

Monthly Economic Letter

U.S. and Global Market Fundamentals



Cotton Incorporated

January 2010

www.cottoninc.com

After a period of virtually uninterrupted strengthening since early September, cotton prices moved largely sideways throughout December and faced a correction in early January, dropping 2.74 cents/lb on January 5 before finding support just above 72.00 cents/lb. In more recent trading, cotton prices have rallied and regained about half of the losses incurred in early January. The sideways movement in NY prices in December coincided with significant strengthening in the dollar (futures contracts based on the dollar's value were up more than 4% in December). Cotton prices have had a strong inverse correlation with the dollar since the onset of the credit crisis in September 2008, meaning that cotton prices have tended to fall when the dollar rises and that cotton prices have tended to rise when dollar falls. The fact that cotton prices in December were relatively flat while the dollar climbed in value represents the first major deviation from the dollar/cotton correlation since the credit crisis. Also defying the correlation between the dollar and cotton prices was the A Index, which climbed throughout much of December and rose from levels around 75.00 cents/lb to 79.85 cents/lb before retreating back to levels near 78.00 cents/lb in early January.

The latest USDA report describes few changes from last month's figures. Globally, production estimates decreased only 6,000 bales. There were, however, some significant changes at the country level. Production estimates for both China (+500,000 bales) and Brazil (+150,000) increased while production estimates for India (-300,000) and the U.S. (-191,000) decreased. World consumption figures changed only 145,000 bales with the sole notable declines being for Japan (-90,000) and Russia (-50,000). Revisions to trade estimates were also minor, despite the official announcement last month from China regarding the allocation of import quota. The world export figure decreased only 215,000 bales with a 200,000 reduction in the Indian figure being the largest country-level revision. The Chinese announcement had no apparent effect on USDA trade figures. It included both the 4.1 million bales (894,000 metric tons) at the one percent tariff mandated by China's accession to the WTO as well as another 4.6 million bales (1 million metric tons) that will be permitted entry at sliding-scale tariff rates. According to reports, much of the sliding scale portion of the allocation is to be designated for the "processing trade", meaning that cotton allowed entry under these rules will only be allowed for use in the production of textile products destined for export. There is speculation that China may issue additional import quota later in the year.

Given the small revisions to supply and demand figures, estimated ending stocks changed only slightly, falling 88,000 bales worldwide and leaving January's stocks-to-use ratio unchanged from December's level at 45.2%. With the stocks-to-use ratio at its lowest value in 15 years, fundamental pressures are likely to continue to support prices in coming months. Nonetheless, there are some potential mitigating factors that could limit further price advance. One such factor could be further strengthening of the dollar. Other upcoming events that could affect prices are acreage reports due to be released in February by the National Cotton Council and the USDA. Given higher cotton prices, expectations are that these reports will describe increases in both U.S. and world acreage for 2010/11. Considering the 9.2 million bale reduction in ending stocks described in current USDA estimates, the magnitude of any acreage increase would have to be large to move projections for 2010/11 stock-to-use ratios significantly higher and provide any downward influence on 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

U.S. Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
Beginning Stocks	5.5	6.1	9.5	10.0	6.3	6.3
Production	23.9	21.6	19.2	12.8	12.6	12.4
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	29.4	27.7	28.7	22.9	18.9	18.7
U.S. Mill Use	5.9	4.9	4.6	3.6	3.4	3.4
Exports	17.5	13.0	13.7	13.3	11.0	11.0
Demand	23.4	17.9	18.2	16.9	14.4	14.4
Ending Stocks	6.1	9.5	10.0	6.3	4.5	4.3
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	31.3%	29.9%

Source: USDA

China Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
Beginning Stocks	18.4	22.5	20.5	20.0	20.9	20.9
Production	28.4	35.5	37.0	36.7	31.5	32.0
Imports	19.3	10.6	11.5	7.0	9.0	9.0
Supply	66.1	68.6	69.1	63.7	61.4	61.9
China Mill Use	45.0	50.0	51.5	45.0	46.8	46.8
Exports	0.0	0.1	0.1	0.1	0.1	0.1
Demand	45.0	50.1	51.6	45.1	46.8	46.8
Ending Stocks	22.5	20.5	20.0	20.9	17.0	17.5
Stocks/Use Ratio	50.0%	41.0%	38.8%	46.3%	36.4%	37.5%

Source: USDA

World Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
Beginning Stocks	60.6	62.4	63.1	62.2	61.1	60.9
Production	116.7	122.0	119.9	107.5	102.7	102.7
Supply	177.3	184.3	183.0	169.6	163.8	163.6
Consumption	116.7	123.7	123.5	111.1	114.5	114.4
Ending Stocks	62.4	63.1	62.2	60.9	51.8	51.7
Stocks/Use Ratio	53.5%	51.0%	50.3%	54.8%	45.2%	45.2%

Source: USDA

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World Cotton Production

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
China	28.4	35.5	37.0	36.7	31.5	32.0
India	19.1	21.8	24.0	22.6	23.8	23.5
United States	23.9	21.6	19.2	12.8	12.6	12.4
Pakistan	10.2	9.9	8.9	9.0	9.8	9.8
Brazil	4.7	7.0	7.4	5.5	5.4	5.6
Uzbekistan	5.6	5.4	5.4	4.6	4.4	4.4
Australia	2.8	1.4	0.6	1.5	1.8	1.8
Turkey	3.6	3.8	3.1	1.9	1.7	1.7
African Franc Zone	2.5	2.3	1.6	1.6	1.6	1.6
Turkmenistan	1.0	1.2	1.3	1.4	1.1	1.1
EU-27	2.5	1.6	1.7	1.2	1.0	1.0
Syria	1.6	1.0	1.1	1.1	1.0	1.0
Greece	2.0	1.4	1.6	1.2	0.9	0.9
Burkina	1.4	1.3	0.7	0.9	0.9	0.9
Argentina	0.6	0.8	0.7	0.6	0.8	0.8
Rest of World	10.4	8.7	7.9	6.9	6.2	6.2
World Total	116.7	122.0	119.9	107.5	102.7	102.7

Source: USDA

World Cotton Exports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
United States	17.5	13.0	13.7	13.3	11.0	11.0
India	3.5	4.6	7.0	2.4	6.8	6.6
Uzbekistan	4.8	4.5	4.2	3.0	4.0	4.0
Brazil	2.0	1.3	2.2	2.7	2.0	2.0
Australia	2.9	2.1	1.2	1.2	1.7	1.7
African Franc Zone	2.6	2.4	1.7	1.5	1.5	1.5
EU-27	2.0	1.6	1.6	1.0	1.1	1.1
Turkmenistan	0.6	0.8	0.8	0.6	1.0	1.0
Greece	1.4	1.3	1.3	0.8	0.9	0.9
Burkina	1.4	1.4	0.8	0.8	0.9	0.9
Pakistan	0.3	0.2	0.3	0.4	0.5	0.5
Tajikistan	0.6	0.6	0.5	0.4	0.5	0.5
Mali	1.0	0.9	0.5	0.3	0.4	0.4
Kazakhstan	0.9	0.9	0.5	0.3	0.4	0.4
Zimbabwe	0.4	0.4	0.4	0.3	0.4	0.4
Rest of World	6.6	4.9	4.3	3.1	3.0	3.1
World Total	44.6	37.3	38.5	30.2	33.9	33.7

Source: USDA

Note: African Franc Zone includes Benin, Burkina Faso, Cameroon, Chad, Cote d'Ivoire, and Mali.

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World Cotton Consumption

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
China	45.0	50.0	51.5	45.0	46.8	46.8
India	16.7	18.1	18.6	17.9	18.8	18.8
Pakistan	11.5	12.0	12.0	11.5	12.0	12.0
Turkey	6.9	7.3	6.0	5.0	5.1	5.1
Brazil	4.5	4.6	4.6	4.2	4.2	4.2
Bangladesh	2.5	3.2	3.5	3.8	4.0	4.0
United States	5.9	4.9	4.6	3.6	3.4	3.4
Indonesia	2.2	2.2	2.2	2.0	2.1	2.1
Mexico	2.1	2.1	2.0	1.9	1.9	1.9
Thailand	2.1	2.0	2.0	1.6	1.8	1.8
Vietnam	0.8	1.0	1.2	1.3	1.4	1.4
South Korea	1.1	1.1	1.0	1.0	1.0	1.0
Uzbekistan	0.8	0.9	1.0	1.0	1.0	1.0
Egypt	1.0	1.0	1.0	0.9	0.9	0.9
Syria	0.7	0.8	0.8	0.8	0.9	0.9
Rest of World	13.1	12.6	11.5	9.8	9.5	9.4
World Total	116.7	123.7	123.5	111.1	114.5	114.4

Source: USDA

World Cotton Imports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
China	19.3	10.6	11.5	7.0	9.0	9.0
Bangladesh	2.6	3.2	3.5	3.8	4.0	4.0
Turkey	3.5	4.0	3.3	2.9	3.3	3.3
Pakistan	1.6	2.3	3.9	2.0	2.6	2.7
Indonesia	2.2	2.2	2.3	2.0	2.1	2.1
Thailand	1.9	1.9	1.9	1.6	1.8	1.8
Mexico	1.7	1.4	1.5	1.3	1.6	1.5
Vietnam	0.7	1.0	1.2	1.2	1.4	1.4
South Korea	1.0	1.1	1.0	1.0	1.0	1.0
EU-27	2.5	2.1	1.7	1.0	1.0	1.0
Taiwan	1.1	1.2	1.0	0.8	0.8	0.8
Russia	1.4	1.3	1.1	0.7	0.8	0.7
India	0.4	0.5	0.6	0.8	0.6	0.6
Egypt	0.5	0.5	0.4	0.4	0.4	0.4
Iran	0.1	0.3	0.3	0.3	0.3	0.3
Rest of World	4.3	4.6	3.9	3.2	3.3	3.2
World Total	44.8	38.1	39.0	30.1	33.9	33.6

Source: USDA

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U.S. Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
Beginning Stocks	1.2	1.3	2.1	2.2	1.4	1.4
Production	5.2	4.7	4.2	2.8	2.7	2.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	6.4	6.0	6.2	5.0	4.1	4.1
U.S. Mill Use	1.3	1.1	1.0	0.8	0.7	0.7
Exports	3.8	2.8	3.0	2.9	2.4	2.4
Demand	5.1	3.9	4.0	3.7	3.1	3.1
Ending Stocks	1.3	2.1	2.2	1.4	1.0	0.9
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	31.3%	29.9%

Source: USDA

China Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
Beginning Stocks	4.0	4.9	4.5	4.4	4.5	4.5
Production	6.2	7.7	8.1	8.0	6.9	7.0
Imports	4.2	2.3	2.5	1.5	2.0	2.0
Supply	14.4	14.9	15.0	13.9	13.4	13.5
China Mill Use	9.8	10.9	11.2	9.8	10.2	10.2
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Demand	9.8	10.9	11.2	9.8	10.2	10.2
Ending Stocks	4.9	4.5	4.4	4.5	3.7	3.8
Stocks/Use Ratio	50.0%	41.0%	38.8%	46.3%	36.4%	37.5%

Source: USDA

World Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
Beginning Stocks	13.2	13.6	13.7	13.5	13.3	13.3
Production	25.4	26.6	26.1	23.4	22.4	22.4
Supply	38.6	40.1	39.9	36.9	35.7	35.6
Consumption	25.4	26.9	26.9	24.2	24.9	24.9
Ending Stocks	13.6	13.7	13.5	13.3	11.3	11.3
Stocks/Use Ratio	53.5%	51.0%	50.3%	54.8%	45.2%	45.2%

Source: USDA

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World Cotton Production

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
China	6.2	7.7	8.1	8.0	6.9	7.0
India	4.1	4.7	5.2	4.9	5.2	5.1
United States	5.2	4.7	4.2	2.8	2.7	2.7
Pakistan	2.2	2.2	1.9	2.0	2.1	2.1
Brazil	1.0	1.5	1.6	1.2	1.2	1.2
Uzbekistan	1.2	1.2	1.2	1.0	1.0	1.0
Australia	0.6	0.3	0.1	0.3	0.4	0.4
Turkey	0.8	0.8	0.7	0.4	0.4	0.4
African Franc Zone	0.5	0.5	0.3	0.4	0.3	0.3
Turkmenistan	0.2	0.3	0.3	0.3	0.2	0.2
EU-27	0.5	0.4	0.4	0.3	0.2	0.2
Syria	0.3	0.2	0.2	0.2	0.2	0.2
Greece	0.4	0.3	0.3	0.3	0.2	0.2
Burkina	0.3	0.3	0.1	0.2	0.2	0.2
Argentina	0.1	0.2	0.2	0.1	0.2	0.2
Rest of World	2.3	1.9	1.7	1.5	1.4	1.3
World Total	25.4	26.6	26.1	23.4	22.4	22.4

Source: USDA

World Cotton Exports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
United States	3.8	2.8	3.0	2.9	2.4	2.4
India	0.8	1.0	1.5	0.5	1.5	1.4
Uzbekistan	1.0	1.0	0.9	0.7	0.9	0.9
Brazil	0.4	0.3	0.5	0.6	0.4	0.4
Australia	0.6	0.5	0.3	0.3	0.4	0.4
African Franc Zone	0.6	0.5	0.4	0.3	0.3	0.3
EU-27	0.4	0.3	0.4	0.2	0.2	0.2
Turkmenistan	0.1	0.2	0.2	0.1	0.2	0.2
Greece	0.3	0.3	0.3	0.2	0.2	0.2
Burkina	0.3	0.3	0.2	0.2	0.2	0.2
Pakistan	0.1	0.0	0.1	0.1	0.1	0.1
Tajikistan	0.1	0.1	0.1	0.1	0.1	0.1
Mali	0.2	0.2	0.1	0.1	0.1	0.1
Kazakhstan	0.2	0.2	0.1	0.1	0.1	0.1
Zimbabwe	0.1	0.1	0.1	0.1	0.1	0.1
Rest of World	1.4	1.1	0.9	0.7	0.7	0.7
World Total	9.7	8.1	8.4	6.6	7.4	7.3

Source: USDA

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World Cotton Consumption

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
China	9.8	10.9	11.2	9.8	10.2	10.2
India	3.6	3.9	4.0	3.9	4.1	4.1
Pakistan	2.5	2.6	2.6	2.5	2.6	2.6
Turkey	1.5	1.6	1.3	1.1	1.1	1.1
Brazil	1.0	1.0	1.0	0.9	0.9	0.9
Bangladesh	0.5	0.7	0.8	0.8	0.9	0.9
United States	1.3	1.1	1.0	0.8	0.7	0.7
Indonesia	0.5	0.5	0.5	0.4	0.4	0.4
Mexico	0.5	0.5	0.4	0.4	0.4	0.4
Thailand	0.4	0.4	0.4	0.3	0.4	0.4
Vietnam	0.2	0.2	0.3	0.3	0.3	0.3
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
Uzbekistan	0.2	0.2	0.2	0.2	0.2	0.2
Egypt	0.2	0.2	0.2	0.2	0.2	0.2
Syria	0.2	0.2	0.2	0.2	0.2	0.2
Rest of World	2.8	2.8	2.5	2.1	2.1	2.0
World Total	25.4	26.9	26.9	24.2	24.9	24.9

Source: USDA

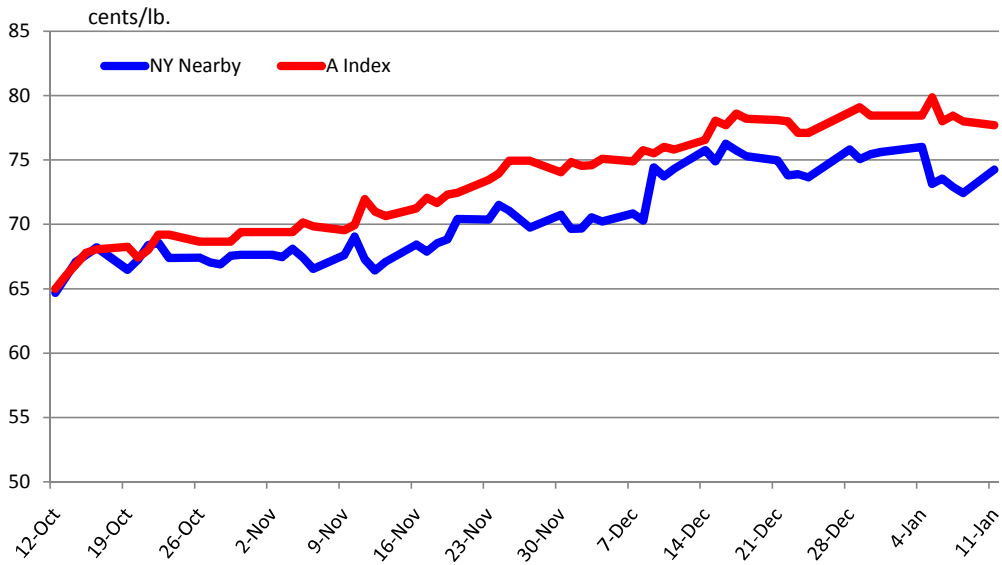
World Cotton Imports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 December	2009/10 January
China	4.2	2.3	2.5	1.5	2.0	2.0
Bangladesh	0.6	0.7	0.8	0.8	0.9	0.9
Turkey	0.8	0.9	0.7	0.6	0.7	0.7
Pakistan	0.4	0.5	0.9	0.4	0.6	0.6
Indonesia	0.5	0.5	0.5	0.4	0.5	0.5
Thailand	0.4	0.4	0.4	0.3	0.4	0.4
Mexico	0.4	0.3	0.3	0.3	0.3	0.3
Vietnam	0.2	0.2	0.3	0.3	0.3	0.3
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
EU-27	0.5	0.5	0.4	0.2	0.2	0.2
Taiwan	0.2	0.3	0.2	0.2	0.2	0.2
Russia	0.3	0.3	0.2	0.2	0.2	0.1
India	0.1	0.1	0.1	0.2	0.1	0.1
Egypt	0.1	0.1	0.1	0.1	0.1	0.1
Iran	0.0	0.1	0.1	0.1	0.1	0.1
Rest of World	0.9	1.0	0.8	0.7	0.7	0.7
World Total	9.7	8.3	8.5	6.5	7.4	7.3

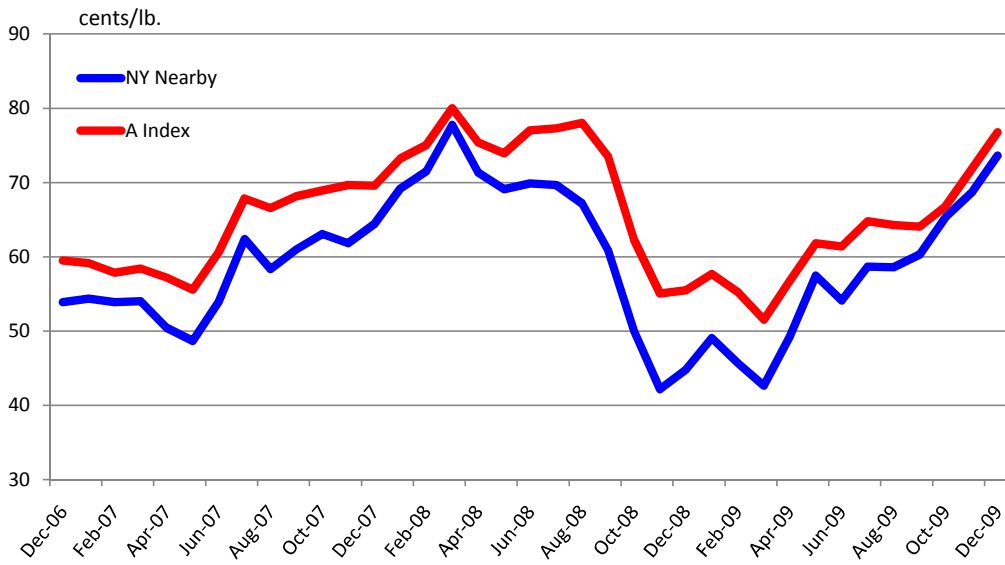
Source: USDA

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Daily NY Nearby and A Index Prices: Last Three Months



Monthly NY Nearby and A Index Prices: Last Three Years



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