

Cotton Outlook

Long Staple

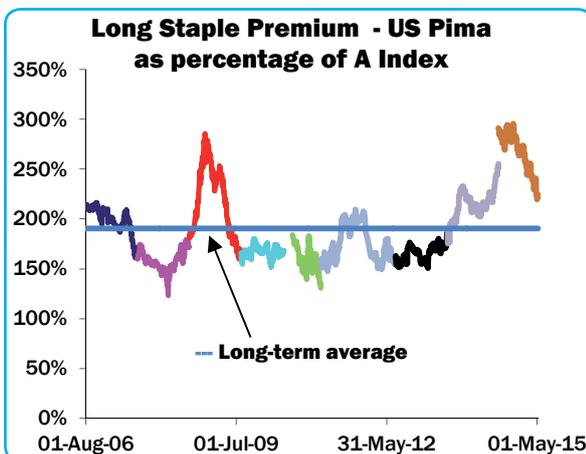
UPDATE

May 2015

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Shifting price relationships

Having declined from 210.00 US cents per lb, CFR Far East, at the start of the season, to 187.00 in early December, when our last Long Staple update was published, American Pima prices have lost further ground in recent months. At the time of writing, our quotation stands at 164.00 cents per lb.

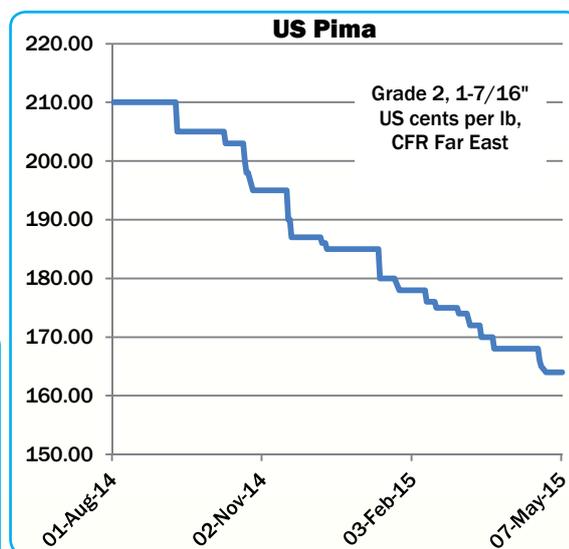


During the same period, the Pima premium in relation to the upland market (as measured by the Cotlook A Index) has also declined significantly, from almost 180 percentage points in December, to 136 – still well above the long-term average premium, which is just above 90 percent.

The narrowing of the margin is also attributable in part to the movement of the A Index during the period in question. Since early December, upland prices have moved rather undecidedly, but are firmer on balance.

World Supply and Demand

Yet signs that lower prices and the shift in the relationship with upland values are providing a significant stimulus to long staple consumption remain elusive. Our revised estimate of global raw cotton consumption shows only a modest increase from the figure advanced when



our last update was published. The global production estimate has risen modestly during the period, with the result that our figures continue to show a modest surplus of production over consumption in 2014/15.

The outlook for the season ahead, however, based on our initial forecasts, indicates

	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	125,000	130,000	4%
India	130,000	130,000	130,000	0%
Pakistan	25,000	30,000	30,000	0%
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	3,500	5,000	5,000	0%
Hong Kong				
Africa				
Egypt (ELS + G86)	37,407	49,800	27,500	-45%
Others	4,500	4,500	4,500	0%
Total	401,815	414,393	396,093	-4%

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World LS Output (tonnes)				
	2013/14	2014/15	2015/16	2015/16 v 2014/15
United States	138,037	128,022	94,275	-26%
Egypt	86,904	115,200	65,500	-43%
of which:				
ELS	4,762	4,000	1,500	-63%
Giza 86	82,142	111,200	64,000	-42%
Sudan	857	800	200	-75%
Uzbekistan	1,500	1,000	1,000	0%
Tajikistan	700	500	500	0%
Turkmenistan	16,000	16,000	17,000	6%
India	75,000	85,000	85,000	0%
Peru	6,000	4,500	12,500	178%
China	35,000	58,000	70,000	21%
Israel	11,000	13,900	15,000	8%
Spain	1,820	5,000	5,000	0%
Australia	-	-	-	-
Total	372,819	427,922	365,975	-14%

a significant shift in supply and demand. Our first assessment of long staple output in 2015/16 shows a decline of more than 62,000 tonnes, or nearly 15 percent, to just over 365,000 tonnes, which would be the lowest world production figure of recent times.

Next season's lower production number is principally the result of downward adjustments to the forecasts for the United States and Egypt. Despite the fall in prices alluded to above, in neither case do market signals *per se* provide the main explanation for the fall in output. In the former producing country, the reduction is attributable in very large part to water constraints that result from the chronic drought faced by producers in California. In the

latter, farmers' lack of enthusiasm can be traced back to an announcement by the then Minister of Agriculture in January, to the effect that no government subsidies would be made available to the cotton sector during the 2015/16 season.

These reductions are partially offset by an anticipated recovery in long staple output in China. In recent weeks, reports from Xinjiang have made frequent mention of a likely shift in area from upland to long staple production. It will be recalled that, for the duration of the three-season (2011/12 to 2013/14) state reserve policy, no specific provision was made to incentivise cultivation of long staple cottons, whereas in 2014/15, the pilot target price system in force in Xinjiang has incorporated just such a premium. Moreover, prices for Xinjiang long staples, following an earlier headlong decline, began to tend firmer in the weeks prior to planting time.

Our initial estimates of production and consumption during 2015/16 show a shortfall of output approaching 31,000 tonnes.

American Pima

US Pima production will decrease in 2015 due to planted acreage reductions this spring. The persistent drought in California's San Joaquin Valley has intensified as it enters a fourth year. Record low, early April snowpack will translate into limited snowmelt and runoff for irrigation this year. Supplemental rain in the coming months will probably not be adequate to support agricultural needs in the Central Valley. Farm operators have chosen to leave sizable amounts of crop acreage fallow this year, and other producers are focusing available irrigation water on high dollar permanent crops such as almonds and pistachio trees.

Special Feature 2015 'World Long Staple Market' - annual review

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

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USDA Pima prospective plantings

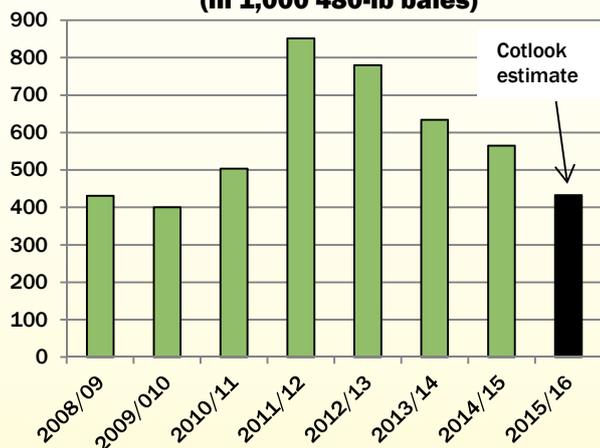
(March 31, 2015)

	2014/15	2015/16	Change	Percent Change
	Actual Sowings	March Intentions		
- thousands of acres -				
Texas	17.0	15.0	-2.0	-11.8
New Mexico	5.0	5.0	0.0	0.0
Arizona	15.0	20.0	5.0	33.3
California	155.0	110.0	-45.0	-29.0
Pima Total	192.0	150.0	-42.0	-21.9

Sowing made good progress during April in the San Joaquin Valley, and early plantings are developing well according to local reports.

Cotton growers have moved some California Pima acres into Acala, due to more favourable pricing contracts. USDA estimated California Pima acres at 110,000 in the March 31 Prospective Plantings report, down almost 30 percent from last season. Total US Pima acres planted

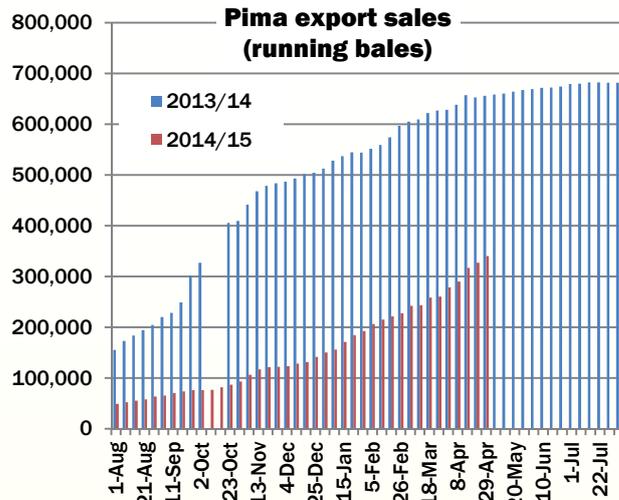
US Pima Production (in 1,000 480-lb bales)



are forecast at 150,000 acres, marking a decrease of 22 percent from last season. Some industry members in California believe planted acres could even drop below USDA's number, due to the severity of the drought and tight water situation. Cotlook's current US Pima production forecast for the 2015/16 season is just over 433,000 bales (approaching 94,300 tonnes).

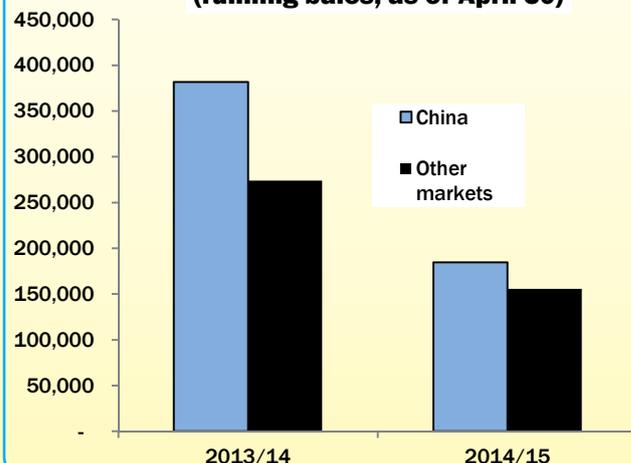
US Pima export sales had been notably slow during the first eight months of the 2014/15 marketing year, but the pace picked up to some extent during April, with larger quantities booked into China, India and other markets.

Pima export sales (running bales)



Current marketing year Pima sales commitments by the end of April represented only around 50 percent of the theoretical disappearance recorded at the same point last season. Through April 30, Pima export commitments for the season were equivalent to some 340,000 running bales, compared with about 656,000 at the same point of last season. A significant downturn has affected most customary export markets, in particular China, which last season accounted for about 85 percent of Pima exports.

US Pima export sales (running bales, as of April 30)





Buying interest and sales have increased in recent weeks, however, after Pima offering prices decreased below the 170.00-cent per pound level. Merchants report renewed mill buying interest, and some sellers have adjusted prices lower to get sales on the books and move cotton. Offers in the mid-160.00s cents and below have been reported in recent weeks. Traders anticipate some firming of prices later in the season due to limited global ELS production and limited inventories in the existing supply chain.

USDA US ELS cotton estimates				
	<u>Unit</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
ELS Cotton:				
Planted acres	1000 acres	238	201	192
Harvested acres	"	237	199	189
Yield/harvested acre	lbs./acre	1,581	1,527	1,490
Beginning stocks	1000 bales	269	187	125
Production	"	780	634	588
Imports	"	4	7	5
Total supply	"	1,053	828	718
Domestic mill use	"	22	23	25
Exports	"	844	680	450
Total disappearance	"	866	703	475
Difference unacc.	"	0	0	0
Ending stocks	"	187	125	243

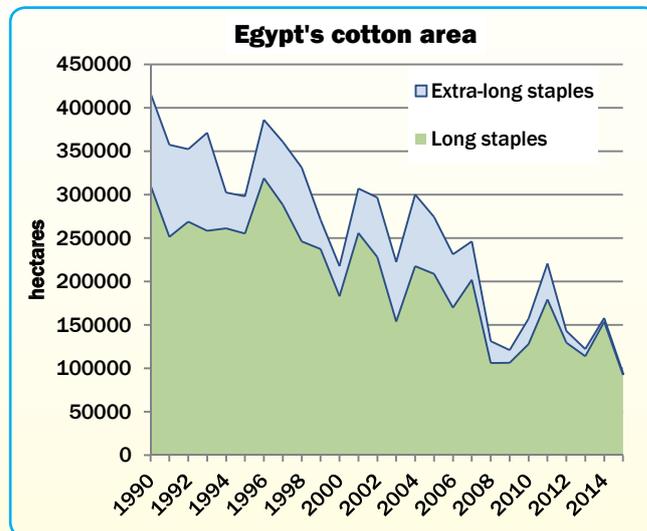
Egypt

2015/16 production outlook

Clarity is lacking as to how much land farmers will plant to cotton this year. The government has sought to control the seed supply, so as to ensure use of good quality seed, and a deadline for planting was set as the end of April. By late April, however, the estimated area sown, though less than 60 percent of the expected total of 250/260,000 feddan (virtually acres), was merely 20 percent short of the comparable figure a year earlier. Then, final sowings reached almost 380,000 feddan. Observers contend that sowing will continue into May, that farmers will favour cotton for want of an attractive, alternative cash crop, and that sufficient seed has been distributed for the attainment of the expected total. Others are less optimistic.

Even should plantings of that magnitude be reached, the cotton area cultivated would be the lowest in living memory, falling below even the small figures (less than 300,000 feddan) recorded in both 2009/10 and 2013/14. More startling still is the demise of extra-long staple plantings, which could fall to merely a couple of thousand hectares, versus more than 60,000 only ten years or so ago. This further decline in ELS area is foreseen notwithstanding the generally good reception given to this season's output of Giza 92. The Giza 86 long staple style would represent more than 85 percent of the area sown and Upper Egypt varieties (mostly consumed domestically) might account for a further 11/12 percent.

At the typical, recent average yield, the area indicated, if attained, would portend a total lint output of around

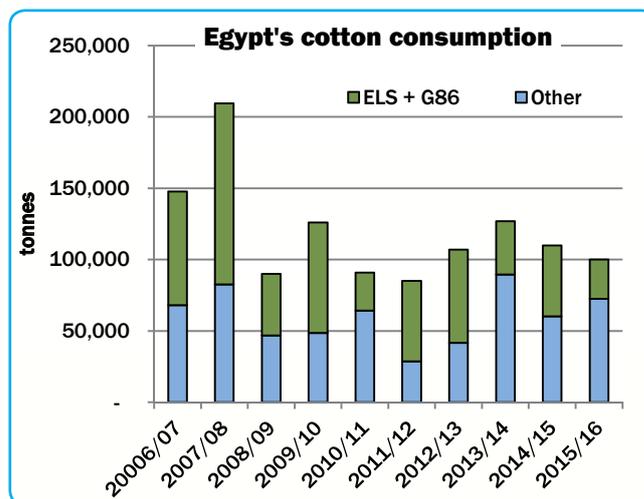


85,000 tonnes but a more conservative view of plantings would reduce this figure commensurately. Our assumption for the time being is that planted area will show a decrease of 40 percent on the year, and that output, using the same yield assumptions, might prove to be as little as 73,500 tonnes.

Egyptian mills consumed about 35,000 tonnes of Giza 86 and Egyptian extra-long staple varieties in the 2013/14 season, together with close to 3,000 tonnes of US Pima. In general, consumption of cotton from September 2014 through to the end of February 2015 was reported to be on



a par with a year earlier. However, more domestic cotton will probably prove to have been used over the season as a whole, compared with 2013/14, given the effect of currency constraints and other administrative hurdles affecting the pace of imports (including upland cotton). Hence, our estimate for the full season shows a rise in Giza 86 and ELS cotton use to almost 50,000 tonnes, out of a combined total (including Upper Egypt varieties and imports of upland styles) of perhaps 110,000. The principal constraint on consumption next season will be the tightened availability of cotton from the much-reduced local crop. Although increased imports of US Pima might offset this loss of supply partially, overall consumption of the cottons in question seems set once again to decline.



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