Cotton Market Definitions

Cotton is the world's preferred natural fiber and is produced in approximately 80 countries.

Crop/Marketing Year: As with other agricultural commodities, cotton production, consumption, and prices are commonly discussed in terms of crop years. The term crop/marketing year reflects the planting and harvesting patterns for crops. For cotton, the crop year runs from August 1 to July 31 (the current 2012/13 crop year began August 1, 2012) and reflects the period for marketing a given cotton harvest before the next harvest comes in behind it. Most of the world's cotton is grown in the northern hemisphere, where the earliest harvests begin in August - this is why the crop year begins in August.

Cotton Varieties: Being natural, different cotton growths have different attributes. Cotton is usually described and traded in terms of fiber length, strength, uniformity, and micronaire. Micronaire is an indication of fiber maturity and, along with the other cotton quality data, helps indicate for which end uses certain growths of cotton may be most appropriate. Prices for specific qualities of cotton can reflect their availability relative to demand for specific end-uses.

Cotton Prices and Qualities: Cotton prices are typically quoted in cents per pound. In the U.S., volumes of cotton are commonly described in terms of cotton bales (480-500lbs. blocks of compacted cotton). Internationally, cotton is typically described in metric tons.

NY Nearby: NY futures are technically prices for US cotton. While these prices refer to U.S. cotton, the NY futures market is used to hedge cotton grown in many other countries and this is one of the reasons why international cotton prices are correlated. Futures markets have different contract months, or months when delivery of the commodity represented by the contracts is due. For cotton, there are five contract months (March, May, July, October, and December). December contracts are often given special importance since December is the first contract to expire after the U.S. harvesting period. Another important contract is the Nearby. The term nearby refers to the contract closest to expiration. For example, in April the nearby price refers to the May contract. In January, the nearby refers to the March contract. Nearby contracts are important since they are commonly the most heavily traded and since the closely resemble cash or spot prices for immediate delivery.

'**A' Index**: The A Index is considered to be a world cotton price. An ideal world price would be weighted average price of all cotton that is traded. Since both the volume and price of all varieties of cotton that are traded are not available, the A index is derived as an average of the five cheapest prices (among 15-20 commonly traded cotton varieties). All of the quotes eligible for inclusion in the derivation of the A Index are of the same quality and the rationale for using the cheaper cotton for the average is that cheaper cotton is more likely to be traded. The A index is usually a little higher than the NY Nearby for two reasons: 1) the quality of the cotton represented by the A Index is slightly higher than that for the NY Nearby and 2) A Index quotes include shipment to the Far East, where most of the world's cotton is spun into yarn.

Fundamentals: With commodities, fundamentals refer to supply and demand or production consumption. Cotton prices are typically influenced by supply and demand forces. In agriculture, *production* refers to the amount harvested. *Consumption* refers to the amount of raw fiber used by spinning mills to produce yarn. Major sources of estimates of data concerning cotton fundamentals are the USDA, Cotlook, and the International Cotton Advisory Committee (ICAC). To keep up to date on cotton fundamentals and the price outlook, refer to the Monthly Economic Letter. This document is available free of charge from Cotton Incorporated's website (www.cottoninc.com). New issues are released with USDA revisions to supply and demand estimates, generally around the 10th of each month.

Cotton Incorporated