

American Cotton Shippers Association

International Cotton Institute, June 2 - July 20, 2010

As usual at this time of year, attention is increasingly turning towards supply and demand prospects for the coming season. Cotlook published its initial production and consumption estimates

in February (a summary of those figures is available in this month's issue), while US planting forecasts emerged at meetings of the National Cotton Council and USDA. This time round, the figures perhaps take on additional significance with the supply situation expected to be tight by the end of this season, following a sustained, buoyant spell of trading. Our usual review of the market situation highlights some noteworthy pricing developments, during what proved to be another lively period in the international raw cotton market.

If you have any queries about Cotlook's services, please do not hesitate to contact us at subscriptions@cotlook.com.

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Volume 3, Issue 2

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February 2010

FEBRUARY MARKET SUMMARY

The decline in international upland asking rates witnessed through much of January was sustained through the early part of February. However, after February 8, New York futures underwent an abrupt reversal. The Cotlook A Index rose by over 10 cents per lb during February, to end at 85.55 cents, its highest level since the turbulent bull run in March 2008. The May New York futures contract, which became the focus of attention during the course of February, ahead of the maturation of the March contract, rose by 1,260 cent points per lb, to end the month at 82.46 cents.

The turnaround in prices coincided with the release of the USDA's February supply and demand estimates, in which the Department increased its domestic 2009/2010 export estimate by 1,000,000 bales (480 lbs), and reduced its

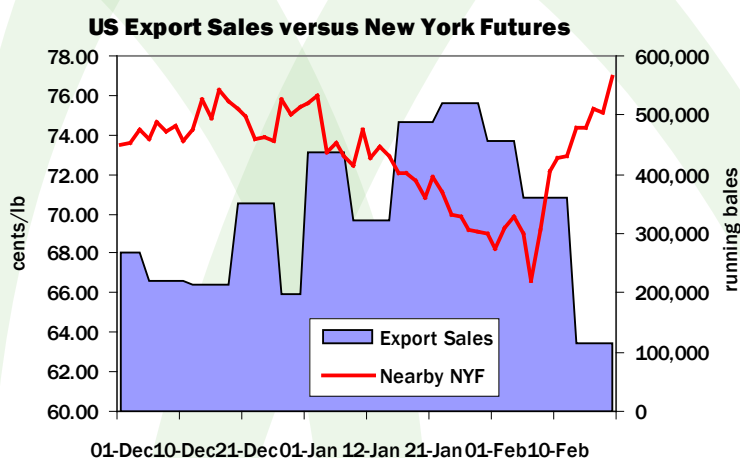


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ending stocks projection commensurately. The USDA's increase to its US export forecast would seem justified in light of the substantial sales recorded since the turn of the year. During the first two week of February, US export sales registrations remained brisk, totalling over 800,000 running bales. However, rising futures values and the Lunar New Year holiday celebrations in a number of countries stymied demand during the third week of the month and upland sales dropped to only 113,300 bales.

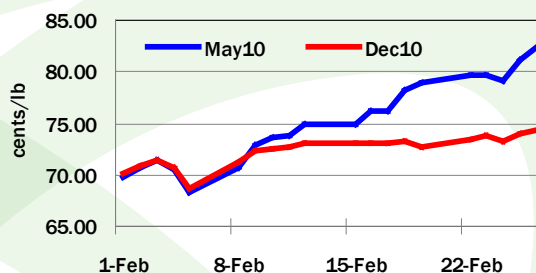


The tighter supply picture depicted by the USDA figures could equally be applied to many other origins, following heavy sales during the first few weeks of the year. The majority of merchants were able to liquidate a fair proportion of long positions accumulated in recent months and subsequently adopt a fairly defensive marketing stance. Few proved willing to discount nearby offering basis levels, and as the month progressed, it was again fixed price asking rates which appeared the most attractive.

Another key feature of trading in New York was the development of an inversion in futures, with the December contract trading at a discount relative to May of over 800 cent points by the end of the month. Despite the inversion, little pressure was discernible on nearby basis levels, with merchants seemingly confident of disposing of current crop stocks, before positions have to be rolled from the July into the December contract. Nonetheless, mills were influenced to examine their requirements for the second

half of the year and beyond, with Brazilian 2010 crop in particular moving off in large quantities.

Inversion in New York futures



Of all the origins, Indian remained the one in which the exportable supply for the balance of the season was thought to be the most comfortable, despite the fact that seed cotton arrivals started to lag behind the pace set last season. Many local sources maintained a crop estimate at around, or slightly higher than the 29,500,000 bales (170 kilos) produced last season, while some export forecasts were revised higher, to well above the Cotton Advisory Board's figure (released in December) of 5,500,000 bales (170 kilos).

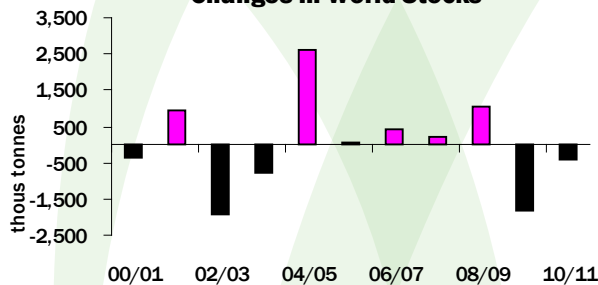
Although a somewhat mixed view of the yarn market prevailed while raw cotton replacement costs continued to fall, as soon as prices rebounded, a more decidedly bullish yarn market climate emerged. Spinners in the major producing centres continued to report full order books for the coming weeks. Moreover, a renewed spate of yarn demand was reported as the month progressed. Spinners were prompted to raise their prices from already elevated levels. The Cotlook Yarn Index touched its highest levels since it was reintroduced in its revised format back in May 2002.

COTLOOK'S INITIAL 2010/2011 CROP ESTIMATES

Our initial forecasts for 2010/2011 suggest that global production will fall modestly short of consumption for a second consecutive season, on top of a predicted drawdown this season of no less than 1,817,000 tonnes.

Farmers in most of the major producing countries are expected to react to this season's improved prices, by diverting more land to cotton. At this early stage, we have applied close to average yields in most instances. We are projecting the largest increase in the United States, but bigger crops are also foreseeable in China and India. In the former country, much will depend on the situation in Xinjiang where divergent policy aims between provincial and national government are clouding the outlook somewhat. In India, as always, a good monsoon will be crucial to crop forecasts being met. A dry winter is tempering optimism in Pakistan.

Changes in World Stocks



Nonetheless, world consumption is expected to continue to recover from the slump witnessed in 2008/2009, in the depths of the global economic downturn. Growth of 3.1 percent is foreseen, compared with the upturn of seven percent estimated for 2009/2010.

Cotton Outlook's Initial 2010/2011

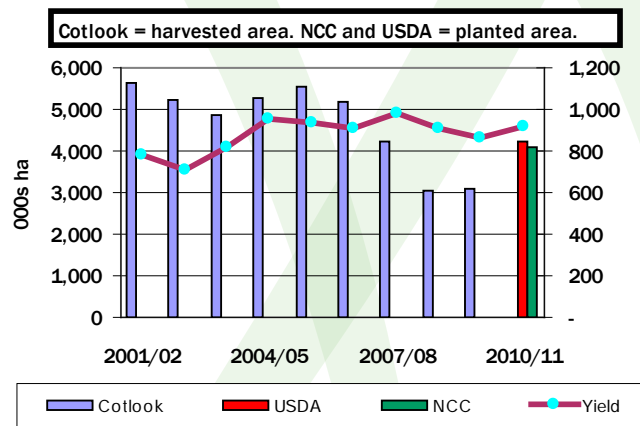
World Raw Cotton Supply & Demand Forecasts

| | 2009/2010 | 2010/2011 | |
|--------------------------|-------------------|-------------------|------------------|
| | | February Forecast | Change on Season |
| Major Producers | | | |
| China | 6,950,000 | 7,376,000 | 426,000 |
| United States | 2,700,000 | 3,337,000 | 637,000 |
| India | 5,015,000 | 5,347,000 | 332,000 |
| Pakistan | 1,960,000 | 2,022,000 | 62,000 |
| Uzbekistan | 950,000 | 1,000,000 | 50,000 |
| African Franc Zone | 507,000 | 582,000 | 75,000 |
| Turkey | 380,000 | 500,000 | 120,000 |
| Brazil | 1,250,000 | 1,450,000 | 200,000 |
| Australia | 375,000 | 392,000 | 17,000 |
| Others | 2,079,000 | 2,275,000 | 196,000 |
| World Production | 22,166,000 | 24,281,000 | 2,115,000 |
| Major Consumers | | | |
| China | 9,650,000 | 9,988,000 | 338,000 |
| Indian subcontinent | 7,532,000 | 7,832,000 | 300,000 |
| United States | 740,000 | 718,000 | -22,000 |
| EU | 250,000 | 244,000 | -6,000 |
| Others | 5,811,000 | 5,933,000 | 122,000 |
| World Consumption | 23,983,000 | 24,715,000 | 732,000 |
| Net Change in Stock | -1,817,000 | -434,000 | |

US CROP FORECASTS

At its annual Outlook Forum in Washington on February 18 and 19, the United States Department of Agriculture released its first forecast for US cotton plantings. The Department is forecasting total US acreage at 10.5 million, a 16 percent increase over plantings of 9.054 million in the 2009/2010 growing season. The comprehensive supply and demand forecast calls for production of 16 million bales (480 lbs), exports of 12.6 million bales and ending stocks at 3.4 million. USDA economists have based their production figure on an average abandonment of 11.4 percent and national yield of 825 pounds per harvested acre.

US Area and Yield



If realized, the 10.5 million planted acres will mark the biggest year-on-year increase since the 1995 season. "With prices of major commodities above their respective loan rates, 2010 planting decisions will be based mainly on expected market returns rather than government benefit programs," USDA stated. "Unlike a year ago, price relationships between cotton and most alternative crops are more favourable to cotton."

World forecasts call for a 10.5 percent increase in production to 113.5 million bales. Production in China is expected to total 35 million bales for 2010/2011, an increase of nine percent over the previous year. Indian production is pegged at 25



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Complete Cotton training suspended for 2010

Sad news – we have been forced to suspend our annual training programme, Complete Cotton, due to a number of industry changes that have resulted in a shortfall in delegate applications. Kai Hughes, ICA Managing Director, explains: “This past year has been difficult with many firms having to make savings... Consolidation in the industry has seen a decrease in the number of new entrants into the trade...and strict visa restrictions for UK entry have had a direct impact on numbers. On a more positive note, the decision has forced us to re-evaluate our education provision. We aim to run Complete Cotton in 2011 and introduce a new range of courses that can be delivered at global locations, that are demand led, trade focused and flexible to react to today’s market conditions.”

[Click here](#) to read the full story.

[Click here](#) to find out more about Complete Cotton and add your name to the 2011 delegate list.

Singapore 2010 event is a sell-out

Nearly 500 delegates have registered for this all-new event, which is being held on March 4/5 at the Fullerton Hotel in Singapore. The response from the cotton industry – from merchants to spinners to textile mills – has been overwhelming. In mid-February we reached maximum venue capacity (400) for the event’s closing dinner and, in order to meet demand, a limited number of ‘conference only’ places were made available. Event organisers, the ICA and Cotton Outlook, are delighted with the response and confirm that access to the event will be restricted to registered delegates only, who will be issued with an ID badge on arrival.

On the road again

Why not join us at one of our workshops and open forum sessions, as we continue to take the ICA on the road. ICA President, Cliff White and MD, Kai Hughes are planning to return to Bangladesh and will also be visiting Turkey and possibly Pakistan/Dubai later in the year. The ‘road shows’ are part of our ongoing plans to engage more international members and new players in the cotton trade. They provide an opportunity to hear the views and ideas of the local cotton community and help generate a greater understanding of the principles of contract sanctity, ICA Rules and arbitration procedures. Watch this space for more news.

Official Standards for Argentine cotton

The following standards have been received from the Ministerio de Economia y Obras y Servicios Publicos, Secretaria de Agricultura, Pesca y Alimentacion, Argentina: Grades B, C, C-1/2, D, D-1/2, E, F. Inspected and approved (in line with ICA Bylaws) they have now been adopted as the ICA Official Standards for Argentine cotton, replacing the set from 1 March 2006. The ICA holds the largest collection of worldwide Cotton Grade Standards. They represent the current crops of cotton grown in each country and serve as a benchmark in international trading. Other updates are in progress. Watch this space for further news.

Contact us if you would like more information.

Your chance to become an ICA Arbitrator

ICA Arbitrator Exams (Basic Level 1) will be taking place in Singapore, Bangladesh, Pakistan/Dubai, China, USA and Turkey this year. To sit the exam you’ll first need to review the course material, which is available as a FREE download from our website. Open to ICA members and non-members, the course will provide you with an introduction to the basic principles of the ICA technical arbitration process. If you would like to sit the exam, please contact us for further information regarding dates and locations.

[Click here](#) for more information and to download the course.

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million bales, up 6 percent from the 2009/10 marketing year.

USDA cites continued economic recovery, especially in developing countries, as the primary driver behind a 2.6 percent expected increase in world consumption to 118.5 million bales, resulting in a 4.8 million bale drawdown in global stocks in the coming year.

The USDA estimate is notably higher than the results of the National Cotton Council’s Planting Intentions Survey (released on February 5), which forecast planted acreage of 10.1 million acres, with production pegged at 15.5 million bales for the 2010/2011 crop year. The NCC estimate projects upland acreage of 9,917,000 and Pima at 176,000, and production figures were calculated using an average abandonment of 11.5 percent and average yield of 832 pounds per acre.

“Prevailing market conditions this year are more favourable for cotton prices than some of the main competing crops versus the previous couple of years,” said NCC senior economist Dale Cougot. “It is still too early to fully evaluate the impact of weather, ground moisture and water availability, but most of the cotton belt at this point is better off than in the last several years.”

USDA stated in its outlook that, since the NCC survey, prices for grains, soybeans and cotton all moved lower, mirroring the rise in the US dollar. Since January, cotton has rallied from its declines, rendering relative prices more attractive to planting cotton than at the time of the NCC survey.

GLOBAL ORGANIC COTTON PRODUCTION GROWS 20% IN 2008/2009

Organic cotton weathered the global economic storm during the 2008/09 farming season, albeit with challenges, according to a new report by Organic Exchange (OE) documenting growth and challenges in the global organic fiber sector. Production grew an impressive 20 percent over 2007/08 to 175,113 metric tons (802,599 bales) grown on 625,000 acres (253,000 hectares). Organic cotton now represents 0.76 percent of global cotton production.

According to the fourth annual Organic Exchange Farm and Fiber Report 2009, organic cotton was grown in 22 countries worldwide with the Top Ten producer countries being led by India, and including (in order of rank) Turkey, Syria, Tanzania, China, United States, Uganda, Peru, Egypt and Burkina Faso. Approximately 220,000 farmers grew the fiber.

Not all is rosy, however. Despite major market players sticking to their commitments to use organic cotton in their apparel and home textile products, there simply wasn't the market for products (organic or conventional) in general, given the global economic downturn. In addition, a number of farmers had planted vast acreage of organic cotton on speculation and in response to what had appeared to be a healthy, burgeoning marketplace. As a result, unsold stocks which represent between 17 and 22 percent of production (some 30,000 to 35,000 tons (137,789 to 160,754 bales) of organic cotton has yet to find buyers

"2008-09 was a year of challenges for the organic cotton sector, but also one that highlights the need to improve recordkeeping, forecasting, pricing, and communication systems and gain more firm commitments and contracts," noted Simon Ferrigno, OE Organic Exchange Farm Development Team manager and lead author of the report.

LaRhea Pepper, OE senior director agrees. "While the 2008-09 season was very challenging for organic cotton farmers, the marketplace is recovering and there are indications that some of the surplus organic cotton is being utilized. Indeed," she continued, "it has been reaffirming to see that leading brands and retailers have retained their commitments to use to organic and sustainable fibers so as to bring about changes in agriculture. In many cases, they are actually stepping up their commitment to organic cotton in order to utilize the stocks and keep organic land in production."

According to the Organic Exchange Organic Cotton Market Report 2009, global retail sales of organic cotton and home textile products topped 3.2 billion U.S. dollars in 2008. Data from the 2009 market will be available soon.

SHAPING THE FUTURE – 30TH BREMEN INTERNATIONAL COTTON CONFERENCE

Preparations are running at full speed and cotton experts from all over the world will be meeting at the Bremen Town Hall between March 24 and 27.

On the agenda are sustainability, global cotton production, a look at individual countries, genetic engineering (which in Europe especially is a very explosive matter), cotton as a commodity and, last but not least, the core of the conference agenda, cotton testing techniques. Again, it is a comprehensive agenda covering the current issues concerning cotton production, trade and processing.



What are the influences on cotton production and processing, which long-term trends are to be expected? Dr. Terry Townsend, Executive Director of the International Cotton Advisory Committee (ICAC), Washington, will give a speech on the influence of commodity prices, electronic futures trading and the global economy.

Wolfgang Grupp, owner of Trigema, will talk about Germany as a location and his business philosophy as a successful textile entrepreneur.

Henrik Lampa of H&M will speak on the sustainable strategy of H&M, with a focus on bio cotton. Andy Salm of Organic Exchange will

give an overview on the status of organic cotton and explain the possibilities of integrating sustainable cotton production into textile supply strategies. Adidas has come this far already: Karin Ekberg will report on the sustainable business strategy of this global manufacturer of sporting goods. What's the news on cotton production in Africa, Brazil, China and India? Several speakers from those regions will bring us up to date.

The technical agenda of the conference also includes the issue of sustainability: What experience has a spinner gained from utilising organic cotton? The agenda also includes the development of fibre testing and online applications, as well as presentations on current spinning processes.

People interested in attending the event can register online by clicking **HERE**

OBITUARY

Kayser Winsiang Sung

1919-2010

Kayser Winsiang Sung, editor-in-chief and publisher of Textile Asia, passed away peacefully at the age of 90 on January 12, 2010 in Hong Kong.

He was born on October 1, 1919 in Nanjing, China. After honing his journalistic skills as chief reporter and feature editor of Chinese newspapers, he joined the Reuters News Agency as reporter, translator and feature writer in 1947. He was transferred to Hong Kong in 1949 and remained with Reuters for the next ten years.

In 1959, he was asked to join the Far Eastern Economic Review, and was managing editor and publisher there until 1968. In 1964, he received the Ramon Magsaysay Award for journalism and literature, jointly with Richard G. Wilson, then editor of the Review.

In 1970, Kayser Sung established and co-founded Business Press, Ltd., with the late Cha Chi-Ming, a noted Hong Kong industrialist, and started publication of the monthly journal Textile Asia – the Asian Textile and Apparel Monthly,

devoted to the coverage of the textile industry in Asia and the world. He was an expert on quotas and trade agreements, and an outspoken critic of protectionism, which he viewed as a threat to the economic welfare of developing countries, and could stunt growth in rich developed countries. A 2,022-page chronicle of his writings on the textile industry, Asia in the Textile World 1950s to 2000, was recently published by Business Press, Ltd. He remained editor-in-chief and publisher of Textile Asia for 40 years until his passing.

In Memoriam Donation

The 'Kayser Sung Memorial Fund' at 'The Hong Kong Polytechnic University' has been established in support of the development of Institute of Textiles & Clothing. For donation to the fund please contact:

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YARN EXPO SPRING 2010

Since its inception in 2004, Yarn Expo has gained popularity amongst industry professionals and continues to attract leading international and domestic exhibitors. Running for three-days from 31 March 2010 at the China World Trade Centre, the event will feature a diverse range of products that will be divided into several zones for easy navigation at the fair.

The show will present natural, manmade and speciality/fancy fibres and yarns with end uses including knitting, weaving and apparel textiles. The majority of suppliers will group into three highlighted areas including viscose, bamboo / ramie and fire retardant fibres.

New this year is a special Pakistan Zone, showcasing some of the region's most famous cotton yarn and fabric manufacturers. Several suppliers will display pure cotton, poly-cotton, organic cotton & core spun yarns, which can be applied for knitting/ weaving, denim, hosiery, home-textiles, and apparels.

Also, running at the same period as Yarn Expo are Intertextile Beijing Apparel Fabrics and the China International Clothing and Accessories Fair (CHIC). These three industry events held during the same period, make it easier for apparel manufacturers and other industry experts from China and overseas to visit all fairs. Yarn Expo is organised by Messe Frankfurt (HK) Ltd, the Sub-Council of Textile Industry – CCPIT, China Cotton Textile Association, China Wool Textile Association, China Chemical Fibres Association, China Bast & Leaf Fibres Textiles Association, and China Textile Information Centre. For further information please email textile@hongkong.messefrankfurt.com or visit: www.yarn-expo-beijing.com

SINGAPORE 2010

The Cotlook team in Singapore for the joint Cotlook/ICA conference, 'Protecting Your Cotton Business', on March 4/5 will consist of Ray Butler, Matt Robinson and Richard Butler. Please feel free to approach any of us if you are interested to learn more about Cotlook and our services. We will be accompanied by Helen Anderson from our sister company Liverpool Cotton Services. Helen, one of the International Cotton Association's leading arbitrators, will be available to discuss any questions you may have regarding contractual issues. For further information about Liverpool Cotton Services click **HERE**

Regional Coordinator — Pakistan



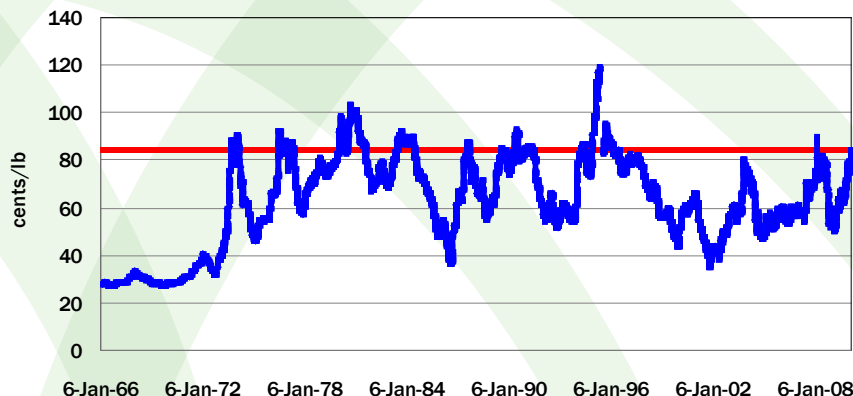
“The Better Cotton Initiative invites applications for the post of **Pakistan Regional Coordinator**. It is envisaged that the Pakistan Regional Coordinator, who will be located in Lahore, will receive a fixed-term contract for a 3-year period. There will be a 6-month probationary period. **Full details of the post and how to apply can be found at the BCI website: www.bettercotton.org**. The application deadline is 12 March 2010 at 17:00 GMT. First round phone interviews will take place during the week of 29 March. Second round interviews will take place during either the week of 12 April or 29 April, in Lahore. The commencement date will be May 2010, or as soon as possible after this date.”

FACT OF THE MONTH

Prior to the current bull market, the Cotlook A Index had breached 85.00 cents per lb only once (during a brief three-day period) since 1996.



A Index since inception



SUDUKO

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