



# Cotton Outlook

## Long Staple UPDATE

April 2014

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### Tight supplies, uncertain demand

When our last update on the long staple market was released in November last year, the outlook for long staples was influenced by bullish fundamentals, tempered by some uncertainty with regard to the strength of mill demand, at the price levels then in force.

Production		
	2012/13	2013/14
<b>United States</b>	169,782	136,296
<b>Egypt</b>	97,318	84,000
<b>of which:</b>		
<b>ELS</b>	9,554	4,000
<b>Giza 86</b>	87,764	80,000
<b>Sudan</b>	15,000	3,000
<b>Uzbekistan</b>	2,000	2,000
<b>Tajikistan</b>	1,000	900
<b>Turkmenistan</b>	18,000	16,000
<b>India</b>	65,000	70,000
<b>Peru</b>	8,000	8,000
<b>China</b>	60,000	40,000
<b>Israel</b>	14,500	11,000
<b>Spain</b>	2,000	2,500
<b>Australia</b>	600	600
<b>Total</b>	<b>453,199</b>	<b>374,296</b>
Consumption		
<b>World</b>	<b>448,727</b>	<b>432,104</b>

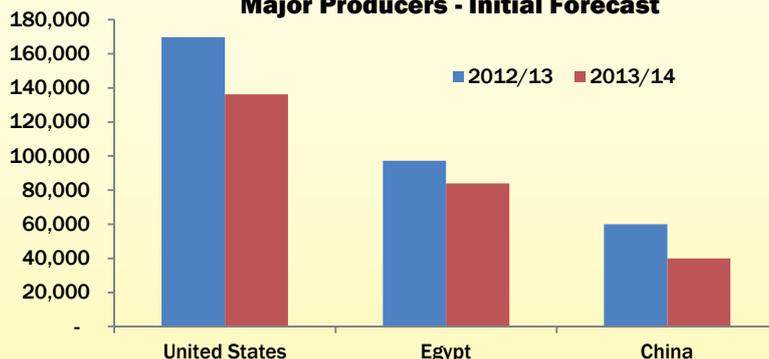
Our benchmark US Pima quotation was at the time pitched at 195.00 cents per lb (Grade 2, 1-7/16"), having advanced strongly during the early months of the 2013/14 season, from 172.00 cents per lb, on August 1. Despite supportive fundamentals, the earlier, bullish momentum faltered over the next few months, as the aforementioned misgivings with regard to some spinners' willingness to absorb the higher prices began to ring true.

Pima export sales, which had risen sharply between September and November, to outpace those of the previous season by the time of our earlier update, have since proceeded at a more measured pace, and by March 20 were lagging once more some 19 percent behind those at the same stage of the 2012/13 season. As the pace of sales has moderated, additional price increases have been slower to achieve: our quotation has gained just five cents since our last update.

Back in November, Egyptian exports sales registrations had made a positive start to the season, but have since been running at a very pedestrian pace, to the extent that the cumulative total for the season is less than half of that recorded a year earlier. It remains to be seen whether the long-awaited announcement, discussed elsewhere, of a subsidy for domestic consumption of certain Egyptian varieties will lend greater urgency to export demand.

As the 2013/14 season has progressed, uncertainty regarding the supply prospects for 2014/15 season has provided another major influence on sentiment. In the US, this season's exceptional drought in California threatens a sharp reduction in the area devoted to the 2014/15 Pima crop. Despite competition from food crops, Egypt appears cautiously optimistic that a partial recovery in output can be achieved next season, albeit from the historically small crop produced in 2013/14. Latest reports from China's Xinjiang region reflect exceptional

Major Producers - Initial Forecast



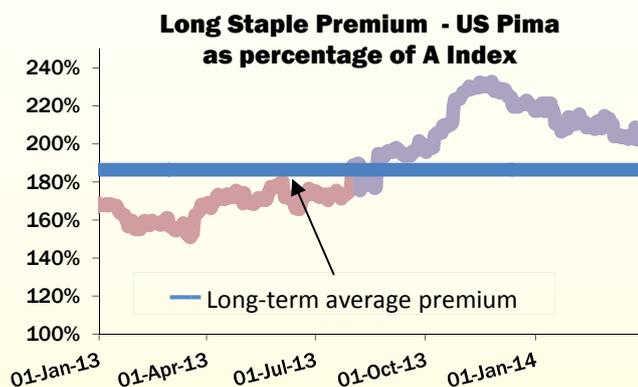
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uncertainty with regard to the area likely to be devoted to long staples in 2014/15. We suggest tentatively that the prevailing level of prices may prompt a recovery of long staple plantings this year, though such an outcome is far from assured. Although the anticipated sharp reduction of output in the US may be partially offset by higher output in China and Egypt, the world market faces another season of limited supply.

However, doubts are also harboured in relation to the outlook for demand. In relation to upland prices, the prevailing level of long staple prices remains at an historically firm level, though the margin has recently narrowed, primarily as a result of firm upland values. Our American Pima quotation currently represents a premium of close to 106 percent in relation to the Cotlook A Index, well above the long-term average premium (over 86 percent). Anecdotal reports from various markets appear consistent with the notion that the prevailing, elevated level of long staple prices, both in absolute terms and in relation to upland values, is acting as a brake on demand on certain markets.



Pakistan is a case in point. Fine count spinners on that market have reduced their consumption of US Pima and Egyptian, deterred by the prevailing level of prices, and turned instead either to synthetic fibres, such as modal and Tencel, or to more attractively-priced Indian varieties such as DCH-32 or MCU-5 (the latter variety is excluded from our supply and demand analysis, on staple considerations).

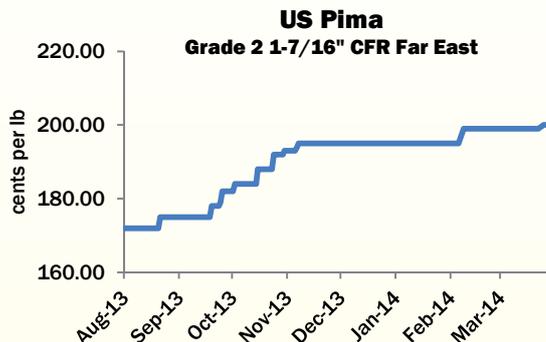
Spinners on other markets are doubtless engaged in similar calculations, which may become more pressing if the anticipated tightness of supply should force long staple prices higher during the season ahead. It remains

to be seen how the competing influences of a tight supply outlook and faltering international demand will play out over the coming months.

A fuller analysis of long staple production and consumption in the 2014/15 season will appear, as usual, in our annual Long Staple Special Feature, due for publication in July.

### United States

High grade Pima cotton prices have held around the 200.00 cent per pound mark for some weeks, but tighter supplies going forward have many shippers and analysts looking for higher prices, as the realization of smaller world ELS cotton supplies ripples through the market.



US Pima supplies have tightened, but high grades remain on offer from US shippers and cooperatives. Through March 20, 2013/14 Pima export commitments were reported at an estimated 646,464 statistical bales, or





around 77 percent of the this season's supply of 836,000 bales, as indicated by the Department of Agriculture. The March end-of-season ginnings report had total US Pima ginnings at 632,850 statistical bales, just below USDA's most recent production estimate of 636,000 bales for the 2013/14 year.

Current estimates on 2014 US Pima acres range from 130,000 to 150,000 in California, the largest ELS cotton producing state. In recent weeks, the California Cotton Growers and Ginners Association released its private 137,000-acre forecast, which it then noted could prove to be at the high end of reality. Other private estimates have forecast California Pima acreage as low as the 125,000 to 135,000-acre range. USDA did not break out Pima acreage or production figures in its Cotton Outlook report at February's Outlook Forum but the March 31 prospective plantings estimates indicated a figure of 158,000 acres, down from the 201,000 actually sown to the 2013/14 Pima crop. Some growers are moving acres out of Acala and into higher-priced Pima in the San Joaquin Valley this year. Planting was well under way in Arizona and California as ground temperatures warmed in late March.

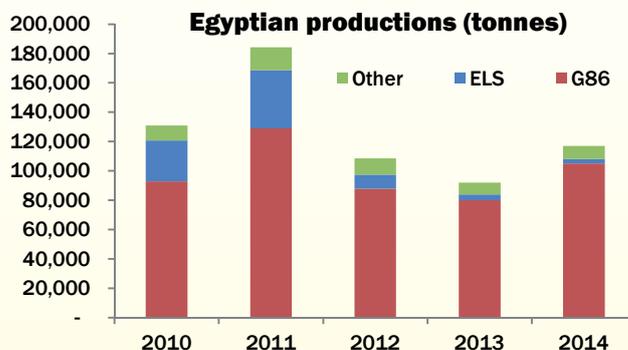
Extreme and exceptional drought conditions continue to plague most of California's cotton counties. Irrigation water availability is severely limited this season due to drought, low reservoirs and well below average snowpacks in the Sierra Nevada Mountains, which will provide far less snowmelt and runoff for irrigation this year. Producers are shifting water to high dollar permanent crop investments, favouring and planting other crops such as tomatoes in some cases, and leaving large swaths fallow for the year due to adverse conditions. In recent weeks, the California Farm Water Coalition increased its estimate of fallow acres to 800,000 across the state for all

crops. As of March 26, the California Department of Water Resources reported that statewide snow water equivalent readings were at just 23 percent of normal and the same proportion of the April 1 average, compared with 51 percent at this time last season.

The broad outlook for US Pima includes potentially higher prices on tightening current crop supplies and the expectation of a much smaller crop in 2014.

## Egypt

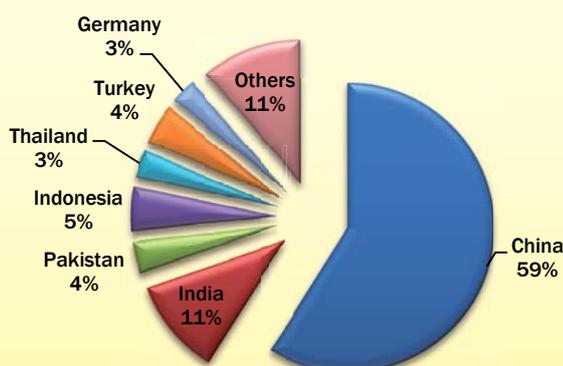
Egyptian production of cotton in 2014/15 is expected to show a recovery from the past two season's low levels but to remain a fraction of the size regularly attained during the nineteen nineties, and less than the average recorded in the first decade of this century. The gain is foreseen mainly in Giza 86. Low production of the Giza 88 extra-long staple style has limited the availability of good quality planting seed. In general, high domestic inflation continues to dictate a preference among farmers for cultivating food crops.



Estimates of the 2013/14 season's final output range from figures in the low nineties to around 100,000 tonnes. As at March 10, slightly more than 80,000 tonnes of lint had been pressed.

Domestic mills have so far taken delivery of minimal quantities - a figure of slightly over 10,000 tonnes was recorded by CATGO as at March 13, since when the figure is believed to have risen slightly further. However, the introduction of the long-awaited subsidy is expected to boost the rate of uptake, with perhaps a further 40,000 tonnes being delivered to mills between April and the end of October. These figures include Giza 80 and Giza 90, which are disregarded in our estimate of Egypt's long staple consumption, which for the 2013/14 international statistical cotton season (ending July 31) has been raised from 30,000 to 34,500 tonnes.

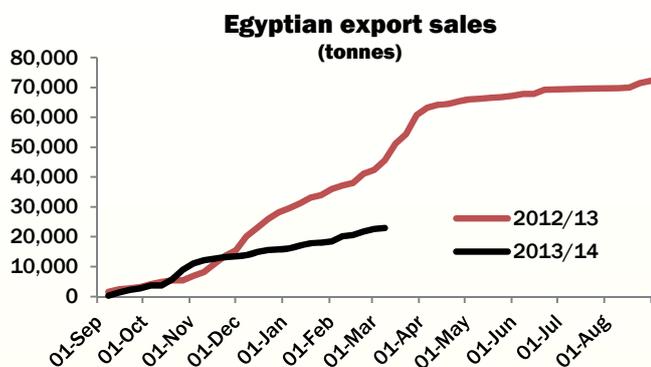
**Pima export markets (2013/14 season, to March 20)**





The impact, if any, of these developments on the pace of export demand will be monitored over the remaining months of the season. Thus far, export commitments are lagging well behind those a year earlier, weekly registrations having infrequently exceeded a few hundred tonnes.

The cumulative total by March 29 stood at 25,872 tonnes, of which over 17,000 had been shipped by that date. The single largest destination this season has been India, which accounts for about 25 percent of registrations.



## China

Approximately 90 percent of China's long staple cotton is grown in Aksu Prefecture, Xinjiang. In the 2013/14 season, it is estimated that area planted to long staples in the autonomous region was around 500,000 mu (33,000 hectares).

Output from the 2013/14 crop is estimated at some 40,000 tonnes, a decrease of about one third from the previous season. The fall in plantings was explained as an unintended consequence of the state reserve procurement system in place since 2011/12. The system does not discriminate between upland and long staple cottons, and thus provided little incentive to cultivate the latter. However, a sharp rise in domestic prices in the spring of 2013 served to limit the scale of the downturn. Following a period of relative stability, local prices advanced strongly

once again between September and early November, since when they have drifted lower. Current values are nonetheless substantially above those prevailing when farmers were making their planting decisions for the 2013/14 crop.

Starkly contrasting opinions have recently emerged with regard to long staple planting intentions. Some observers have recently discerned a lack of enthusiasm for long staple cotton amongst farmers, who regret the absence of a state programme specifically in support of long staples, and may thus be inclined to persist with upland cotton, which entails less market risk. According to this view, long staple area may continue to decline. However, others are more positive with regard to the outlook for plantings, and contend that, in 2014/15, in response to the scale of the price increase, the area may expand by as much as 200,000 to 300,000 mu.

The average yield per mu in Xinjiang is approximately 300 kilos for seed cotton and 90 kilos for lint (long staple ginning output ratio is around 32 percent). During the winter and early spring, Xinjiang has experienced drought conditions, which could affect next season's yields. If the more optimistic view of plantings proves valid, and given sufficient moisture, the lint outturn in 2014/15 might be expected to recover to 60,000 tonnes or more.



## Cotton Outlook's Long Staple Annual Review 2014

Cotton Outlook's Special Features are distributed to our subscribers worldwide, and are translated into Mandarin and made available to participants in China's textile industry. In addition, our Annual Long Staple Review is targeted specifically at mill consumers of long and extra-long staple cottons.

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