

Cotton Outlook

Long Staple

UPDATE
December 2016

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The purpose of this update is to shed light on developments since the publication of our more comprehensive Annual Long Staple Special Feature, which appeared in August of this year. Production estimates for the 2016/17 season can now be advanced with a greater degree of confidence, and the progress of export marketing likewise allows us some insights into the dynamics of supply and demand this season. We also hazard some tentative guesses as to how planting intentions for the 2017/18 crops might be influenced by recent developments.

current season were already in excess of 182,000 running bales and, by the beginning of December, the cumulative total had risen to no less than 402,300 bales. That volume marked an increase of nearly 229,000 bales from the corresponding figure a year earlier. Commitments were already equivalent to nearly 73 percent of USDA'S November projection for the season – 575,000 bales of 480 lbs. The pace at which export business has accumulated slowed significantly in November, influenced no doubt by higher prices, and perhaps also by the degree of forward coverage already secured by spinners in some important markets.

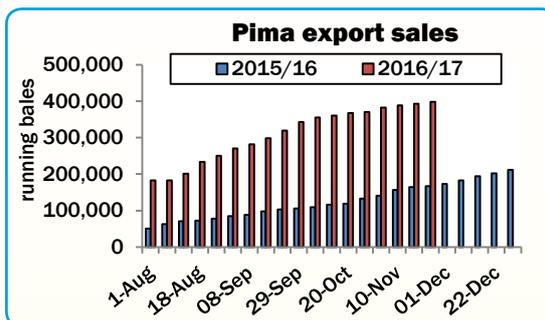
On December 9, USDA increased its export forecast to 600,000 statistical bales.

In comparison to last season, the most striking feature of marketing activity has been a spectacular rise in demand from India. Sales to that destination have risen by a factor of more than five, and account for roughly half of all export commitments. A range of factors may help to explain the strong rise in Indian buying.

The muted nature of competition from Egypt has been cited as one influence – at least as far as the ELS category is concerned. India has, however, been an active market for Giza 86, accounting for over 63 percent of export commitments of the long staple variety so far this season.

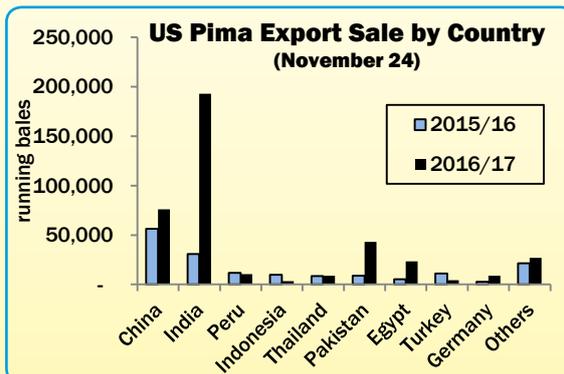
Many observers identify as a further probable influence the spotlight that has been trained on issues of branding and traceability in the wake of a widely reported raw material sourcing controversy, involving a prominent Indian mill group. Advances in the technology by which traceability can be assured and the exact provenance of fibre can be tested have recently come increasingly to the fore.

Writing in our [Annual Special Feature](#), Mr. Ernie Schroder (Jess Smith and Co.) reminded readers that “To continue the success of the program, mills, manufacturers, brands/retailers and consumers must be sure that SUPIMA® products are made with American Pima cotton and generically labeled “Pima” programs containing blends or other ELS cotton are



In early August, we postulated that the lengthy bearish trend that had characterised this segment of the world cotton market since September 2014 might be close to an end. Developments during the early months of the 2016/17 marketing year seem to have vindicated the view that a change in the dynamics of the market was at hand.

As our annual feature went to press, Pima export sales were already robust. By early August, commitments for shipment during the



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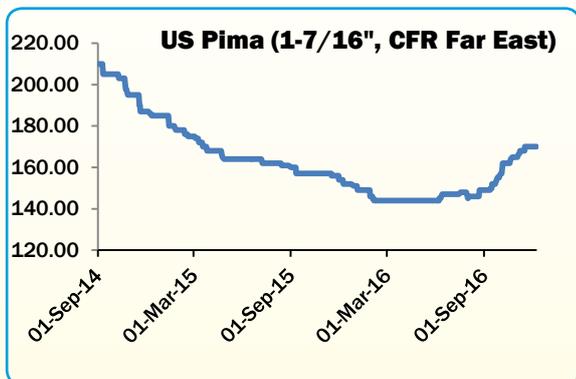
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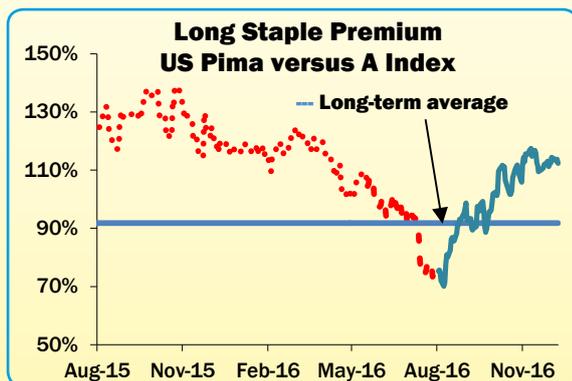
prevented from being sold as Supima®. The Supima organization has been working for almost a decade to improve and expand its authenticity testing and traceability.”

From Egypt, Mr. Khaled Schuman, Executive Director of the Cotton Egypt Association, noted in the same publication that “our continuous efforts are directed to the protection and promotion of Egyptian cotton, we have set up new licensing procedures for the Egyptian Cotton Logo trade mark. These rely on the traceability of Egyptian cotton throughout its supply chain, internal DNA analysis of cotton fibre or yarn as appropriate, through to the finished product on shelves.”

Whatever the various influences that have been at work, US Pima prices have responded to the strengthening of export demand. The tentative signs of firmness discernible in July and August have since become consolidated in a clear upward price trend. Having stagnated at a low point of 144.00 cents per lb (CFR Far East) between February and June, by late November our price quotation for Pima had advanced to 170.00 cents per lb, a level last attained in March 2015.

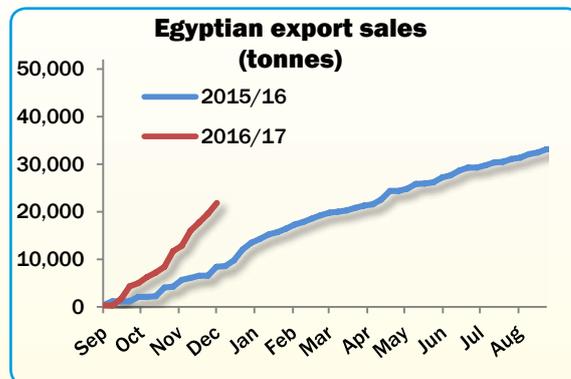


Pima's relationship with upland values, as measured by the Cotlook Long Staple Premium, calculated by comparing our CFR US Pima quotation with the Cotlook A Index, has



evolved significantly over recent months. During July and August, the Premium dipped below its long-term average (just below 92 percent), falling to just over 70 percent in early to mid-August. The margin over upland subsequently widened significantly once again, as the upward trend of Pima asking prices gathered momentum. By early December, Pima was quoted at a premium of 112 percent.

Egypt has also benefited to some extent from the much-improved tenor of long staple demand, and the upward movement of prices. The 2016/17 crop was sown on the smallest area of modern times, and the supply to export markets of ELS varieties in particular is limited. However, the availability of old crop Giza 86 – typically sold at substantial discounts below the prices obtained for current crop - has recently boosted export volumes. Exports (comprising supplies from both crops) have been running ahead of last season, with India, as intimated above, by far the most prominent destination, accounting for well over half of sales recorded by early December. By then, export registrations were in excess of 20,000 tonnes, a higher volume recorded at that stage than in any season since 2011/12.



Having disposed of virtually all of the country's accumulated stocks of long staples during 2015/16, Turkmenistan has persisted during the current season with the marketing mechanism that facilitated that achievement. Prospective buyers of upland cotton have been obliged once again to take a proportion of long staples as well. Taking into account transactions arranged during the Cotton and Textiles Fair held in Ashgabat between December 3 and 4, it is estimated that export sales of long staples have risen to around 8,000 tonnes, from a crop estimated at about 20,000 tonnes.

In contrast to the unambiguously supportive statistical position outside China, an imbalance of supply and demand within that country has proved a bearish influence

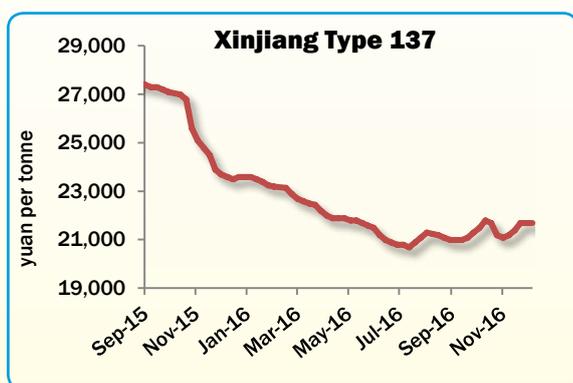
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on local long staple values during much of the season to date. It will be recalled that, when our annual Long Staple Special Feature was published in August, the authorities had been credited with having engineered a decline in the area devoted to long staple cotton. However, more recent information suggests that plantings had in fact increased. That fact, coupled with expectations of a recovery of yields (adversely affected last season by excessive summer temperatures), has prompted an increase in forecast output to at least 170,000 tonnes – a rise of no less than 48,000 tonnes from the outturn attained in 2015/16, and 45,000 above our estimate at the beginning of the season.

Earlier this year, the direction of prices on the local market reflected the oversupply. The benchmark spot quotation for Type 137 briefly dipped below 20,000 yuan per tonne (just under 137.50 US cents US cents per lb, at the exchange rate then in force) in mid-July. A semblance of stability has since returned, and as in the case of upland values, long staple prices have derived support from logistical bottlenecks in Xinjiang. However, underlying sentiment remains bearish on fundamental supply and demand considerations.



The unanswered question being pondered by the trade is whether any of the surplus output might find its way into export markets. Were the authorities to sanction such a

move, the recovery in the world market described above might prove short-lived.

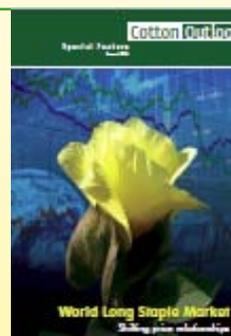
World supply and demand

This season's world production forecast, at 471,637 tonnes, is nearly 44,000 tonnes higher than the figure indicated in August, owing principally to the sharp increase for China. Forecast output of US Pima is modestly below expectations when our Special Feature was published. Also worthy of mention, however, are the exceptionally good quality parameters that have characterised the 2016/17 Pima outturn, in particular as regards staple.

The production estimate for Egypt has been adjusted to reflect the latest statistics published in the Egyptian Cotton Gazette. Worthy of note is the cultivation on a more commercial scale of the Long Staple Giza 94 variety.

World LS Output (tonnes)			
	2015/16	2016/17	2016/17 v 2015/16
United States	94,275	122,361	30%
Egypt	46,164	34,125	-26%
of which:			
ELS	1,617	2,200	36%
Giza 86	43,909	23,762	-46%
Giza 94	638	8,164	1179%
Sudan	450	1,000	122%
Uzbekistan	1,000	1,000	0%
Tajikistan	500	750	50%
Turkmenistan	23,000	23,000	0%
India	94,350	90,000	-5%
Peru	12,500	12,000	-4%
China	122,000	170,000	39%
Israel	16,000	13,000	-19%
Spain	4,850	4,400	-9%
Australia	-	-	
Total	415,088	471,637	14%

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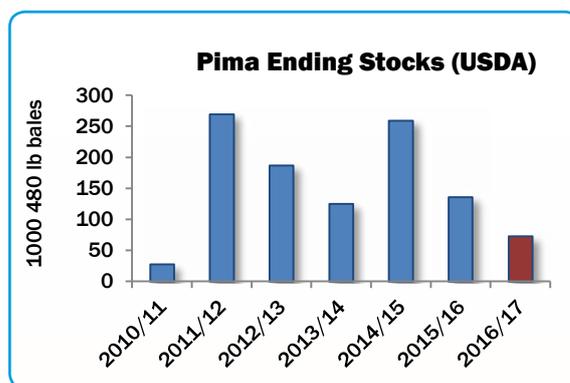
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Our estimate of world consumption is lower by around 10,000 tonnes than the figure suggested in August, owing to the adoption of the latest data for Egypt. The total nevertheless still shows moderate growth in comparison to the previous season. The pace of sales from the major exporting origins during the remainder of the season will give a clue as to whether a more optimistic view is justified.

According to USDA's December estimates, projected carryover at the end of the current season will fall below 100,000 bales for the first time since the end of the 2010/11 season. If, as some observers suspect, the Department's latest export projection will prove to have been conservative, ending stocks could prove lower still.

This season's ending stocks in other producing and exporting countries – with the notable exception of China – are also likely to be of limited proportions.



Outlook for 2017/18

At this early stage, one can hazard only the most tentative ideas with regard to the likely size of next season's long staple crops, but a recovery of output in some producing countries seems likely.

As far as the US Pima crop is concerned, the improved returns obtained from the 2016/17 crop would seem likely to influence farmers' intentions. However, the availability of water for irrigation will of course be a precondition for any expansion of Pima plantings. Competition from permanent crops will constrain the area available for expansion, but it is anticipated that other row crops, returns from which have lately been poor, may cede some ground to cotton, including Pima.

In Egypt, the recent devaluation and flotation of the Egyptian pound is expected to help place the cotton sector on a sounder footing in 2017/18. A more competitive exchange rate, coupled with the strength of seed cotton prices this season, and official efforts to encourage farmers to return to cotton, should together give rise to a strong recovery of plantings in 2017/18. Some suggestions are that area might triple in size, though this would still leave it far short of the figure typically attained in the early years of this century.

In the absence of any new policy announcements by the government, one assumes that output in Turkmenistan will remain about unchanged at around the 20,000 tonnes produced in recent seasons. No major changes are anticipated elsewhere in Central Asia, though it seems there has been some discussion in Uzbekistan of the feasibility of reviving long staple production in the south of the country.

World LS Consumption (tonnes)			
	2015/16	2016/17	2016/17 v 2015/16
Americas			
United States	5,443	5,443	0%
Mexico	650	650	0%
Peru	13,000	13,000	0%
Europe			
Italy	3,000	3,000	0%
Switzerland	2,000	2,000	0%
Germany	4,000	4,000	0%
Turkey	12,000	11,500	-4%
Portugal	2,000	2,000	0%
Asia			
China	120,000	125,000	4%
India	145,000	150,000	3%
Pakistan	35,000	38,000	9%
Indonesia	5,000	5,300	6%
Japan	4,300	4,300	0%
South Korea	2,600	2,100	-19%
Bangladesh	11,000	12,000	9%
Thailand	4,000	4,000	0%
Taiwan	1,000	1,000	0%
Turkmenistan	1,000	1,000	0%
Africa			
Egypt (ELS, G86, G94)	24,558	24,954	2%
Others	4,500	5,000	11%
Total	400,051	414,247	4%