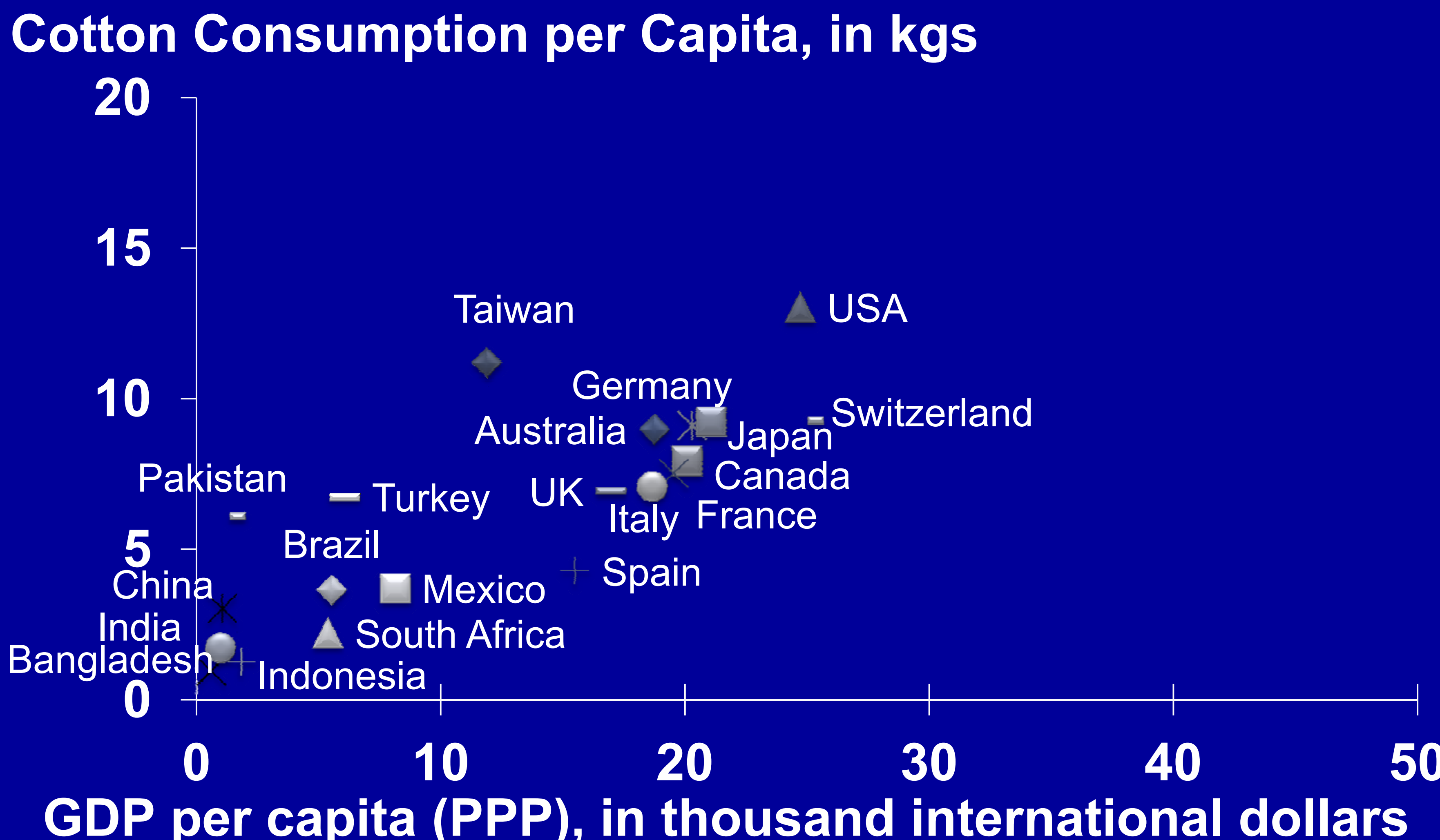
Market Share of Cotton in World Textile Fibers Consumption



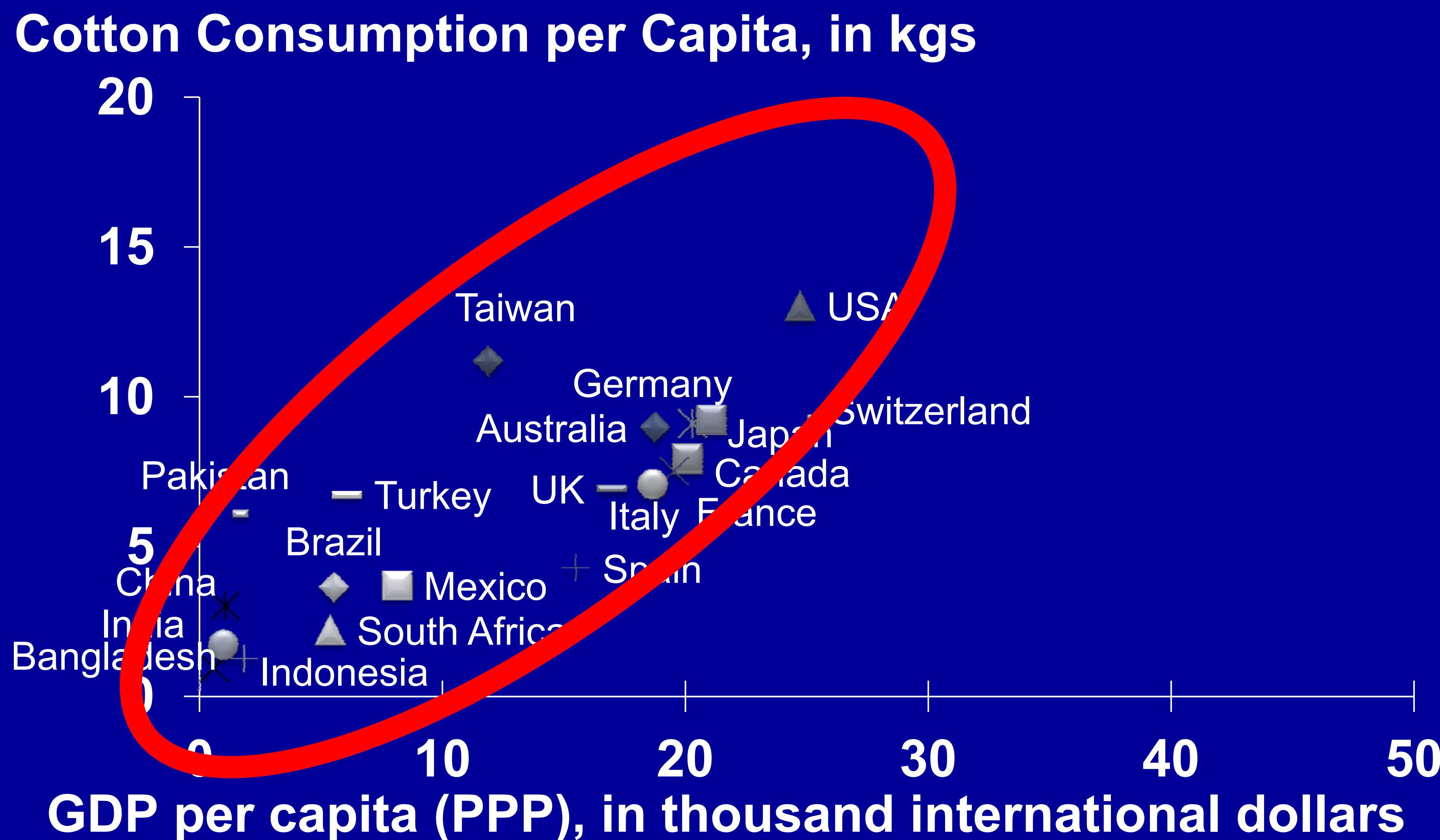
Relative Price of Cotton to Polyester (Annual)



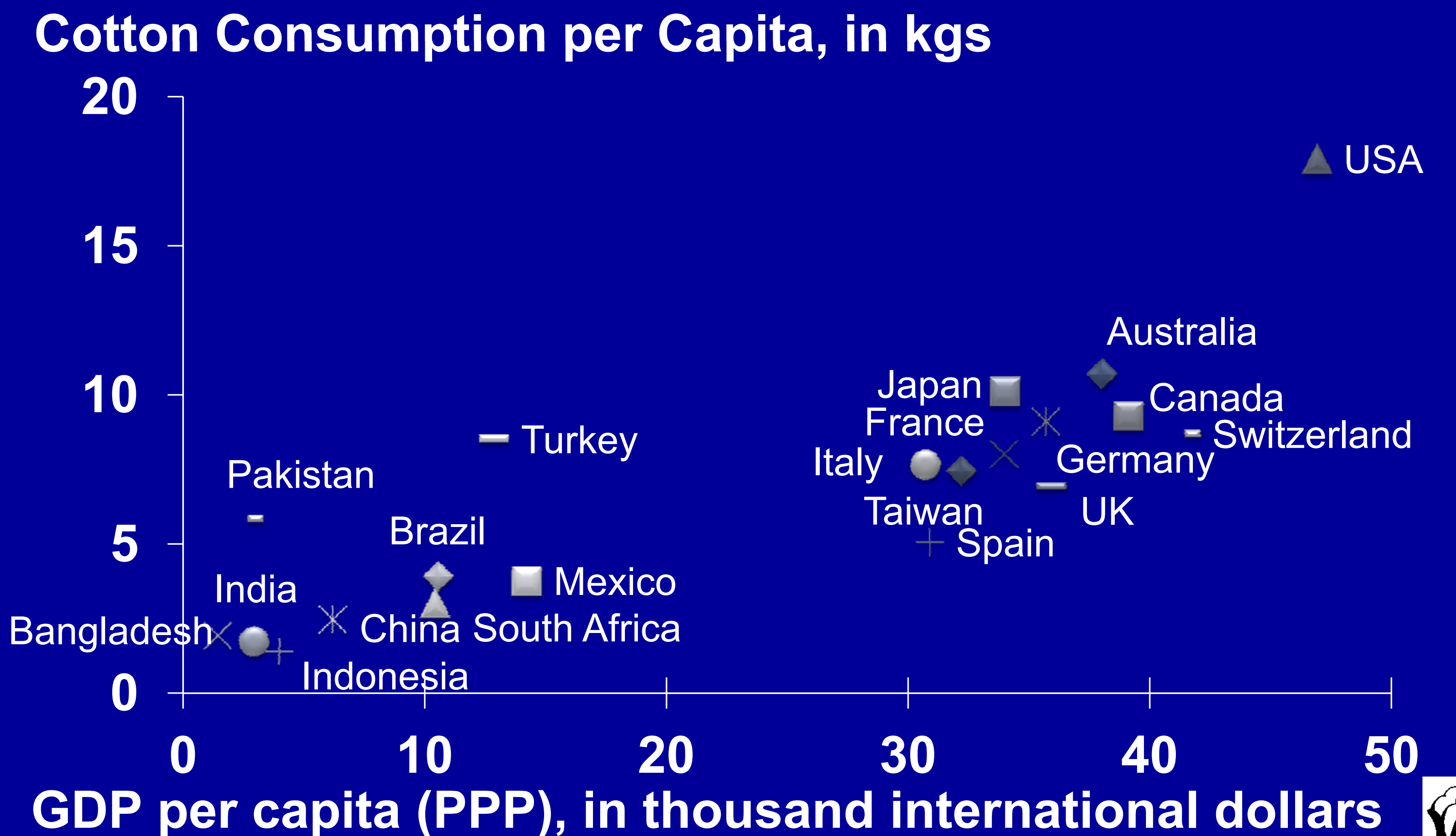
Cotton Consumption per Capita vs. GDP per Capita 1992



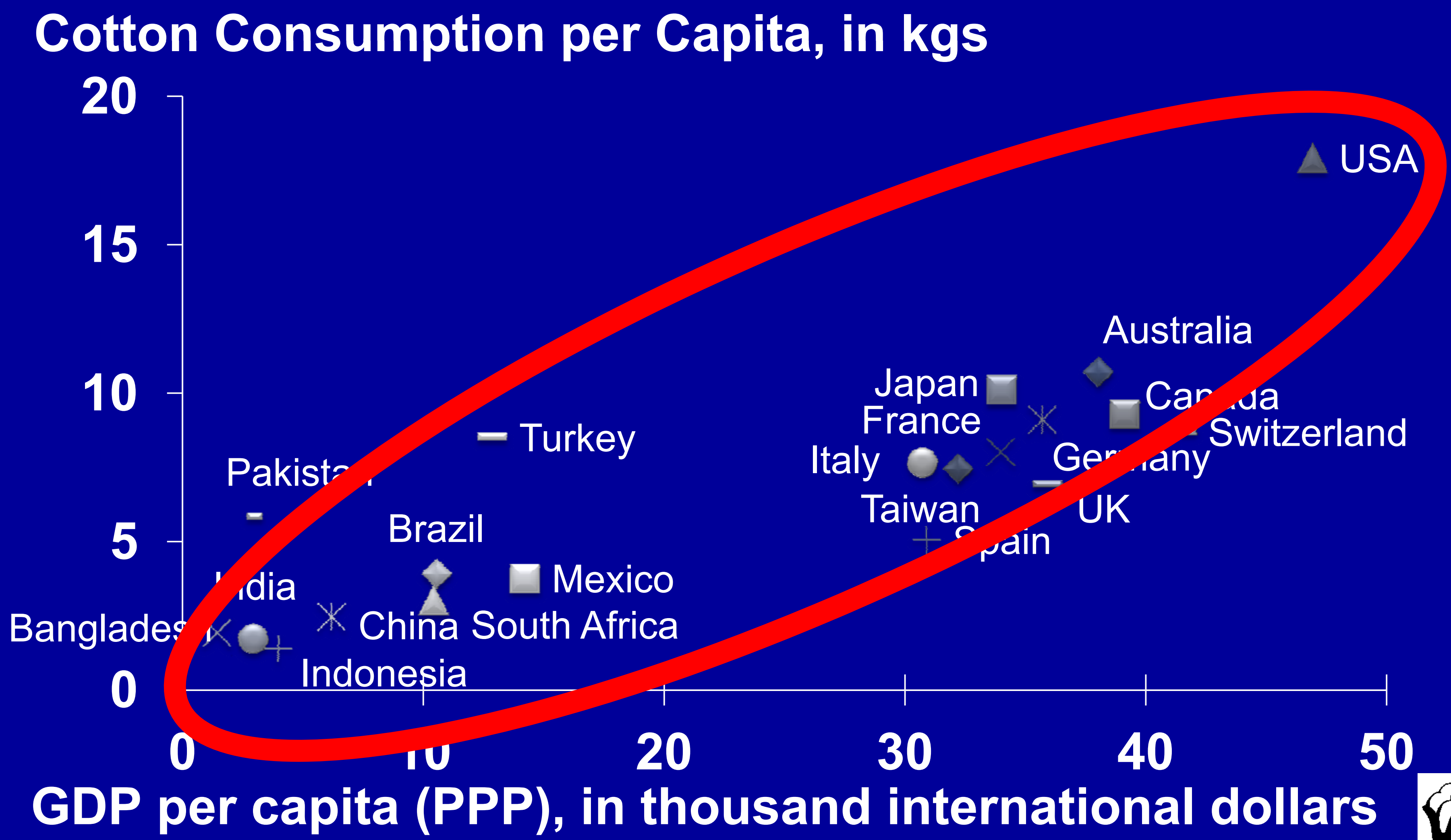
Cotton Consumption per Capita vs. GDP per Capita 1992



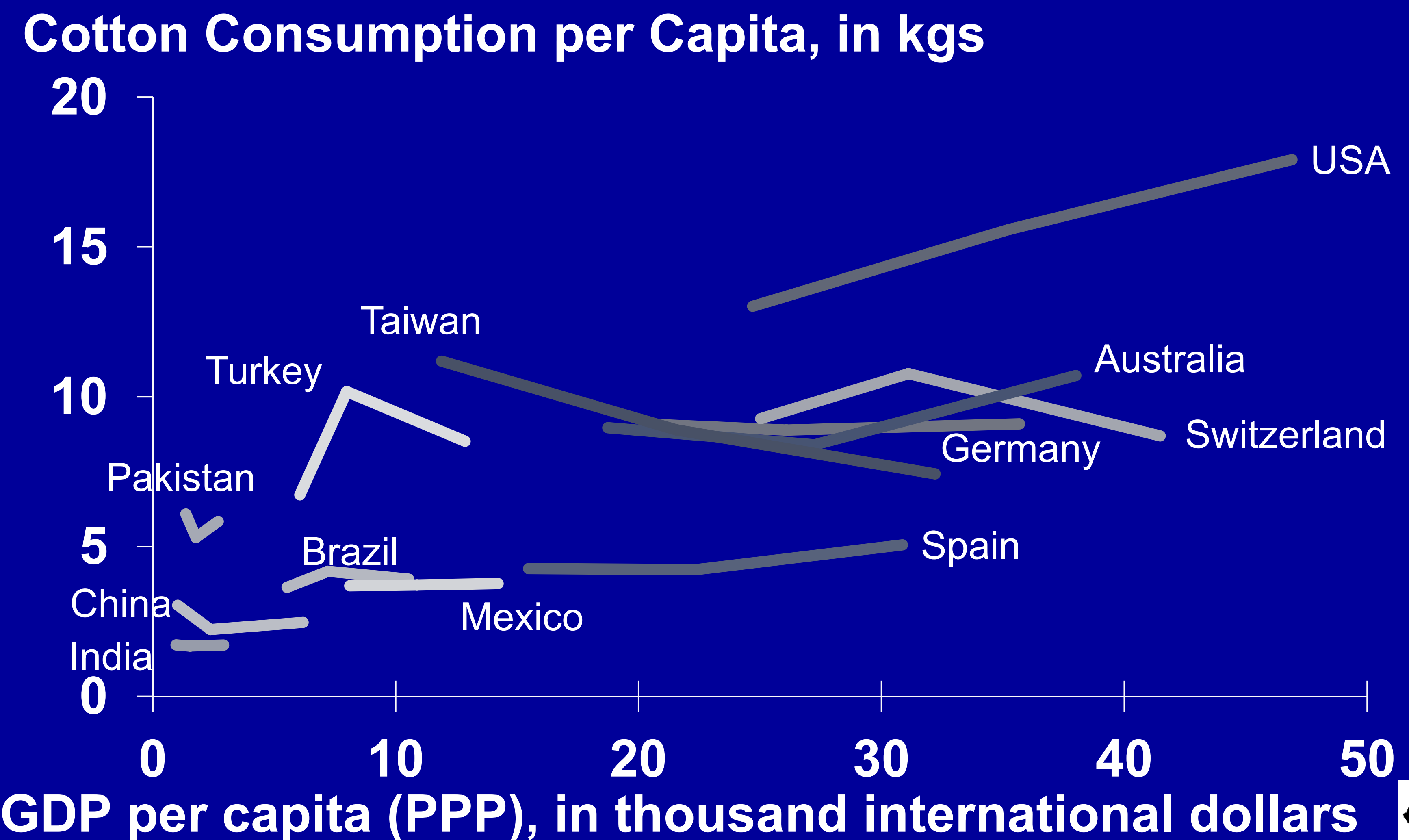
Cotton Consumption per Capita vs. GDP per Capita 2008



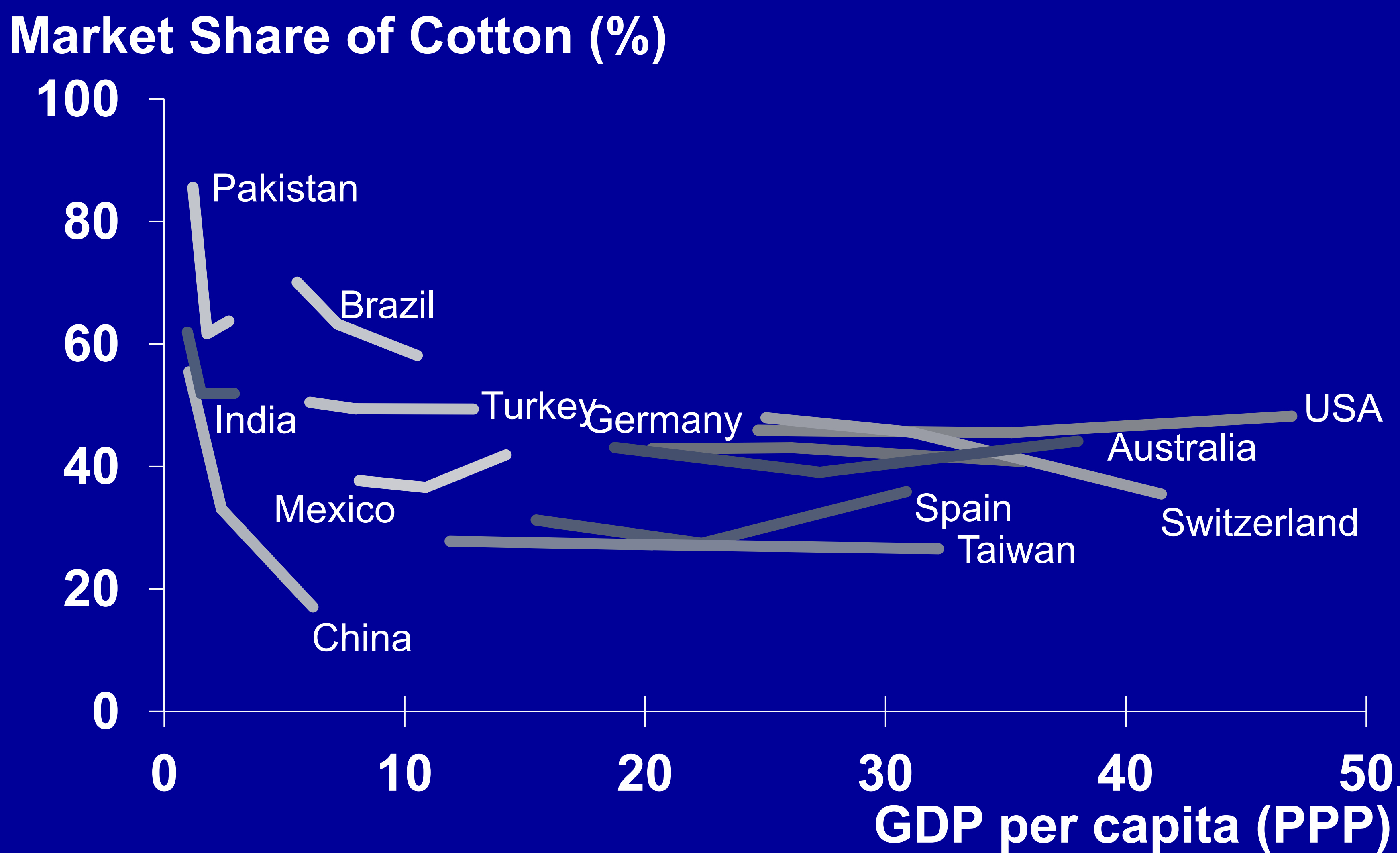
Cotton Consumption per Capita vs. GDP per Capita 2008



Cotton Consumption per Capita vs. GDP per Capita 1992, 2000, 2008



Market Share of Cotton vs. GDP per Capita 1992, 2000, 2008



Cotton Consumption

↑ population, ↑ cotton consumption

↑ income, cotton consumption per capita ↑↓

Cotton Consumption

Low income countries:

↑ income, ↓ market share of cotton

High income countries:

↑ income, market share of cotton stable at around 40%

Outlook:

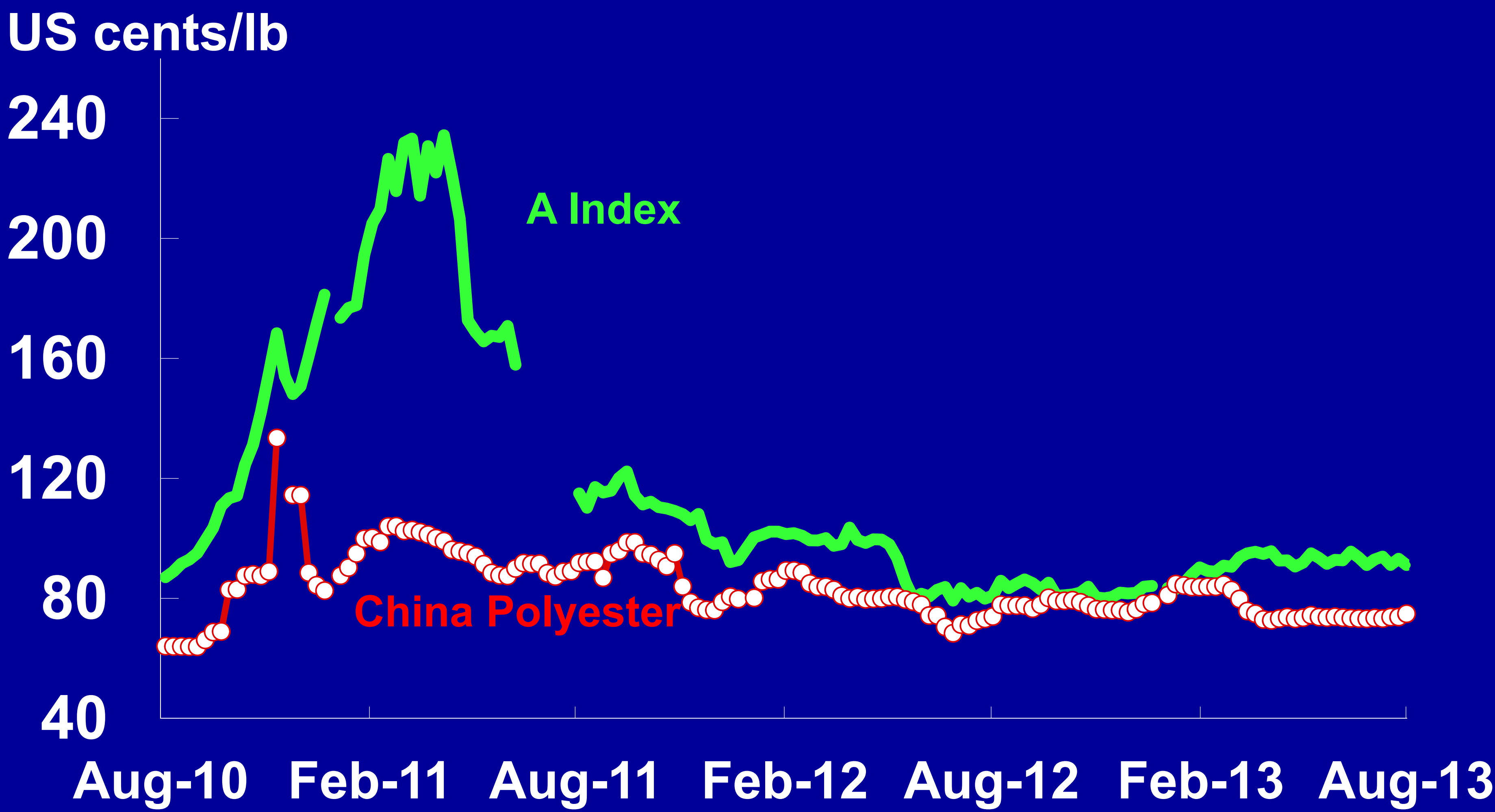
↑ cotton consumption

↓ market share of cotton

Cotlook A Index

A Index and Nearby NY Futures Prices

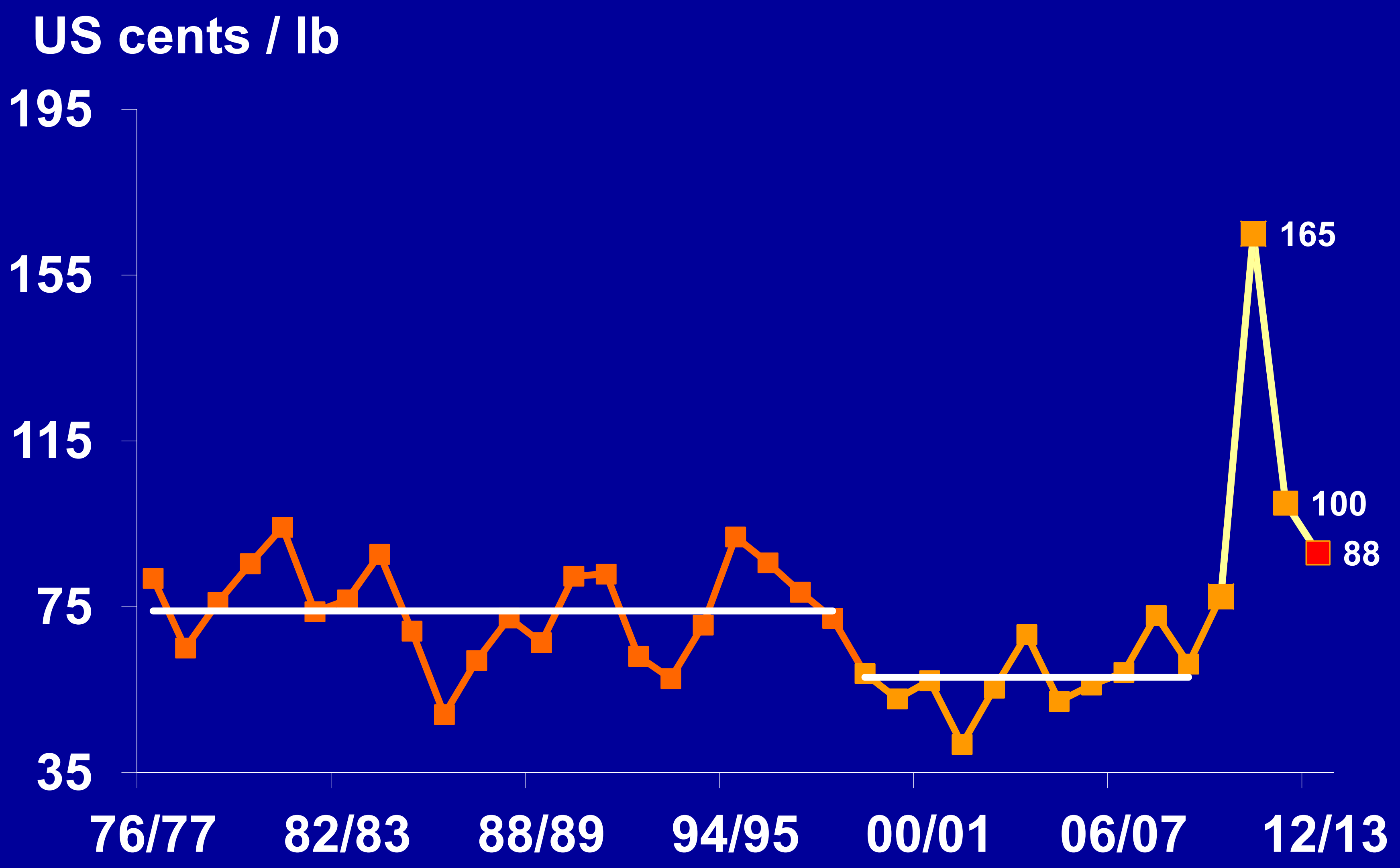
Cotton and Polyester Prices*



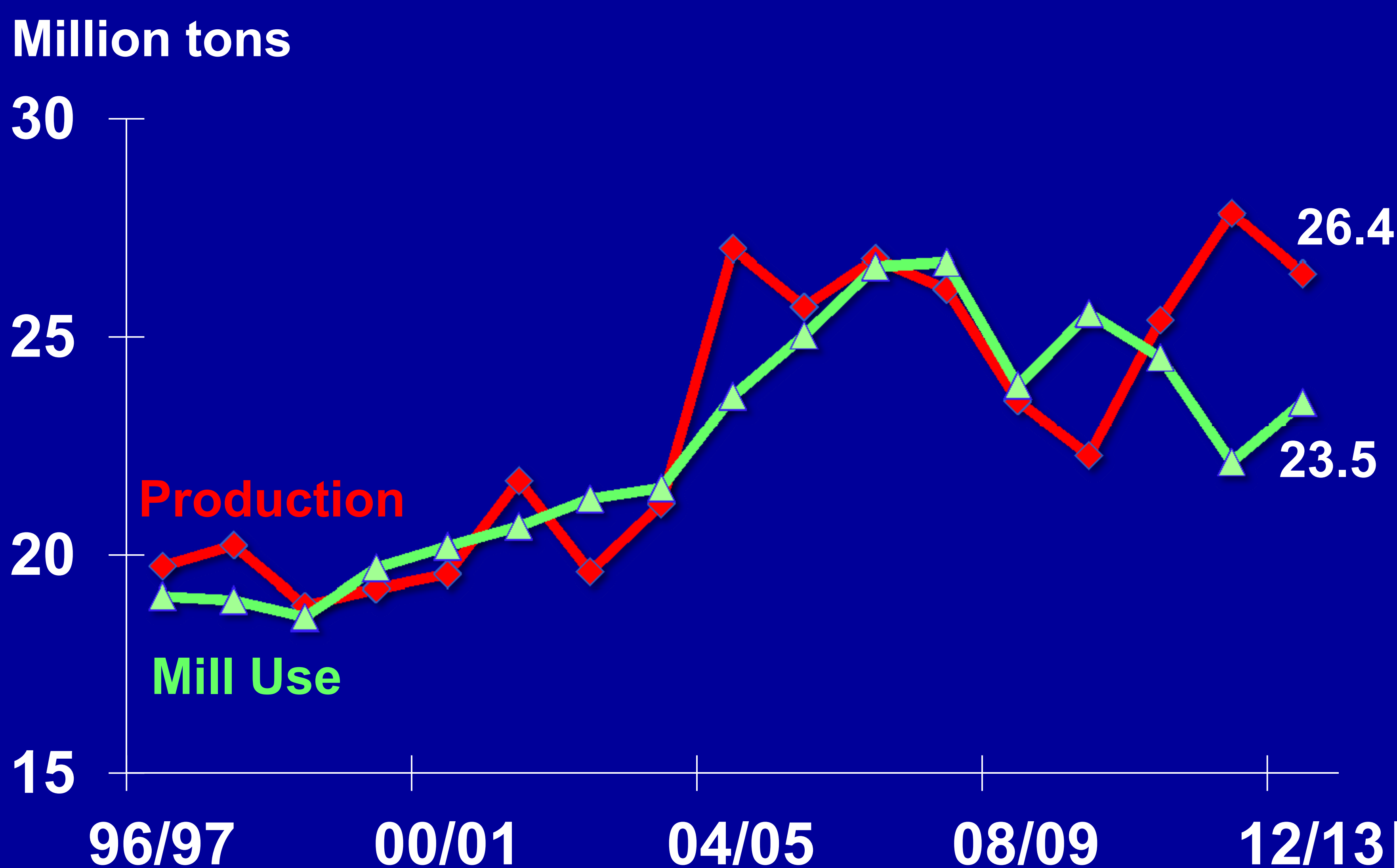
*Weekly quotes (Source: Cotton Outlook)

Season-Average A Index

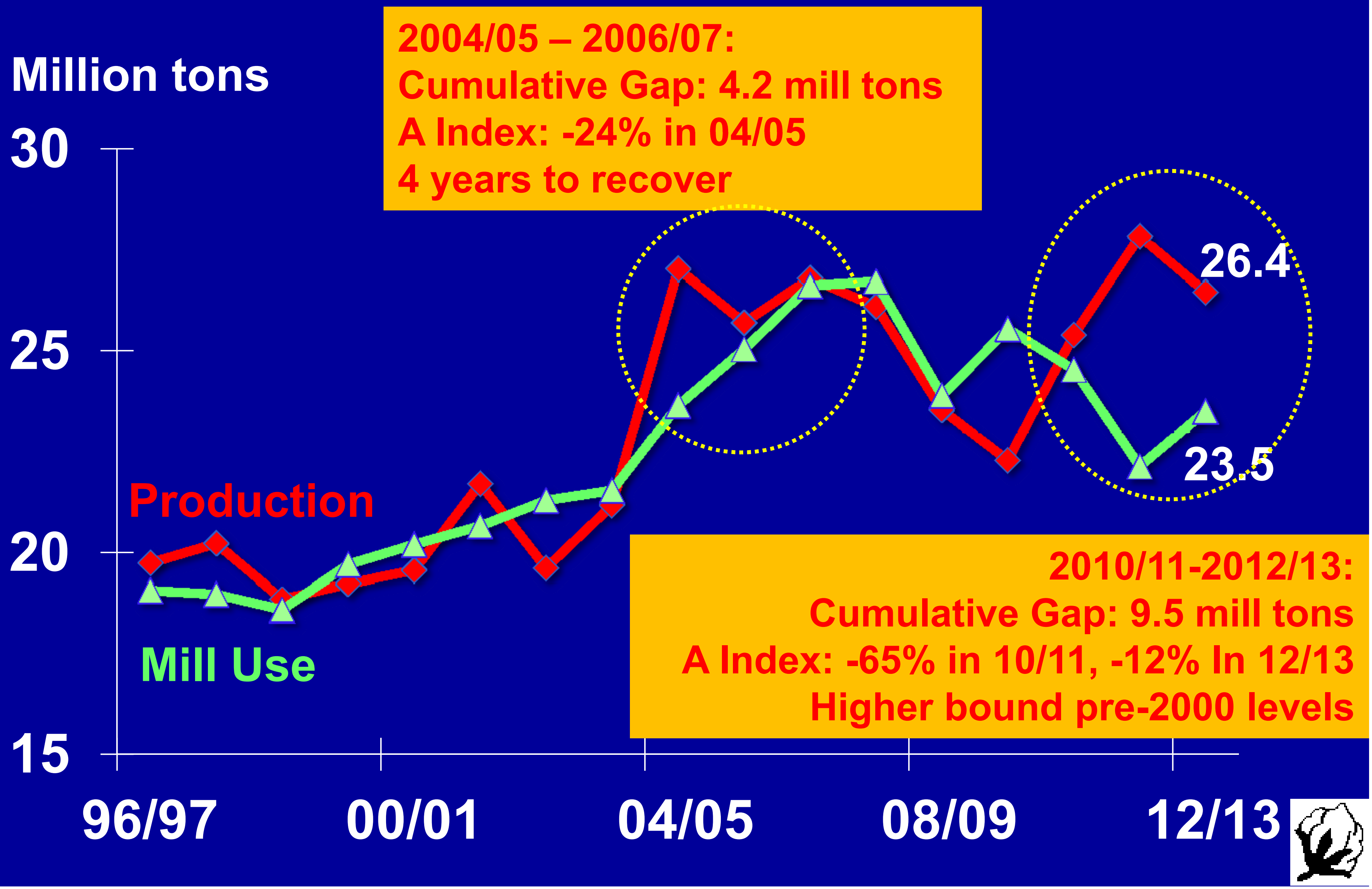
(source: Cotlook Ltd.)



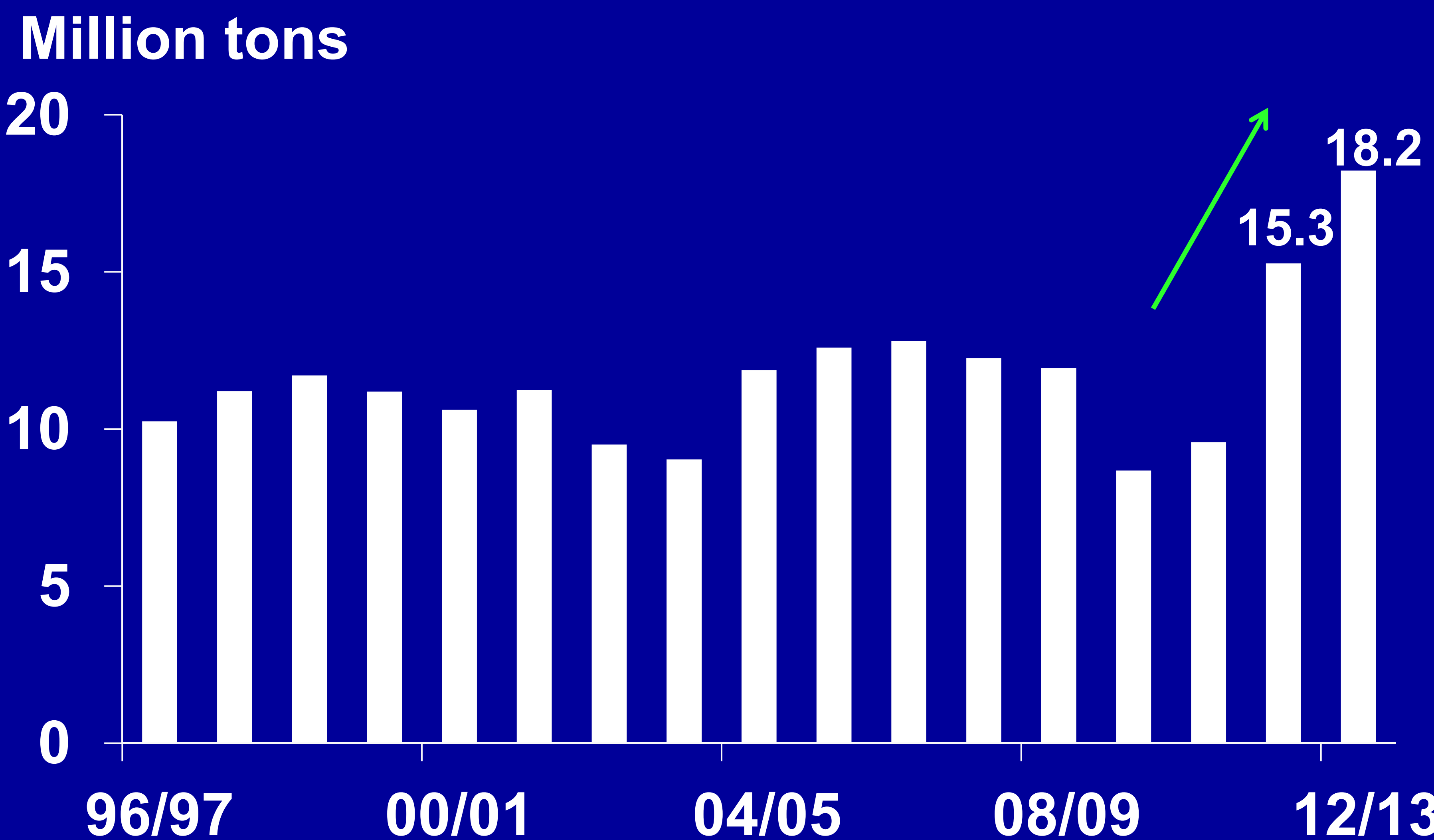
World Cotton Production & Mill Use



World Cotton Production & Mill Use



World Ending Stocks



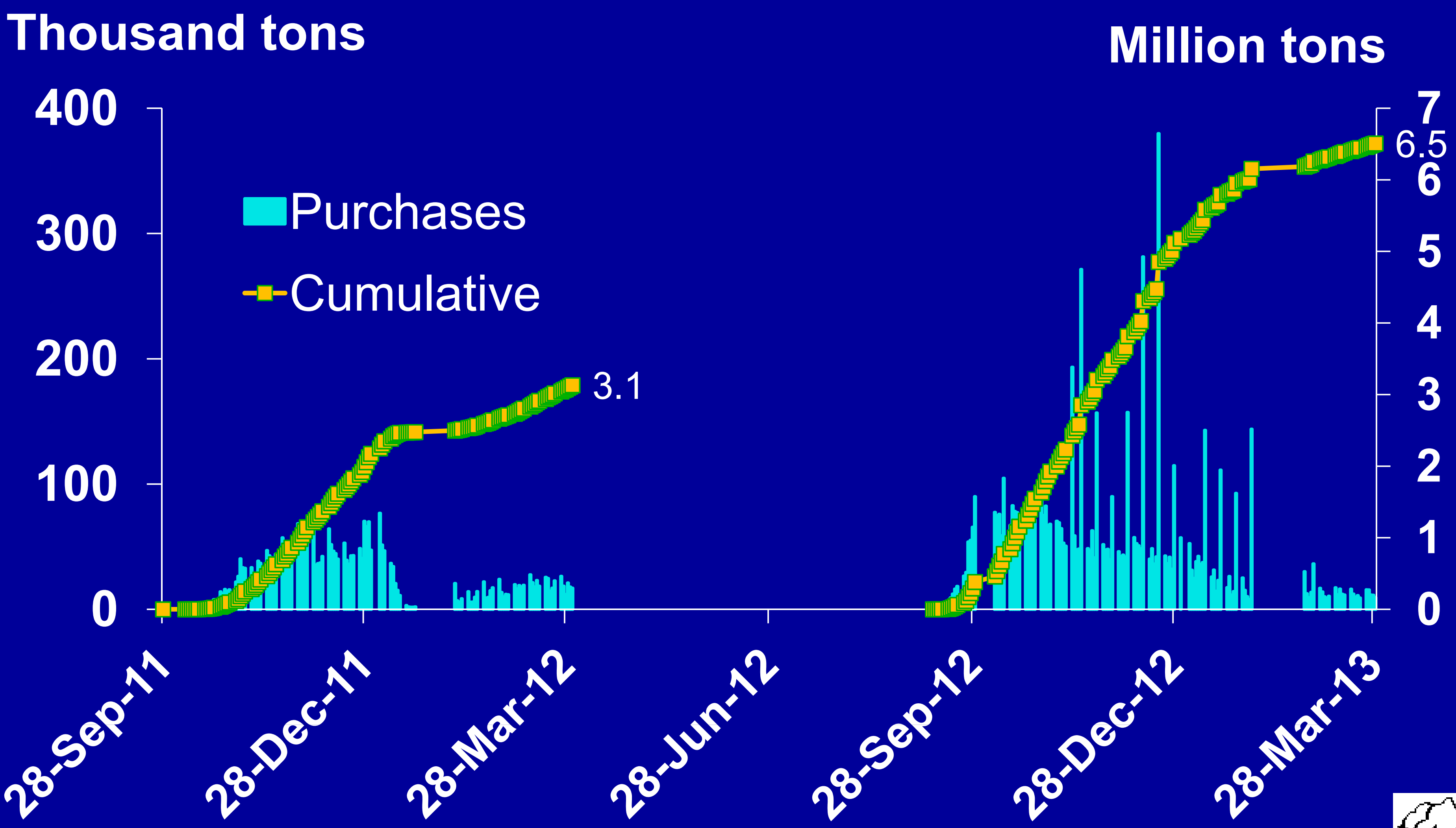
World Ending Stocks

Cotlook A Index

Why not lower?

China National Cotton Reserve Corporation (CNCRC)

Purchases of Cotton by the Chinese National Reserve



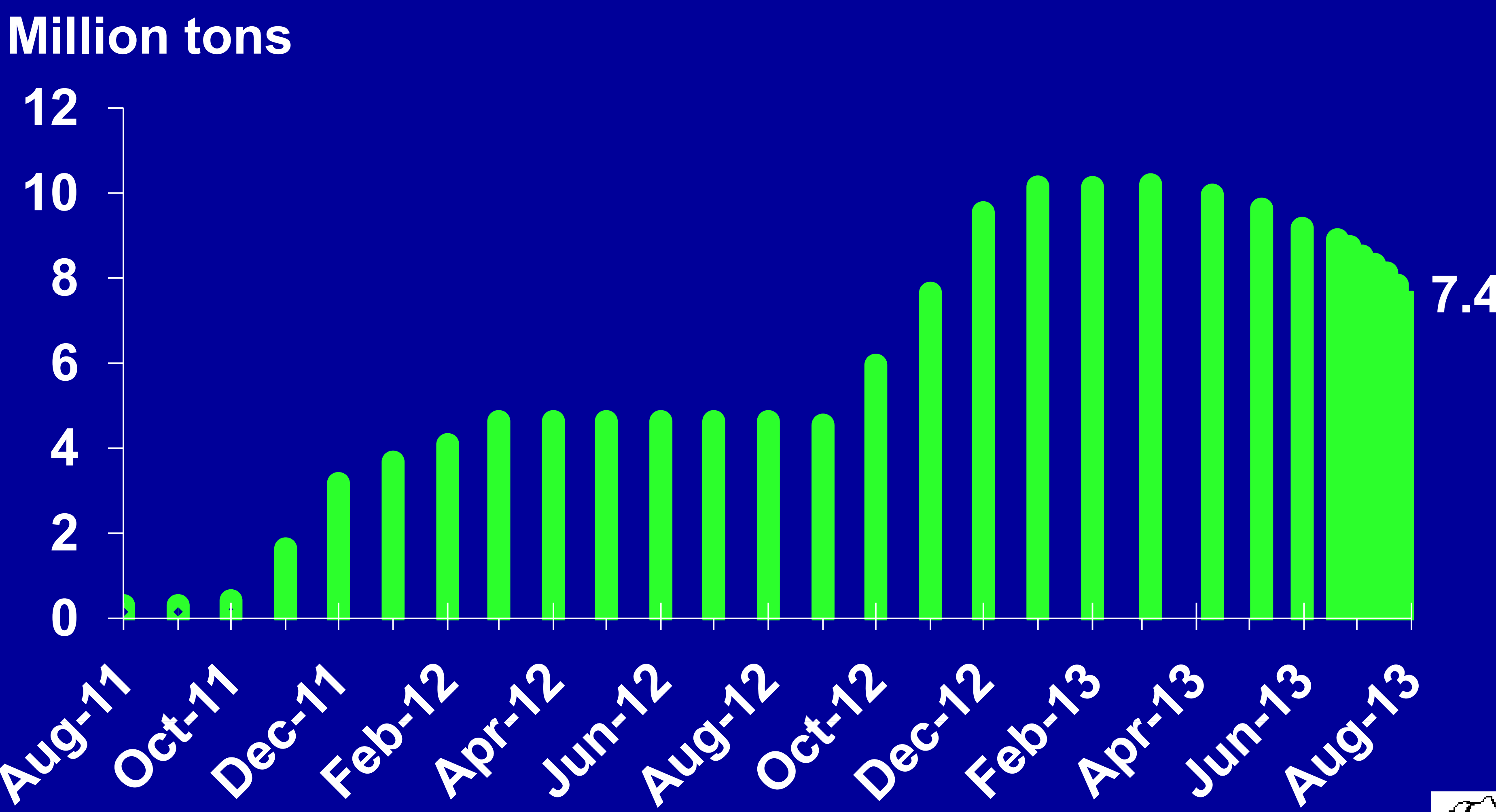
Government Interventions that sustained cotton prices

- Chinese National Reserve Corporation:

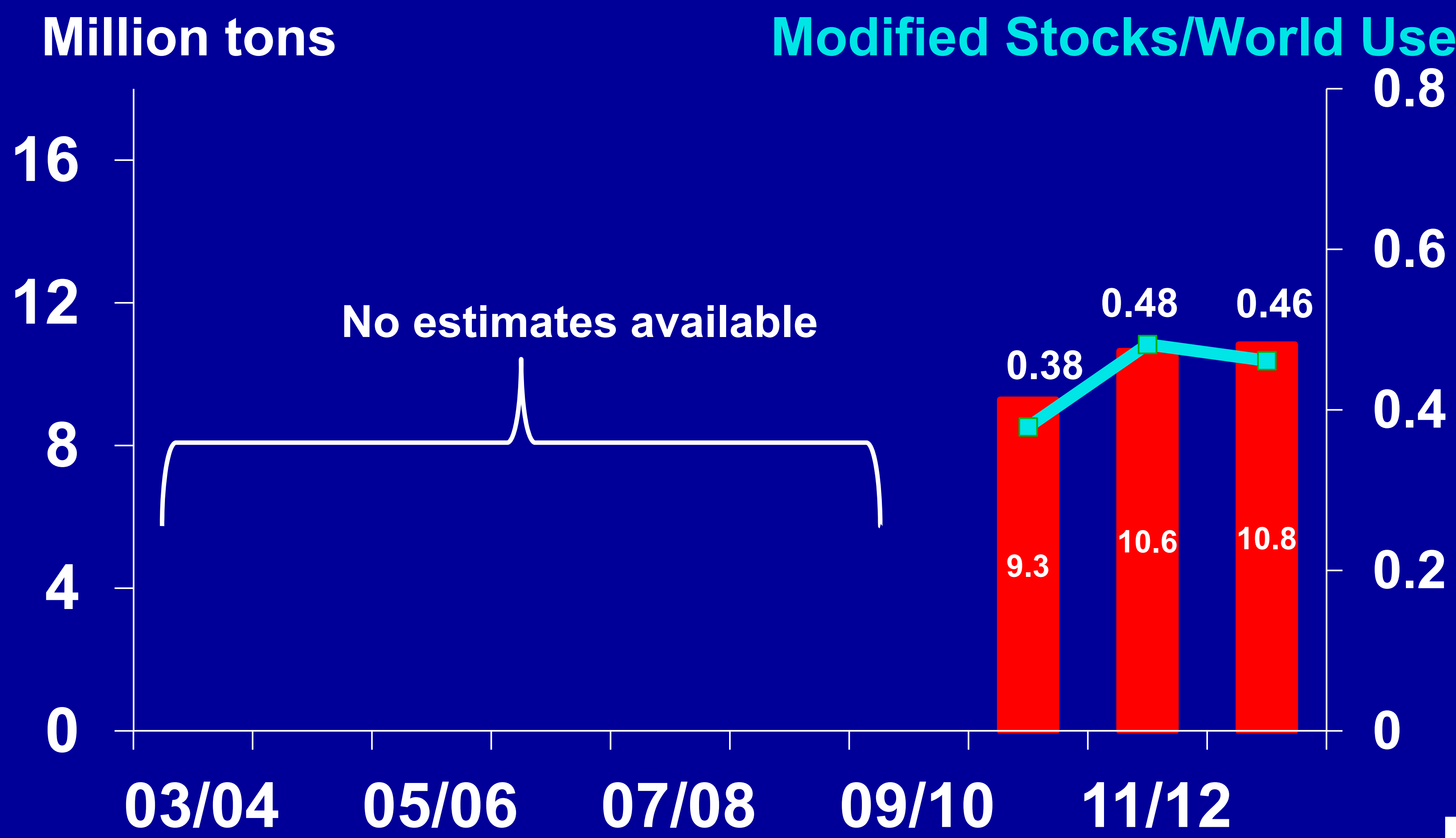
10 million tons in 2011/12 and 2012/13

- India: export ban March – May 2012. Exports August - March 2012: 1.6 million tons.

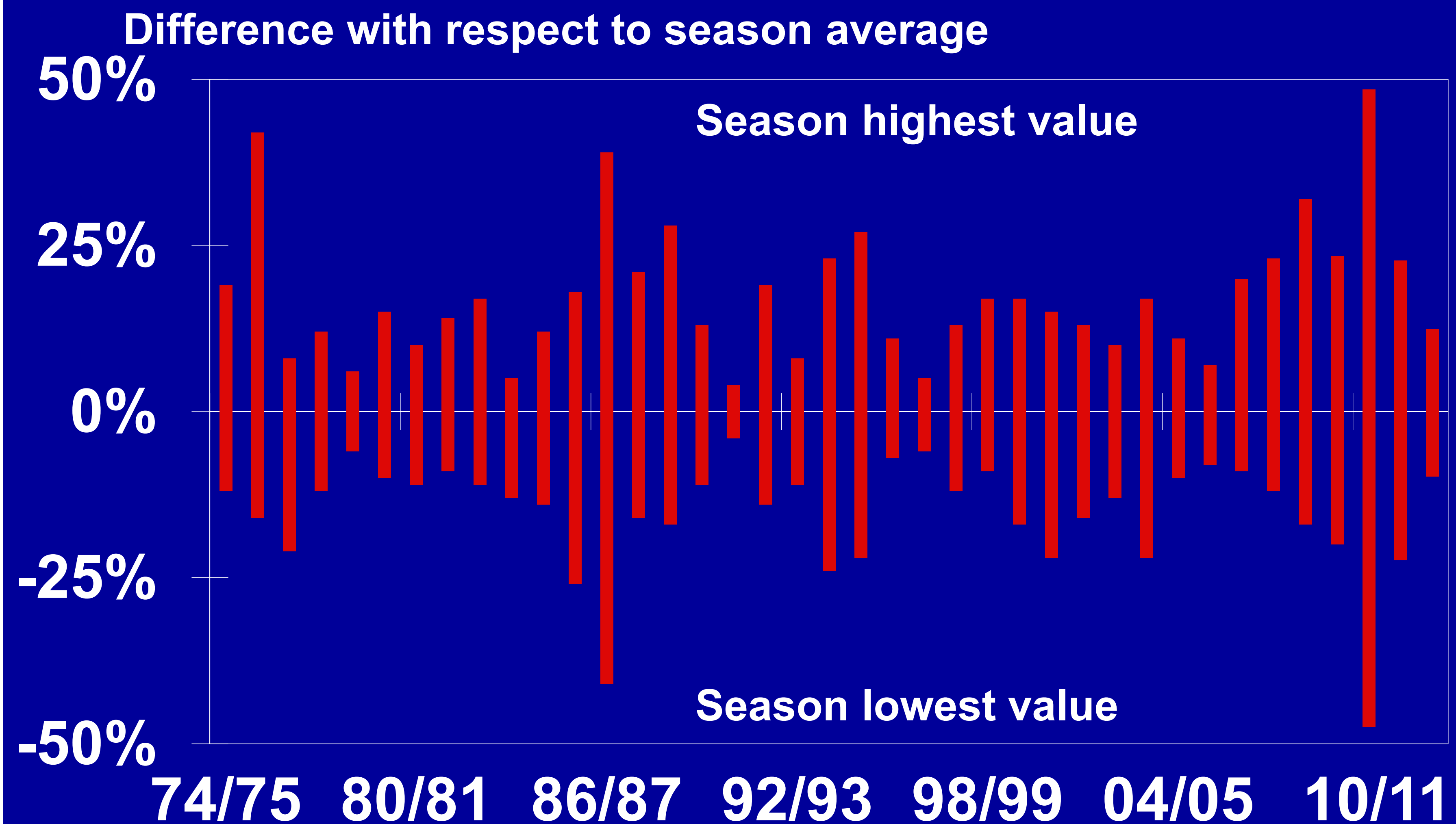
Estimated Size of China National Reserve



World Ending Stocks
Minus China National Reserve

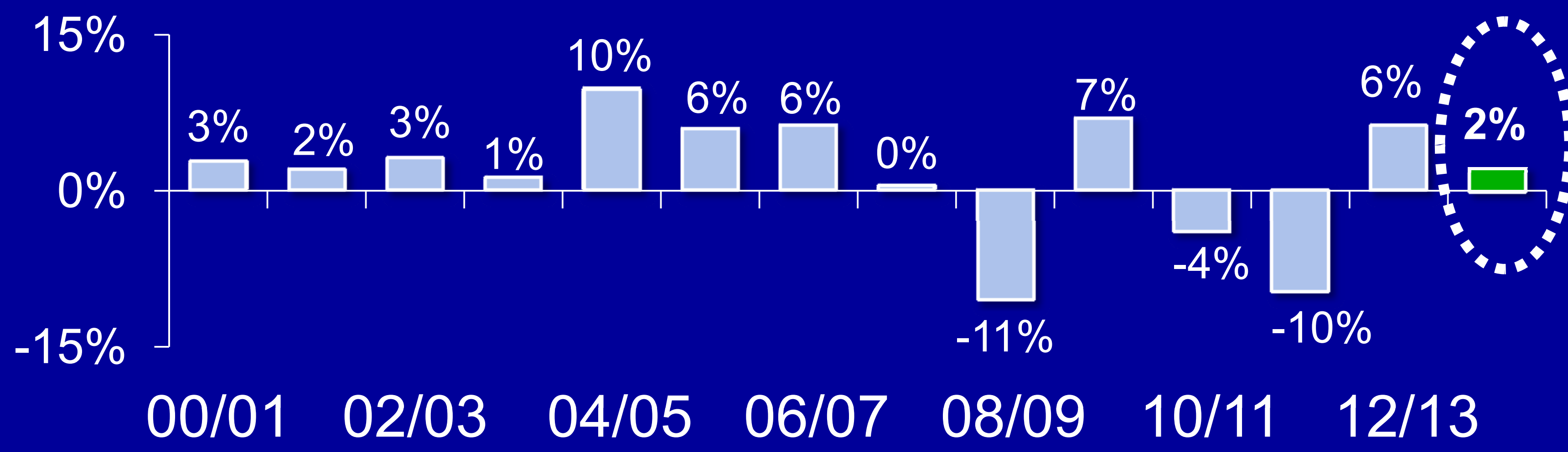


Price Volatility by Season: Cotlook A Index

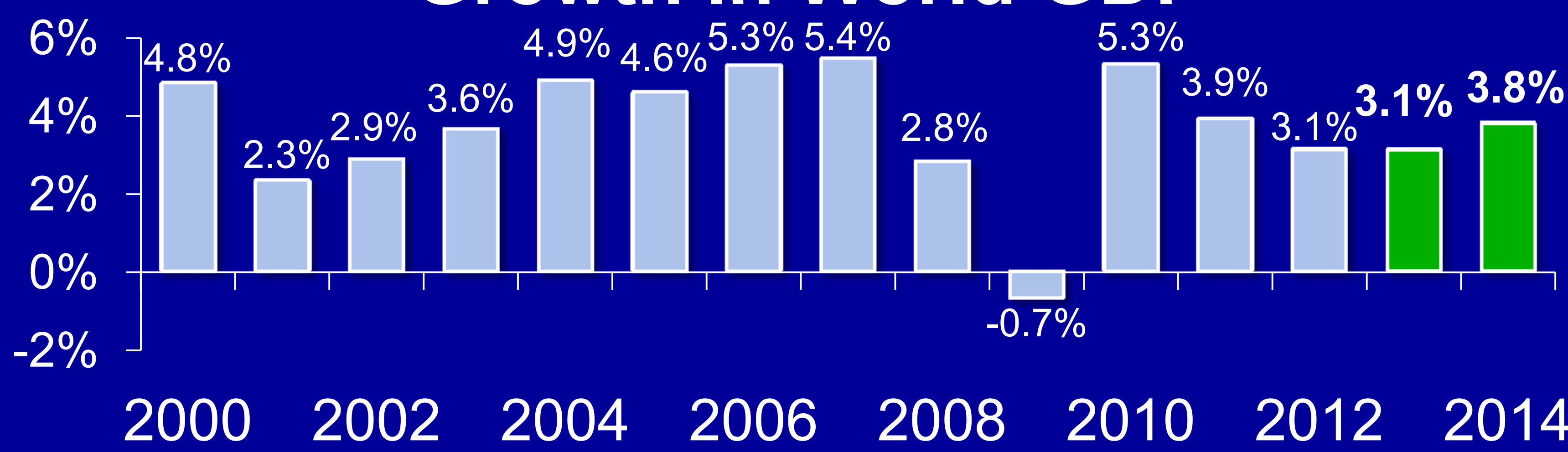


Outlook 2013/14

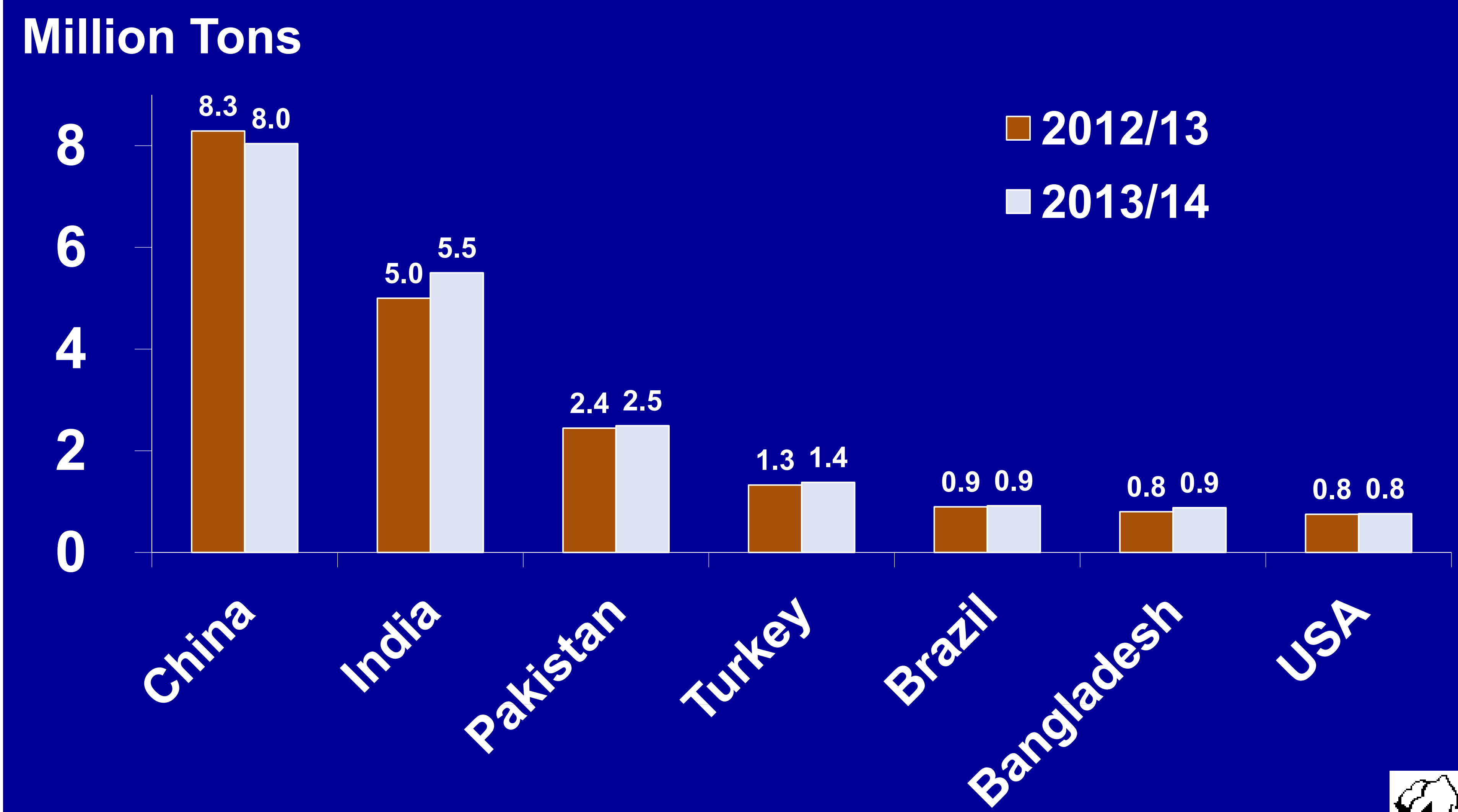
Growth in World Cotton Mill Use



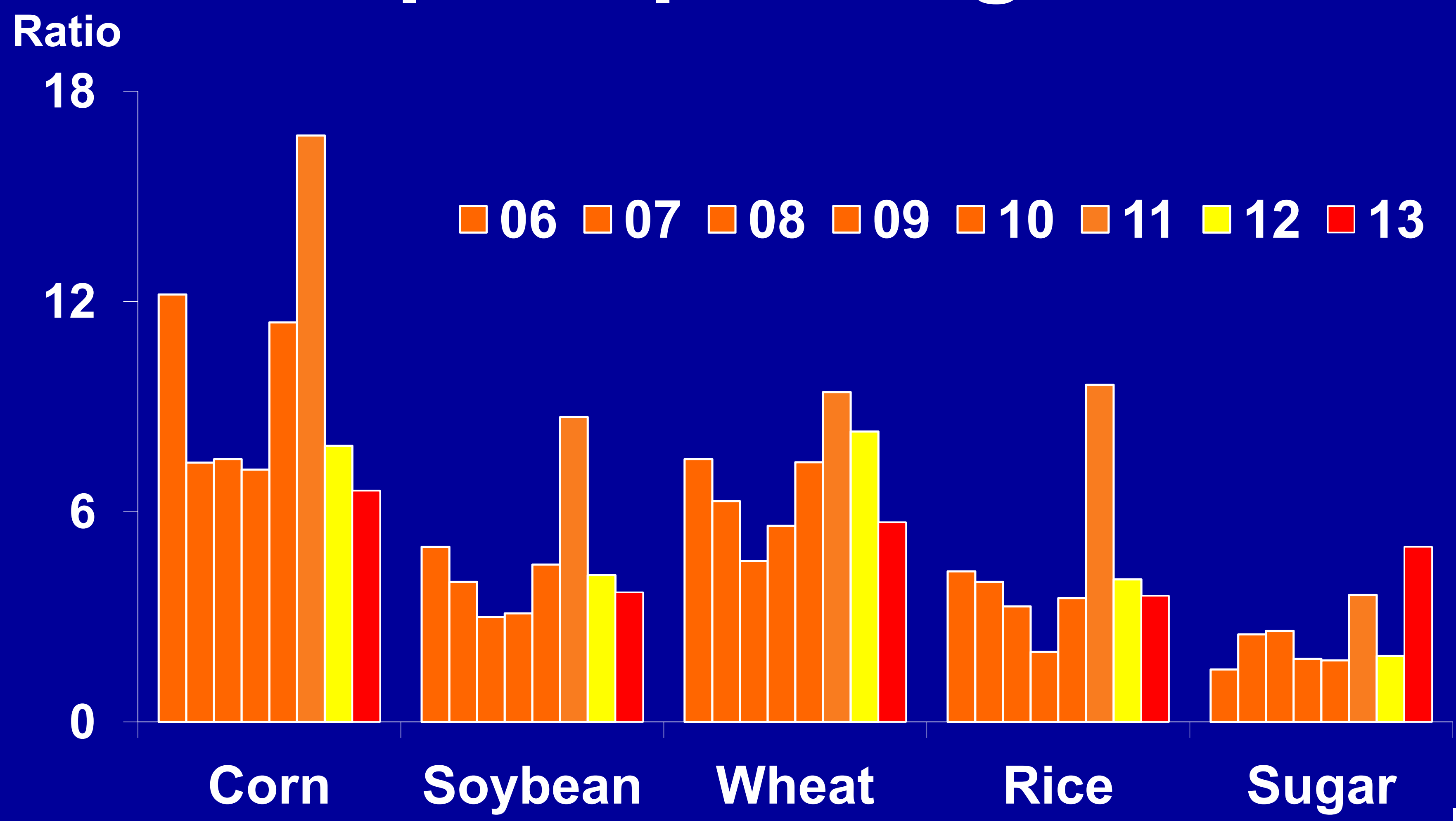
Growth in World GDP



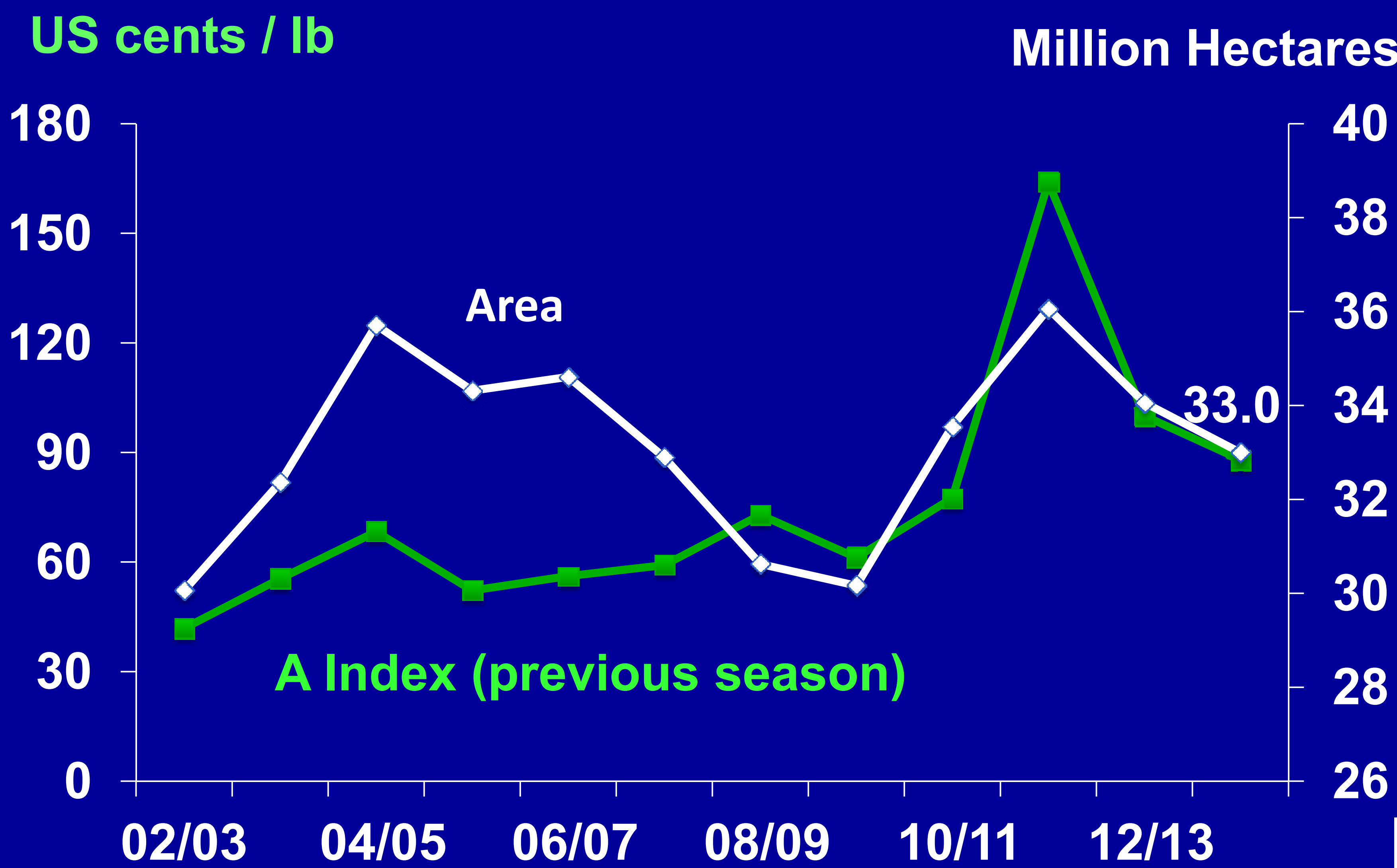
Cotton Mill Use



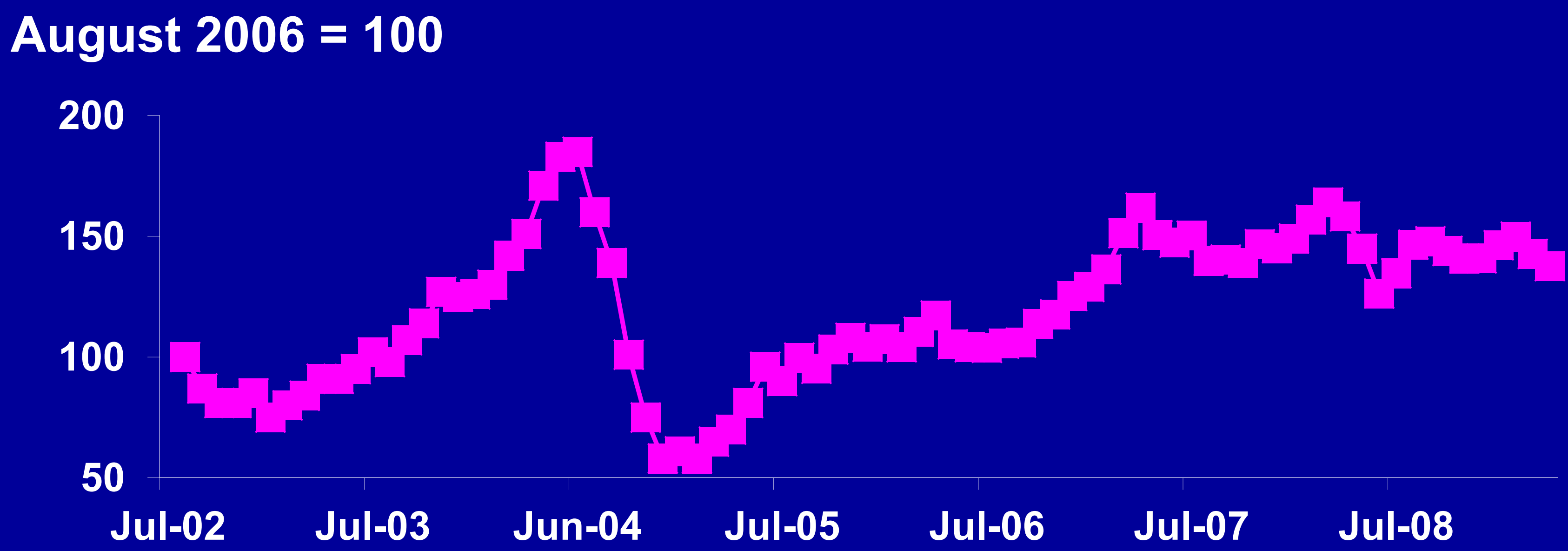
Price of cotton vs. competing crops at planting time



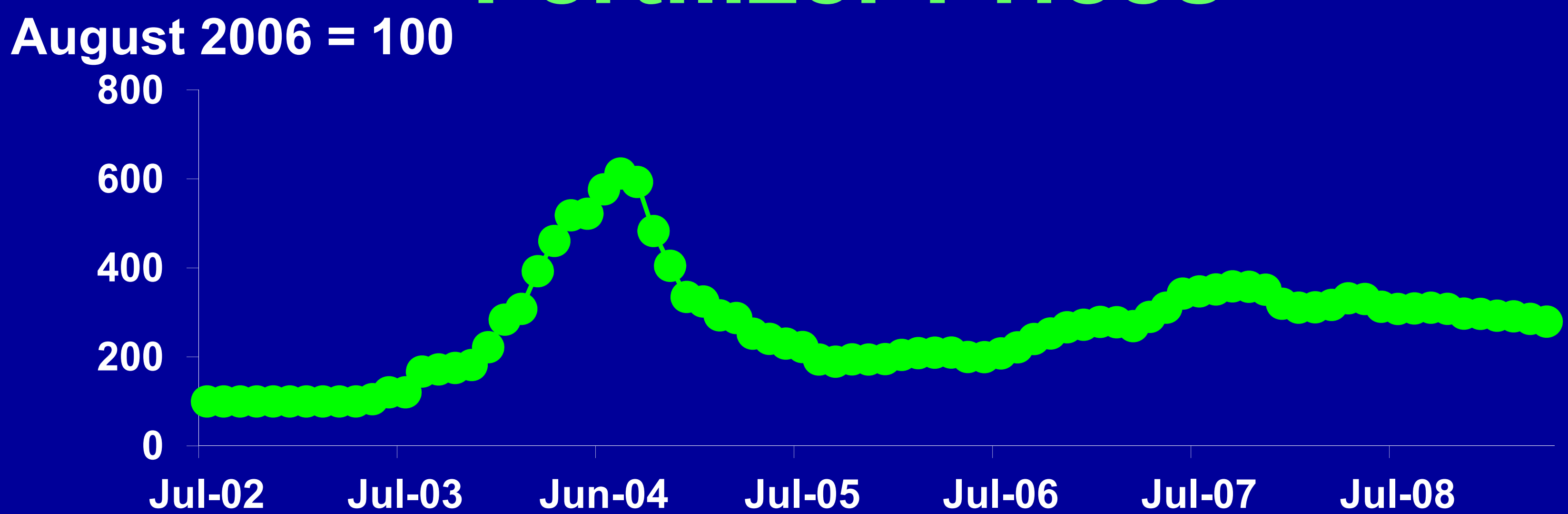
World Cotton Area and Prices



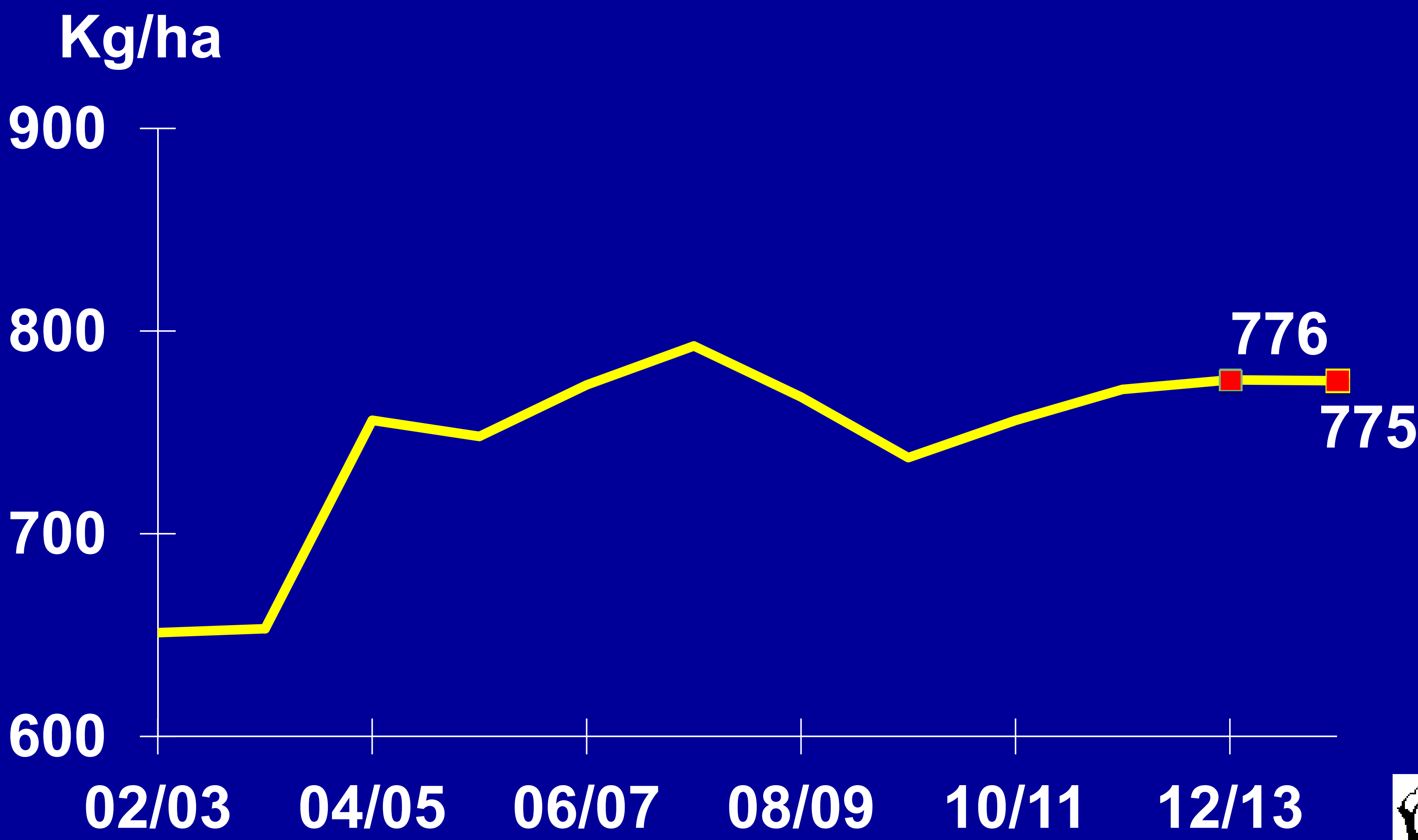
Crude Oil Prices



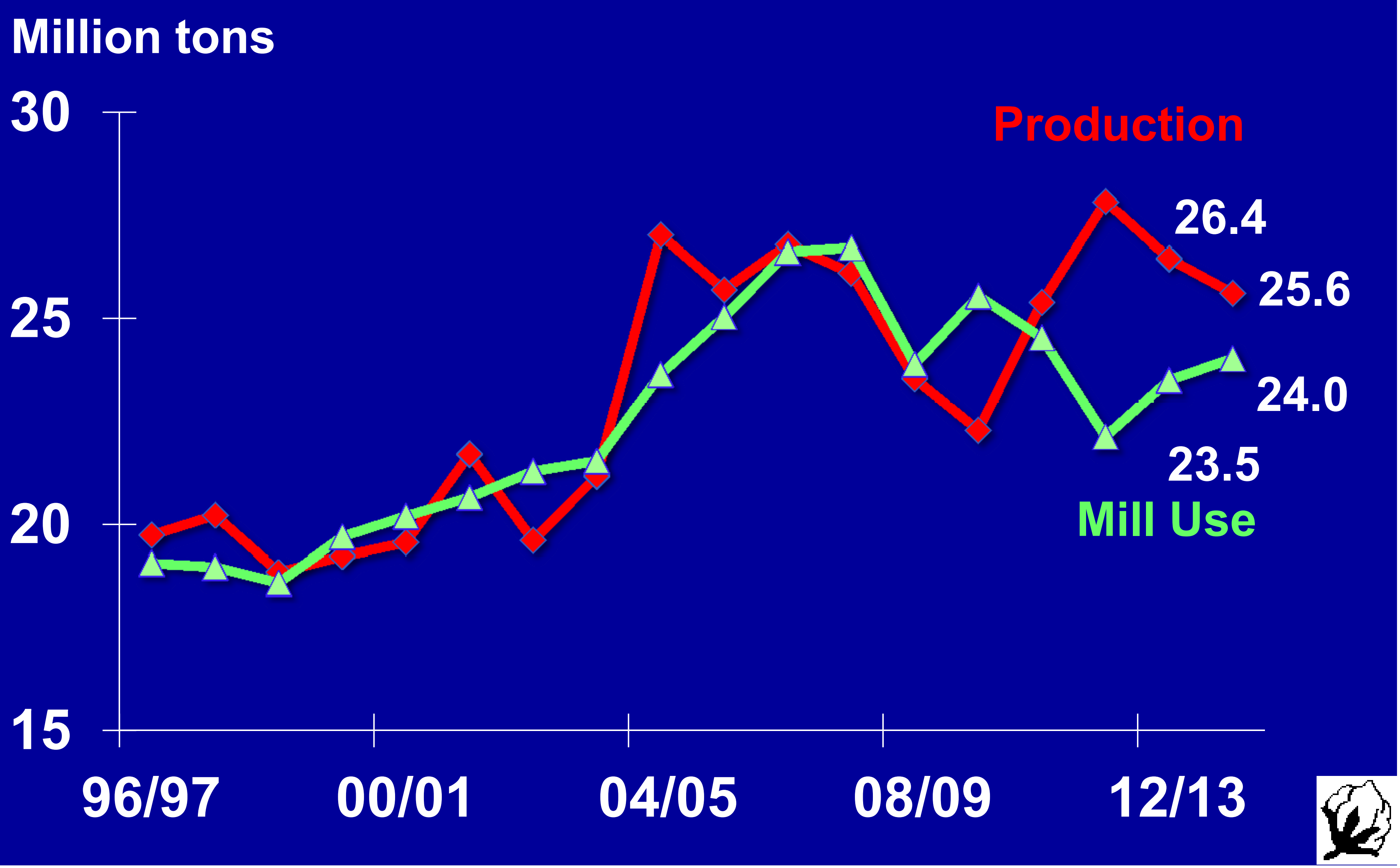
Fertilizer Prices



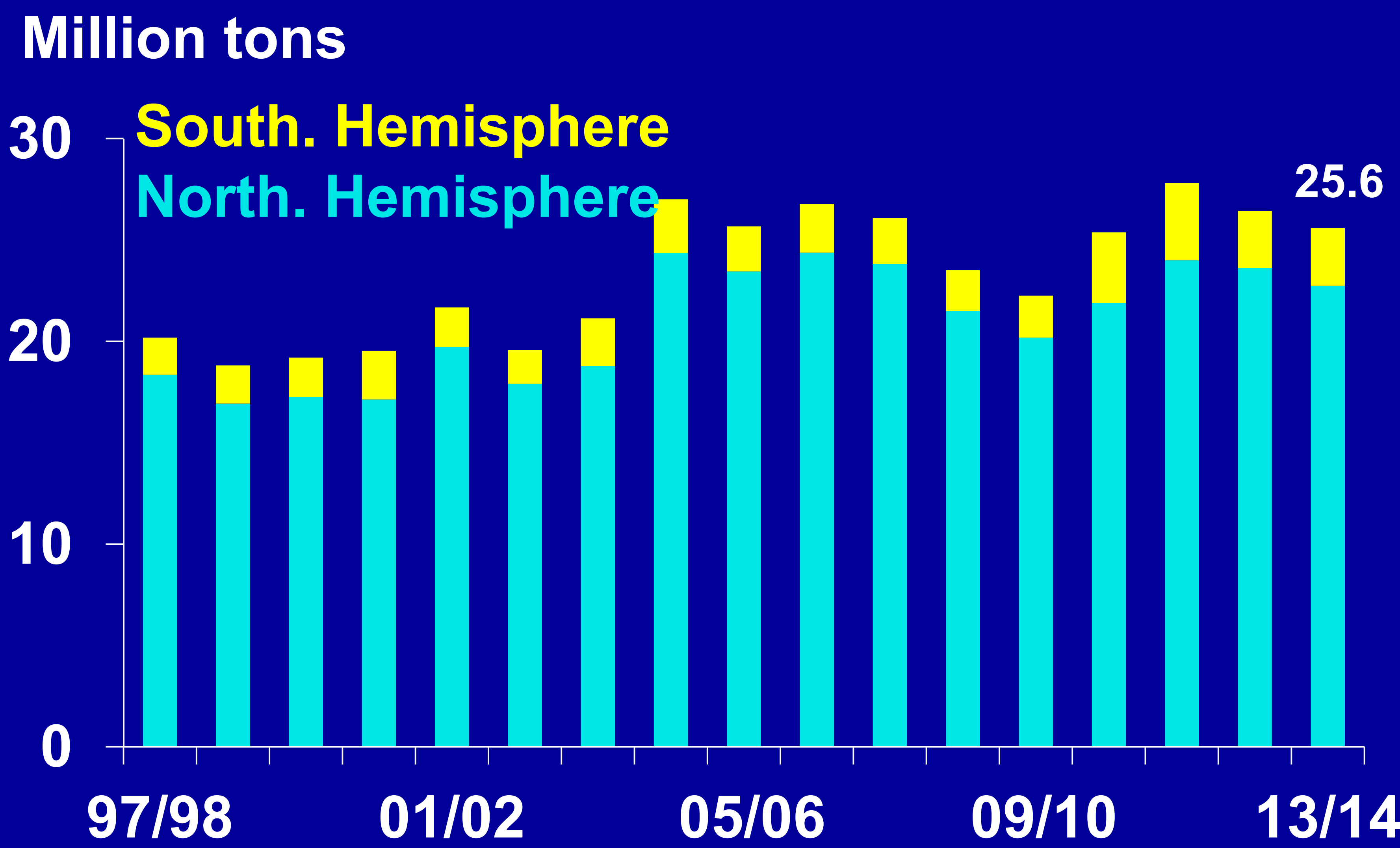
World Average Yield (rainfed + irrigated)



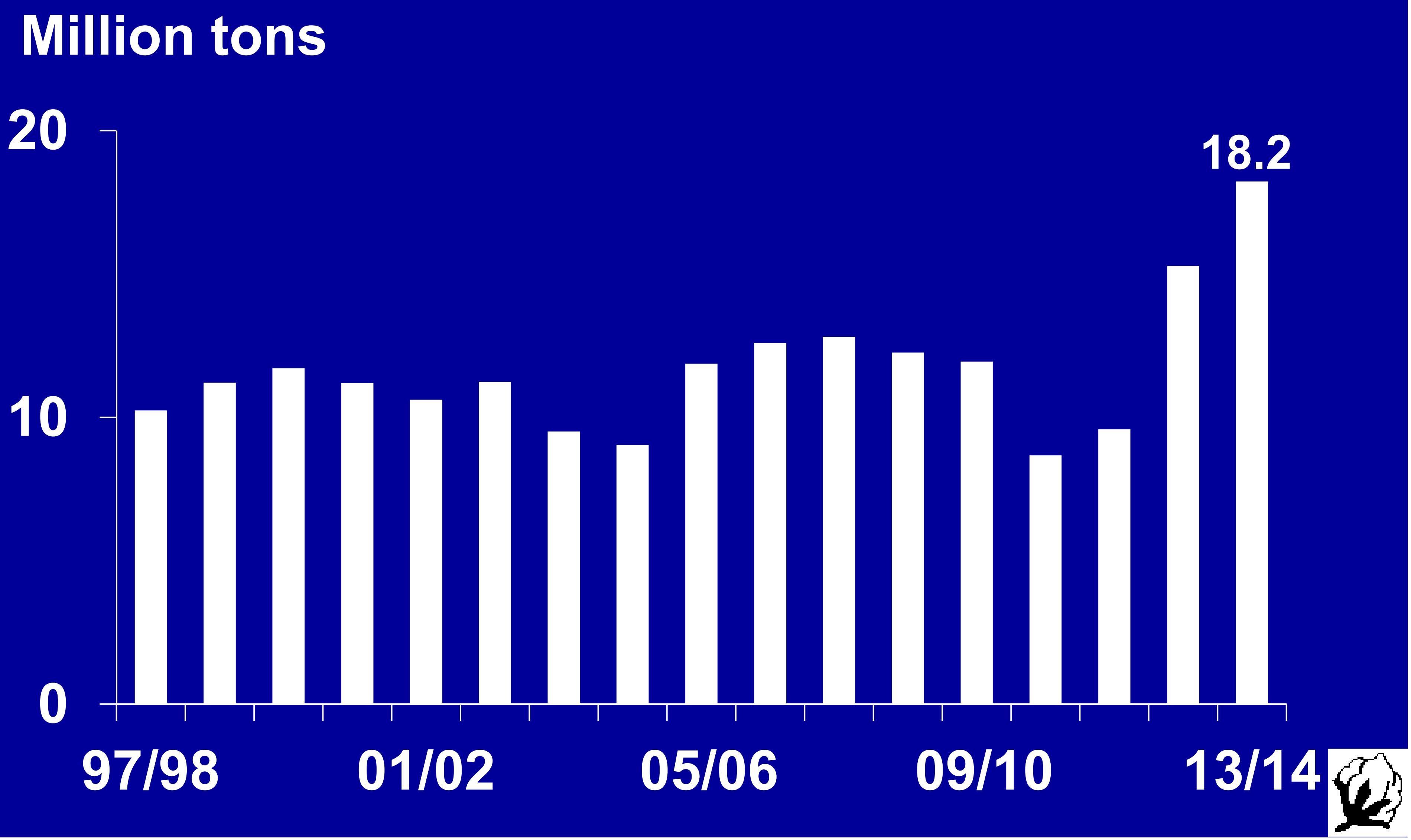
World Cotton Production & Mill Use



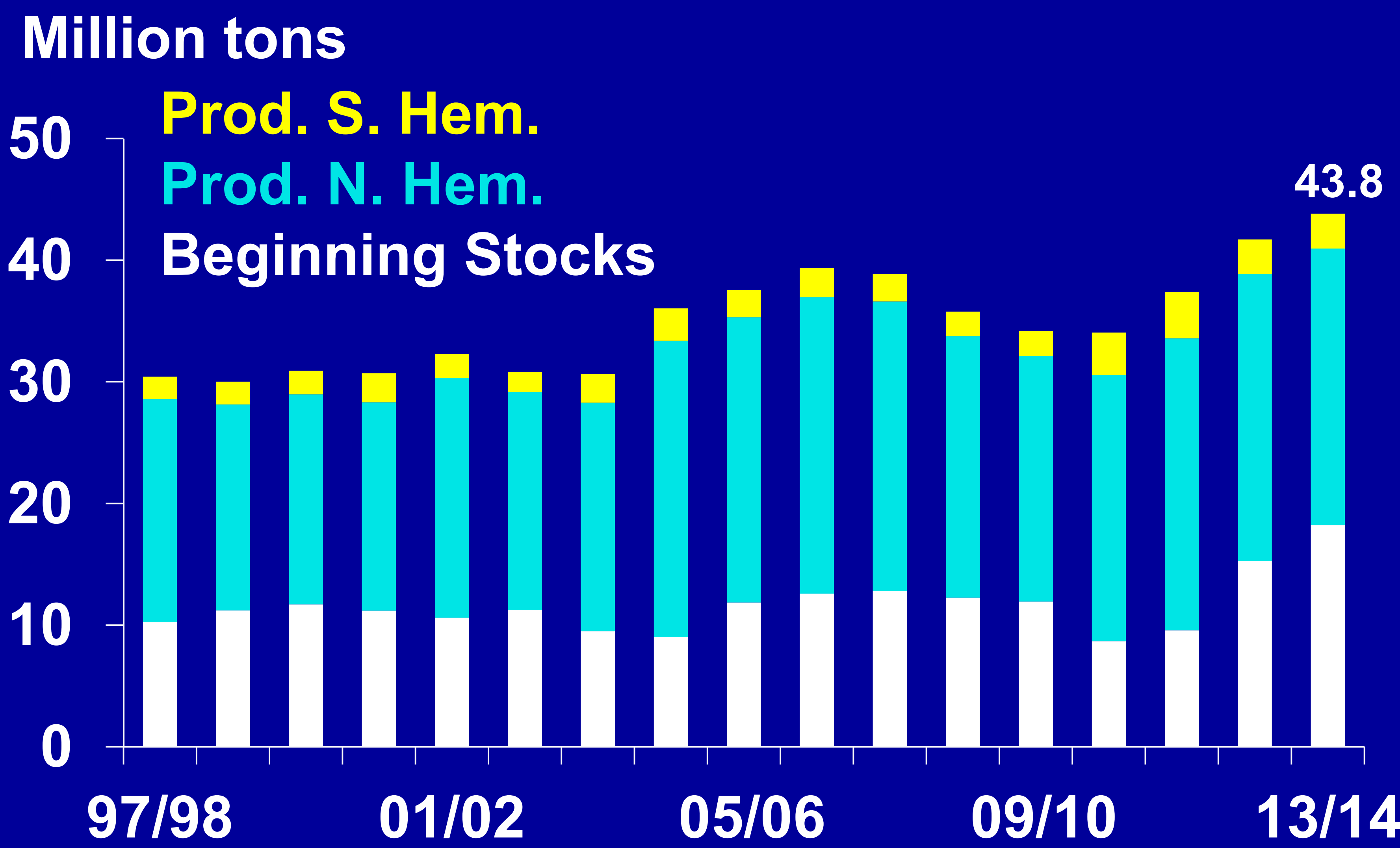
World Production



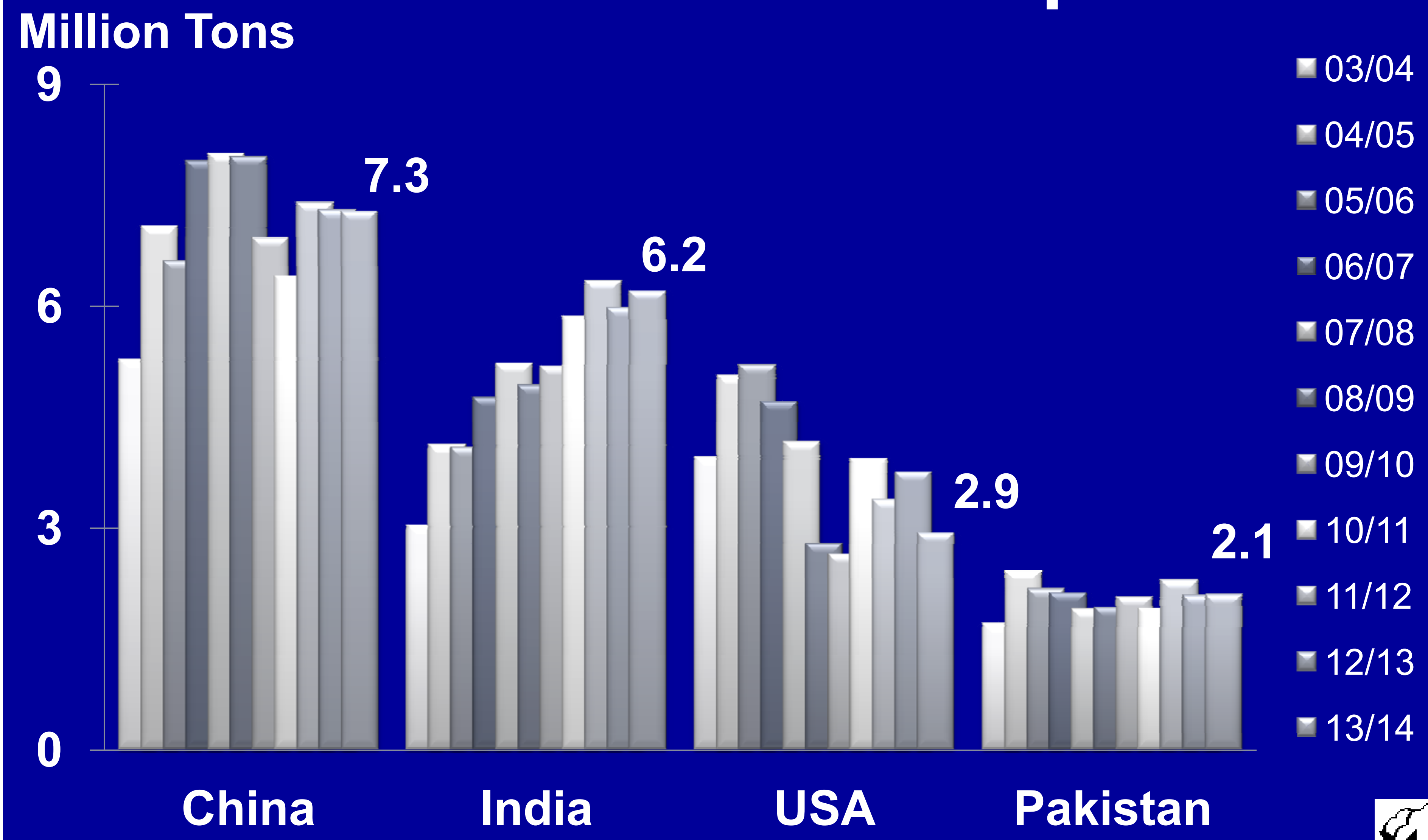
World Beginning Stocks



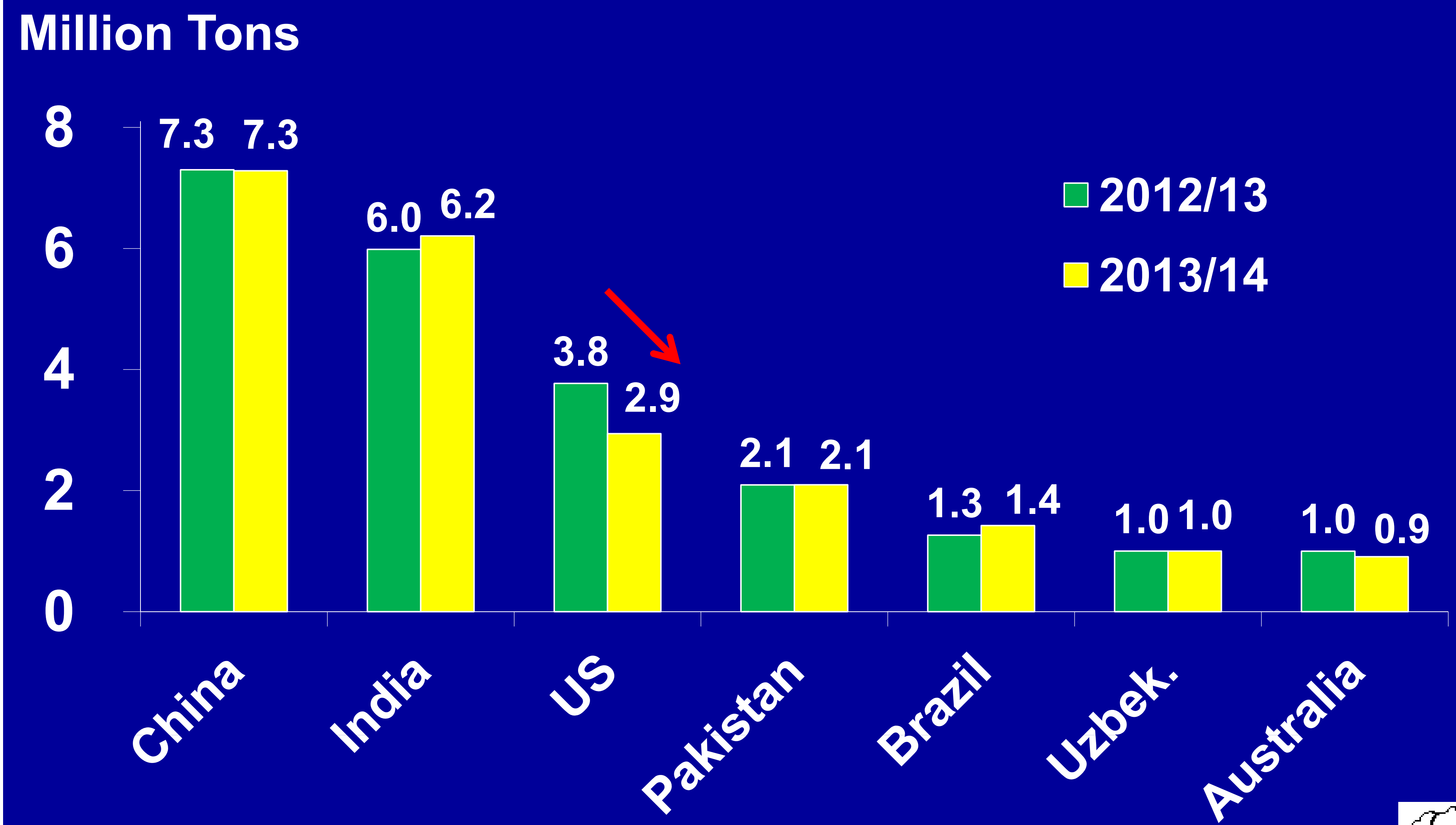
World Supply =
Beg. Stocks + Production



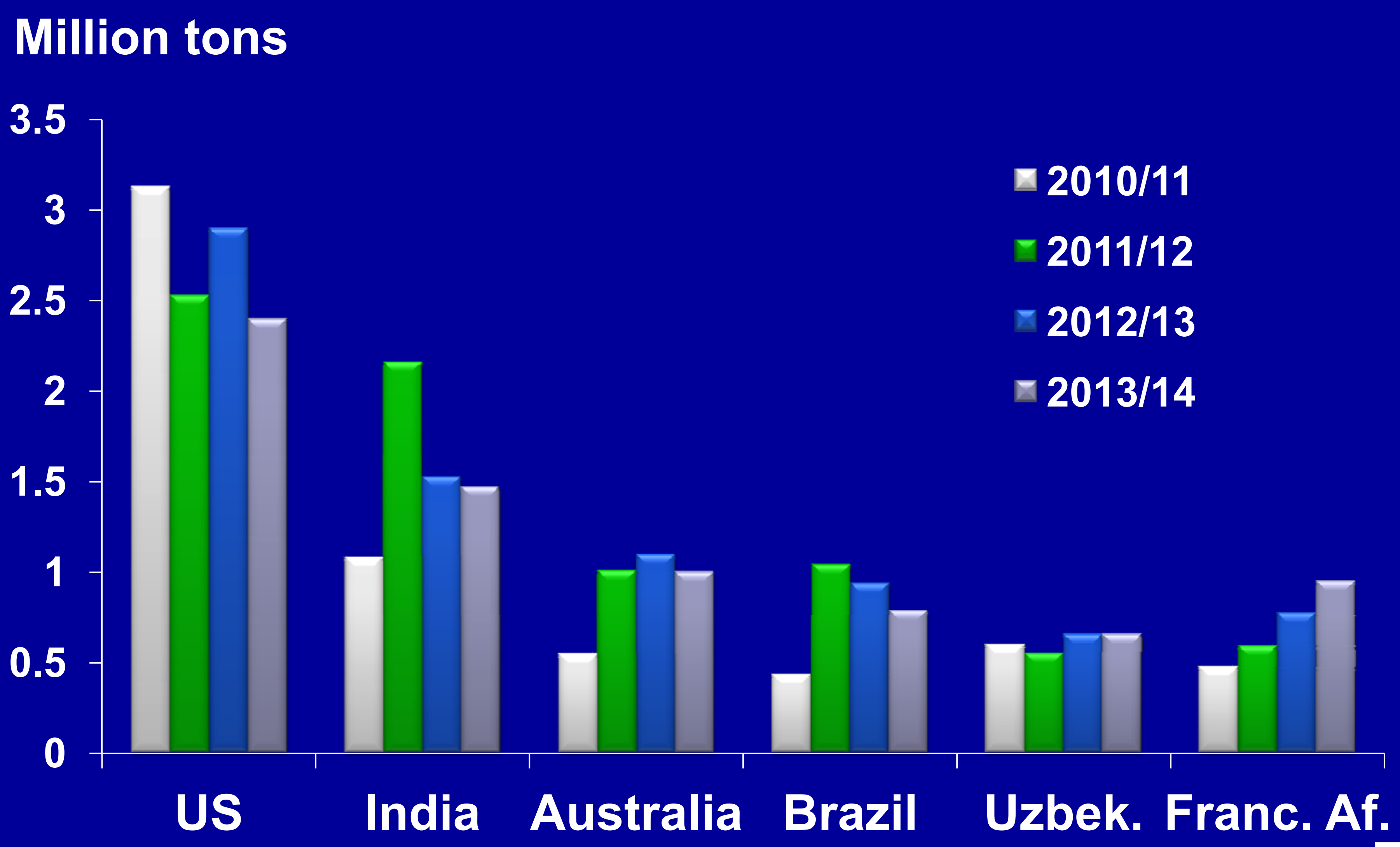
Major Cotton Producing Countries in the Northern Hemisphere



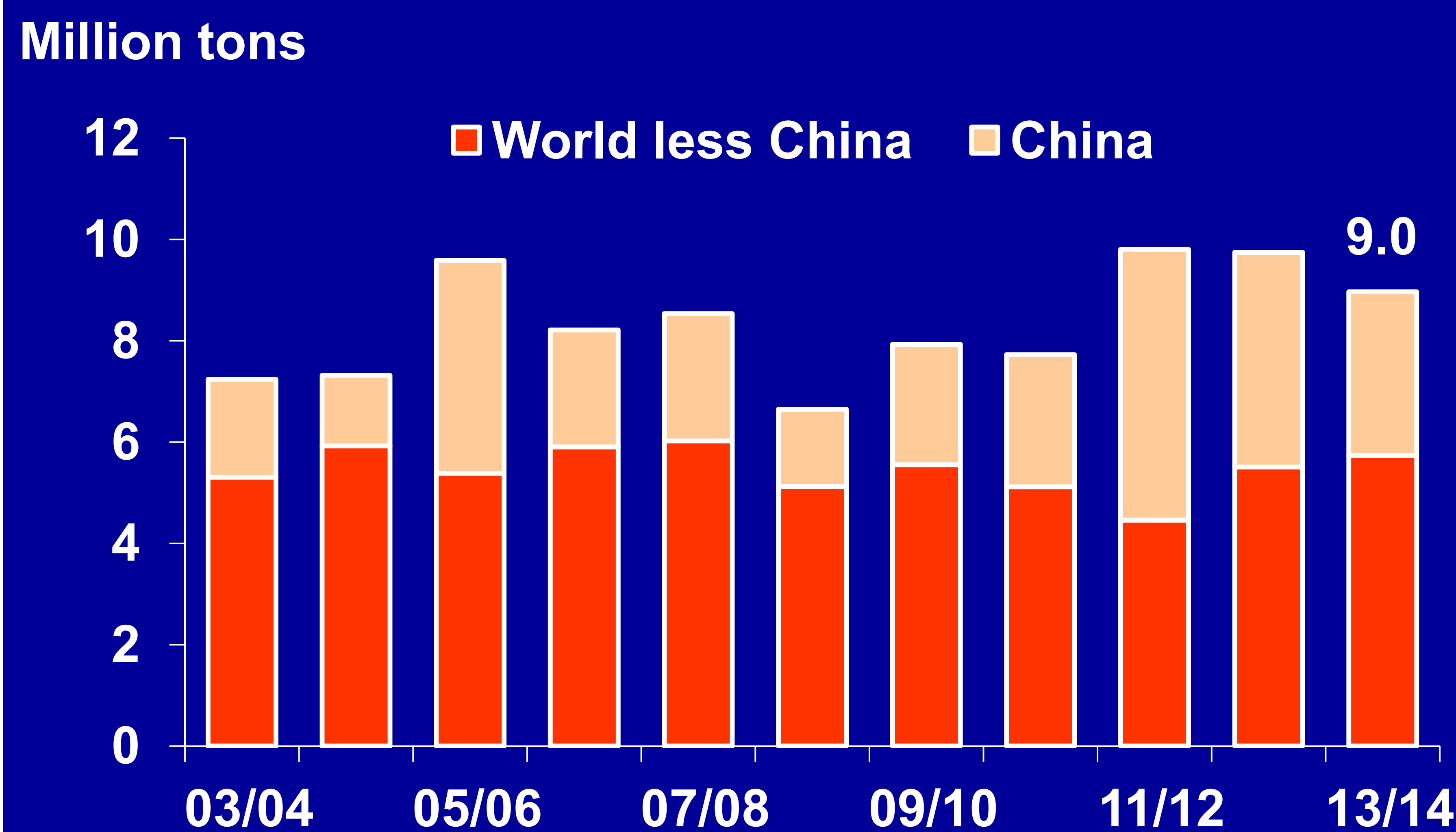
Cotton Production



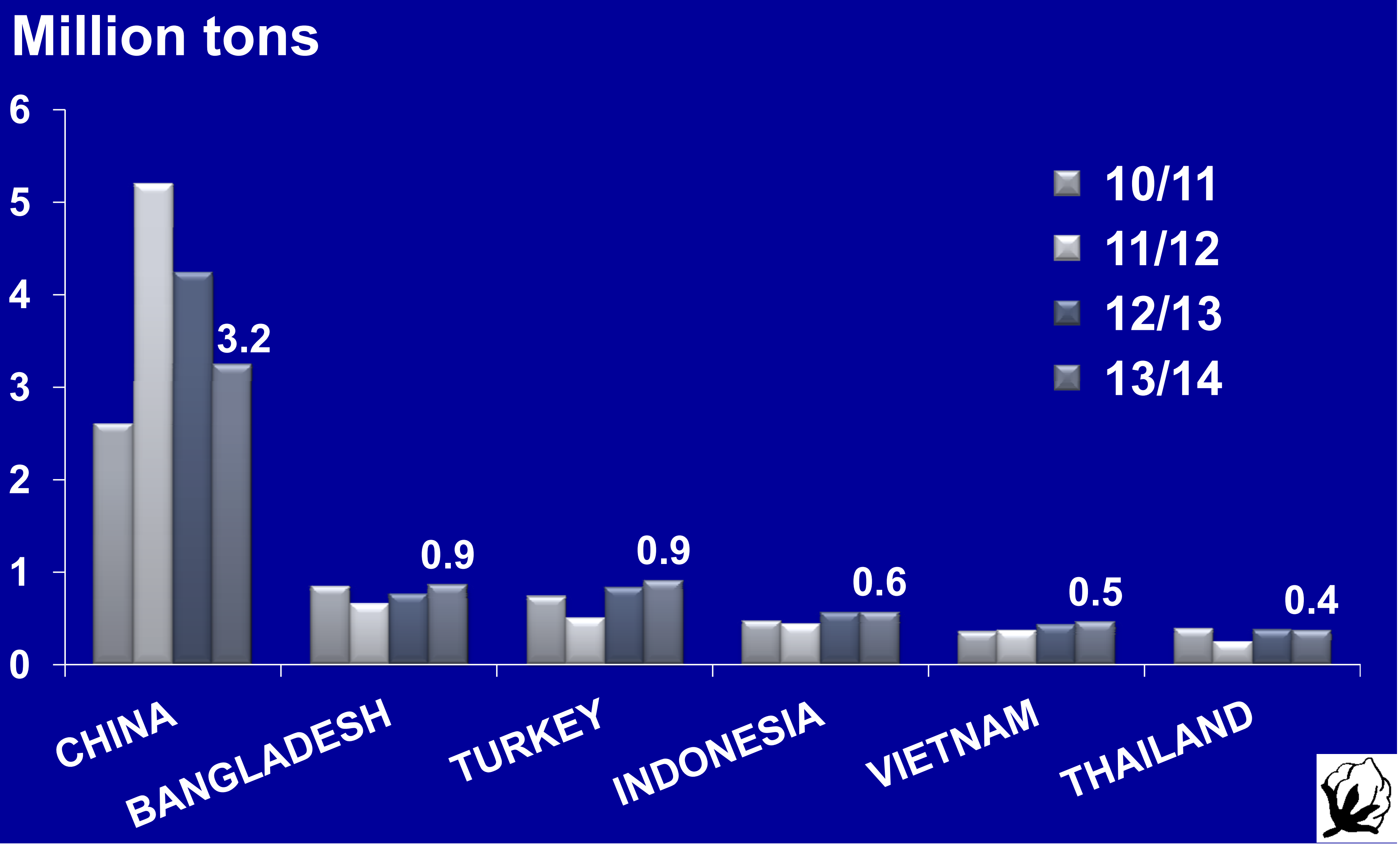
Cotton Exports



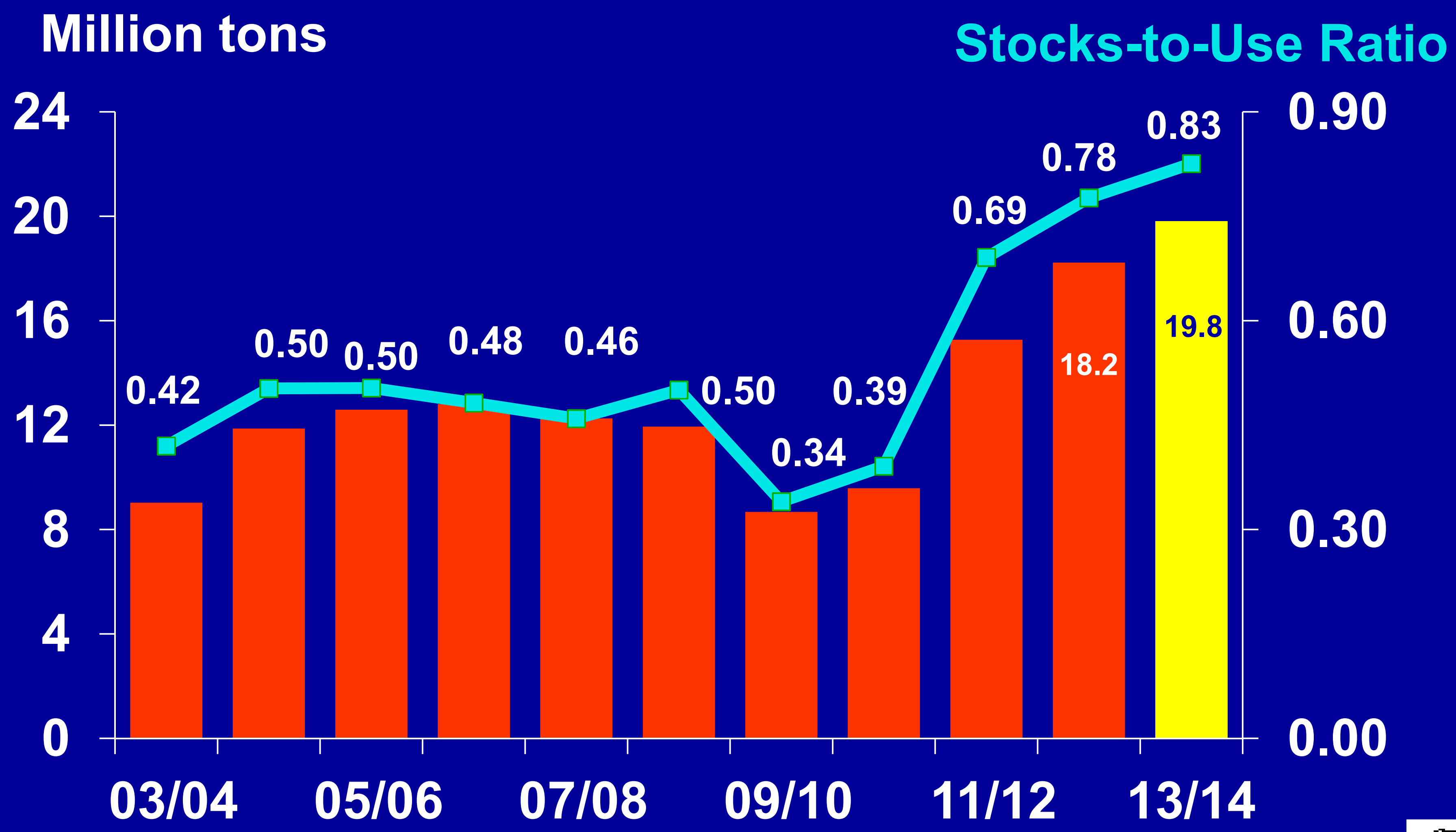
Cotton Imports



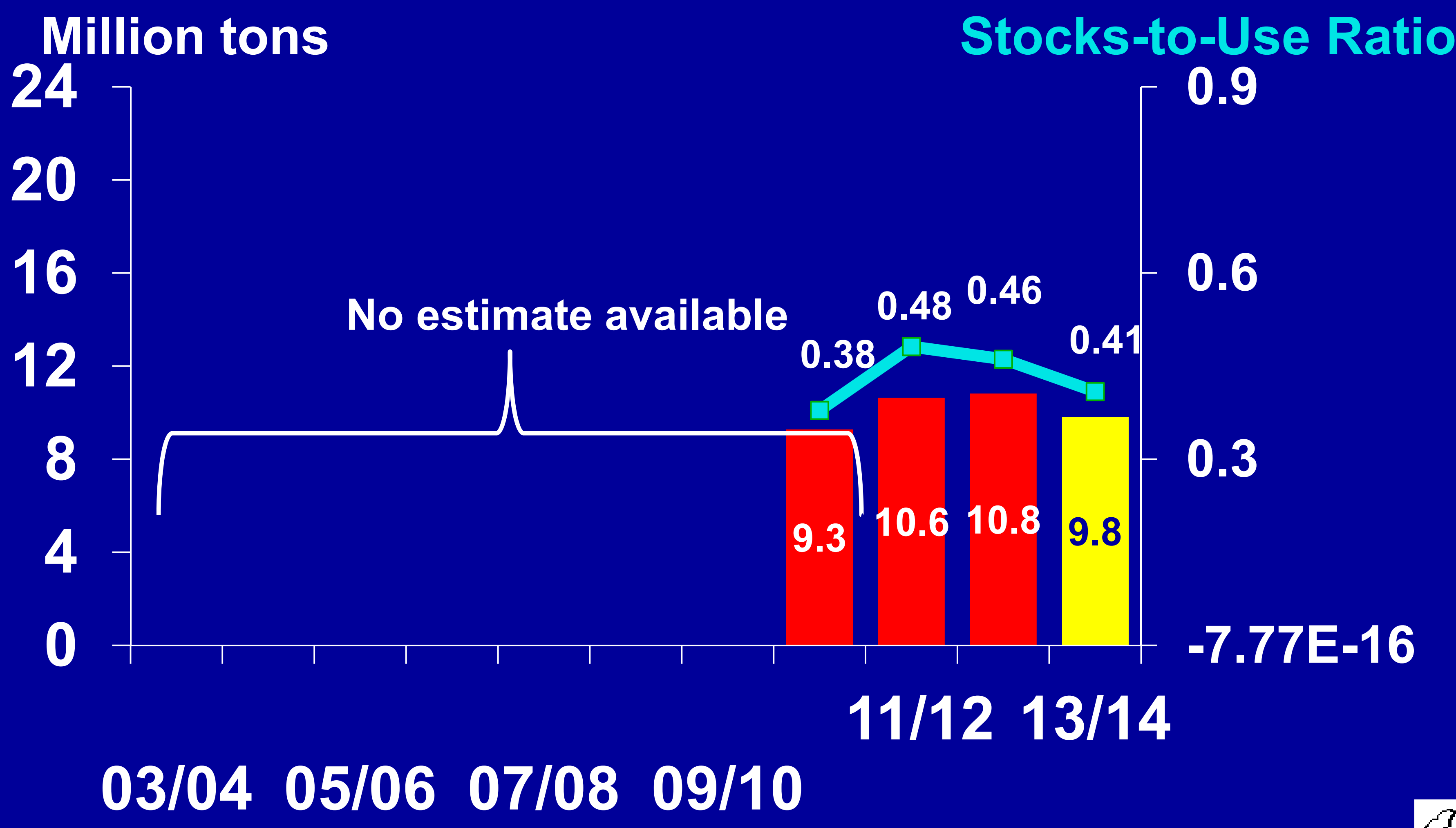
Cotton Imports by Country



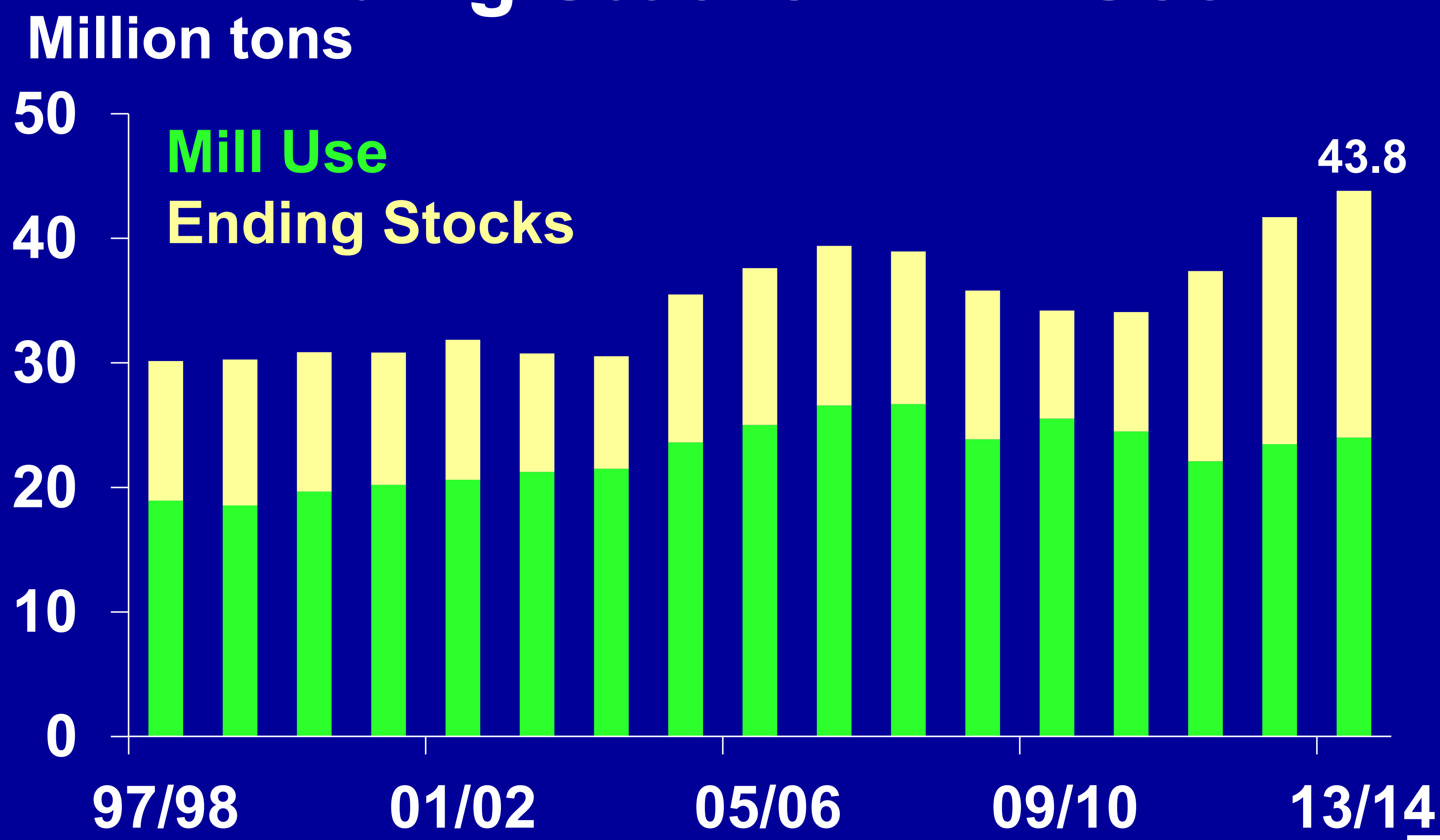
World Ending Stocks



World Ending Stocks Minus China National Reserve

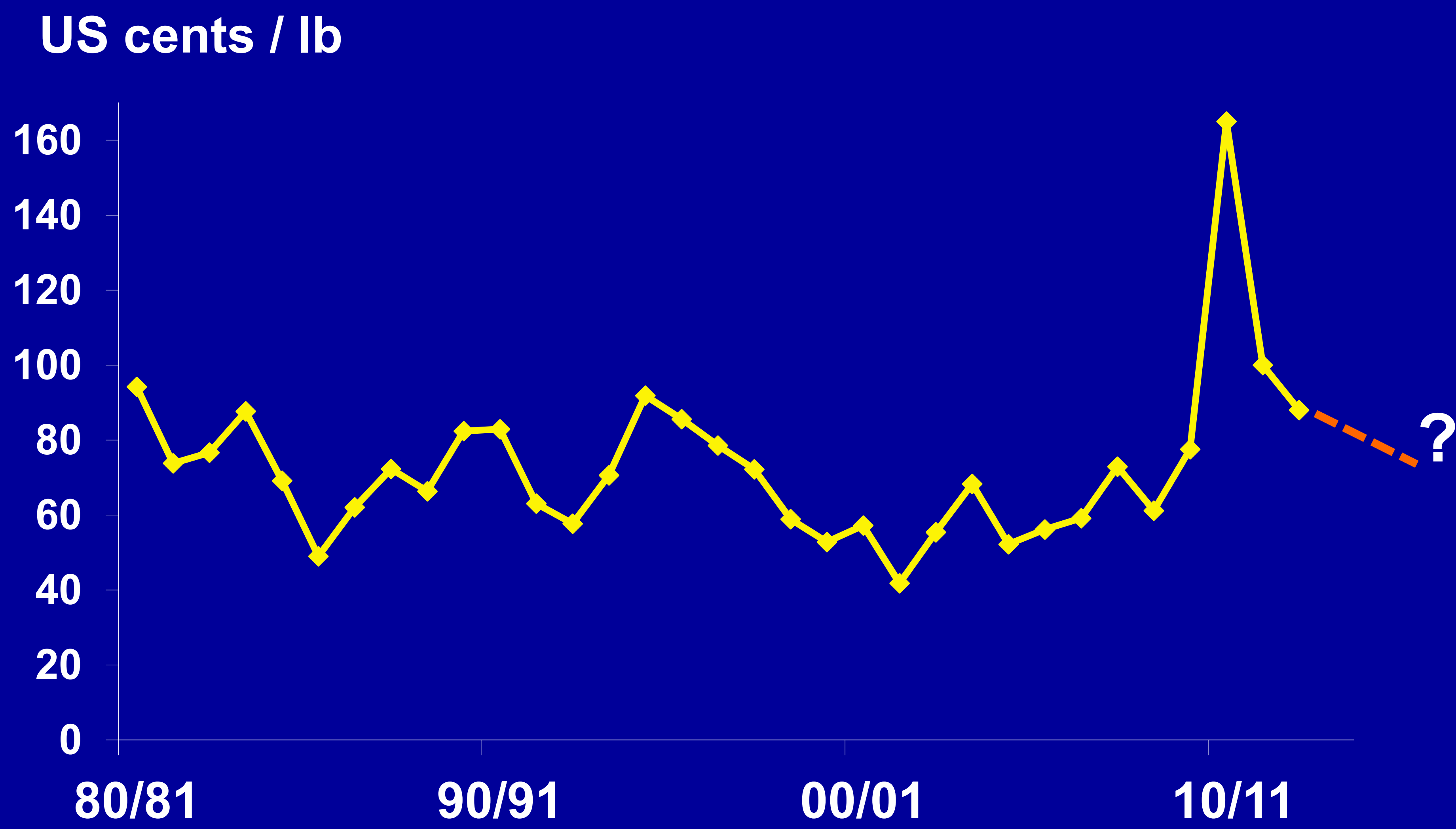


World Demand = Ending Stocks + Mill Use

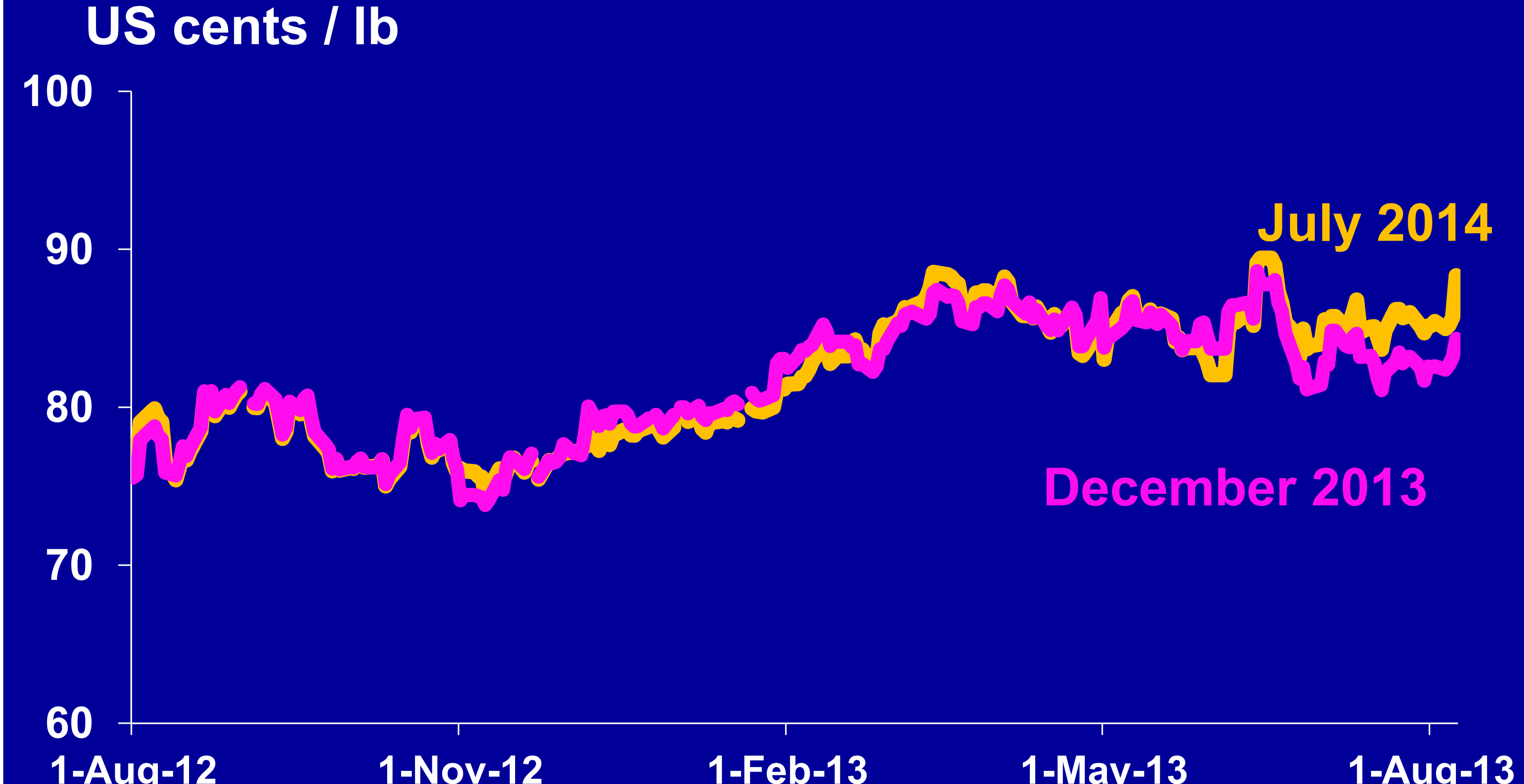


Season-Average A Index

(source: Cotlook Ltd.)



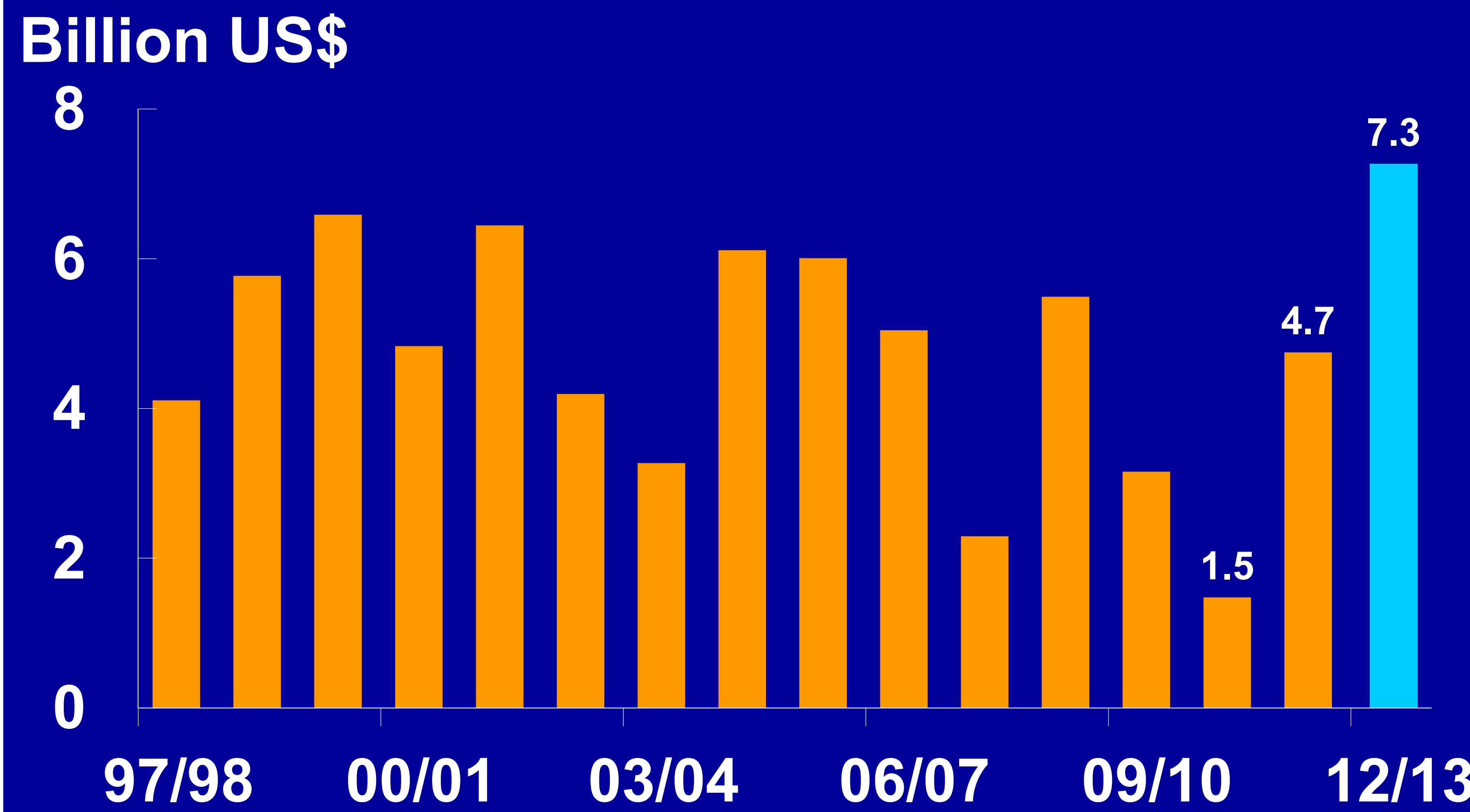
Futures Prices (Dec-13 & Jul-14 contracts)



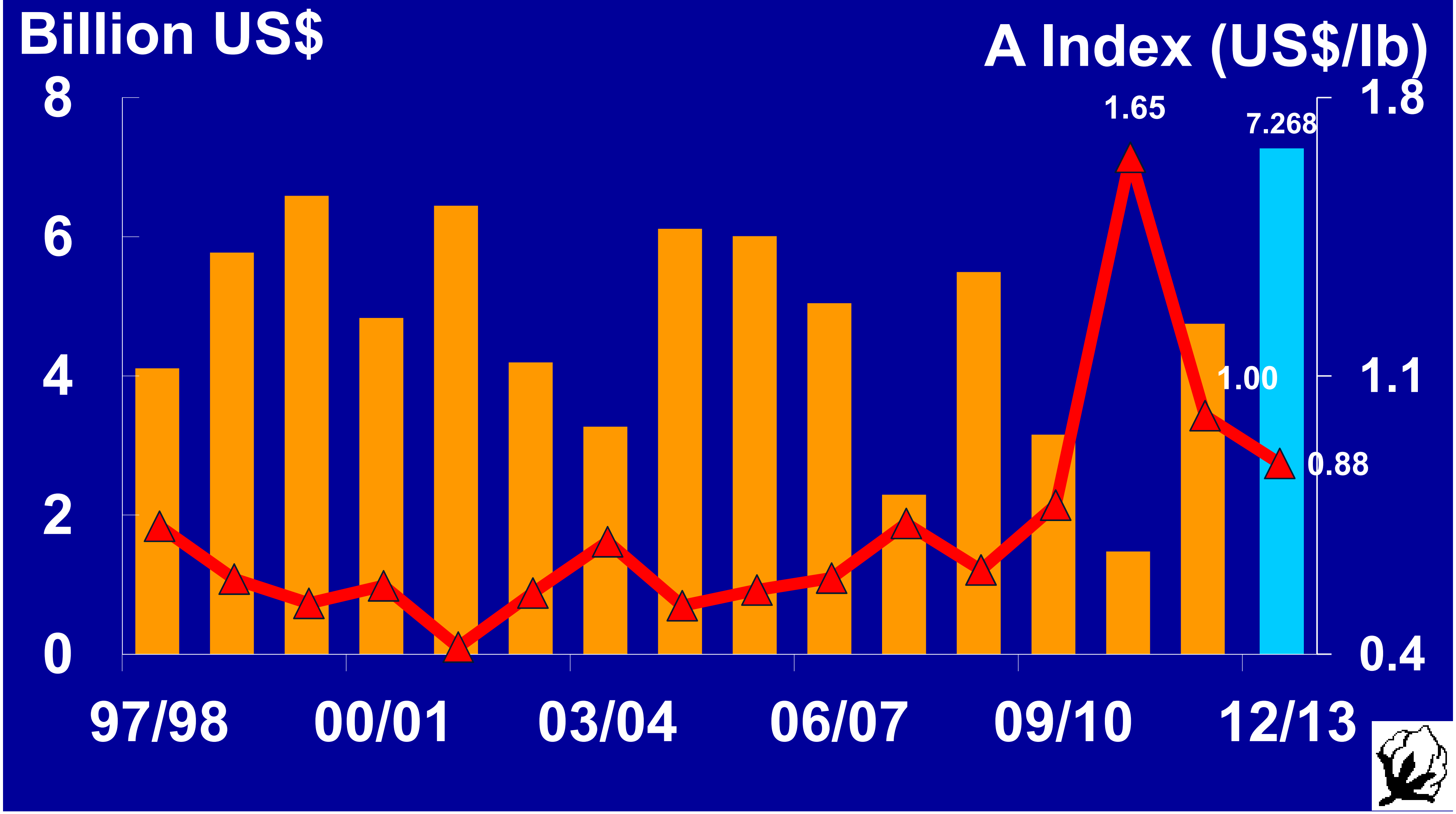
Direct Assistance to Cotton Production

- Direct support to production
- Border protection
- Crop insurance subsidies
- Minimum support price mechanisms
- Input subsidies
- Transportation subsidies

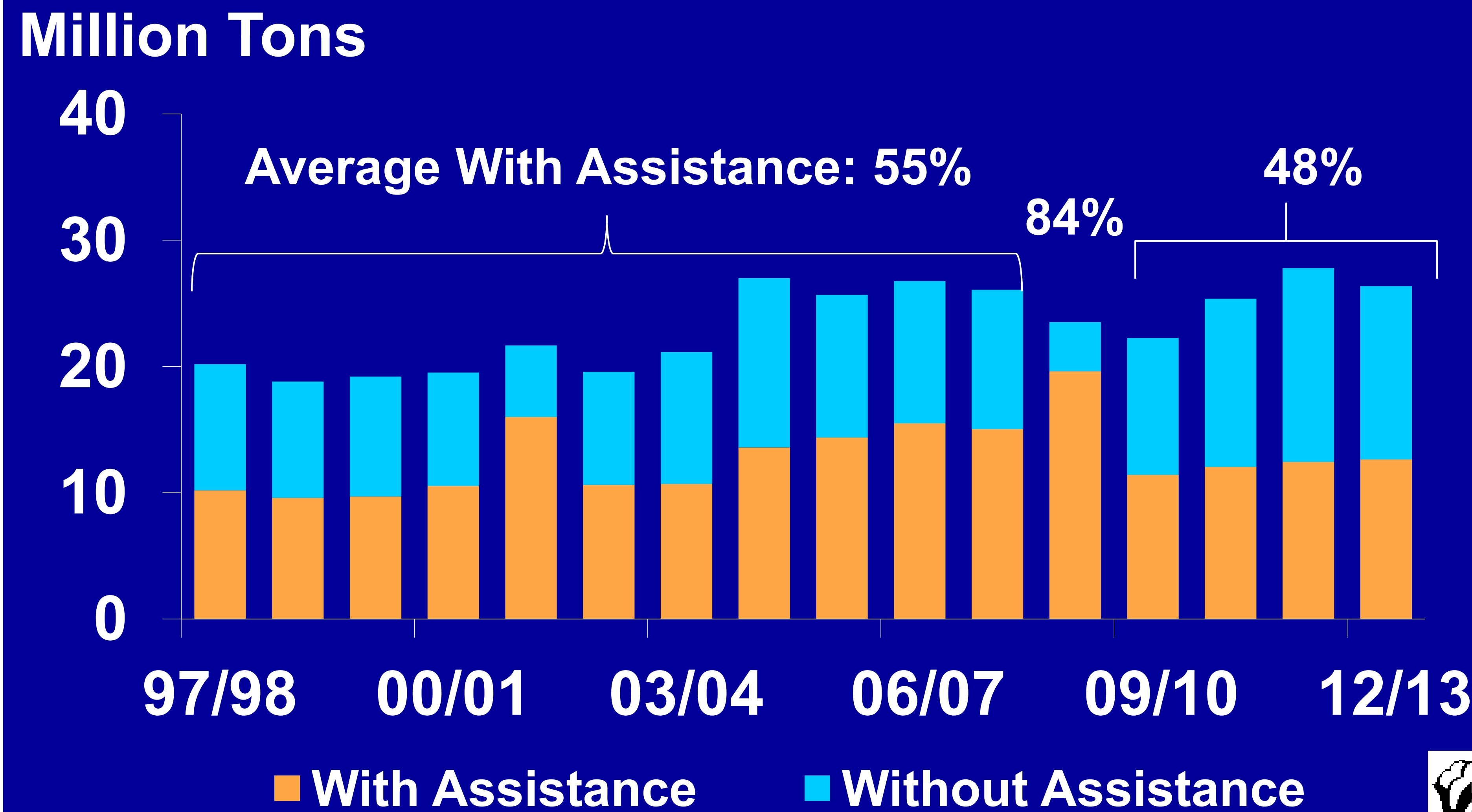
DIRECT ASSISTANCE TO COTTON



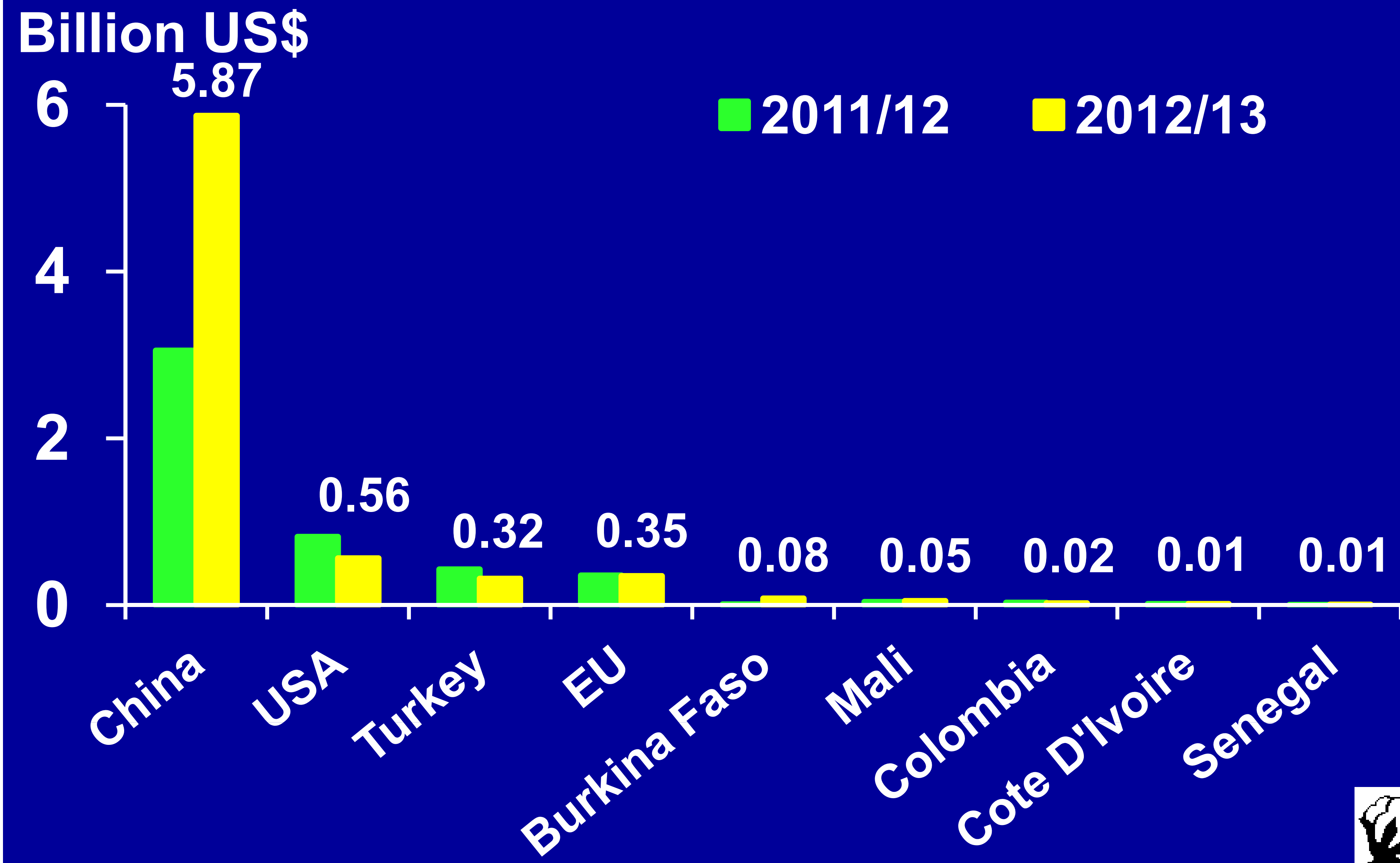
DIRECT ASSISTANCE TO COTTON AND PRICES



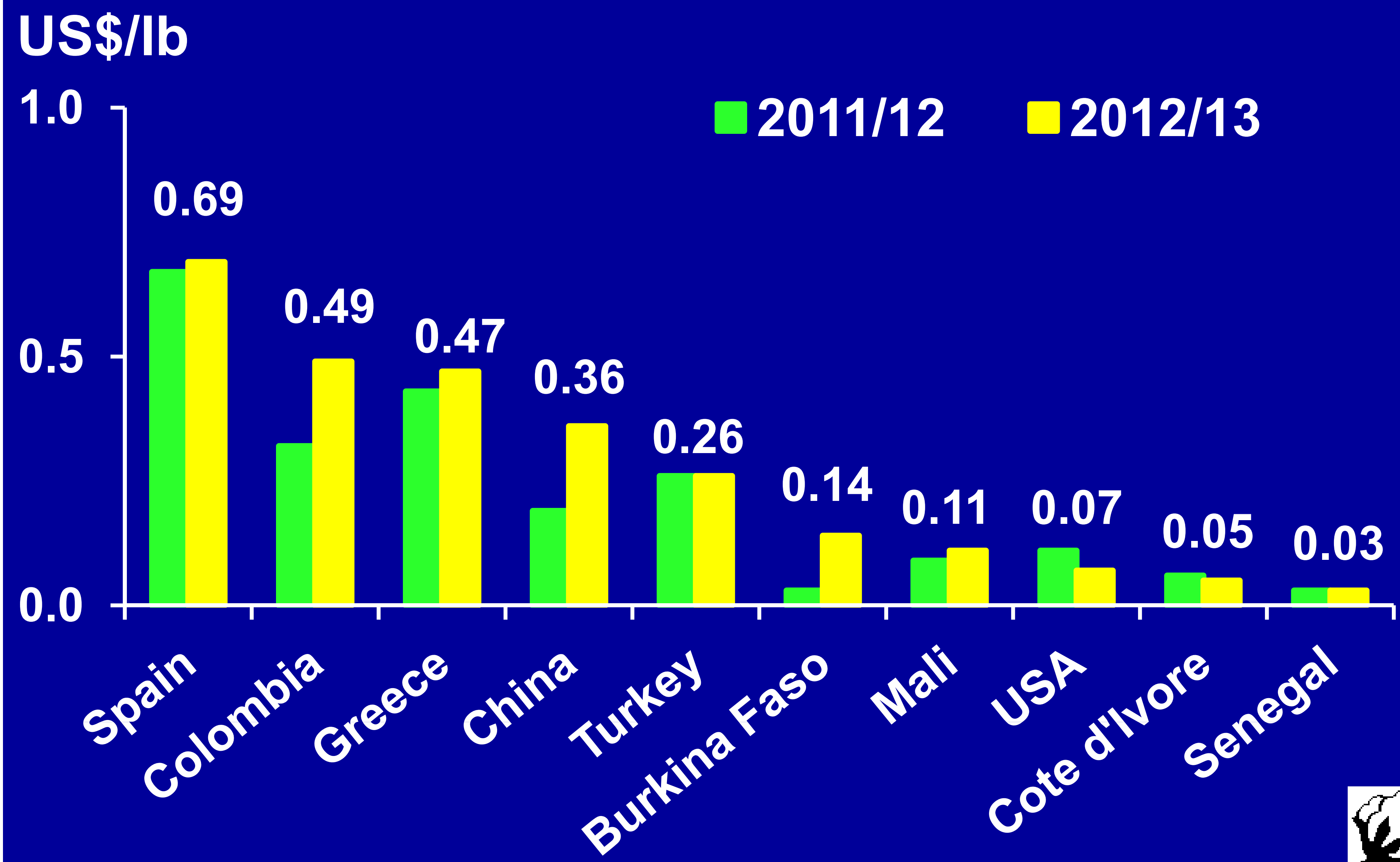
WORLD PRODUCTION UNDER DIRECT ASSISTANCE



DIRECT ASSISTANCE TO COTTON



DIRECT ASSISTANCE TO COTTON



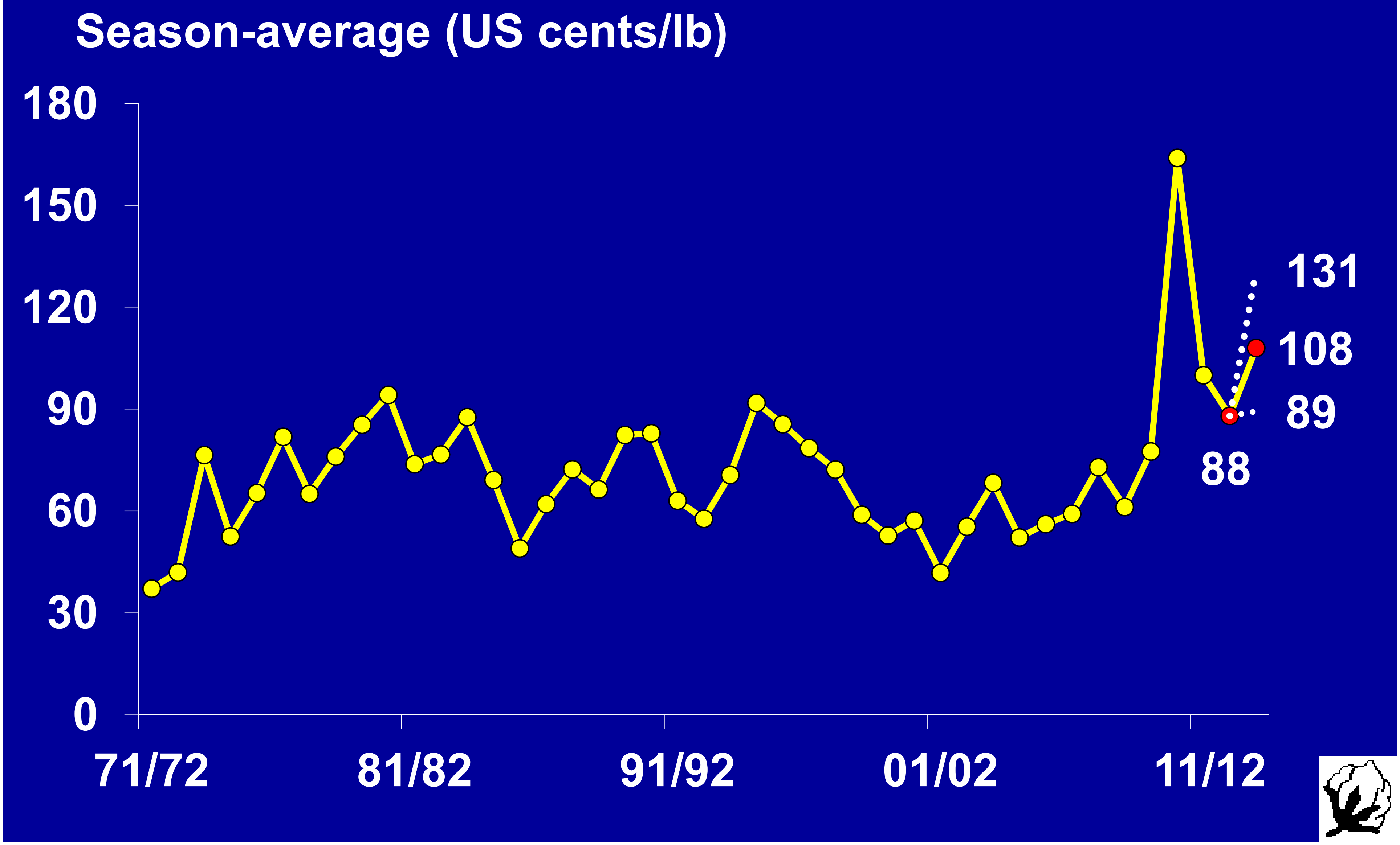
Prices in 2013/14

- Dependent on Chinese policy:
  Support price yuan 20,400/ton

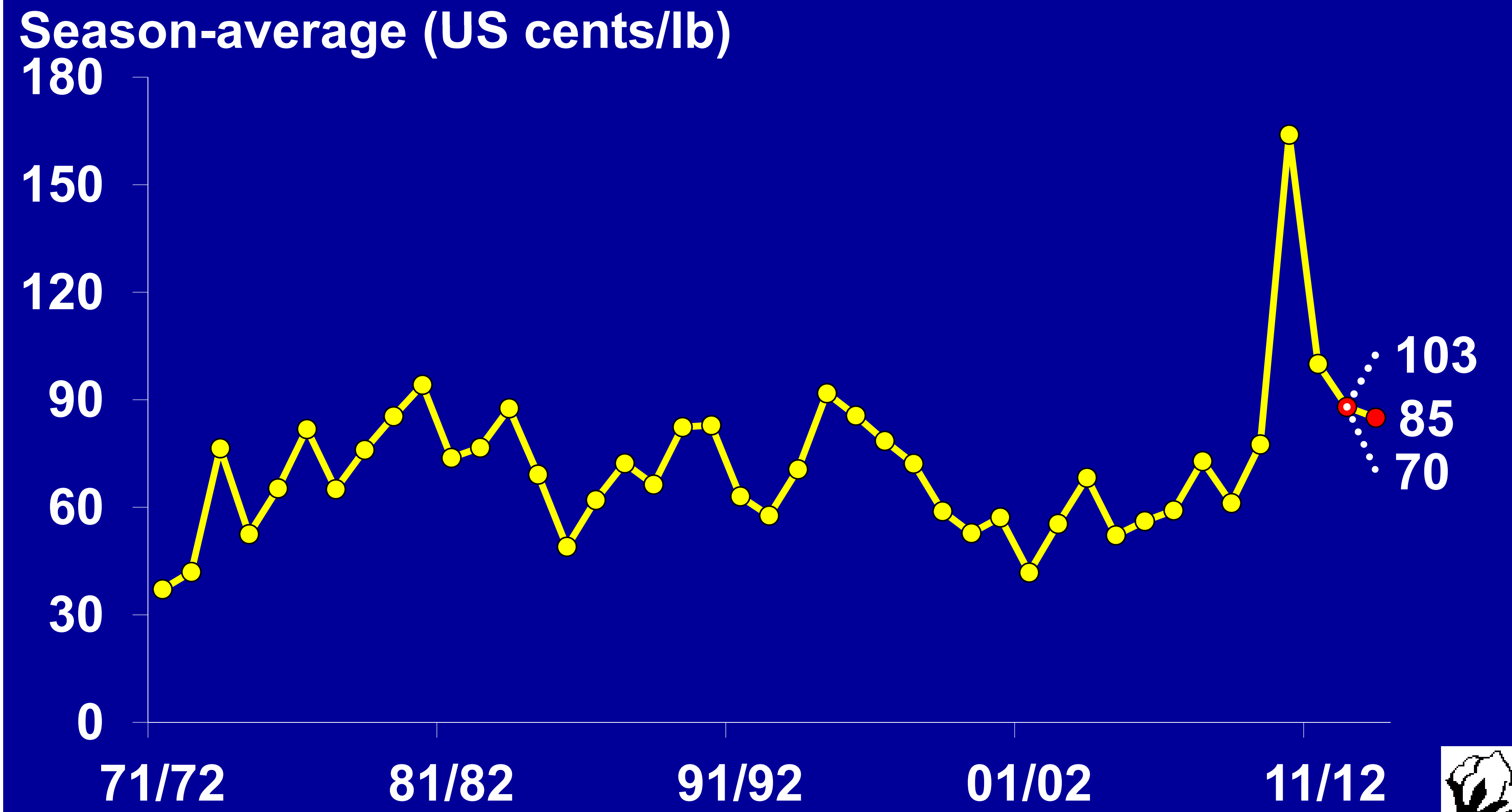
- China = buyer of last resort

- How much stocks will the CNCRC liquidate?

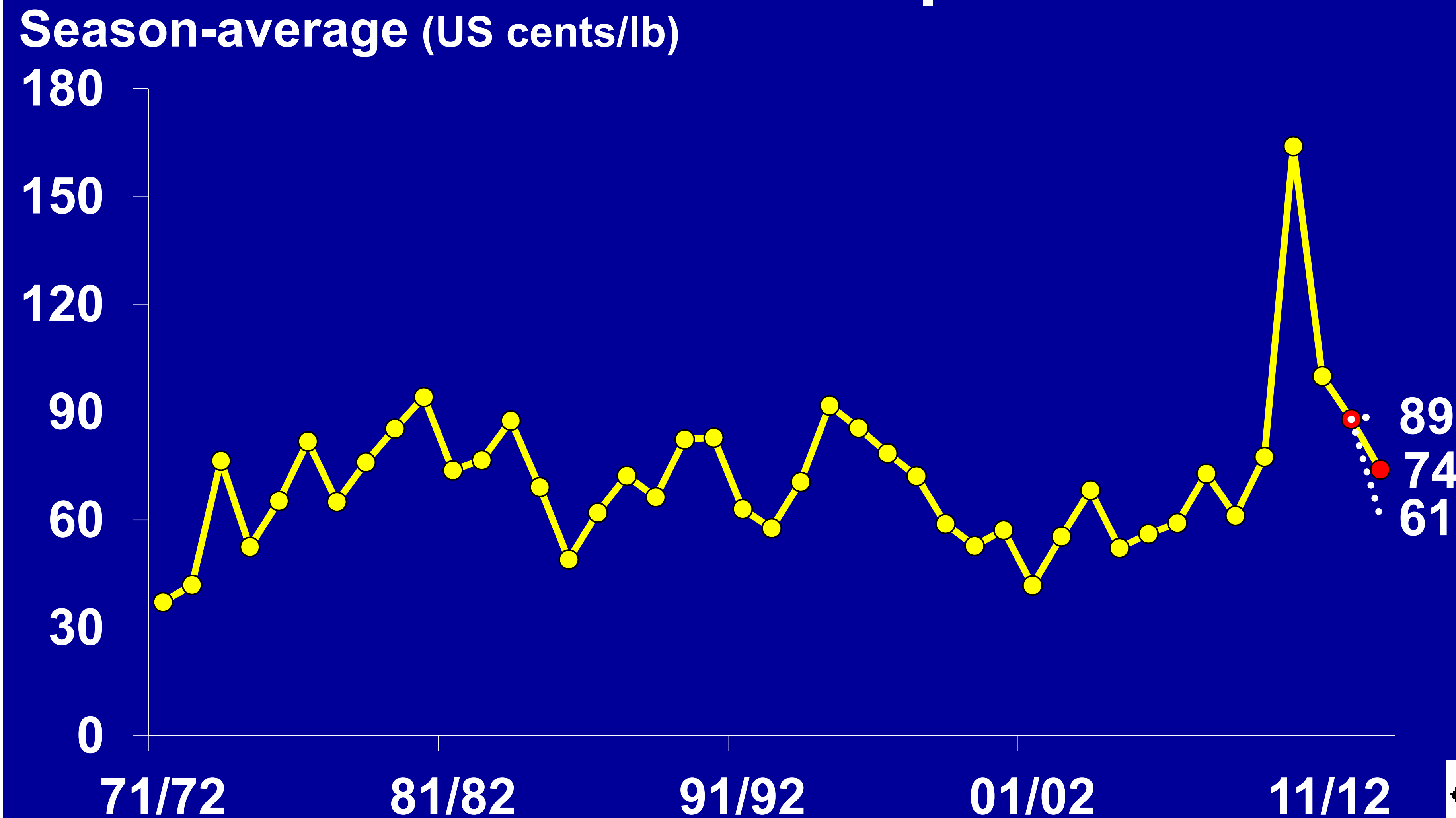
Cotlook A Index
Base Scenario



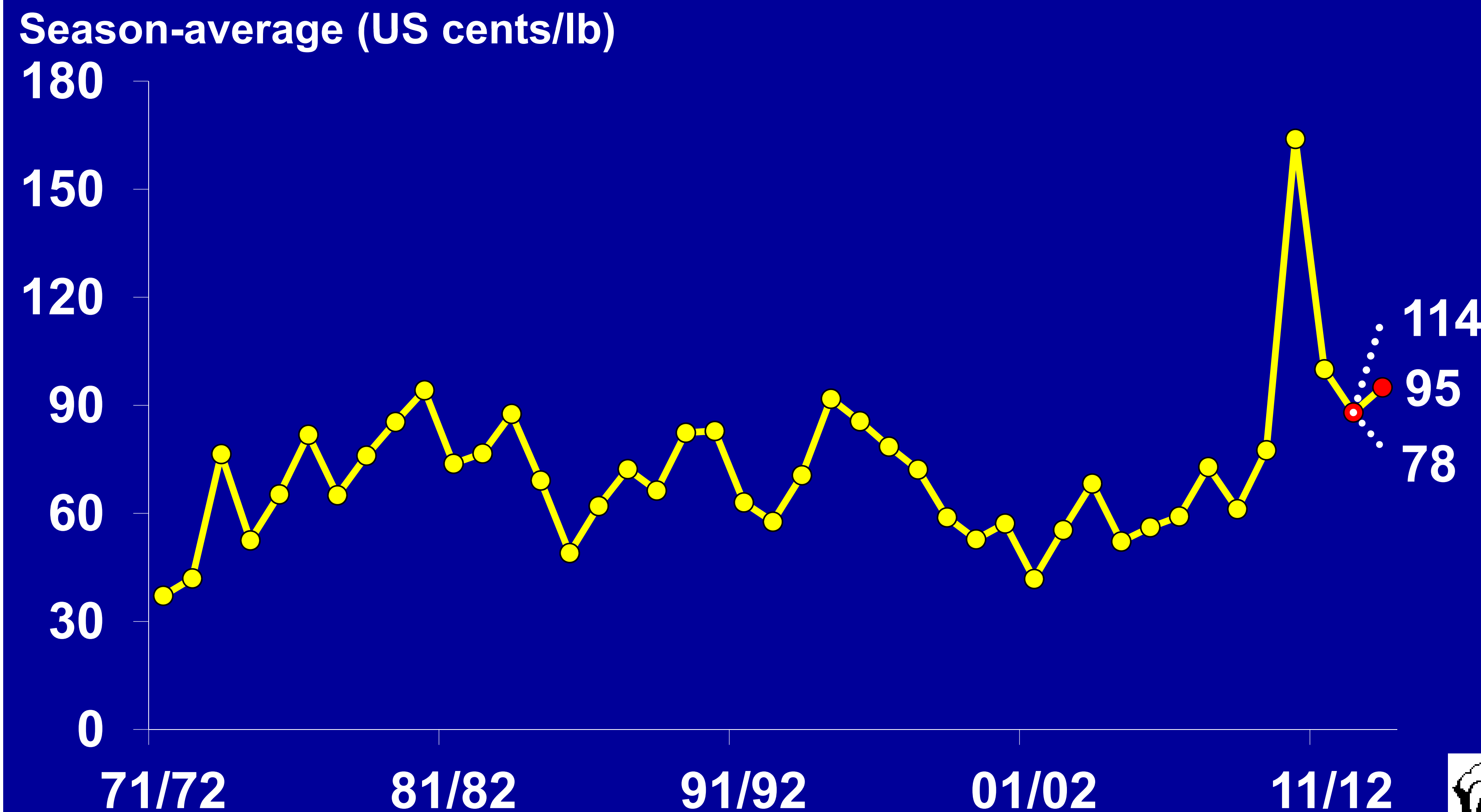
Cotlook A Index
S1: Rapid Release Chinese Reserve & China net importer



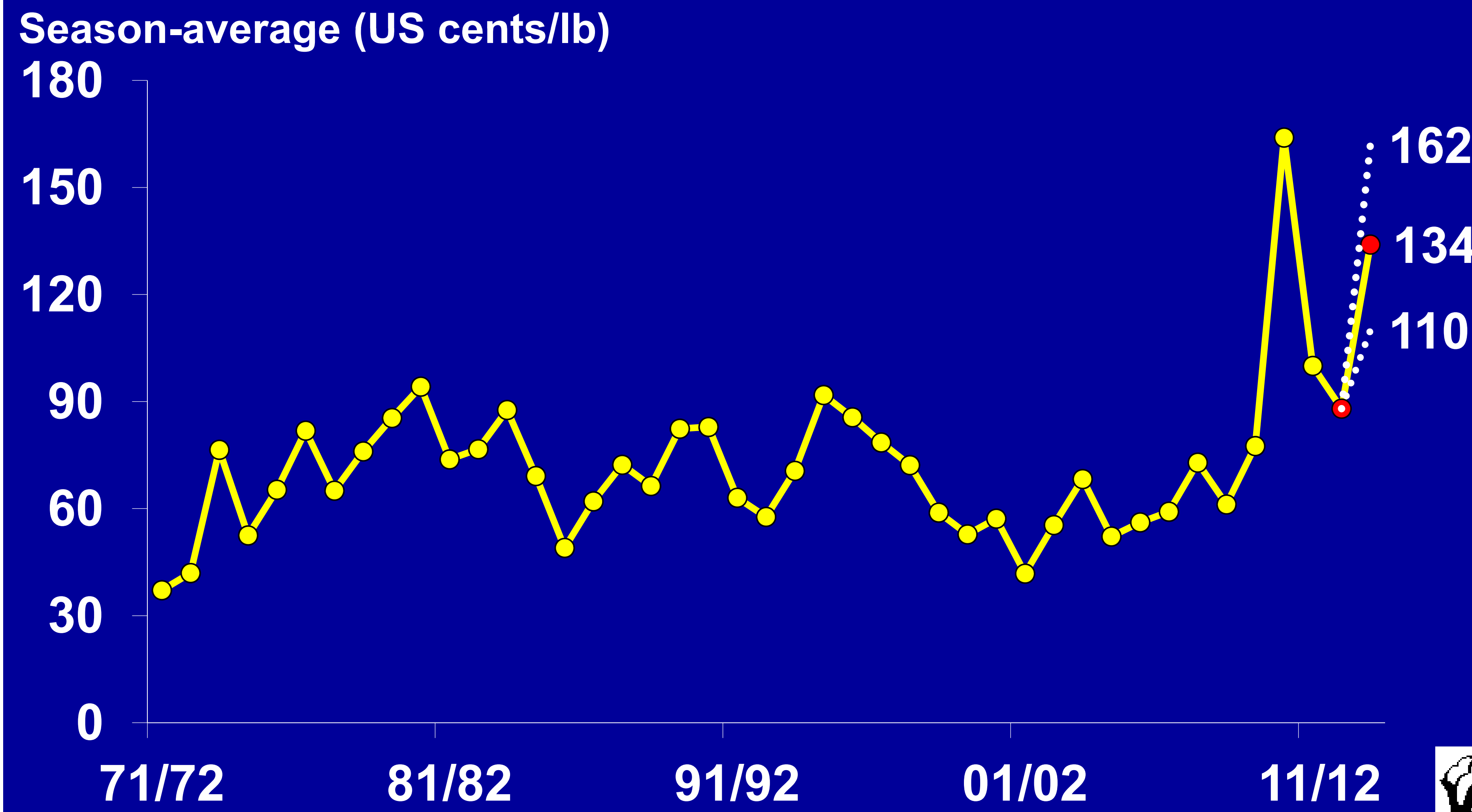
Cotlook A Index
S2: Rapid Release Chinese Reserve & China net exporter



Cotlook A Index
S3: Slow Release of Chinese Reserve



Cotlook A Index
S4: Slowdown in world economy & Stagnant Mill Use



The World Cotton Market: Structure and Outlook

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13 August 2013