

Monthly Economic Letter

U.S. and Global Market Fundamentals



Cotton Incorporated

November 2009

www.cottoninc.com

Over the past month, New York futures broke through resistance levels near 65 cents/lb. that had contained prices since the summer. The A Index also rose, climbing from near 66 cents/lb to 69 cents/lb. Simultaneous to the rally in cotton prices was movement in outside markets, including both a surge in stock values that brought the Dow Jones Industrial Average above 10,000 for the first time since October 2008 and the dollar setting a series of 12 month lows against other major currencies. Since rising to new trading levels near 67 cents/lb., the NY Nearby has traded in a relatively tight range and proved unaffected by recent volatility in the stock market, suggesting the presence of support near its former resistance level around 65 cents/lb.

While outside markets appear to be playing some role in the determination of cotton prices, last month's rally also coincided with bullish fundamental events concerning the production side of the balance sheet. Prominent among these events was an announcement by the China Cotton Association that described a decrease in Chinese production, which occurred at the same time as persistent drenching rains throughout the Mid-South growing region of the U.S. In correspondence with the Chinese announcement, the latest USDA report included a 1.0 million bale reduction for Chinese production. The U.S. estimate also decreased, falling 500,000 bales from 13.0 million to 12.5 million. Partially offsetting the reductions to the U.S. and Chinese estimates were 200,000 bale increases in production expectations for Pakistan and Uzbekistan. Globally, cotton production estimates were reduced 1.0 million bales, bringing the current estimate to 102.7 million bales which is 4.5% lower than in 2008/09 and 14.7% lower than in 2007/08.

On the consumption side of the balance sheet, the sole significant revision was for Bangladesh. The change to the current Bangladeshi figure was due to a structural change in USDA estimates for the country and the increase for 2009/10 was accompanied by increases to Bangladeshi consumption and import figures dating back to 2003/04. Bangladesh's 2009/10 estimate rose 950,000 bales, while the world consumption figure increased only 880,000 bales. With world consumption estimates largely unchanged, and with world production expectations reduced, there was a 1.2 million bale increase in world trade projections. Export estimates for India (+500,000 bales), Uzbekistan (+300,000), and Brazil (+100,000) all rose. The U.S. export estimate was unchanged at 10.5 million bales. Import forecasts increased for Bangladesh (+950,000 bales), China (+500,000), and Taiwan (+100,000), while the import estimate for Pakistan fell 200,000 bales.

At 47.3%, the current stock-to-use ratio is 8.5 percentage points lower than in 2008/09. With expected world cotton production at its lowest level in five years, a key to the price outlook for 2009/10 is the global economic recovery and its impact on world cotton consumption. Any increases in end-use demand should pull cotton consumption higher, which would further increase the production/consumption gap and likely lend support to increasing prices. However, there is great deal of uncertainty regarding the economic recovery, and this uncertainty is likely why the USDA has yet to significantly alter their world consumption estimates. The upcoming holiday shopping period will be important, as it will provide the opportunity to gauge consumer spending patterns in the current environment of slowly improving economic conditions and the highest unemployment rate in a generation.

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 October	2009/10 November
Beginning Stocks	5.5	6.1	9.5	10.0	6.3	6.3
Production	23.9	21.6	19.2	12.8	13.0	12.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	29.4	27.7	28.7	22.9	19.3	18.8
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	10.5	10.5
Demand	23.4	17.9	18.2	16.9	13.9	13.9
Ending Stocks	6.1	9.5	10.0	6.3	5.4	4.9
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	38.8%	35.3%

Source: USDA

World Cotton Balance Sheet

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
Beginning Stocks	60.6	62.4	63.1	62.7	62.5	62.0
Production	116.7	122.0	120.5	107.6	103.8	102.7
Supply	177.3	184.3	183.6	170.3	166.3	164.8
Consumption	116.7	123.7	123.4	111.1	112.6	113.5
China	45.0	50.0	51.5	45.0	46.3	46.3
Non-China	71.7	73.7	71.9	66.1	66.4	67.3
Ending Stocks	62.4	63.1	62.7	62.0	56.1	53.7
China	22.5	20.5	20.0	20.9	17.5	17.0
Non-China	39.8	42.6	42.7	41.1	38.6	36.7
Stocks/Use Ratio	53.5%	51.0%	50.8%	55.8%	49.8%	47.3%

Source: USDA

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World Cotton Production

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
China	28.4	35.5	37.0	36.7	32.5	31.5
India	19.1	21.8	24.6	22.5	24.3	24.3
United States	23.9	21.6	19.2	12.8	13.0	12.5
Pakistan	10.2	9.9	8.9	9.0	9.2	9.4
Brazil	4.7	7.0	7.4	5.5	5.4	5.4
Uzbekistan	5.6	5.4	5.4	4.6	4.2	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	1.7	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	7.0	6.0	5.7	5.1	4.4	4.5
World Total	116.7	122.0	120.5	107.6	103.8	102.7

Source: USDA

World Cotton Exports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
United States	17.5	13.0	13.7	13.3	10.5	10.5
India	3.5	4.6	7.0	2.3	6.2	6.7
Uzbekistan	4.8	4.5	4.2	2.6	3.9	4.2
Brazil	2.0	1.3	2.2	2.7	1.8	1.9
Australia	2.9	2.1	1.2	1.2	1.6	1.7
African Franc Zone	2.6	2.4	1.7	1.5	1.6	1.5
Turkmenistan	0.6	0.8	0.8	0.6	1.0	1.0
EU-27	2.0	1.6	1.6	1.0	0.9	1.0
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	0.4	0.5	0.5
Mali	1.0	0.9	0.5	0.3	0.3	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
Benin	0.5	0.5	0.5	0.4	0.4	0.4
Rest of World	3.3	1.8	1.7	1.1	0.9	1.1
World Total	44.6	37.3	38.5	29.8	31.9	33.1

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 October	2009/10 November
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
Bangladesh	2.5	3.2	3.5	3.8	3.1	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	1.7	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
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
Syria	0.7	0.8	0.8	0.8	1.0	0.9
Rest of World	13.1	12.6	11.5	9.9	9.5	9.6
World Total	116.7	123.7	123.4	111.1	112.6	113.5

Source: USDA

World Cotton Imports

Millions of 480 lb. Bales	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
China	19.3	10.6	11.5	7.0	8.0	8.5
Turkey	3.5	4.0	3.3	2.9	3.3	3.3
Bangladesh	2.6	3.2	3.5	3.8	3.1	4.0
Pakistan	1.6	2.3	3.9	2.2	3.0	2.8
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	1.3	1.1	0.7	0.9	0.8
Taiwan	1.1	1.2	1.0	0.8	0.7	0.8
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	3.1	3.2
World Total	44.8	38.1	38.9	30.0	32.0	33.2

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 October	2009/10 November
Beginning Stocks	1.2	1.3	2.1	2.2	1.4	1.4
Production	5.2	4.7	4.2	2.8	2.8	2.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	6.4	6.0	6.2	5.0	4.2	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	2.3	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	1.1
Stocks/Use Ratio	25.9%	52.8%	55.1%	37.6%	38.8%	35.3%

Source: USDA

World Cotton Balance Sheet

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
Beginning Stocks	13.2	13.6	13.7	13.7	13.6	13.5
Production	25.4	26.6	26.2	23.4	22.6	22.4
Supply	38.6	40.1	40.0	37.1	36.2	35.9
Consumption	25.4	26.9	26.9	24.2	24.5	24.7
China	9.8	10.9	11.2	9.8	10.1	10.1
Non-China	15.6	16.1	15.7	14.4	14.5	14.6
Ending Stocks	13.6	13.7	13.7	13.5	12.2	11.7
China	4.9	4.5	4.4	4.5	3.8	3.7
Non-China	8.7	9.3	9.3	9.0	8.4	8.0
Stocks/Use Ratio	53.5%	51.0%	50.8%	55.8%	49.8%	47.3%

Source: USDA

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World Cotton Production

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
China	6.2	7.7	8.1	8.0	7.1	6.9
India	4.1	4.7	5.4	4.9	5.3	5.3
United States	5.2	4.7	4.2	2.8	2.8	2.7
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	0.9	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	0.4	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	1.5	1.3	1.2	1.1	1.0	1.0
World Total	25.4	26.6	26.2	23.4	22.6	22.4

Source: USDA

World Cotton Exports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
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	1.5
Uzbekistan	1.0	1.0	0.9	0.6	0.8	0.9
Brazil	0.4	0.3	0.5	0.6	0.4	0.4
Australia	0.6	0.5	0.3	0.3	0.3	0.4
African Franc Zone	0.6	0.5	0.4	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	0.2	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
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
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
Benin	0.1	0.1	0.1	0.1	0.1	0.1
Rest of World	0.7	0.4	0.4	0.2	0.2	0.2
World Total	9.7	8.1	8.4	6.5	7.0	7.2

Source: USDA

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World Cotton Consumption

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
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
Bangladesh	0.5	0.7	0.8	0.8	0.7	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	2.1
World Total	25.4	26.9	26.9	24.2	24.5	24.7

Source: USDA

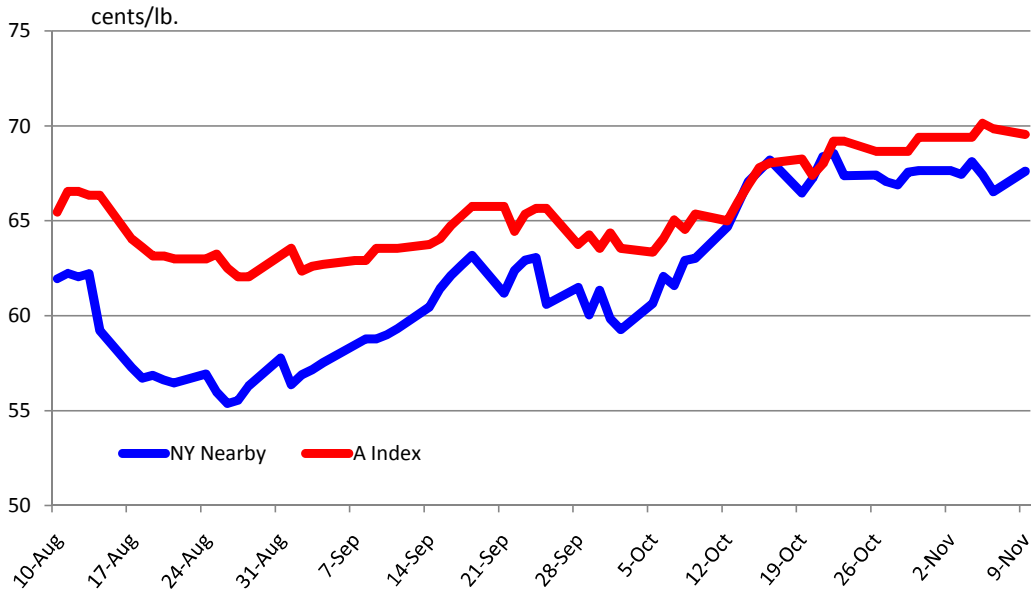
World Cotton Imports

Millions of Metric Tons	2005/06	2006/07	2007/08	2008/09	2009/10 October	2009/10 November
China	4.2	2.3	2.5	1.5	1.7	1.9
Turkey	0.8	0.9	0.7	0.6	0.7	0.7
Bangladesh	0.6	0.7	0.8	0.8	0.7	0.9
Pakistan	0.4	0.5	0.9	0.5	0.7	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	0.2	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	0.2	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	8.3	8.5	6.5	7.0	7.2

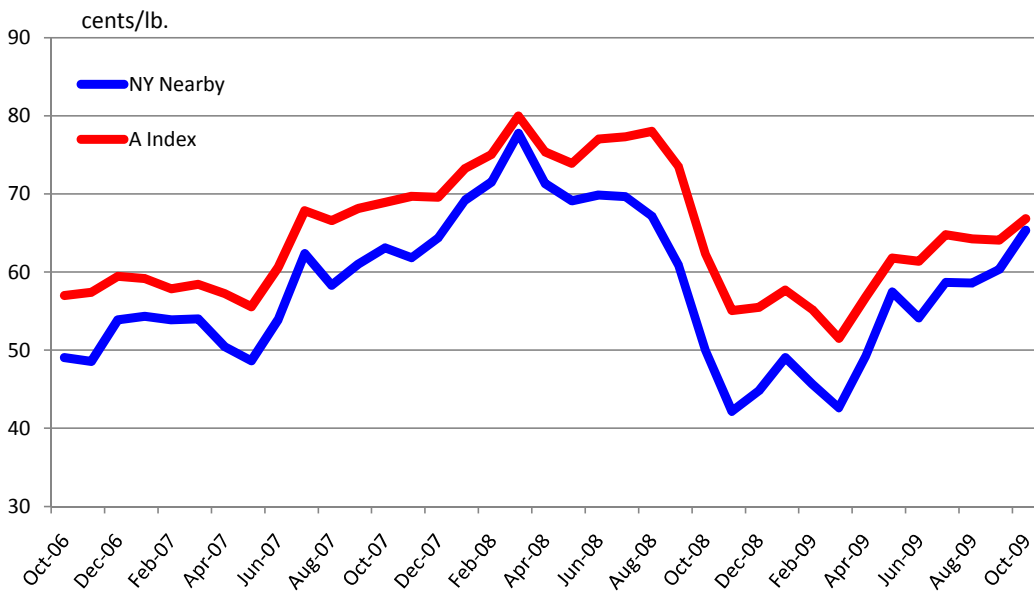
Source: USDA

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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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