

# Monthly Economic Letter

## U.S. and Global Market Fundamentals



Cotton Incorporated

June 10, 2009

[www.cottoninc.com](http://www.cottoninc.com)

Over the past month, cotton prices retraced some of the gains made by the rally that lasted from early March to mid-May. The NY Nearby has fallen more than five cents from highs over 60 cents/lb. posted in mid-May to under 55 cents/lb. in yesterday's close. By comparison, the A Index has remained stable, declining less than two cents/lb. over the same period and holding at levels near 62 cents/lb. A factor that contributed to the end of the advance of cotton prices was the May 22 announcement that China would release 6.9 million bales from state reserves.

The largest revisions in June's USDA report were for stocks. World ending stocks for 2008/09 and world beginning stocks for 2009/10 were each reduced 1.2 million bales. Countries with the largest downward adjustments were India (-600,000 bales), Pakistan (-500,000), Brazil (-300,000), and the U.S. (-200,000). The changes to Indian and Brazilian stock estimates largely resulted from declines in 2008/09 production estimates (India -500,000 bales, Brazil -300,000). Pakistani stocks were reduced to reflect a 500,000 bale increase in 2008/09 consumption. The revision to U.S. stocks resulted from a 200,000 bale increase in 2008/09 exports. In contrast to these downward revisions in stocks, estimated Uzbek stocks were increased 400,000 bales due to expectations that 2008/09 exports from Uzbekistan would be 400,000 bales fewer than previously estimated.

World production, consumption, and trade figures for 2009/10 were largely unchanged from May's initial estimates. Globally, production estimates decreased only 200,000 bales. Virtually all of the adjustment resulted from a 150,000 bale reduction in Turkmenistan's expected crop. World consumption was reduced 125,000 bales. Masked by the small global revision were comparatively large changes to Chinese (-500,000) and Pakistani (+500,000) estimates that counterbalanced one another. World export estimates decreased 150,000 bales. Partially offsetting reductions to the 2009/10 export figures for the U.S. (-200,000), Brazil (-100,000), and India (-100,000) was a 200,000 bale increase in anticipated exports from Uzbekistan. Paralleling the revisions to consumption estimates, Chinese imports were reduced 500,000 bales and Pakistani imports were increased 400,000 bales.

Until events develop that significantly alter the present supply and demand outlook, cotton prices could be expected to continue to trade in a sideways pattern, drifting with the effects of outside forces including equity markets and the relative value of the dollar. While production forecasts are always difficult at this early stage in the growing season, perhaps the biggest uncertainty facing the market remains on the consumption side of the balance sheet. In recent months in several countries, macroeconomic indicators advanced to levels not seen since last summer. However, while improved, these indicators continue to describe a global economy in recession. The strength and timing of the eventual recovery, expected to coincide with the first half of the 2009/10 crop year, and the extent to which it translates into renewed demand for textiles should play a major role in any significant price advances in 2009/10.

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### Data Tables and Price Charts

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Balance Sheets		Production	Exports	Consumption	Imports	Prices
<a href="#">U.S. (bales)</a>	<a href="#">World (bales)</a>	<a href="#">Bales</a>	<a href="#">Bales</a>	<a href="#">Bales</a>	<a href="#">Bales</a>	<a href="#">Last 3 Years</a>
<a href="#">U.S. (tons)</a>	<a href="#">World (tons)</a>	<a href="#">Tons</a>	<a href="#">Tons</a>	<a href="#">Tons</a>	<a href="#">Tons</a>	<a href="#">Last 3 Months</a>

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## U.S. Cotton Balance Sheet

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Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
Beginning Stocks	5.5	6.1	9.5	10.0	6.8	6.6
Production	23.9	21.6	19.2	12.8	13.3	13.3
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	29.4	27.7	28.7	22.9	20.1	19.9
U.S. Mill Use	5.9	4.9	4.6	3.6	3.5	3.5
Exports	17.5	13.0	13.7	12.7	11.0	10.8
Demand	23.4	17.9	18.2	16.3	14.5	14.3
Ending Stocks	6.1	9.5	10.0	6.6	5.6	5.6
Stocks/Use Ratio	25.9%	52.8%	55.1%	40.6%	38.6%	39.2%

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Source: USDA

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## World Cotton Balance Sheet

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Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
Beginning Stocks	60.5	62.2	62.8	62.1	62.3	61.2
Production	116.7	122.0	120.5	107.1	106.5	106.3
Supply	177.1	184.2	183.3	169.2	168.8	167.4
Consumption	116.4	123.5	122.7	110.5	113.5	113.4
China	45.0	50.0	51.5	45.5	47.5	47.0
Non-China	71.4	73.5	71.2	65.0	66.0	66.4
Ending Stocks	62.2	62.8	62.1	61.2	57.8	56.5
China	22.5	20.5	20.0	19.2	47.5	16.1
Non-China	39.7	42.2	42.1	41.9	66.0	40.4
Stocks/Use Ratio	53.5%	50.9%	50.6%	55.3%	50.9%	49.9%

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Source: USDA

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## World Cotton Production

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Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
China	28.4	35.5	37.0	35.8	33.0	33.0
India	19.1	21.8	24.6	22.5	25.0	25.0
United States	23.9	21.6	19.2	12.8	13.3	13.3
Pakistan	10.2	9.9	8.9	9.0	9.2	9.2
Brazil	4.7	7.0	7.4	5.5	5.5	5.5
Uzbekistan	5.6	5.4	5.4	4.9	4.5	4.5
Australia	2.8	1.4	0.6	1.5	1.9	1.9
Turkey	3.6	3.8	3.1	2.1	1.9	1.9
African Franc Zone	2.5	2.3	1.6	1.8	1.7	1.8
Turkmenistan	1.0	1.2	1.3	1.4	1.3	1.2
EU-27	2.5	1.6	1.7	1.2	1.1	1.1
Syria	1.6	1.0	1.2	1.0	1.0	1.0
Greece	2.0	1.4	1.6	1.2	1.0	1.0
Burkina	1.4	1.3	0.7	0.9	0.8	0.9
Argentina	0.6	0.8	0.7	0.6	0.7	0.7
Rest of World	7.0	6.0	5.7	5.1	4.6	4.4
World Total	116.7	122.0	120.5	107.1	106.5	106.3

Source: USDA

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## World Cotton Exports

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Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
United States	17.5	13.0	13.7	12.7	11.0	10.8
India	3.5	4.6	7.0	2.1	6.5	6.4
Uzbekistan	4.8	4.5	4.4	2.6	3.8	4.0
Brazil	2.0	1.3	2.2	2.5	2.0	1.9
Australia	2.9	2.1	1.2	1.1	1.6	1.6
Turkmenistan	0.6	0.7	0.8	0.5	1.0	1.0
Burkina	1.4	1.4	0.8	0.8	0.8	0.9
Greece	1.4	1.3	1.3	0.8	0.8	0.8
Benin	0.5	0.5	0.5	0.4	0.5	0.5
Tajikistan	0.6	0.6	0.5	0.4	0.4	0.4
Kazakhstan	0.9	0.9	0.5	0.4	0.4	0.4
Zimbabwe	0.4	0.4	0.4	0.3	0.4	0.4
Mali	1.0	0.9	0.5	0.3	0.3	0.3
Tanzania	0.4	0.1	0.2	0.3	0.3	0.3
Pakistan	0.3	0.2	0.3	0.3	0.3	0.2
Rest of World	6.6	4.8	4.4	2.9	2.8	2.9
World Total	44.6	37.1	38.6	28.3	32.8	32.7

Source: USDA

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## World Cotton Consumption

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Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
China	45.0	50.0	51.5	45.5	47.5	47.0
India	16.7	18.1	18.3	17.3	18.0	18.0
Pakistan	11.5	12.5	12.5	12.0	12.0	12.5
Turkey	6.9	7.3	6.0	4.8	4.9	4.9
Brazil	4.5	4.6	4.6	4.2	4.2	4.2
United States	5.9	4.9	4.6	3.6	3.5	3.5
Bangladesh	2.2	2.5	2.8	2.9	3.1	3.1
Indonesia	2.2	2.2	2.2	2.0	2.1	2.1
Mexico	2.1	2.1	2.0	1.8	1.9	1.9
Thailand	2.1	2.0	2.0	1.8	1.9	1.9
Vietnam	0.8	0.9	1.0	1.1	1.2	1.2
Egypt	1.0	1.0	1.0	0.9	0.9	0.9
South Korea	1.1	1.1	1.0	1.0	0.9	0.9
Russia	1.4	1.4	1.2	1.0	0.9	0.9
Uzbekistan	0.8	0.9	1.0	1.0	0.9	0.9
Rest of World	12.4	12.0	11.1	9.9	9.8	9.7
World Total	116.4	123.5	122.7	110.5	113.5	113.4

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Source: USDA

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## World Cotton Imports

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Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
China	19.3	10.6	11.5	6.5	9.0	8.5
Pakistan	1.6	2.3	3.9	2.3	3.1	3.5
Bangladesh	2.2	2.5	2.8	2.9	3.1	3.1
Turkey	3.5	4.0	3.3	2.3	2.9	2.9
Indonesia	2.2	2.2	2.3	2.0	2.1	2.1
Thailand	1.9	1.9	1.9	1.8	1.9	1.9
Mexico	1.7	1.4	1.5	1.3	1.6	1.6
Vietnam	0.7	0.9	1.0	1.0	1.2	1.2
Russia	1.4	1.4	1.2	1.0	0.9	0.9
South Korea	1.0	1.1	1.0	1.0	0.9	0.9
Taiwan	1.1	1.2	1.0	0.7	0.8	0.7
Japan	0.7	0.6	0.6	0.5	0.5	0.5
Egypt	0.5	0.5	0.4	0.4	0.4	0.5
India	0.4	0.5	0.5	0.6	0.4	0.4
Iran	0.1	0.3	0.3	0.3	0.3	0.3
Rest of World	6.1	6.1	4.9	3.8	3.8	3.8
World Total	44.5	37.4	38.0	28.3	32.8	32.7

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Source: USDA

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## U.S. Cotton Balance Sheet

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Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
Beginning Stocks	1.2	1.3	2.1	2.2	1.5	1.4
Production	5.2	4.7	4.2	2.8	2.9	2.9
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	6.4	6.0	6.2	5.0	4.4	4.3
U.S. Mill Use	1.3	1.1	1.0	0.8	0.8	0.8
Exports	3.8	2.8	3.0	2.8	2.4	2.4
Demand	5.1	3.9	4.0	3.5	3.2	3.1
Ending Stocks	1.3	2.1	2.2	1.4	1.2	1.2
Stocks/Use Ratio	25.9%	52.8%	55.1%	40.6%	38.6%	39.2%

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Source: USDA

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## World Cotton Balance Sheet

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Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
Beginning Stocks	13.2	13.6	13.7	13.5	13.6	13.3
Production	25.4	26.6	26.2	23.3	23.2	23.1
Supply	38.6	40.1	39.9	36.8	36.7	36.4
Consumption	25.3	26.9	26.7	24.1	24.7	24.7
China	9.8	10.9	11.2	9.9	10.3	10.2
Non-China	15.6	16.0	15.5	14.2	14.4	14.5
Ending Stocks	13.6	13.7	13.5	13.3	12.6	12.3
China	4.9	4.5	4.4	4.2	10.3	3.5
Non-China	8.6	9.2	9.2	9.1	14.4	8.8
Stocks/Use Ratio	53.5%	50.9%	50.6%	55.3%	50.9%	49.9%

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Source: USDA

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## World Cotton Production

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Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
China	6.2	7.7	8.1	7.8	7.2	7.2
India	4.1	4.7	5.4	4.9	5.4	5.4
United States	5.2	4.7	4.2	2.8	2.9	2.9
Pakistan	2.2	2.2	1.9	2.0	2.0	2.0
Brazil	1.0	1.5	1.6	1.2	1.2	1.2
Uzbekistan	1.2	1.2	1.2	1.1	1.0	1.0
Australia	0.6	0.3	0.1	0.3	0.4	0.4
Turkey	0.8	0.8	0.7	0.5	0.4	0.4
African Franc Zone	0.5	0.5	0.3	0.4	0.4	0.4
Turkmenistan	0.2	0.3	0.3	0.3	0.3	0.3
EU-27	0.5	0.4	0.4	0.3	0.2	0.2
Syria	0.3	0.2	0.3	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	0.1	0.1
Rest of World	1.5	1.3	1.2	1.1	1.0	1.0
<b>World Total</b>	<b>25.4</b>	<b>26.6</b>	<b>26.2</b>	<b>23.3</b>	<b>23.2</b>	<b>23.1</b>

Source: USDA

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## World Cotton Exports

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Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
United States	3.8	2.8	3.0	2.8	2.4	2.4
India	0.8	1.0	1.5	0.5	1.4	1.4
Uzbekistan	1.0	1.0	1.0	0.6	0.8	0.9
Brazil	0.4	0.3	0.5	0.5	0.4	0.4
Australia	0.6	0.5	0.3	0.2	0.3	0.3
Turkmenistan	0.1	0.2	0.2	0.1	0.2	0.2
Burkina	0.3	0.3	0.2	0.2	0.2	0.2
Greece	0.3	0.3	0.3	0.2	0.2	0.2
Benin	0.1	0.1	0.1	0.1	0.1	0.1
Tajikistan	0.1	0.1	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
Mali	0.2	0.2	0.1	0.1	0.1	0.1
Tanzania	0.1	0.0	0.0	0.1	0.1	0.1
Pakistan	0.1	0.0	0.1	0.1	0.1	0.0
Rest of World	1.4	1.0	0.9	0.6	0.6	0.6
<b>World Total</b>	<b>9.7</b>	<b>8.1</b>	<b>8.4</b>	<b>6.2</b>	<b>7.1</b>	<b>7.1</b>

Source: USDA

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## World Cotton Consumption

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Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
China	9.8	10.9	11.2	9.9	10.3	10.2
India	3.6	3.9	4.0	3.8	3.9	3.9
Pakistan	2.5	2.7	2.7	2.6	2.6	2.7
Turkey	1.5	1.6	1.3	1.0	1.1	1.1
Brazil	1.0	1.0	1.0	0.9	0.9	0.9
United States	1.3	1.1	1.0	0.8	0.8	0.8
Bangladesh	0.5	0.5	0.6	0.6	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	0.4	0.4	0.4
Vietnam	0.2	0.2	0.2	0.2	0.3	0.3
Egypt	0.2	0.2	0.2	0.2	0.2	0.2
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
Russia	0.3	0.3	0.3	0.2	0.2	0.2
Uzbekistan	0.2	0.2	0.2	0.2	0.2	0.2
Rest of World	2.7	2.6	2.4	2.1	2.1	2.1
World Total	25.3	26.9	26.7	24.1	24.7	24.7

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Source: USDA

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## World Cotton Imports

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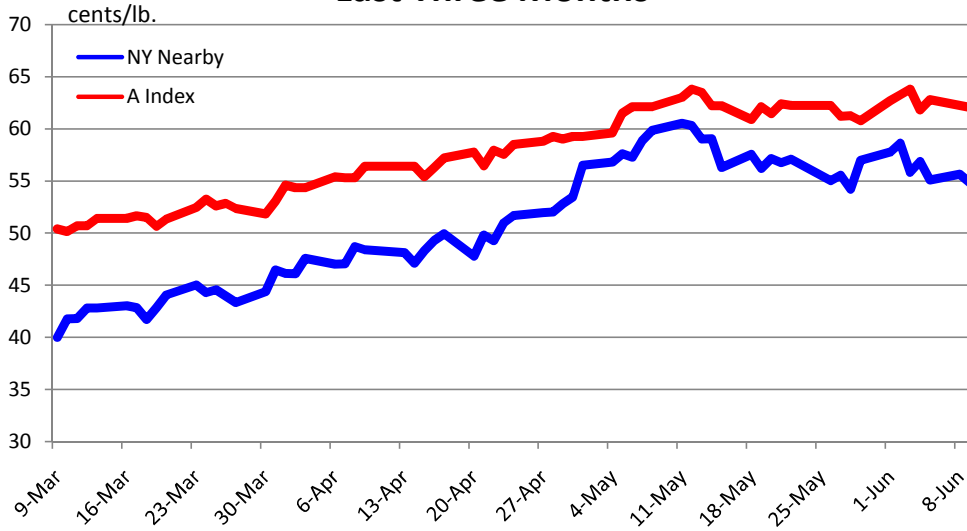
Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 May	2009/10 June
China	4.2	2.3	2.5	1.4	2.0	1.9
Pakistan	0.4	0.5	0.9	0.5	0.7	0.8
Bangladesh	0.5	0.5	0.6	0.6	0.7	0.7
Turkey	0.8	0.9	0.7	0.5	0.6	0.6
Indonesia	0.5	0.5	0.5	0.4	0.5	0.5
Thailand	0.4	0.4	0.4	0.4	0.4	0.4
Mexico	0.4	0.3	0.3	0.3	0.3	0.3
Vietnam	0.2	0.2	0.2	0.2	0.3	0.3
Russia	0.3	0.3	0.3	0.2	0.2	0.2
South Korea	0.2	0.2	0.2	0.2	0.2	0.2
Taiwan	0.2	0.3	0.2	0.2	0.2	0.2
Japan	0.1	0.1	0.1	0.1	0.1	0.1
Egypt	0.1	0.1	0.1	0.1	0.1	0.1
India	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	1.3	1.3	1.1	0.8	0.8	0.8
World Total	9.7	8.1	8.3	6.2	7.1	7.1

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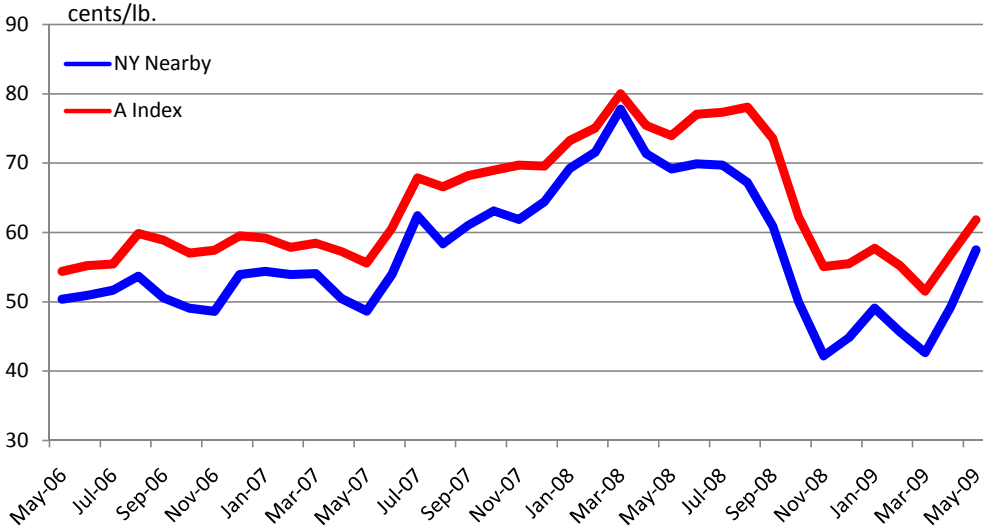
Source: USDA

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### Daily NY Nearby and A Index Prices: Last Three Months



### Monthly NY Nearby and A Index Prices: Last Three Years



[return to text](#)