



INTERNATIONAL COTTON ADVISORY COMMITTEE

1629 K Street NW, Suite 702, Washington, DC 20006 USA

Telephone (202) 463-6660 • Fax (202) 463-6950 • e-mail secretariat@icac.org

Lower Long Run Average Cotton Prices^{*}

Terry Townsend
Executive Director

The world cotton market is being powered by China (Mainland), stabilized by the USA and transformed by technology. The average Cotlook A Index is expected to rise about 8 cents per pound during 2003/04 compared with the average for 2002/03. Nevertheless, despite projections of very strong imports by China (Mainland) and record world consumption, the 2003/04 average Cotlook A Index is forecast 8 cents per pound below the long run average, an indication that expanding cotton supply is leading to lower average prices.

During 2003/04, world cotton production is expected to rise by 5% to 20.2 million tons, while consumption is expected to climb about 2% to 21.2 million tons, leaving world stocks at the end of 2003/04 at just 7.8 million tons. Further, imports by China (Mainland) are forecast to rise by one-third to nearly one million tons.

During 2004/05, world production is expected to rise to 22 million tons; world consumption is forecast at 21.6 million tons, indicating that world ending stocks will increase. Even with strong imports by China (Mainland) in 2004/05, the average Cotlook A Index may decline to about 60 cents per pound.

World cotton supply (beginning stocks plus production) is expected to decline by some 900,000 tons in 2003/04 to an estimated 29 million tons, a six-year low. Cotton supply reached an all-time high of over 31 million tons in 2001/02.

Cotton Area Rising

During the first semester of 2003, international prices were at their highest level at that period of the year since 1998. In addition to higher prices that encouraged increased area, structural factors continue to stimulate cotton production. With advances in technology, including genetic engineering, cotton production costs worldwide are coming down. Many producers can make a profit at current prices. In other countries, government measures continue to support producers having costs of production above market prices.

World cotton area is estimated up by 8% to about 32.5 million hectares in 2003/04, slightly below the average since 1980/81. Cotton area planted in the Northern Hemisphere increased by 7% and plantings in the Southern Hemisphere are expected to rise by 20%.

It is estimated that 20% of world cotton area was planted to transgenic varieties in 2002/03, sharply up from only 2% in 1996/97. Assuming that yields were equivalent to national averages, transgenic varieties accounted for an estimated 29% of world production. Transgenic cotton area is projected to climb to 40% by 2007/08, accounting for about half of world output, which is projected to reach 22.8 million tons.

^{*} Paper presented to the IV Congresso Brasileiro De Algodao, Goiania 15 to 18 September 2003. The International Cotton Advisory Committee is an association of 42 governments of countries with an interest in cotton. The Secretariat of the Committee publishes information related to world cotton supply, demand and prices, and disseminates information on cotton production technology. Detailed statistics are found bimonthly in *COTTON: Review of the World Situation*, \$150 per year via the Internet or \$175 per year in hard copy by post. A monthly outlook is available for \$225 per year via the Internet or \$275 per year by fax. Access to weekly estimates of world cotton supply and use by the Secretariat is available on the Internet for \$500 per year.

Yields Slipping

Yields stagnated below the 600-kilogram per-hectare mark during the nineties but the world yield climbed to a record of 642 kilograms per hectare in 2001/02. Nevertheless, when China (Mainland) and Brazil are excluded, yields in 2002/03 do not show any improvement from the average yield during the nineties. Weather was not favorable at the time of plantings in major cotton producing areas. Although growing conditions generally improved after July, the world average yield is expected to stumble to 622 kilograms per hectare in 2003/04, down 16 kilograms per hectare from last season. The world average yield is projected to climb to 659 kilograms per hectare by 2007/08.

Production Up

World cotton production is forecast to rise by 900,000 tons (5%) to 20.2 million tons in 2003/04, the fourth largest crop on record.

Production in China (Mainland) is expected up 500,000 tons to 5.4 million tons, the highest since 1991/92. In India, output is expected to rebound to almost 2.7 million tons, up 350,000 tons. U.S. production is forecast down slightly to 3.7 million tons. In Pakistan, production is forecast to reach 1.8 million tons. Production in the African franc zone is expected up to about 965,000 tons. Production in Uzbekistan is forecast to fall to 940,000 tons, the lowest crop in decades. Production in Turkey is forecast at 925,000 tons. Production in Brazil is expected to rise to 930,000 tons. In contrast, Australian production is projected to collapse to a 16-year low of 280,000 tons.

During the last five seasons, ICAC forecasts of world production at this period of the year for the season were overestimated once (by 100,000 tons in 2002/03), underestimated three times (by 100,000 tons to 700,000 tons) and were about right once.

Consumption Growth Slowing

ICAC estimates of world mill use are derived from projections of cotton end-use consumption, reconciled with forecasts for individual countries.

World cotton consumption will be affected by the relatively slow economic growth in the industrial countries in 2003/04. Rising prices are also curtailing demand for cotton. According to research by the Secretariat, a 20%-decline in cotton prices translates into a 1%-increase in cotton consumption during the following year. The average Cotlook A Index during the first semester of 2003 was 40% above the average during the first half of 2002. Meanwhile, the average Cotlook Yarn Index rose by only 18% and yarn stocks are building. Prices of polyester, the main competitor of cotton, fell sharply since March 2003. The bottom line is that the growth rate of world cotton mill use is expected to abate from 3.5% in 2002/03 to about 1.5% in 2003/04. Still, world mill use is projected to reach a record of 21.2 millions tons.

The booming textile industry in China (Mainland) has been the driving force behind the increase in world cotton mill use. Between 1998/99 and 2002/03, mill cotton consumption in China (Mainland) jumped by an estimated 2 million tons, outpacing a 300,000-ton increase in the rest of the world.

However, the growth rate of mill consumption in China (Mainland) is forecast to slow from 12.5% in 2002/03 to 6% in 2003/04. Consumption in China (Mainland) is expected to reach 6.7 millions tons, up 400,000 tons from 2002/03. China (Mainland)'s share of world mill use is expected to reach 32% up from 23% in 1998/99. Mill use in the rest of the world is expected to stumble to 14.5 million tons, as declines in the developed countries will more than offset increases expected in developing countries, mainly in Pakistan.

The largest source of retail level demand for cotton in the world is the USA. Mill use in the United States is headed down because imports of cotton products are rising more than three times faster than the rate of increase in retail sales. U.S. domestic mill use is projected to fall below 1.5 million tons in 2003/04, down one million tons its peak in 1997/98 and the lowest since 1985/86. The strengthening of the euro will precipitate the decline of the spinning industry in the European Union.

The structural decline in manufacturing employment in developed countries seems unavoidable. By 2007/08, mill use in developing countries is projected to account for 86% of world total, which is estimated to reach 22.4 million tons, up from 73% in 1992/93. China (Mainland)'s share of world mill use is projected to climb to 34%.

World Exports Record High

World cotton trade has been rising since 2000/01 driven by growing world cotton consumption and increased imports by cotton producing countries. During the past two seasons world cotton mill use rose by 5%, while world trade rose by 13%. In 2003/04 world cotton production is projected to increase resulting in a moderate decline in trade. However, world trade is projected to continue to grow during the next several seasons because of expanding dependency on imports by major producing countries with growing consumption.

The largest mill use increases during the past two seasons occurred in China (Mainland), Turkey, Pakistan and India. Imports by the four countries rose by almost 1 million tons during the past two years. The share of the four countries in world imports rose in two years from 15% to 28%, and in 2003/04 imports by these countries are estimated at 1.8 million tons.

As a result of increased purchases by producing countries, world imports as a share of world consumption rose from 29% in 2000/01 to 31% in 2002/03. It is projected that the share will remain above 30% during the next several seasons. With the exception of the United States and Brazil, the top 10 consuming countries will be net importers in 2003/04. China is expected to remain the largest importer in the world.

Exports are vital to the U.S. cotton industry and marketing competitiveness provisions of the farm bill ensure that U.S. cotton exports will always be large enough to prevent ending stocks from surging. The average quality of the U.S. crop in 2002/03 was lower than during the previous seasons due to bad weather. Nonetheless, U.S. exports climbed to a record of 2.6 million tons in 2002/03, 39% of world exports, as a sharp increase in shipments to China (Mainland) offset reductions in shipments to the rest of the world. U.S. exports are expected to slip to 2.45 million tons in 2003/04, 38% of world exports.

China (Mainland) is key to cotton prices. Over the last two decades, the most important single variable affecting year-to-year changes in the Cotlook A Index was net exports by China (Mainland). Net trade by China (Mainland) explains approximately half of the year-to-year change in cotton prices. On average, an increase in China (Mainland)'s net imports (imports minus exports) of 100,000 tons leads to an increase in the season average Cotlook A Index of about two cents per pound. The surge in net imports by China (Mainland) contributed about ten cents to the increase in the season-average Cotlook A Index in 2002/03. Net imports by China (Mainland) are projected to reach 800,000 tons in 2003/04, up 280,000 tons from last season.

GE Cotton Trade

Genetically Engineered (GE) cotton is entering world textile trade in increasing volumes as a result of exports of both lint and textiles from the USA, Australia and China (Mainland). Based on the production share of GE cotton in exporting countries, GE cotton accounted for an estimated 34% of world cotton exports in 2002/03. The major origins of GE cotton were the USA, Australia and China (Mainland). An estimated 58% of all exports of GE cotton went to Asia and Oceania (not counting the Middle East). Based on domestically produced and imported GE cotton, an estimated 31% of mill use in Asia and Oceania are accounted for by GE cotton. Taking into account that Asia and Oceania account for more than 65% of world exports in cotton textiles, the share of GE cotton in textiles traded in major markets in Europe could be as high as 30%. Based on estimates of domestically produced and imported textiles, the share of GE cotton in end-use consumption in the USA is estimated at 56%.

There are no price differentials for GE and non-GE cotton fiber, or textiles containing GE cotton. There is no evidence of rejection of GE cotton by any segment of the market or region. In practice, markets do not identify GE cotton content, but rather evaluate cotton properties based on quality characteristics.

Stocks Shrinking

World ending stocks are expected to decrease by 700,000 tons in 2003/04, to 7.8 million tons. The world stocks-to-use ratio is forecast to decline from 42% to 37%, the lowest since 1990/91. Ending stocks outside

China (Mainland) are projected to shrink to a four-year low of 6.4 million tons in 2003/04. The stocks-to-use ratio outside China (Mainland) is forecast down from 51% last season to 50% in 2003/04. However, the ratio averaged 40% during the 1990s.

Prices to Remain Below Average

Market fundamentals suggest that the Cotlook A Index is expected to average 64 cents per pound in 2003/04, eight cents higher than last season. This would be the highest average in six seasons, but still six cents below the 30-year average. During the last five seasons, ICAC forecasts of the average Cotlook A Index at this time of the year for the season were overestimated four times (three times by about 5 cents, and once, in 1998/99, by 14 cents) and underestimated once (by 4 cents in 2002/03).

The value of world cotton production is estimated at about \$28.5 billion in 2003/04, up \$5 billion from last season and \$8.5 billion more than in 2001/02. However, the average revenue per hectare, estimated at about \$880, will remain lower, in real terms, than before 1998/99, in spite of the improvement in world average yield.

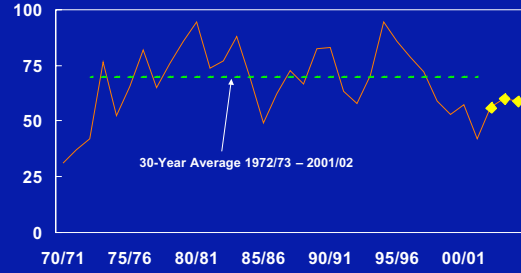
Initial projections for the 2004/05 season suggest that world production will climb to a record of 21.9 million tons, outpacing consumption by some 300,000 tons, while net imports by China (Mainland) are projected unchanged at 800,000 tons. Consequently, the forecast for the season average Cotlook A Index in 2004/05 is 61 cents per pound, down three cents from the projection for 2003/04.



International Cotton Advisory Committee

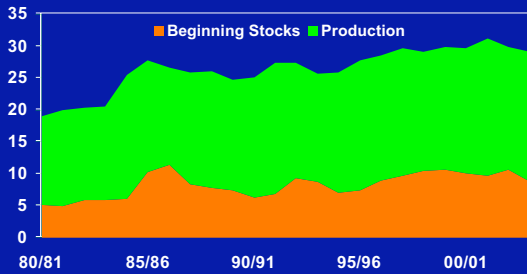
COTLOOK A INDEX

Season-average in U.S. Cents per Pound



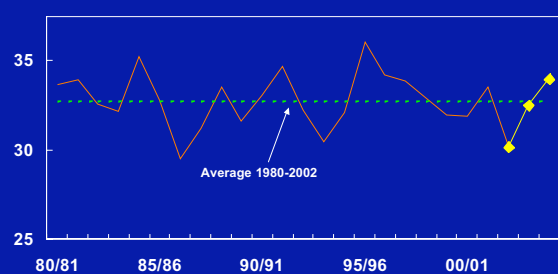
WORLD COTTON SUPPLY

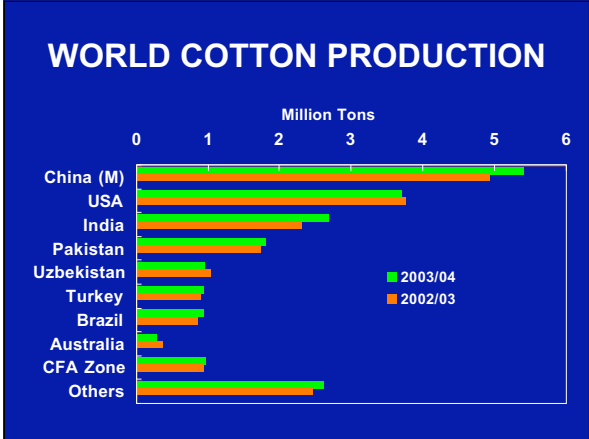
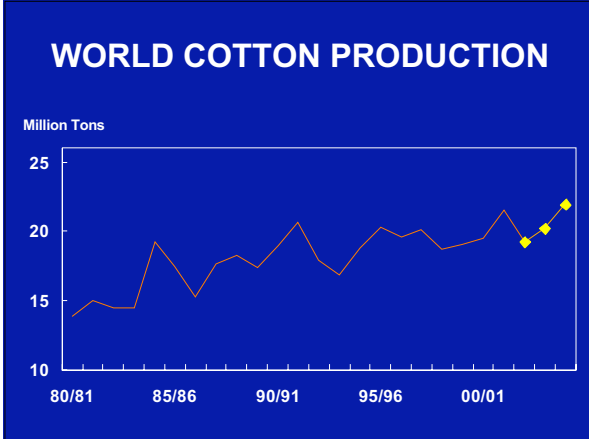
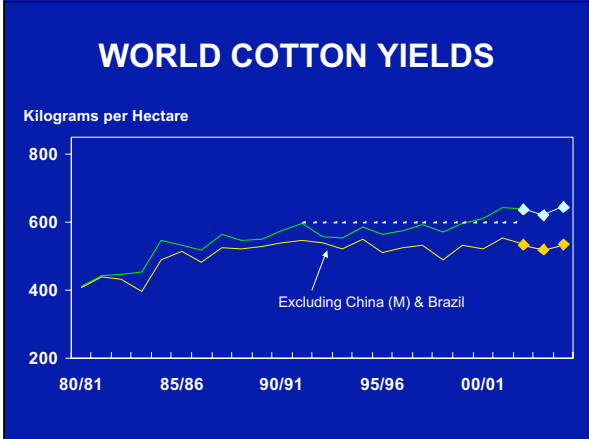
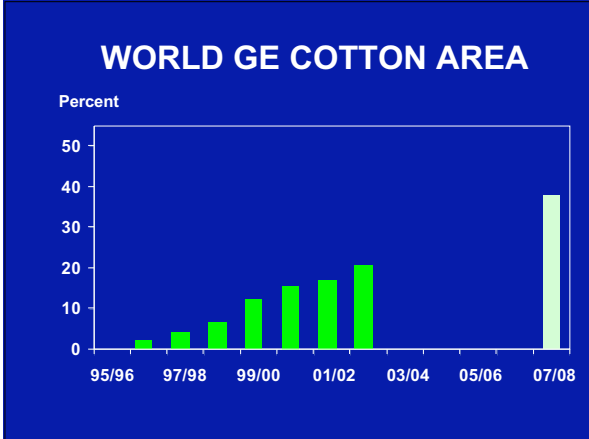
Million Tons



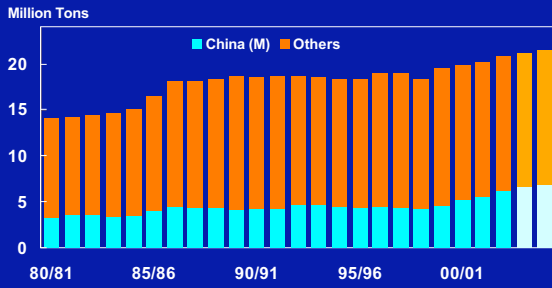
WORLD COTTON AREA

Million Hectares

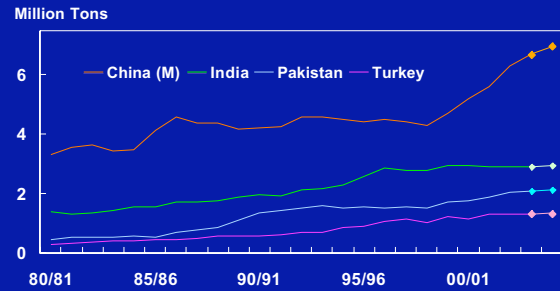




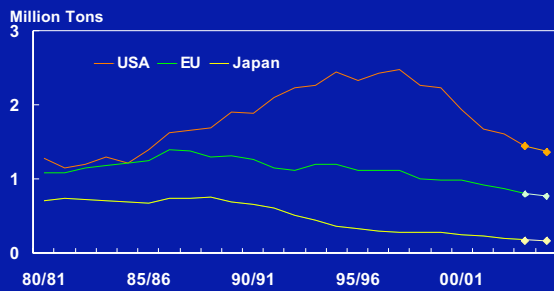
COTTON MILL USE



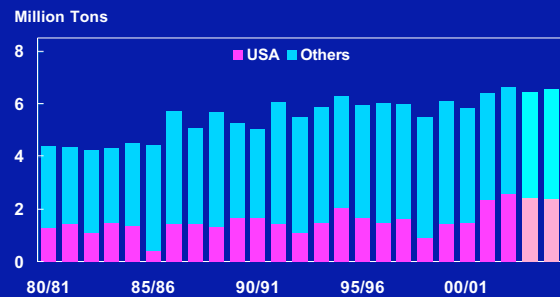
COTTON MILL USE



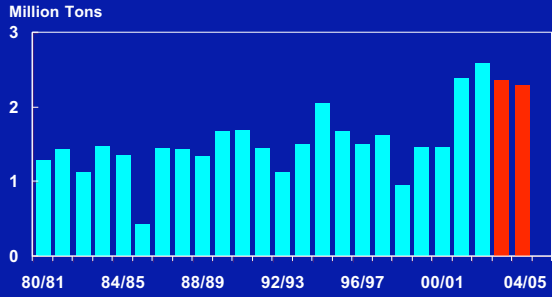
COTTON MILL USE



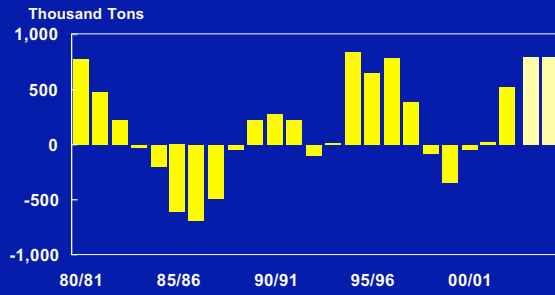
WORLD EXPORTS



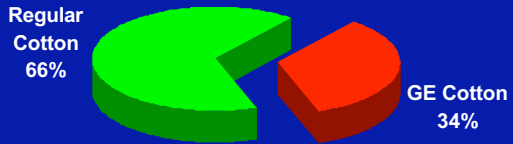
EXPORTS: USA



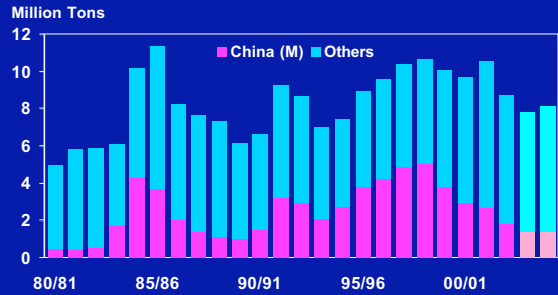
CHINA (M) NET IMPORTS



WORLD COTTON EXPORTS



WORLD ENDING STOCKS



COTLOOK A INDEX

Season-average in U.S. Cents per Pound

