

Cotton Outlook

Long Staple

UPDATE

November 2012

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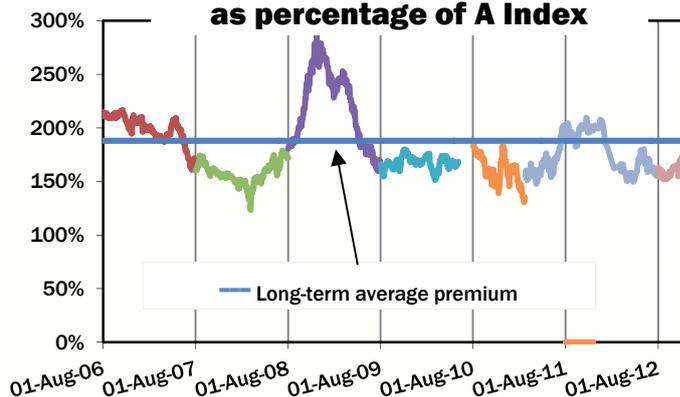
Summary

2013 is expected to bring a sharp curtailment of world long staple cotton plantings. Early indications refer to cutbacks in China and the United States. Egypt, the other major producer, has witnessed focus on food crops during 2012. Although the government has announced continuation of a subsidy for consumption in the current season, continued high inflation (more easily passed on in food prices than in cotton) and the recent re-emergence of political disturbances, render it difficult to imagine a resurgence of cotton production next year.

Our analysis suggests that stocks will accumulate in China but the end-season carryovers in the United States and Egypt could be substantially reduced.

The premium for long staple prices over upland values (as measured by the Cotlook A Index) has remained below the long-term average during the past twelve months.

Long Staple Premium - US Pima as percentage of A Index



Analysis

The predicted cutback in plantings in the 2013/14 season follows a sharp decline in **output** in most producing countries during the 2012/13 season. The decline took place in face of a steep drop in world long staple prices from the heady heights of early 2011, deep global economic concerns and a poor forward trading outlook.

Cotton Outlook's revised estimates show a reduction of 23 percent in global production.

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World LS Output (tonnes)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13 v 2011/12
United States	137,275	167,000	185,458	93,839	84,913	109,755	184,130	152,407	-17%
Egypt	198,811	210,771	222,089	117,913	94,838	120,809	168,482	103,782	-38%
of which:									
ELS	42,881	52,907	40,740	23,339	12,901	27,921	39,547	12,000	-70%
LS	155,930	157,865	181,349	94,573	81,937	92,888	128,935	91,782 ***	-29%
Sudan	36,038	29,684	14,229	8,593	2,055	4,482	17,000	15,000	-12%
Uzbekistan	10,000	12,000	10,500	5,000	2,200	2,000	2,000	2,000	Unch
Tajikistan	8,000	10,000	7,500	3,000	2,000	180	850	500	-41%
Turkmenistan	12,000	25,000	25,000	20,000	24,500	24,000	21,000	18,000	-14%
India	51,850	68,850	78,000	76,500	77,000	62,500	72,000	75,000 *	4%
Peru	19,280	16,960	22,660	14,090	6,200	5,000	8,000	8,000	Unch
China	80,000	170,000	185,400	120,000	90,000	120,000	130,000	90,000	-31%
Israel	11,500	18,500	19,000	9,000	6,900	7,000	15,500	12,600 **	-19%
Spain		450	1,350	1,800	1,800	2,250	4,000	2,000	-50%
Australia	300	300	300	300	300	500	990	600	-39%
Total	565,054	729,515	771,486	470,035	392,705	458,476	623,951	479,889	-23%

*includes cotton with staple of over 33mm **includes Pima and Acala ***Giza 86 only from 10/11



The proportion is only slightly less than that indicated in our Annual Long Staple Review, published in mid-year, though the actual totals for 2012/13 and the two previous seasons have been revised downward retrospectively, owing to amendments to the historical series shown for Egypt.

In comparison to 2011/12, the biggest proportionate falls in planted area concerned the Giza 88 variety in Egypt (for price reasons), Spain (for want of planting seed) and China's Xinjiang region (also in view of poor returns). In China, the result has been a renewed call recently for government support (perhaps by means of a state procurement policy specifically for long staples) but no official utterance on the request has so far been forthcoming.



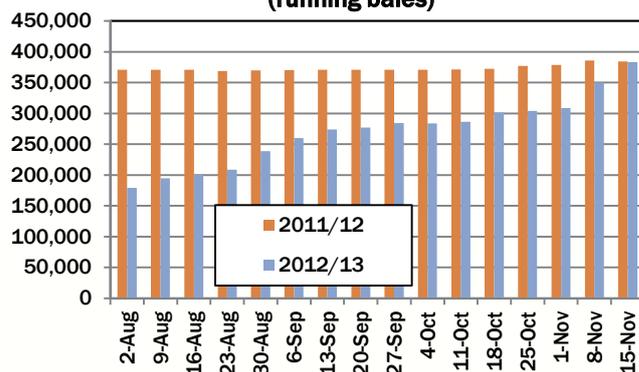
In the **United States**, export sales of Pima increased sharply during the last weeks of November as foreign mills rushed to cover needs with available cotton from last season and early new crop supplies as they came on the market. China, India and Pakistan have returned as active buyers of Pima high grades.

As a result, sales registered by November 15, at just over 380,000 running bales, were on a par with those at the corresponding stage of last season. As indicated in the accompanying chart, however, 2011/12 sales commitments had been accumulated at a much earlier stage.

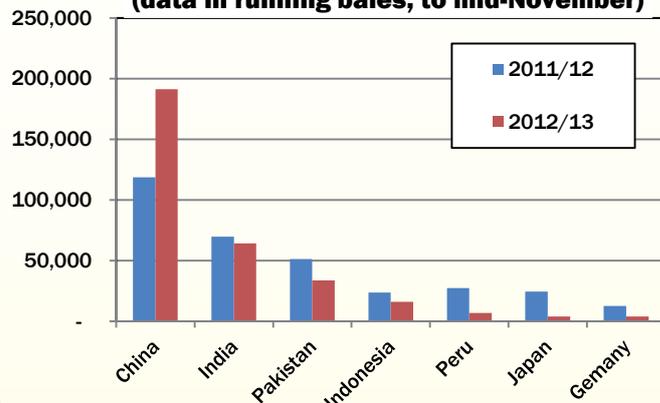
As far as export markets are concerned, the major shift between this season and last has been a sharp increase in sales to China, which has served to offset a season-on-season shortfall in those to most other major destinations.

In China, Pima has been available at prices some 20 cents per lb cheaper than Xinjiang Type 137.

US Pima Export Sales (running bales)



US Pima Export Markets (data in running bales, to mid-November)



As the remnant supply of 2011/12 crop dwindled, prices for old and new crop have tended to converge at around the new crop price level (in late November, close to 140.00 cents per lb CFR main Far Eastern ports).

US Pima S&D

Supply/Use	2010/11	2011/12	2012/13
		tonnes	
Beginning Stocks (Aug 1)	3,919	6,096	58,568
Production	109,733	185,284	143,045
Imports	1,524	1,306	-
Total Supply	115,176	192,686	201,613
Mill Use	5,661	4,790	5,443
Exports	107,774	129,328	157,850
Total Use	113,435	134,118	163,293
Unaccounted	4,354	-	-
Ending Stocks July 31	6,096	58,568	38,320

Source: SUPIMA

*USDA's figure is used in the accompanying supply and demand table. The higher number postulated by Cotton Outlook would add about a further 9,400 tonnes to the 2012/13 carryover.



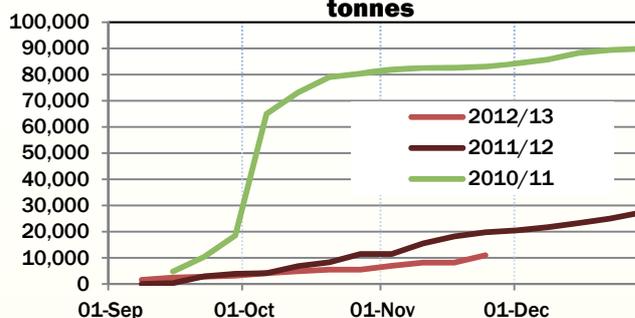
Harvesting of the 2012/13 crop is complete in California though some remaining acreage was still being picked in the Desert Southwest states as December approached. Yield and quality in California have both been excellent this season, and production is expected to eclipse the USDA's current forecast for that state (630,000 bales of 480 lbs) and thus push total output up toward 700,000 bales (against USDA's current forecast of 657,000)*. This would still portend a final output figure some 17 percent smaller than last season.

Early expectations for the 2013/14 season call for acreage reductions in the Far West region as growers shift into alternative crops.

The combination of lower ending stocks and reduced acreage, together with perhaps a greater requirement for Pima in some export markets, is leading merchants and analysts to postulate that prices will increase during 2013.

Egypt began the 2012/13 marketing campaign with a slower pace of export registrations than last year, and thus considerably behind the 2010/11 season, when the initial period saw an explosion of export sales. Sellers were under little pressure to sell for export before the weight of the new crop reached the market, since the 2011/12 subsidy for Giza 86 put domestic prices at a comparatively attractive level, and most of the carryover is said now

**Egyptian export sales
tonnes**



**Egyptian Supply & Demand (ELS)
(tonnes)**

Carryover August 31, 2010	3,873	
2010/11 Production	27,921	
Total Supply		31,794
Domestic Consumption	725	
Exports	24,911	
Total Disappearance		25,636
<i>Adjustment</i>	- 1,337	
Carryover August 31, 2011	4,821	
2011/12 Production	39,547	
Total Supply		44,368
Domestic Consumption	2,286	
Exports	23,266	
Total Disappearance		25,552
<i>Adjustment</i>	- 2,692	
Carryover August 31, 2012	16,124	
<i>Derived from Egyptian Cotton Gazette October 2012</i>		
2012/13 Production	12,000	
Total Supply		28,124
Domestic Consumption	2,000	
Exports	20,000	
Total Disappearance		22,000
Carryover August 31, 2013	6,124	

**Egyptian Supply & Demand (Giza 86)
(tonnes)**

Carryover August 31, 2010	5,902	
2010/11 Production	92,888	
Total Supply		98,790
Domestic Consumption	24,733	
Exports	66,298	
Total Disappearance		91,030
<i>Adjustment</i>	- 2,938	
Carryover August 31, 2011	4,821	
2011/12 Production	128,935	
Total Supply		133,757
Domestic Consumption	52,597	
Exports	53,821	
Total Disappearance		106,418
<i>Adjustment</i>	- 3,156	
Carryover August 31, 2012	24,183	
<i>Derived from Egyptian Cotton Gazette October 2012</i>		
2012/13 Production	91,782	
Total Supply		115,965
Domestic Consumption	53,000	
Exports	55,000	
Total Disappearance		108,000
Carryover August 31, 2013	7,965	



to have been sold. The balance of unsold Giza 88 was typically held by the public sector, and thus less readily available to the market.

The government has since announced a renewal of subsidy for 2012/13 Giza 86, at E£150 per metric cantar (about 22.5 US cents per lb), and for the Upper Egypt varieties at E£120, amounts that are payable to domestic mills. At the same time, imports remain constrained, including those to Egyptian mills in the Free Trade Zone (which had previously been exempted from import controls). Mills in the Zone have so far this season figured among the top buyers of Egyptian Giza 86 and reports suggest that, in recent times, they have experienced a return to profitability.

Meanwhile, a sharp reduction in Giza 88 output is foreseen in 2012/13, to less than a third of last season's level, which has lessened the potential export selling pressure during the current season. Giza 86 output is predicted to fall by close to 30 percent. The assumptions made in the accompanying supply and demand estimates for 2012/13 are that local consumption of domestic varieties will be supported by the subsidy regime and that exports will reach the levels typically recorded in recent seasons. If these assumptions are realistic, ending stocks of Egyptian extra-long staples and Giza 86 by the end of the present season would seem likely to be much reduced.

Sudan has planted substantially less irrigated land to cotton, as farmers have opted to grow other crops, offering quicker returns, under the Gezira Act 2005. Barakat output is thus expected to fall.

In **China**, an estimated 60 percent of the 2012/13 crop has moved from first hands, but the market has lacked vigour, and after the huge premiums commanded in 2011, market prices for lint have resumed their normal differential compared with upland values. Since upland

values are above the world market, however, so are those for long staples, rendering them uncompetitive versus imported cottons. In 2012, many participants in the domestic long staple business are said to have lost money.

Statistical analysis is hard to come by but the pace of import buying, especially of US Pima, would suggest that consumption might well be maintained this season. Despite a fall in domestic production, ending stocks seem likely to rise for a third consecutive season.

China's Long staple Supply & Demand (tonnes)					
	08/09	09/10	10/11	11/12	12/13
Opening inventory	115,000	45,000	15,000	30,000	108,000
Output	120,000	90,000	120,000	130,000	90,000
Imports	25,000	80,000	60,000	88,000	60,000
Exports	10,000	Ignored	Ignored	Ignored	Ignored
Consumption	205,000	200,000	165,000	140,000	140,000
Ending Inventory	45,000	15,000	30,000	108,000	118,000

Looking ahead, local farmers in Aksu, Xinjiang's main long staple cotton growing region, have obtained prices for seed cotton typically not much greater than those prevailing for upland, resulting in losses. Many say they are intending, therefore, to switch from long staple to upland varieties during 2013.

Turkmenistan remains the main source of long staple production in the Central Asian states of the former Soviet Union, having this year harvested around 60,000 tonnes of seed cotton, or sufficient to produce, say, 18,000 tonnes of lint. The country still has a backlog of supply from previous seasons that has yet to come to market.



The signals on **consumption** in 2012/13 are quite mixed; our sources refer to lack of change in the amounts being used in some markets, decline in others, contrasting with increases elsewhere. Proportionately, Taiwan is shown to be experiencing a sharp recovery from the lows of the past three seasons, while more modest gains are anticipated in Indonesia, China, Thailand, Pakistan and Bangladesh.



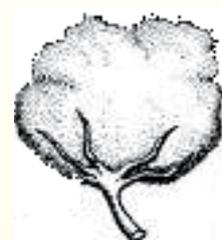
World LS Consumption
(tonnes)

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	12/13 v 11/12
Americas								
United States	8,491	7,838	6,532	6,532	6,000	5,500	5,443	-1%
Mexico	435	500	300	300	300	700	700	Unch
Peru	10,000	13,000	9,000	9,000	11,000	13,000	13,000	Unch
Europe								
Italy	10,000	4,000	2,500	2,000	3,000	2,000	2,400	20%
Switzerland	8,000	7,000	3,000	2,000	4,000	2,500	1,500	-40%
Germany	5,000	4,500	3,000	2,500	5,500	4,100	3,800	-7%
Turkey	10,000	8,000	5,000	6,000	7,000	8,250	9,000	9%
Portugal	4,000	6,000	4,000	800	600	400	400	Unch
Asia								
China	190,000	170,000	205,000	200,000	165,000	140,000	140,000	Unch
India	148,000	161,500	125,000	145,000	153,000	135,000	140,000	4%
Pakistan	55,000	85,000	30,000	45,000	35,000	60,000	60,000	Unch
Indonesia	14,000	14,000	10,000	6,000	5,000	5,400	6,500	20%
Japan	13,000	12,000	8,000	4,000	9,000	5,500	5,000	-9%
South Korea	11,000	11,900	4,980	1,500	6,800	3,600	2,000	-44%
Bangladesh	10,000	18,000	10,000	12,000	10,000	7,000	9,000	29%
Thailand	10,000	18,000	9,000	7,000	5,000	8,000	9,000	13%
Taiwan	7,000	7,000	2,500	2,177	2,500	2,200	4,350	98%
Turkmenistan	4,000	4,000	2,500	2,000	2,000	3,500	3,500	Unch
Africa								
Egypt	79,572	126,758	43,119	77,469	25,458	54,883	55,000 *	0%
Others	4,500	4,000	3,500	3,500	4,000	4,500	4,500	
Total	608,448	687,996	488,181	534,778	460,158	466,033	475,093	2%

*Giza 88 and 86 only from 10/11

Markets showing further losses include Japan, South Korea, Egypt and Germany.

Overall, a net gain in consumption is foreseen of two percent, to about 9,000 tonnes more than that witnessed in 2011/12 but still well short of the levels typically recorded prior to the 2008/09 season.



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