

Monthly Economic Letter

U.S. and Global Market Fundamentals



Cotton Incorporated

March 2010

www.cottoninc.com

Cotton prices rallied sharply over the past month. Starting February 8, the May contract climbed from 69.00 cents/lb to a high of 84.60 cents/lb on March 1. In more recent trading, prices retreated about 4 cents/lb, testing support just below 80 cents/lb before slightly rebounding to close at 80.21 cents/lb on March 10. The rise in NY futures was closely followed by the A Index, which rose from 74.90 cents/lb on February 8 to 87.05 cents/lb on March 2 before falling back to 84.80 cents/lb on March 10. The onset of the rally nearly coincided with the release of last month's bullish USDA report (February 9), which featured the first significant increase in consumption estimates since the beginning of the crop year. This month's report, which includes a 675,000 bale reduction in ending stocks, can also be considered supportive of prices. Contributing to this month's decline in ending stocks were both a 500,000 bale reduction to the world production figure and a 170,000 bale increase to the world consumption projection.

At 102.2 million bales, the current world production estimate represents a 5.0% decline compared to 2008/09 and a 14.7% decline compared to 2007/08. Much of this year's decline in production is a result of lower Chinese acreage and production. Falling another 500,000 bales in the March, the current Chinese production figure (31.5 million bales) is 5.2 million bales lower than in 2008/09 (36.7 million) and 5.5 million bales lower than the record high of 37.0 million bales in 2007/08. Other countries with significant revisions to 2009/10 production estimates were Uzbekistan (-300,000 bales), Brazil (+200,000 bales), and Turkmenistan (+100,000).

With the 170,000 bale increase, 2009/10 world consumption is now estimated at 115.7 million bales, which is 5.6 million bales more than in 2008/09 and 7.3 million bales less than in 2007/08. Countries with significant revisions to 2009/10 figures include Pakistan (-250,000 bales), Turkey (+200,000), the U.S. (+100,000), and Vietnam (+100,000). China's consumption estimate was unchanged, and the decrease in China's production figure was offset by a 500,000 bale increase in projected Chinese imports. Import estimates for Turkey (+200,000 bales) and Vietnam (+150,000) also increased, while the import figure for Pakistan decreased (-250,000). Export estimates rose for India (+400,000 bales), Pakistan (+200,000), and Australia (+100,000), while the Uzbek export estimate fell 100,000 bales.

This month's reduction in world ending stocks resulted in another decrease in the world stocks-to-use ratio. Falling 0.6 percentage points to 44.4%, the March estimate is the lowest since the 1994/95 season and is a likely reason why cotton prices have reached their highest levels in two years. These higher cotton prices are expected to result in increased cotton acreage and production in 2010/11. Preliminary figures for 2010/11 released February 19 in the USDA's Cotton Outlook report forecast a 10.5% increase in world cotton production in the upcoming crop year. With world consumption expected to grow 2.6% in 2010/11, however, the increase in production is not expected to be sufficient to completely overcome the production/consumption gap. As a result, the stocks-to-use ratio is predicted to fall 2.6 percentage points to 41.8%, which could support prices throughout 2010/11. In spite of the forecast for further tightening in 2010/11, futures prices suggest a reduction in price pressure in 2010/11, as 2010/11 contracts have been consistently trading several cents/lb lower than 2009/10 contracts. The contradiction between preliminary estimates for fundamentals and futures prices emphasizes the uncertainty facing cotton markets in 2010/11 from this early standpoint. As additional information becomes available to address questions regarding acreage, production, and consumption for 2010/11, fundamental pressure on prices should continue to be a dominant factor throughout the remainder of the 2009/10 crop year.

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 February	2009/10 March
Beginning Stocks	5.5	6.1	9.5	10.0	6.3	6.3
Production	23.9	21.6	19.2	12.8	12.4	12.4
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	29.4	27.7	28.7	22.9	18.7	18.7
U.S. Mill Use	5.9	4.9	4.6	3.6	3.4	3.5
Exports	17.5	13.0	13.7	13.3	12.0	12.0
Demand	23.4	17.9	18.2	16.9	15.4	15.5
Ending Stocks	6.1	9.5	10.0	6.3	3.3	3.2
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	21.4%	20.6%

Source: USDA

China Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
Beginning Stocks	18.4	22.5	20.5	20.5	22.4	22.4
Production	28.4	35.5	37.0	36.7	32.0	31.5
Imports	19.3	10.6	11.5	7.0	9.0	9.5
Supply	66.1	68.6	69.1	64.2	63.4	63.4
China Mill Use	45.0	50.0	51.0	44.0	47.5	47.5
Exports	0.0	0.1	0.1	0.1	0.1	0.1
Demand	45.0	50.1	51.1	44.1	47.6	47.6
Ending Stocks	22.5	20.5	20.5	22.4	18.3	18.3
Stocks/Use Ratio	50.0%	41.0%	40.2%	50.7%	38.4%	38.4%

Source: USDA

World Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
Beginning Stocks	60.6	62.4	63.1	62.7	62.4	62.4
Production	116.7	122.0	119.9	107.5	102.7	102.2
Supply	177.3	184.3	183.0	170.1	165.2	164.7
Consumption	116.7	123.7	123.0	110.1	115.5	115.7
Ending Stocks	62.4	63.1	62.7	62.4	52.1	51.4
Stocks/Use Ratio	53.5%	51.0%	51.0%	56.7%	45.1%	44.4%

Source: USDA

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World Cotton Production

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
China	28.4	35.5	37.0	36.7	32.0	31.5
India	19.1	21.8	24.0	22.6	23.5	23.5
United States	23.9	21.6	19.2	12.8	12.4	12.4
Pakistan	10.2	9.9	8.9	9.0	9.8	9.8
Brazil	4.7	7.0	7.4	5.5	5.6	5.8
Uzbekistan	5.6	5.4	5.4	4.6	4.4	4.1
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	1.2
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	0.9	0.9
Rest of World	10.4	8.7	7.9	6.9	6.1	6.1
World Total	116.7	122.0	119.9	107.5	102.7	102.2

Source: USDA

World Cotton Exports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
United States	17.5	13.0	13.7	13.3	12.0	12.0
India	3.5	4.6	7.0	2.4	5.7	6.1
Uzbekistan	4.8	4.5	4.2	3.0	4.0	3.9
Brazil	2.0	1.3	2.2	2.7	2.0	2.0
Australia	2.9	2.1	1.2	1.2	1.7	1.8
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	0.7
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	33.8	34.4

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 February	2009/10 March
China	45.0	50.0	51.0	44.0	47.5	47.5
India	16.7	18.1	18.6	17.9	19.2	19.2
Pakistan	11.5	12.0	12.0	11.5	12.0	11.8
Turkey	6.9	7.3	6.0	5.0	5.1	5.3
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	3.5
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	1.5
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	9.3	9.3
World Total	116.7	123.7	123.0	110.1	115.5	115.7

Source: USDA

World Cotton Imports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
China	19.3	10.6	11.5	7.0	9.0	9.5
Bangladesh	2.6	3.2	3.5	3.8	4.0	4.0
Turkey	3.5	4.0	3.3	2.9	3.3	3.5
Pakistan	1.6	2.3	3.9	2.0	2.8	2.5
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	1.5	1.5
Vietnam	0.7	1.0	1.2	1.2	1.4	1.5
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	0.7	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	3.2	3.2
World Total	44.8	38.1	39.0	30.0	33.8	34.4

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 February	2009/10 March
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	0.8
Exports	3.8	2.8	3.0	2.9	2.6	2.6
Demand	5.1	3.9	4.0	3.7	3.4	3.4
Ending Stocks	1.3	2.1	2.2	1.4	0.7	0.7
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	21.4%	20.6%

Source: USDA

China Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
Beginning Stocks	4.0	4.9	4.5	4.5	4.9	4.9
Production	6.2	7.7	8.1	8.0	7.0	6.9
Imports	4.2	2.3	2.5	1.5	2.0	2.1
Supply	14.4	14.9	15.0	14.0	13.8	13.8
China Mill Use	9.8	10.9	11.1	9.6	10.3	10.3
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Demand	9.8	10.9	11.1	9.6	10.4	10.4
Ending Stocks	4.9	4.5	4.5	4.9	4.0	4.0
Stocks/Use Ratio	50.0%	41.0%	40.2%	50.7%	38.4%	38.4%

Source: USDA

World Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
Beginning Stocks	13.2	13.6	13.7	13.6	13.6	13.6
Production	25.4	26.6	26.1	23.4	22.4	22.3
Supply	38.6	40.1	39.9	37.0	36.0	35.9
Consumption	25.4	26.9	26.8	24.0	25.2	25.2
Ending Stocks	13.6	13.7	13.6	13.6	11.3	11.2
Stocks/Use Ratio	53.5%	51.0%	51.0%	56.7%	45.1%	44.4%

Source: USDA

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World Cotton Production

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
China	6.2	7.7	8.1	8.0	7.0	6.9
India	4.1	4.7	5.2	4.9	5.1	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	1.3
Uzbekistan	1.2	1.2	1.2	1.0	1.0	0.9
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	0.3
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	1.3	1.3
World Total	25.4	26.6	26.1	23.4	22.4	22.3

Source: USDA

World Cotton Exports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
United States	3.8	2.8	3.0	2.9	2.6	2.6
India	0.8	1.0	1.5	0.5	1.2	1.3
Uzbekistan	1.0	1.0	0.9	0.7	0.9	0.8
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	0.2
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	7.5

Source: USDA

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World Cotton Consumption

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
China	9.8	10.9	11.1	9.6	10.3	10.3
India	3.6	3.9	4.0	3.9	4.2	4.2
Pakistan	2.5	2.6	2.6	2.5	2.6	2.6
Turkey	1.5	1.6	1.3	1.1	1.1	1.2
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	0.8
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	2.0	2.0
World Total	25.4	26.9	26.8	24.0	25.2	25.2

Source: USDA

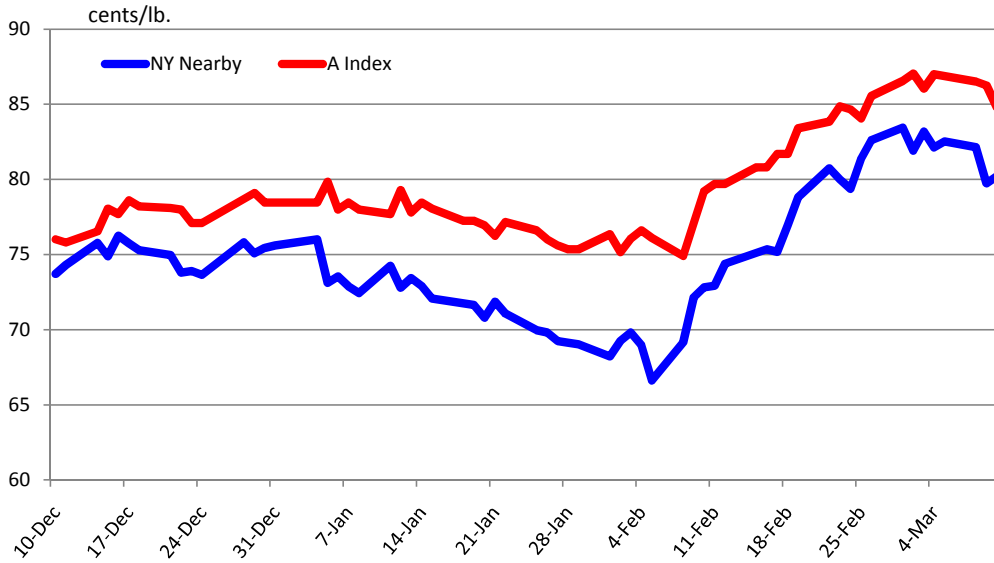
World Cotton Imports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 February	2009/10 March
China	4.2	2.3	2.5	1.5	2.0	2.1
Bangladesh	0.6	0.7	0.8	0.8	0.9	0.9
Turkey	0.8	0.9	0.7	0.6	0.7	0.8
Pakistan	0.4	0.5	0.9	0.4	0.6	0.5
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	0.1	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	7.5

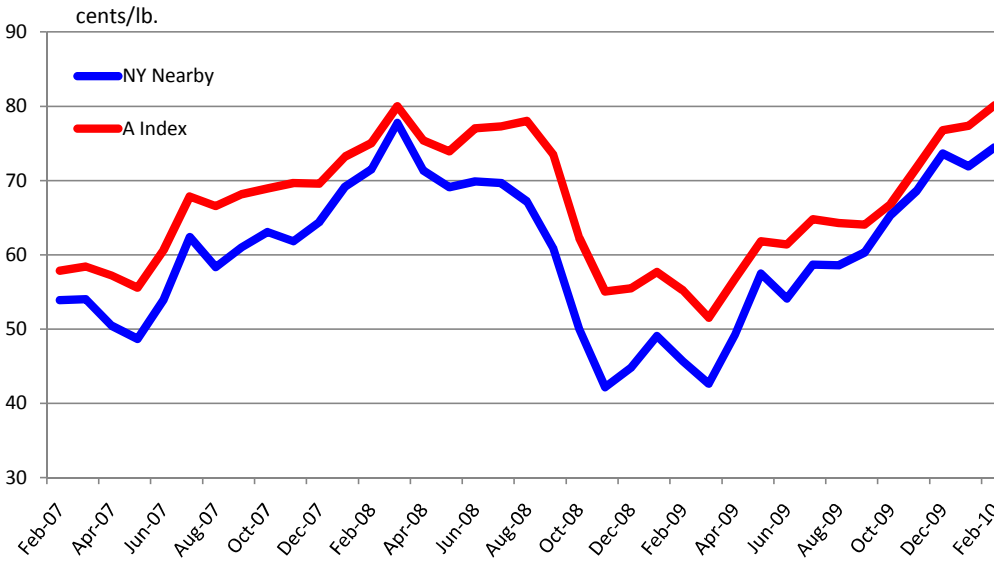
Source: USDA

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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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