

Monthly Economic Letter

U.S. and Global Market Fundamentals



Cotton Incorporated

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www.cottoninc.com

Cotton prices continued to be range bound over the past month. The A Index tightly held values near 65 cents/lb, while the December contract remained unable to advance beyond resistance near 65 cents/lb. Most of the recent movement that has occurred in NY futures has been attributed to fluctuation in the relative value of the dollar. Over the past year, the correlation between daily cotton prices and the value of the dollar (NY Nearby and broad dollar index) has been nearly 85%. During the same time period, the relationship between the dollar and stock prices (S&P 500 and broad dollar index) has been even stronger, with a correlation over 90%. The strength of these correlations suggests that the dollar is playing a role in investment flows, and that it has carried significant influence on both equity and commodity prices.

A potential reason why the influence of investment and the relative value of the dollar could be playing such a role in determining cotton prices is that the fundamental outlook for 2009/10 remains unclear. With harvesting underway in several of the world's major cotton producing countries, the supply side of the balance sheet is gradually solidifying. In the latest USDA report, the world production estimate was reduced 1.3 million bales (from 105.6 million to 103.8 million bales), primarily as a result of adverse weather conditions in China, the U.S., and Uzbekistan. China's estimate was reduced 1.0 million bales (from 33.5 million to 32.5 million) and was mostly offset by a 900,000 bale increase in beginning stocks. The U.S. production estimate decreased 440,000 bales (from 13.4 million to 13.0 million) and the Uzbek estimate declined 200,000 bales (from 4.4 million to 4.2 million). After being reduced 1.0 million bales last month, expectations regarding Indian production increased by 250,000 bales in October (from 24.0 to 24.3 million).

The outlook on the consumption side of the balance sheet continues to be dominated by uncertainty regarding the global economic situation and the nature of the recovery. Given the uncertainty, consumption figures were largely unchanged from last month, declining only 100,000 bales worldwide (from 112.7 million to 112.6 million bales). Among the few significant individual revisions was the reduction in estimated U.S. consumption (-100,000 bales). This decrease was offset by a 100,000 bale increase to the Indian consumption forecast. With the global consumption outlook uncertain, projections for world trade are difficult. In consequence, October's trade figures were generally consistent with those from last month. The estimate for world exports was reduced only 45,000 bales, with the only two countries seeing significant revisions being Uzbekistan (-100,000 bales) and India (+100,000 bales).

The decline in world production estimates, combined with the lack of revision in the consumption forecast, brought about a slight downward change in the projected stocks-to-use ratio (from 49.9% to 49.8%). With the persistent absence of signals from market fundamentals, particularly those related to consumption, prices could be expected to continue to trade in the range defined over the past couple months. Central to the emergence of a more definite fundamental outlook is greater understanding of the nature of the economic recovery, especially in its relationship to consumer demand for textiles. Until a picture of how the recovery may affect consumption levels develops, the connection between cotton prices and the relative value of the dollar could be expected to continue to be strong. With the dollar's outlook in question, however, this relationship could produce some additional volatility in cotton prices over the next several months.

Data Tables and Price Charts

Balance Sheets		Production	Exports	Consumption	Imports	Prices
U.S. (bales)	World (bales)	Bales	Bales	Bales	Bales	Last 3 Years
U.S. (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 September	2009/10 October
Beginning Stocks	5.5	6.1	9.5	10.0	6.2	6.3
Production	23.9	21.6	19.2	12.8	13.4	13.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	29.4	27.7	28.7	22.9	19.6	19.3
U.S. Mill Use	5.9	4.9	4.6	3.6	3.5	3.4
Exports	17.5	13.0	13.7	13.3	10.5	10.5
Demand	23.4	17.9	18.2	16.9	14.0	13.9
Ending Stocks	6.1	9.5	10.0	6.3	5.6	5.4
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	40.0%	38.8%

Source: USDA

World Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
Beginning Stocks	60.5	62.2	63.3	63.1	61.5	62.5
Production	116.7	122.0	120.5	107.6	105.1	103.8
Supply	177.2	184.2	183.8	170.6	166.5	166.3
Consumption	116.4	123.1	122.8	110.4	112.7	112.6
China	45.0	50.0	51.5	45.0	46.3	46.3
Non-China	71.4	73.1	71.3	65.4	66.5	66.4
Ending Stocks	62.2	63.3	63.1	62.5	56.3	56.1
China	22.5	20.5	20.0	20.9	17.6	17.5
Non-China	39.7	42.8	43.1	41.6	38.6	38.6
Stocks/Use Ratio	53.5%	51.4%	51.4%	56.6%	49.9%	49.8%

Source: USDA

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World Cotton Production

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
China	28.4	35.5	37.0	36.7	33.5	32.5
India	19.1	21.8	24.6	22.5	24.0	24.3
United States	23.9	21.6	19.2	12.8	13.4	13.0
Pakistan	10.2	9.9	8.9	9.0	9.2	9.2
Brazil	4.7	7.0	7.4	5.5	5.4	5.4
Uzbekistan	5.6	5.4	5.4	4.6	4.4	4.2
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	1.7	1.7
Turkmenistan	1.0	1.2	1.3	1.4	1.2	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	0.7	0.8
Rest of World	7.0	6.0	5.7	5.1	4.4	4.4
World Total	116.7	122.0	120.5	107.6	105.1	103.8

Source: USDA

World Cotton Exports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
United States	17.5	13.0	13.7	13.3	10.5	10.5
India	3.5	4.6	7.0	2.3	6.1	6.2
Uzbekistan	4.8	4.5	4.2	2.6	4.0	3.9
Brazil	2.0	1.3	2.2	2.7	1.8	1.8
African Franc Zone	2.6	2.4	1.7	1.5	1.6	1.6
Australia	2.9	2.1	1.2	1.2	1.6	1.6
Turkmenistan	0.6	0.7	0.8	0.5	1.0	1.0
EU-27	2.0	1.6	1.6	1.0	0.6	0.9
Burkina	1.4	1.4	0.8	0.8	0.9	0.9
Greece	1.4	1.3	1.3	0.8	0.8	0.8
Tajikistan	0.6	0.6	0.5	0.3	0.5	0.5
Benin	0.5	0.5	0.5	0.4	0.4	0.4
Pakistan	0.3	0.2	0.3	0.4	0.4	0.4
Zimbabwe	0.4	0.4	0.4	0.3	0.4	0.4
Kazakhstan	0.9	0.9	0.5	0.4	0.3	0.3
Rest of World	3.4	1.7	1.6	1.1	1.2	0.9
World Total	44.6	37.0	38.3	29.6	32.0	31.9

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 September	2009/10 October
China	45.0	50.0	51.5	45.0	46.3	46.3
India	16.7	18.1	18.6	17.9	18.5	18.5
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
United States	5.9	4.9	4.6	3.6	3.5	3.4
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	1.9	1.9	1.9
Thailand	2.1	2.0	2.0	1.6	1.7	1.7
Vietnam	0.8	1.0	1.2	1.2	1.2	1.2
South Korea	1.1	1.1	1.0	1.0	1.0	1.0
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
Egypt	1.0	1.0	1.0	0.9	0.9	0.9
Rest of World	12.4	12.1	11.2	9.8	9.6	9.6
World Total	116.4	123.1	122.8	110.4	112.7	112.6

Source: USDA

World Cotton Imports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
China	19.3	10.6	11.5	7.0	8.0	8.0
Turkey	3.5	4.0	3.3	2.9	3.3	3.3
Bangladesh	2.2	2.5	2.8	3.0	3.1	3.1
Pakistan	1.6	2.3	3.9	2.2	3.0	3.0
Indonesia	2.2	2.2	2.3	2.0	2.1	2.1
Thailand	1.9	1.9	1.9	1.6	1.7	1.7
Mexico	1.7	1.4	1.5	1.3	1.6	1.6
Vietnam	0.7	1.0	1.2	1.1	1.2	1.2
EU-27	2.5	2.1	1.7	1.0	1.0	1.0
South Korea	1.0	1.1	1.0	1.0	1.0	1.0
Russia	1.4	1.4	1.2	1.0	0.9	0.9
Taiwan	1.1	1.2	1.0	0.7	0.7	0.7
Egypt	0.5	0.5	0.4	0.4	0.4	0.4
Japan	0.7	0.6	0.6	0.4	0.4	0.4
India	0.4	0.5	0.6	0.6	0.4	0.4
Rest of World	3.7	4.3	3.5	3.0	3.2	3.1
World Total	44.5	37.5	38.3	29.3	32.0	32.0

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 September	2009/10 October
Beginning Stocks	1.2	1.3	2.1	2.2	1.3	1.4
Production	5.2	4.7	4.2	2.8	2.9	2.8
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	6.4	6.0	6.2	5.0	4.3	4.2
U.S. Mill Use	1.3	1.1	1.0	0.8	0.8	0.7
Exports	3.8	2.8	3.0	2.9	2.3	2.3
Demand	5.1	3.9	4.0	3.7	3.0	3.0
Ending Stocks	1.3	2.1	2.2	1.4	1.2	1.2
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	40.0%	38.8%

Source: USDA

World Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
Beginning Stocks	13.2	13.6	13.8	13.7	13.4	13.6
Production	25.4	26.6	26.2	23.4	22.9	22.6
Supply	38.6	40.1	40.0	37.2	36.3	36.2
Consumption	25.3	26.8	26.7	24.0	24.5	24.5
China	9.8	10.9	11.2	9.8	10.1	10.1
Non-China	15.6	15.9	15.5	14.2	14.5	14.5
Ending Stocks	13.6	13.8	13.7	13.6	12.2	12.2
China	4.9	4.5	4.4	4.5	3.8	3.8
Non-China	8.6	9.3	9.4	9.1	8.4	8.4
Stocks/Use Ratio	53.5%	51.4%	51.4%	56.6%	49.9%	49.8%

Source: USDA

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World Cotton Production

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
China	6.2	7.7	8.1	8.0	7.3	7.1
India	4.1	4.7	5.4	4.9	5.2	5.3
United States	5.2	4.7	4.2	2.8	2.9	2.8
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	1.0	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	0.4	0.4
Turkmenistan	0.2	0.3	0.3	0.3	0.3	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	0.1	0.2
Rest of World	1.5	1.3	1.2	1.1	1.0	1.0
World Total	25.4	26.6	26.2	23.4	22.9	22.6

Source: USDA

World Cotton Exports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
United States	3.8	2.8	3.0	2.9	2.3	2.3
India	0.8	1.0	1.5	0.5	1.3	1.3
Uzbekistan	1.0	1.0	0.9	0.6	0.9	0.8
Brazil	0.4	0.3	0.5	0.6	0.4	0.4
African Franc Zone	0.6	0.5	0.4	0.3	0.3	0.3
Australia	0.6	0.5	0.3	0.3	0.3	0.3
Turkmenistan	0.1	0.2	0.2	0.1	0.2	0.2
EU-27	0.4	0.3	0.4	0.2	0.1	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
Tajikistan	0.1	0.1	0.1	0.1	0.1	0.1
Benin	0.1	0.1	0.1	0.1	0.1	0.1
Pakistan	0.1	0.0	0.1	0.1	0.1	0.1
Zimbabwe	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
Rest of World	0.7	0.4	0.4	0.2	0.3	0.2
World Total	9.7	8.1	8.3	6.4	7.0	7.0

Source: USDA

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World Cotton Consumption

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
China	9.8	10.9	11.2	9.8	10.1	10.1
India	3.6	3.9	4.0	3.9	4.0	4.0
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
United States	1.3	1.1	1.0	0.8	0.8	0.7
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	0.3	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
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
Egypt	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	26.8	26.7	24.0	24.5	24.5

Source: USDA

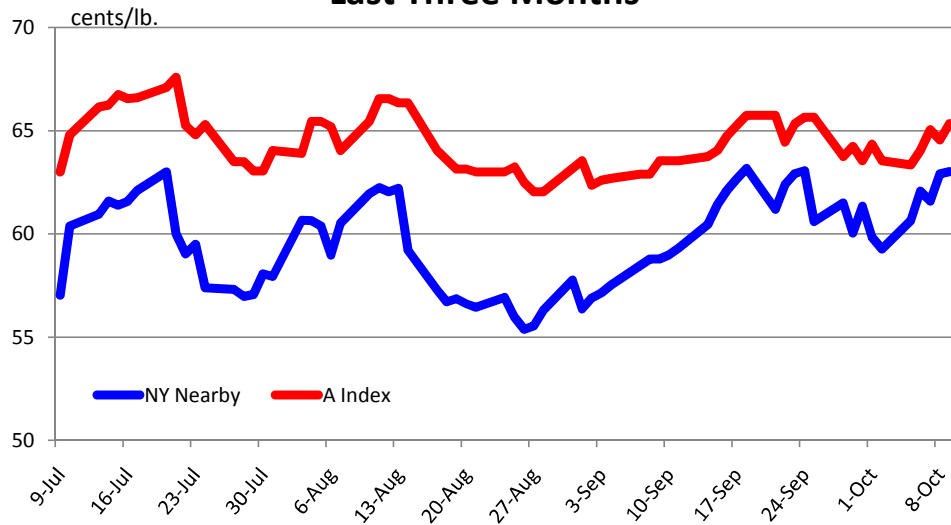
World Cotton Imports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 September	2009/10 October
China	4.2	2.3	2.5	1.5	1.7	1.7
Turkey	0.8	0.9	0.7	0.6	0.7	0.7
Bangladesh	0.5	0.5	0.6	0.6	0.7	0.7
Pakistan	0.4	0.5	0.9	0.5	0.7	0.7
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	0.2	0.3	0.3
EU-27	0.5	0.5	0.4	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
Taiwan	0.2	0.3	0.2	0.2	0.2	0.2
Egypt	0.1	0.1	0.1	0.1	0.1	0.1
Japan	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
Rest of World	0.8	0.9	0.8	0.7	0.7	0.7
World Total	9.7	8.2	8.3	6.4	7.0	7.0

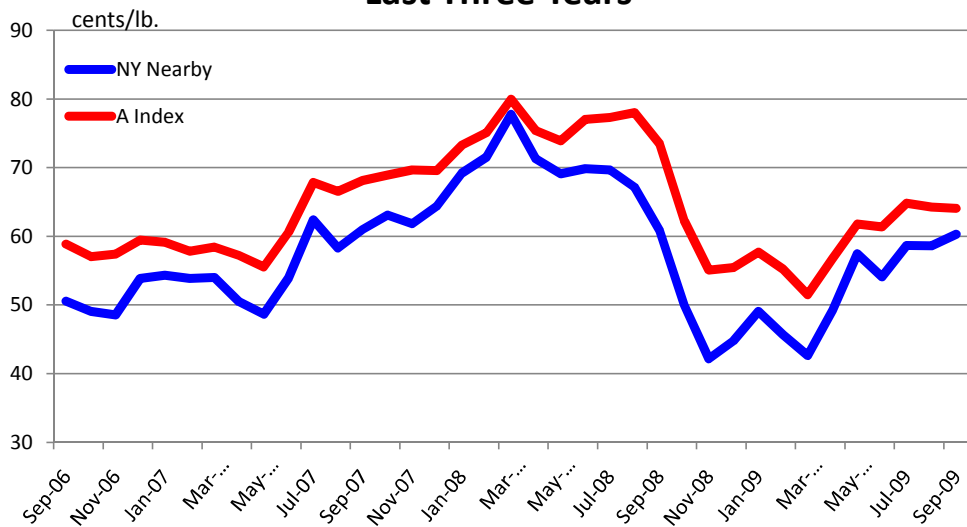
Source: USDA

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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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