Cotton Outlook

In this issue

Visit www.cotlook.com

Volume 2, Issue 8 · August 2009

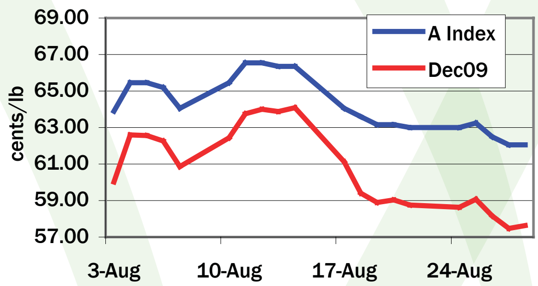
Notwithstanding holiday influences, August has proved a fairly eventful month. Prices have remained volatile, mills have been active buyers and the possible merger of two of the world's largest cotton traders was announced, all of which we cover in this month's issue. There are also details of a very special subscription offer and all the usual news of forthcoming cotton events.

August Market Review

During August, prices fluctuated within an already well-established range. That range was wider for futures than it was in the case of physical prices. The difference between the high and low posted by the December 2009 futures contract was 662 cent points per lb, while that recorded by the A Index was only 450 cents points.

New York futures continued to be moved primarily by developments in 'outside' markets, with the value of the US dollar again proving especially influential. When December futures moved significantly above 60.00 cents per lb, it was noticeable that mills retreated to the sidelines of the market and little fresh physical business was practicable. Nonetheless, when that contract approached 58.00 cents a significant amount of enquiry emerged from a number of markets, principally against outstanding nearby requirements. Chinese spinners were among those that took up fresh import supplies, using their recently allocated 'processing trade' quota. Bangladesh and Turkey were also prominent buyers.

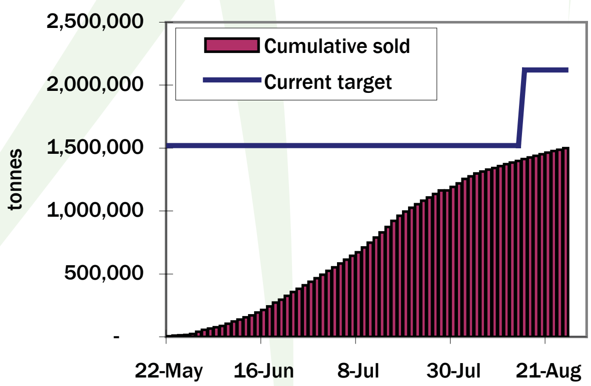
A Index versus New York futures

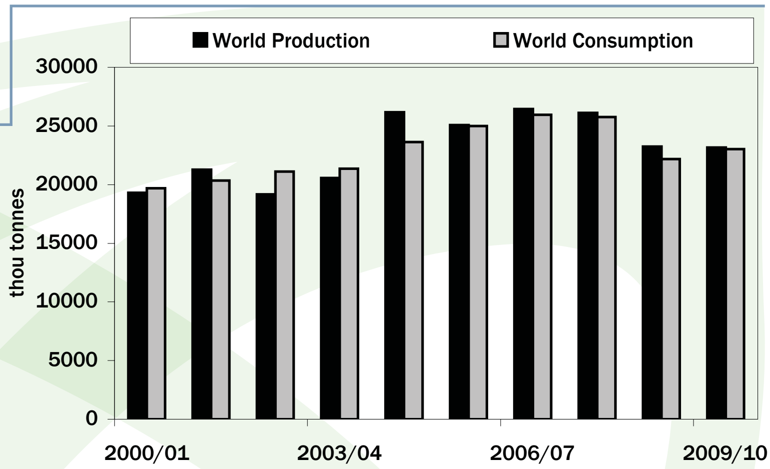


Offers of Pakistan descriptions remained among the most competitive in circulation, but tended hold to steady, despite declines in futures, in sympathy with a stronger price trend at origin. Tanzanian quotations also held relatively firm, amid some concern about the quality of early arrivals. Dwindling stocks from the 2008/2009 crop added somewhat to the reluctance of some merchants to reflect the full extent of declines in New York in certain of their asking rates.

In China, the government confirmed early in August that a further 600,000 tonnes (comprising 100,000 tonnes of 2005/2006 crop and 500,000 of 2008/2009 crop) would be allocated for auction from the state reserves, bringing the volume released to date to 2,120,000 tonnes. By the end of the month, a total of 1,517,998 tonnes had been sold, thus effectively bringing to an end the initial part of the auction series. The additional allocation, in conjunction with the approach of the new crop harvest contributed to a weakening of prices on the local spot market.

State Reserves Auctions





Market Review continued-

The Indian government, mean-while, indicated that the Minimum Support Price for a number of crops, including seed cotton, would be maintained for 2009/2010 at the levels prevailing last season. When seed cotton prices fall below the MSP, state agencies enter the market to procure lint. The current level of international prices suggests that government participation in the marketing of this season's crop may not be as significant as was the case in 2008/2009.

In general, conditions in most of the major Northern Hemisphere producing countries remained benign as the crop moved into the final stages of maturation. Despite reports of excessive moisture in some central and eastern parts of China, and dry weather in the north, the overall health of the crop continued to attract favourable comments and crop estimates were maintained. In the US, timely rains boosted plant development in the all-important growing region of West Texas, though the state's dryland crop remained behind schedule, owing to drought conditions earlier in the year. Rainfall was also welcomed in parts of the African Franc Zone. Drier, warmer weather helped crops in Central Asia to make up ground, following a slow start. Whereas production estimates in the above-mentioned countries were about maintained, forecasts on the Indian sub-continent tended to be trimmed. Reports of pest attacks and incidences of Cotton Leaf Curl Virus in the Pakistan province of Punjab prompted some of the more optimistic local estimates to be revised downward (Cotlook's figure already reflected a more conservative view of production prospects). Similarly, in India, estimates at the more optimistic end of the range were reduced to reflect insufficient rainfall during the early part of August, though some relief from the dry weather was forthcoming in the latter stages of the month.

Cotlook's August global production estimate (published in Cotton Outlook on August 21) for 2009/2010 was 22,863,000 tonnes, down 291,000 from our July figure (owing mainly to a drop in our Indian projection), whereas our world consumption figure was virtually unchanged at 23,012,000 tonnes. Cotlook's August numbers therefore suggested a very modest decline in global stocks during the course of the season.

Although spinners struggled in some countries to reflect rising raw material costs (both in terms of cotton and polyester staple fibre) early in the month in their yarn selling rates, a firmer trend began to materialise during the second half of August, coinciding in some parts of the world

World Cotton Balance Sheet

Unit = 1,000 tonnes	World (excl. China)			China			World		
Cotlook	**07/08**	**08/09**	**09/10**	**07/08**	**08/09**	**09/10**	**07/08**	**08/09**	**09/10**
Production	18,073	15,419	15,613	8,050	7,800	7,250	26,123	23,219	22,863
China net trade	-2,497	-1,480	-1,780	+2,497	+1,480	+1,780			
New Supply	15,576	13,939	13,833	10,547	9,280	9,030	26,123	23,219	22,863
Consumption	15,262	13,678	14,012	10,500	8,500	9,000	25,762	22,178	23,012
Net change in stock	**+314**	**+260**	**-179**	**+47**	**+780**	**+30**	**+361**	**+1,040**	**-149**
USDA									
Opening stock	9,307	9,416	9,140	4,471	4,355	4,327	13,778	13,771	13,467
Production	18,182	15,481	15,867	8,056	7,795	7,185	26,238	23,276	23,052
China net trade	-2,497	-1,507	-1,726	+2,497	+1,507	+1,726			
New Supply	15,685	13,974	14,141	10,553	9,302	8,911	26,238	23,276	23,052
Consumption	15,408	14,228	14,426	11,213	9,852	10,124	26,621	24,080	24,550
Other adjustments	-452	-22	+997	+544	+522	+544	+92	+500	+1,541
Ending Stock	9,132	9,140	9,852	4,355	4,327	3,658	13,487	13,467	13,510
Net change in stock	**-175**	**-276**	**+712**	**-116**	**-28**	**-669**	**-291**	**-304**	**+43**
ICAC									
Opening stock	9,054	9,011	8,810	3,653	3,321	3,844	12,707	12,332	12,654
Production	18,100	15,351	15,940	8,071	8,025	7,470	26,171	23,376	23,410
China net trade	-2,492	-1,506	-1,646	+2,492	+1,506	1,646			
New Supply	15,608	13,845	14,294	10,563	9,531	9,116	26,171	23,376	23,410
Consumption	15,421	13,990	14,210	10,900	9,000	9,270	26,321	22,990	23,480
Other adjustments	-230	-56	-4	+5	-8	+0	-225	-64	-4
Ending Stock	9,011	8,810	8,890	3,321	3,844	3,690	12,332	12,654	12,580
Net change in stock	**-43**	**-201**	**+80**	**-332**	**+523**	**-154**	**-375**	**+322**	**-74**

with an upturn in yarn demand. Comments from some of the major Asian textiles and clothing nations pointed to a slightly more optimistic view of business potential during the second half of the year, influenced in part by improved economic indicators in some of the major consuming centres and expectations that inventories throughout the supply pipeline had run low.

Gdynia's 10th International Cotton Conference, 3– 4 September 2009

Natural Fibres - Their Attractiveness in Multi-Directional Applications

The 10th International Cotton Conference will be dedicated to the exchange of experience in scientific and research circles, industry and collaborating institutions associated with the cotton and textile sectors. Participants in this important, biennial cotton event are expected from all over the world. The organisers have chosen their theme in light of 2009 having been named as the United Nation's International Year of Natural Fibres, and propose to consider the meaning of natural fibres in the modern world – their vital role in sustaining and supporting developing countries, together with new applications and technologies in fibre processing, and the promotion of natural fibre applications in an ecologically friendly lifestyle. They anticipate that the position in the world economy of all cottons - conventional, organic and genetically modified – will be discussed. More information concerning the programme, lecturers and accompanying events can be found at www.cotton.org.pl or www.bawelna.org.pl.

Uzbekistan: Significant Event in the World Cotton Calendar

Uzbekistan will hold its 5th Annual International Cotton Fair on October 14-15, 2009 in Tashkent. The Fair has become an important annual event in the world's cotton calendar, attracting prospective buyers and users of Uzbek cotton from around the globe.

The Ministry of Foreign Economic Relations, Investments and Trade, which hosts the event, points out that Uzbekistan pursues a policy of stable production, allowing it to "put into effect a sure-footed export policy, aimed at increasing export efficiency as well as maintaining the share and competitiveness of Uzbek cotton on prospective markets".

The Ministry points out that the International Cotton Fair forms a part of Uzbekistan's marketing efforts, by which the name UZBEK COTTON has become familiar to users around the world. The Fair's primary goals are to establish concrete businesses and to strengthen long-term cooperation in cotton trade, as well as to familiarise consumers of Uzbek cotton with its quality characteristics, latest developments in cotton production, trading practices and logistics.

The First International Uzbek Cotton Fair was conducted with great success in 2005 and about 200 international companies participated in the event. The number of companies that participated in the Cotton Fair in 2008 increased to more than 300.

Prime Minister Mirziyoyev addressing participants in the 2008 Cotton Fair

In 2009, participants will have an opportunity to establish long-term agreements with Uzbek exporters for the current and future crops. Round table meetings and bilateral negotiations between exporters and consumers of Uzbek cotton are to be held during the Cotton Fair.

2008 contract signing ceremony

Moreover, in the framework of the Cotton Fair it is planned to discuss the current problems and prospects of the development of the world cotton market as well as to learn competent views of the leading international experts on the different topics of the world cotton and textile industries.

international cotton association

Dates fixed for 2010 'Complete Cotton' training

Learn about the complexities of the cotton trade from some of the world's leading professionals at the next ICA Complete Cotton training programme, which takes place in Liverpool, UK (the original 'city of cotton') from 19th until 30th April. Complete Cotton delivers an insight into every aspect of the raw cotton trade. With 34 comprehensive training modules, delivered by 30 presenters, it focuses on key areas such as arbitration, contract law, risk management and control. Kai Hughes, ICA Managing Director says: *"Over the years, this training has provided an excellent grounding for many of today's leaders and influential players in the cotton world. It's always popular and successful - our 2009 programme achieved a 100 per cent positive response from delegates."*

Click here for more information and to register

Still time to register for the ICA Trade Event

We're still accepting bookings for the ICA Trade Conference and Dinner Event on 1 and 2 October 2009 in Liverpool, UK. You can book and pay for your ticket online and we'll even provide help with your accommodation booking. Liverpool is a popular tourist destination and hotel rooms are in demand. So, if you haven't registered for the event and you need somewhere to stay, we strongly advise you to register as soon as possible to secure your hotel booking. The conference hotel, the Crowne Plaza, is always a favourite choice - there is limited accommodation available, which will be allocated on a first come first served basis.

Click here for more information and to register

FREE guidance notes and information available online

Don't forget, if you have a contract dispute and need help understanding our arbitration procedures, we have a range of guidance notes, flow charts and frequently asked questions available as a FREE download from our website. The ICA arbitration service is available to anybody trading under ICA Bylaws and Rules. You'll receive an impartial and internationally recognised service plus our commitment to ensure that disputes are settled as quickly as possible. We offer significant cost savings for ICA members. Also available from our website are lists of ICA arbitrators, member firms and individuals. The lists are regularly updated and include contact information.

Click here to access and download arbitration information
Click here to access and download contact lists

Want to become an ICA Arbitrator?

The next ICA Arbitrator Exams (Basic Level 1) will take place at the Brazilian Cotton Congress in Foz do Iguaçu on 17 September and at the ICA International Trade Dinner Event in Liverpool, UK on 1 October. To sit the exam you'll first need to complete the course, which is available as a FREE download from our website. Interested? Please get in touch.

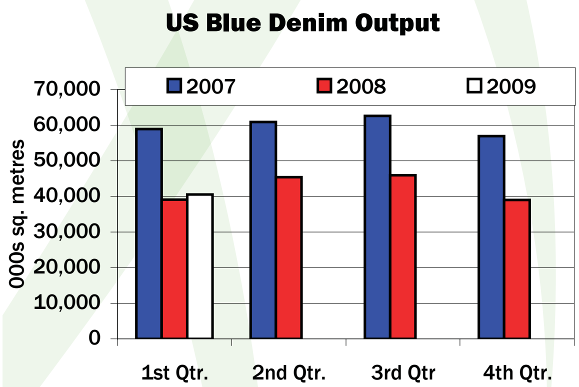
Click here for more information and to download the course

For more information about the ICA and its services
Visit: www.ica-ltd.org
Tel: +44 151 236 6041
Email: info@ica-ltd.org

World Denim Market Review

When we last undertook an informal survey of our sources 12 months ago, seeking information about the health of the global denim sector, it was clear that the economic crisis was complicating a pre-existing surplus in world production over demand. However, our latest survey, conducted this month, has provided ample anecdotal evidence to suggest that production has slowed considerably since last August, with mills managing throughput to avoid an accumulation of stocks.

Responses from countries such as China, Italy and Indonesia reveal a fairly broad consensus that production has fallen by 30 percent during the past year. The contraction is thought to have been still more profound in Japan (about 40 percent), whereas, in Thailand and Taiwan it is recognised that curtailments have taken place but no figure is put forward. Statistics are difficult to obtain in many countries to support the anecdotal evidence, but in the United States, official data indicate that blue denim fabric output fell by 29 percent in 2008, to 169,435,000 square yards. Nonetheless, the latest figure, covering the first quarter, points to a modest recovery from both the fourth quarter 2008 and a year-earlier.



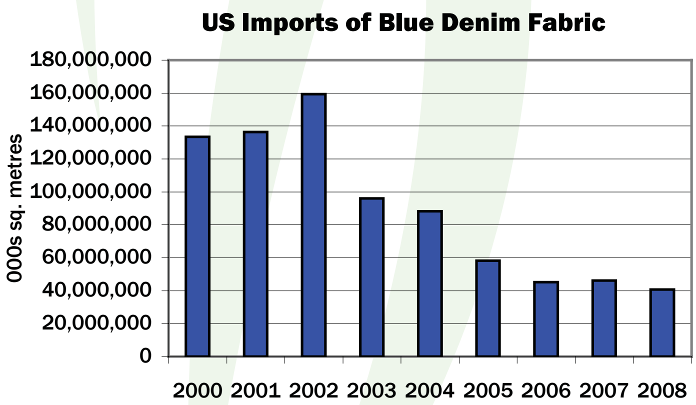
Comments from China also suggest that production picked up slightly after February.

A notable exception to the overall trend involves Pakistan, where denim fabric production is reckoned to have increased since last August. The reason cited is that investment projects planned before the global economic slowdown have come on stream, boosting local capacity.

A question regarding the type of denim being produced wrought more varied responses. Comments from China suggest that there has been little change in the styles being manufactured, with jean brands proving reluctant to alter their lines significantly. Similar inertia is noted in Italy. However, in the US, Thailand, Indonesia, Pakistan and Japan the long-established trend out of the basic, large volume styles into higher-end, fashion-led constructions has continued. The emphasis in these countries has shifted into dyes, washes and other fabric finishes to achieve value addition. Sources in Japan note increased use of blended denim fabric, incorporating synthetic fibres, to give the end garment a lighter feel. In Taiwan, in contrast, mills have apparently moved in the opposite direction, producing more lower-priced, basic constructions to meet demand from discount retailers.

Whether the drop in production since last August has served to correct the supply and demand imbalance is questionable, given that demand has also shrunk. Substantial drops are mentioned in China, Taiwan, the US, Italy and Japan. The domestic market in China is said to have slowed considerably, compared with 12 months ago. In Italy, the fall in domestic demand is placed at 50 percent and that for export at 10 percent. In contrast, domestic demand in Indonesia is said to have fallen by 20 percent and that for export by 50 percent. Replies from Thailand and Pakistan paint a slightly less pessimistic picture, with some manufacturers suggesting that business has picked up since the start of the year.

US imports of blue denim fabric, according to the Department of Commerce, totalled 15,534,099 square metres during the first half of 2009, no less than 35 percent down on the same period in 2008. Imports during the whole of 2008 at 40,684,429 square metres were 12 percent down from the previous year and only about one quarter of the recent annual high recorded in 2002. China had the lion's share of the import total in 2008, contributing 32 percent, followed by Italy with 18 percent.



Cotton denim fabric imports by European Union countries during the first quarter 2009 were 22 percent down on the first three months of 2008 in volume terms. Shipments dropped by a similar margin during the whole of 2008. Last year, Turkey remained the largest supplier, contributing a third to the total, followed by Pakistan (nine percent) and Tunisia (six percent). It is noteworthy, particularly in light of the comments emerging from our survey, that shipments from Pakistan surged during the first quarter.

As with the textiles and clothing industry as a whole, the key question remains to what extent business will recover during the second half of the year. In China, there is some optimism the major jean brands are carrying low stocks and, therefore, that an increase in denim fabric orders should emerge during the next few months. A similarly optimistic view is forthcoming from Indonesia and Pakistan. US manufacturers also foresee a need to restock the supply pipeline, but comments tend to be couched in less unequivocally upbeat terms than the previous three countries. Wide fluctuations in cotton prices are said to be influencing caution among denim producers in Thailand. Mills in Japan and Italy believe that demand has bottomed out, but no improvement is expected in the months ahead.

ACSA President

Current American Cotton Shippers Association President, John Dunavant, is expected to resign his position once the acquisition of Dunavant by Louis Dreyfus Commodities is finalized. Both firms have indicated that the deal is expected to be completed by September 30.

ACSA First Vice President Jordan Lea, of Eastern Trading Co., is expected to take over as acting President of the organization upon completion of the merger, though it remains uncertain as to the length of term Mr. Lea will serve, as he was in line to take over as ACSA President in May 2010, following Dunavant's tenure.

Jordan Lea

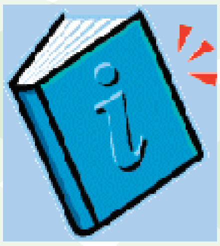
News of Louis Dreyfus's acquisition of Dunavant broke on August 6, after employees at Dunavant were notified of the negotiations.

Louis Dreyfus Commodities, the world's leading cotton trader and merchandiser, conducts business in all of the principal world markets, originating cotton in major producing countries and merchandising it to end users in major consumption markets. Annual sales of Allenberg Cotton Co., a wholly owned division of Louis Dreyfus Corporation, are in excess of 1.5 million metric tonnes.

Dunavant was founded in 1929 and grew into the largest privately owned cotton firm in the world under the leadership of William B. Dunavant Jr. Allenberg Cotton Co., a subsidiary of Louis Dreyfus Commodities, traces its roots to founder and namesake Milton Allenberg who began operations on Front Street in Memphis in 1921. Paris-based Louis Dreyfus SAS purchased the company in 1983.

Fact of the Month

China's quota expiration dates



Tariff-rated import quotas (TRQ) for raw cotton allocated in connection with China's WTO commitment, totalling 894,000 tonnes annually, at an import duty rate of one percent, are valid for shipments arriving by the end of February in the following calendar year, provided the contract and shipment are arranged prior to December 21. TRQ that holders do not expect to use must be returned by September 15, so as to avoid penalty during the succeeding quota year.

Additional quota of any description (whether for the 'processing trade', and therefore effectively 'duty free', or under the 'sliding-scale tariff regime operated prior to this year) need not be returned to the government but it expires on December 31, by when the goods must have cleared customs.

During 2009, in addition to the annual TRQ, only 400,000 tonnes of additional quota have been allocated under the 'processing trade' heading.

Discover natural fibres 2009

Sudoku

Click on the image to access online version.

			2		4			
	6						1	
			6	7		2		
2								
	5	1				6	7	
				8	3			
		7	4		9			6
		8					4	7
1		5					3	

Software © 2008 crossword-compiler.com