

Cotton Outlook

Long Staple

UPDATE

December 2015

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When our 2015 Annual Long Staple Special Feature was published in August, we remarked on the uncertainty of the price outlook in this specialised sector of the world cotton market. The prospect of smaller production in the US Far West and in Egypt, respectively the result of drought and the withdrawal of state support, was regarded as supportive to prices. However, the evidence of a strong recovery of long staple output in China's Xinjiang region provided a potentially powerful counter-argument. World upland values had of course lost considerable ground during the course of 2014, with the result that the prevailing long staple premium, although in decline, remained higher than the historical average.

The purpose of this update is to examine how prices, as well as the dynamics of supply and demand, have evolved during the past few months.

Supply and demand

On the supply side, USDA'S estimate of the US Pima crop has been subject to only minor adjustment since August. Quality-wise, classing data (by December 3) indi-

World LS Consumption (tonnes)				
	2013/14	2014/15	2015/16	2015/16 v 2014/15
Americas				
United States	5,008	5,443	5,443	0%
Mexico	600	650	650	0%
Peru	12,000	13,000	13,000	0%
Europe				
Italy	3,000	3,000	3,000	0%
Switzerland	2,000	2,000	2,000	0%
Germany	5,000	4,500	5,000	11%
Turkey	17,000	11,000	11,000	0%
Portugal	500	800	1,000	25%
Asia				
China	125,000	120,000	120,000	0%
India	130,000	130,000	140,000	8%
Pakistan	25,000	30,000	32,000	7%
Indonesia	7,200	4,000	4,000	0%
Japan	3,800	4,500	4,500	0%
South Korea	2,800	2,600	2,500	-4%
Bangladesh	11,500	12,000	11,000	-8%
Thailand	5,200	5,000	4,500	-10%
Taiwan	800	1,600	1,500	-6%
Turkmenistan	500	500	500	0%
Hong Kong				
Africa				
Egypt (ELS + G86)	37,407	49,800	40,000	-20%
Others	4,500	4,500	4,500	0%
Total	398,815	404,893	406,093	0%

World LS Output (tonnes)				
	2013/14	2014/15	2015/16	2015/16 v 2014/15
United States	138,037	128,022	98,194	-23%
Egypt	86,904	102,117	47,000	-54%
of which:				
ELS	4,762	3,631	2,000	-45%
Giza 86	82,142	98,486	45,000	-54%
Sudan	857	800	200	-75%
Uzbekistan	1,500	1,000	1,000	0%
Tajikistan	700	500	500	0%
Turkmenistan	17,415	19,726	17,300	-12%
India	75,000	88,400	94,350	7%
Peru	6,000	4,500	12,500	178%
China	35,000	70,000	125,000	79%
Israel	11,000	14,000	15,000	7%
Spain	1,820	5,000	4,800	-4%
Australia	0	0	0	0%
Total	374,234	434,065	415,844	-4%

cate that 83.5 percent of the crop consisted of Colour Grades 1 & 2 and that nearly 82 percent produced fibre with 48 staple or longer. A year earlier, by the same date, the comparable proportions, from a much larger classings figure, were 95 and 91 percent, respectively, while those in 2013 were 97 and 83.7 percent.

Estimates of the Egyptian crop, already forecast to fall sharply in the absence of government support, have fallen further, in part as a result of untimely rains. The revised figure featured in our long staple production table comprises just 45,000 tonnes of Giza 86 plus 2,000 of ELS varieties.

Expectations of output in Xinjiang have also been adjusted significantly lower. Like the upland crop in the Autonomous Region, long staple output appears to have suffered the

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adverse effects of an exceptionally hot summer, followed by cold and wet conditions before the harvest period. Our estimate is therefore reduced from 150,000 to 125,000 tonnes, which would still represent an increase of 55,000 tonnes, or nearly 80 percent, from the previous season's output.

Our revised estimate of global long staple production in 2015/16 amounts to just below 416,000 tonnes, a reduction of nearly 48,000 tonnes from the figure indicated in August, and represents a decline of some 4 percent from the previous season.

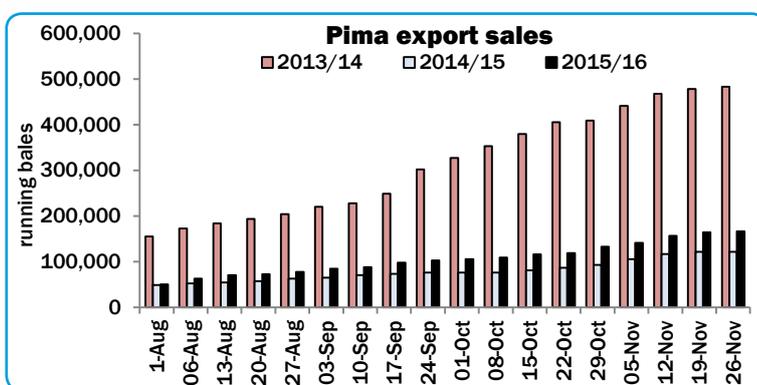
Our global consumption estimate is reduced modestly, mainly to reflect lower figures for China. No significant growth is at present forecast for the current season. Based on our latest numbers, 2015/16 will see a modest surplus of production over consumption, though it is possible that the latter may derive some impetus from the recent cheapening of long staple prices.

International trade

In this regard, it is worthy of note that (in contrast to the upland trend) the pace of US Pima export sales (doubtless including a good volume of old crop cotton) during the first four months of the 2015/16 season has been brisker than a year earlier. The cumulative total by November 26 amounted to 166,700 running bales, almost 37 percent ahead of the previous year. However, as the accompanying chart illustrates, both seasons compare most unfavourably with the volume sold at the same stage of the 2013/14 campaign.

Destination-wise, a comparison between this season and last reveals that, by the date in question, sales to China

(the largest export market) were over 6 percent ahead of last season, whereas those to India, the second largest market, were nearly 77 percent higher. Most other markets also showed an improved pace of sales in comparison to the same stage of last season.



Egyptian export sales, in contrast, are lagging behind the pace of last season. Despite a promising start (the Egyptian marketing year began on September 1), progress have been interrupted by unforeseen policy initiatives.

In early November, Cotton Outlook reported that the entire crop would, in the first instance, be purchased by the Holding Company, a measure intended to ensure that government subsidies (introduced in a reversal of the January decision that there would be no state support) would reach the farmer. In late November, the Holding Company declared a domestic price for Giza 86 lint well above the level at which supplies had begun to be offered for export. Latest indications suggest that most of the crop will be absorbed by domestic spinners, and that exports will thus be confined to 2014/15 crop balances and lint obtained from

Special Feature 2016 'World Long Staple Market' - annual review

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the seed cotton sold by farmers in need of cash, outside the framework of the subsidy system. Cotton Outlook's Giza 86 quotation for the current season was introduced at 112.00, CFR Far East, on November 11, and subsequently increased to 115.00 cents per lb. However, in view of the aforementioned developments, the price has been designated as 'nominal'.

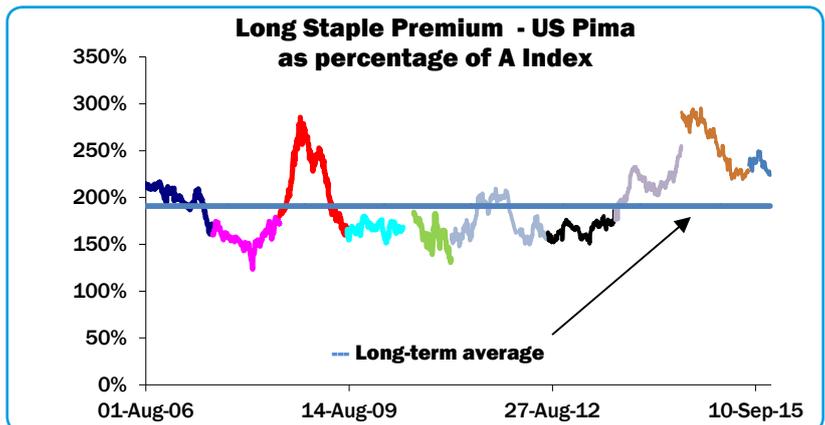
Price trends

Since our last Special Feature was published in August, export offering rates for American Pima have weakened progressively, in continuation of a longer-term trend that began around the start of the 2014/15 season. From a recent peak of 210.00 cents per lb, in early August 2014, by the start of the 2015/16 season, our quotation had fallen to 170.00 cents per lb, and by early December to 154.00 cents per lb.

The long staple premium (calculated as the margin by which our US Pima quotation exceeds the Cotlook A Index) has lately dipped below 120 percent. That margin has narrowed considerably from its recent peak – 194 percent in early October 2014 - but remains comfortably above the average premium for the past ten seasons, which is just over 90 percent.

Domestic long staple prices in China have been in decline for some months. According to *Beijing Cotton Outlook*, the benchmark Type 137 quality has fallen by over 14 percent in value since the beginning of August.

The trend has not gone unnoticed in international trade circles, where attention has been heightened by the possibility that this season's recovery in production might eventually result in a surplus that could be disposed of in export markets. No official sanction for such a move has



been forthcoming and the recent lowering of the production forecast casts some doubt on the issue. In addition to yields, the quality of this season's Xinjiang crop appears to have been compromised by the extremes of weather alluded to above.

Production outlook

At this early stage, the outlook for long staple plantings in 2016/17 is of course entirely a matter for conjecture. Self-evidently, the recent downward trajectory of the international market may do little to restore enthusiasm in those countries (Sudan and Peru, amongst others) where production appears to be in structural decline.

The outlook for next season's Pima plantings in California will be influenced in part by the course of prices over the next few months, but also to some extent by the availability of water for irrigation. In this last respect, encouragement will be derived from recent precipitation that has helped to replenish the depleted Sierra Nevada snowpack. *El Niño* episodes of the kind in evidence this year are typically associated with heavy precipitation in the region.

Elsewhere, it remains to be seen how Egyptian farmers will respond to a subsidy system whose underlying purpose is clear, but whose implementation has thus far been unpredictable.

Whether the recovery of output in China will prove sustainable in face of an apparent local oversupply and declining prices is also open to question.

