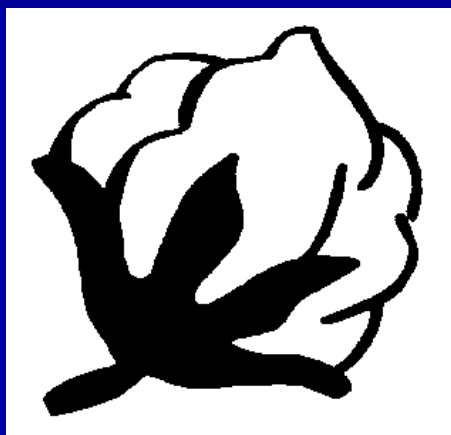
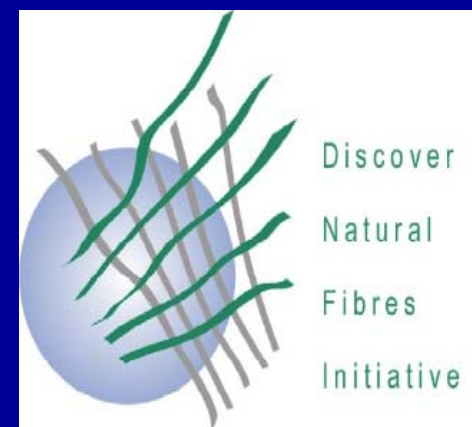


Cotton Price Volatility and Prospects for African Cotton Exports



N'Djamena

9 March 2016



José Sette and Rebecca Pandolph
International Cotton Advisory Committee

SUMMARY

1. Price Volatility

- ✓ Historical volatility: 1976/77 – 2015/16
- ✓ Trading practices
- ✓ Structure of World Trade
- ✓ Hedging
- ✓ Volatility from 2016 onwards

2. Africa Export Potential

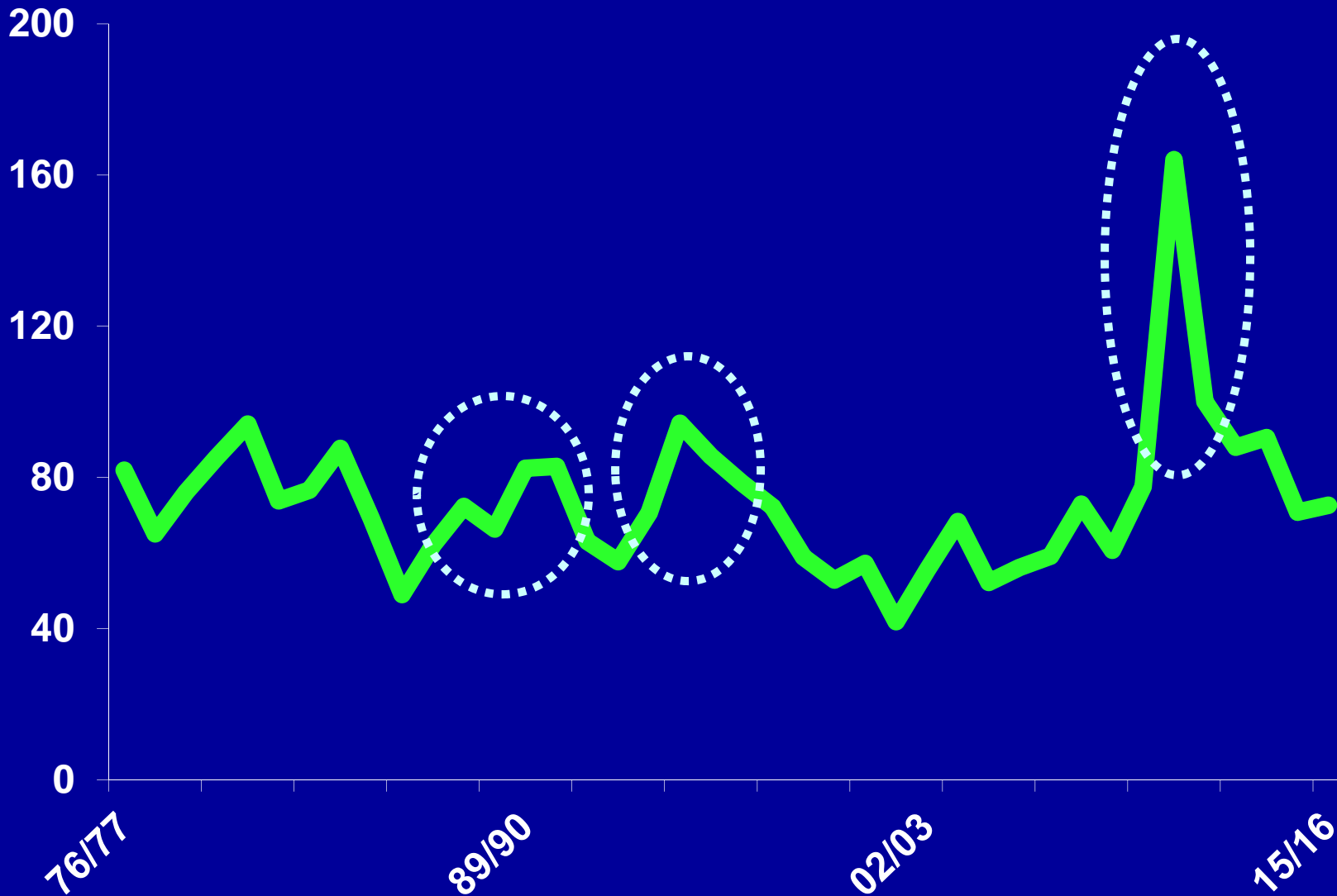
- ✓ African Cotton
- ✓ Export Competitors
- ✓ Cotton Importers
- ✓ Outlook to 2020/21



PRICES

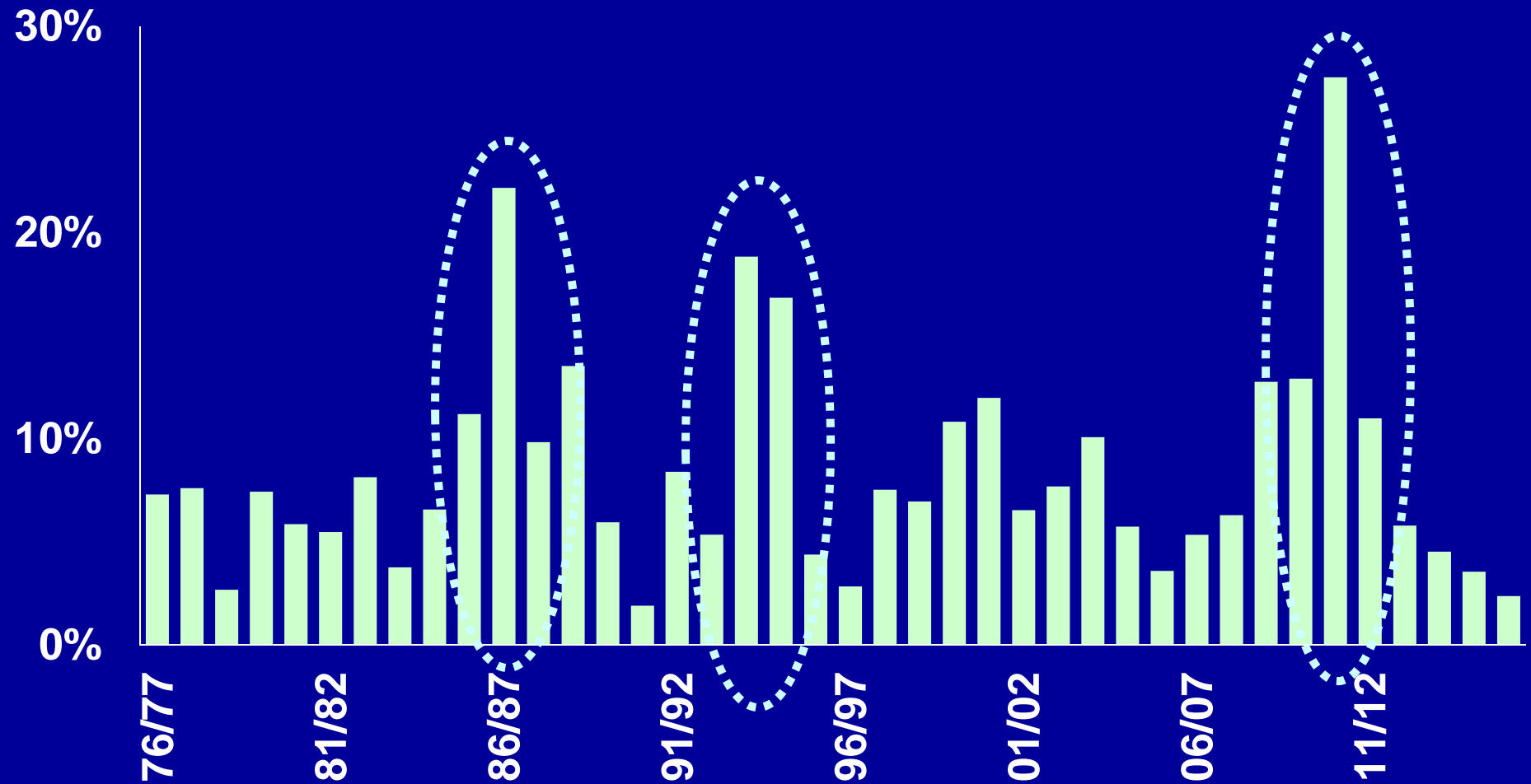
(Cotlook A season average)

US cents / lb



Price Volatility by Season: Cotlook A Index

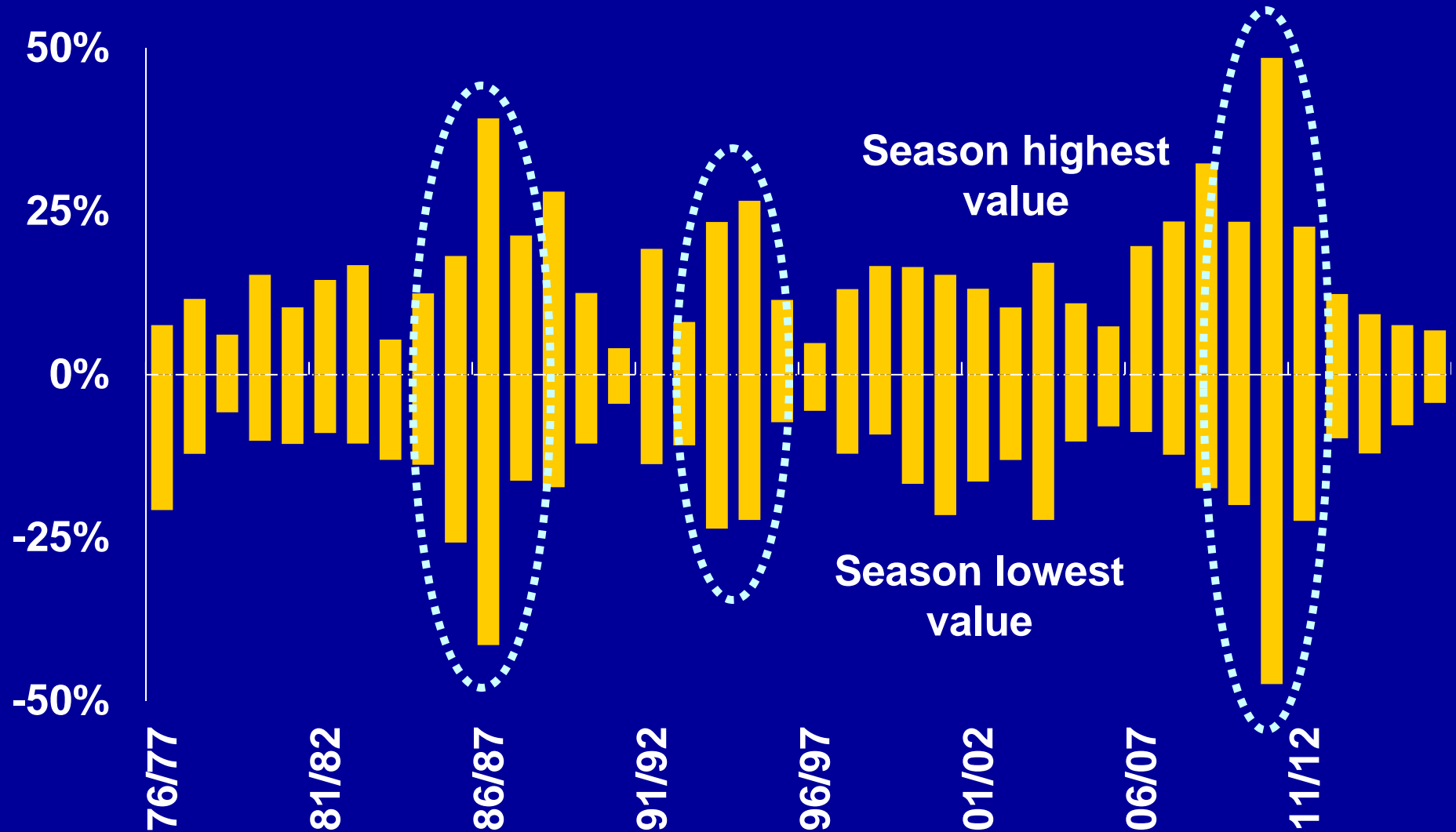
Coefficient of variation



2015/16: Aug. 2015 – Feb. 2016

COTLOOK A INDEX

Difference with respect to season average



2015/16: Aug. 2015 – Feb. 2016

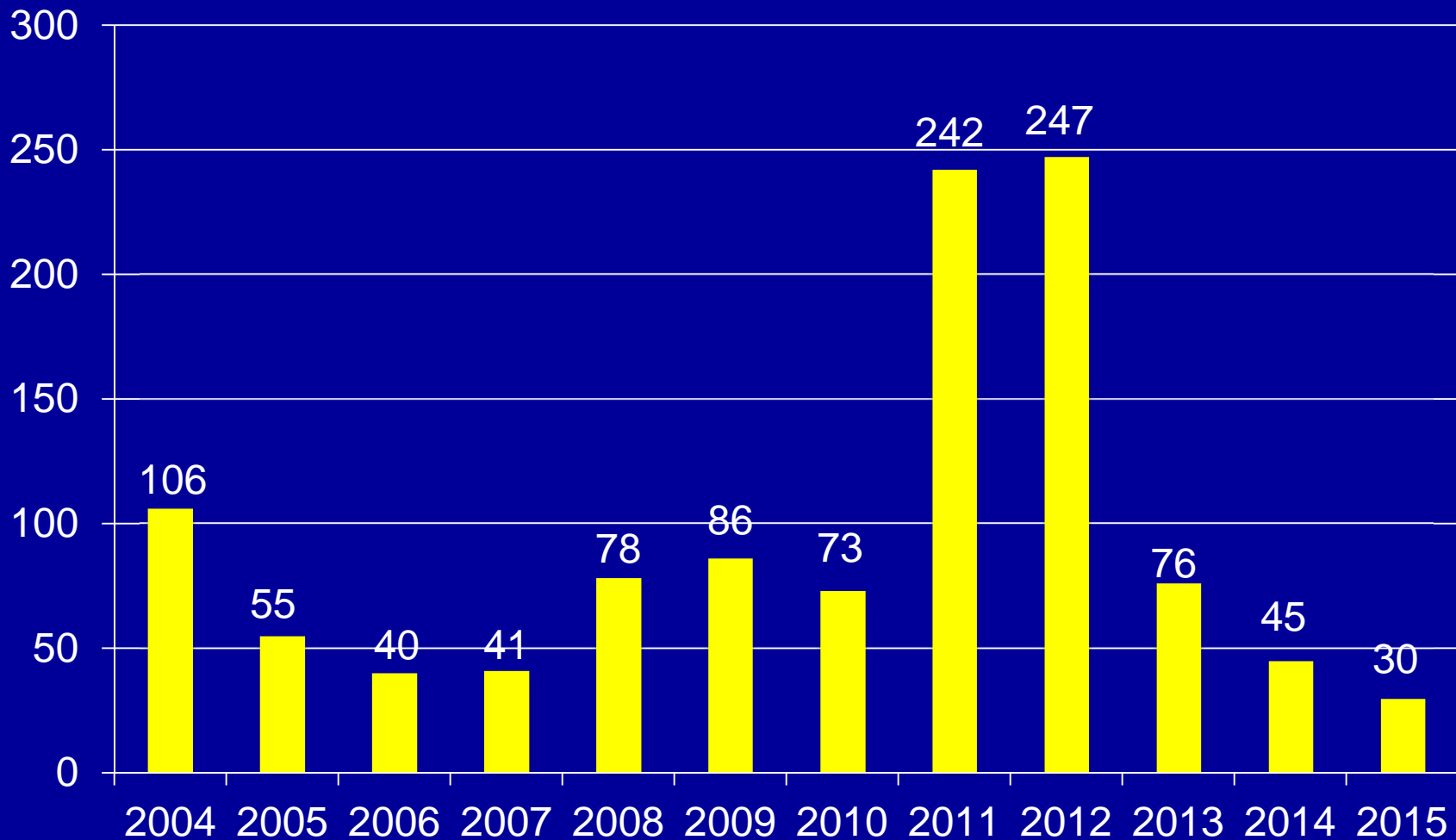
IMPROVING TRADING PRACTICES

International Cotton Association

- Standard contracts
- Dispute resolution mechanisms



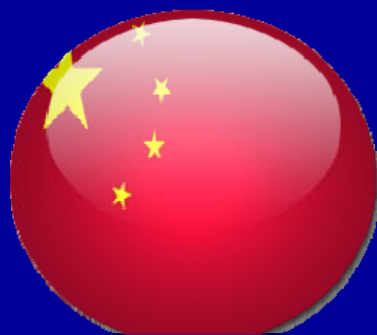
APPLICATIONS FOR ARBITRATION



Source: ICA

TOP 5 DEFAULTERS

2010-2014



China 20%



Bangladesh 16%



Vietnam 12%



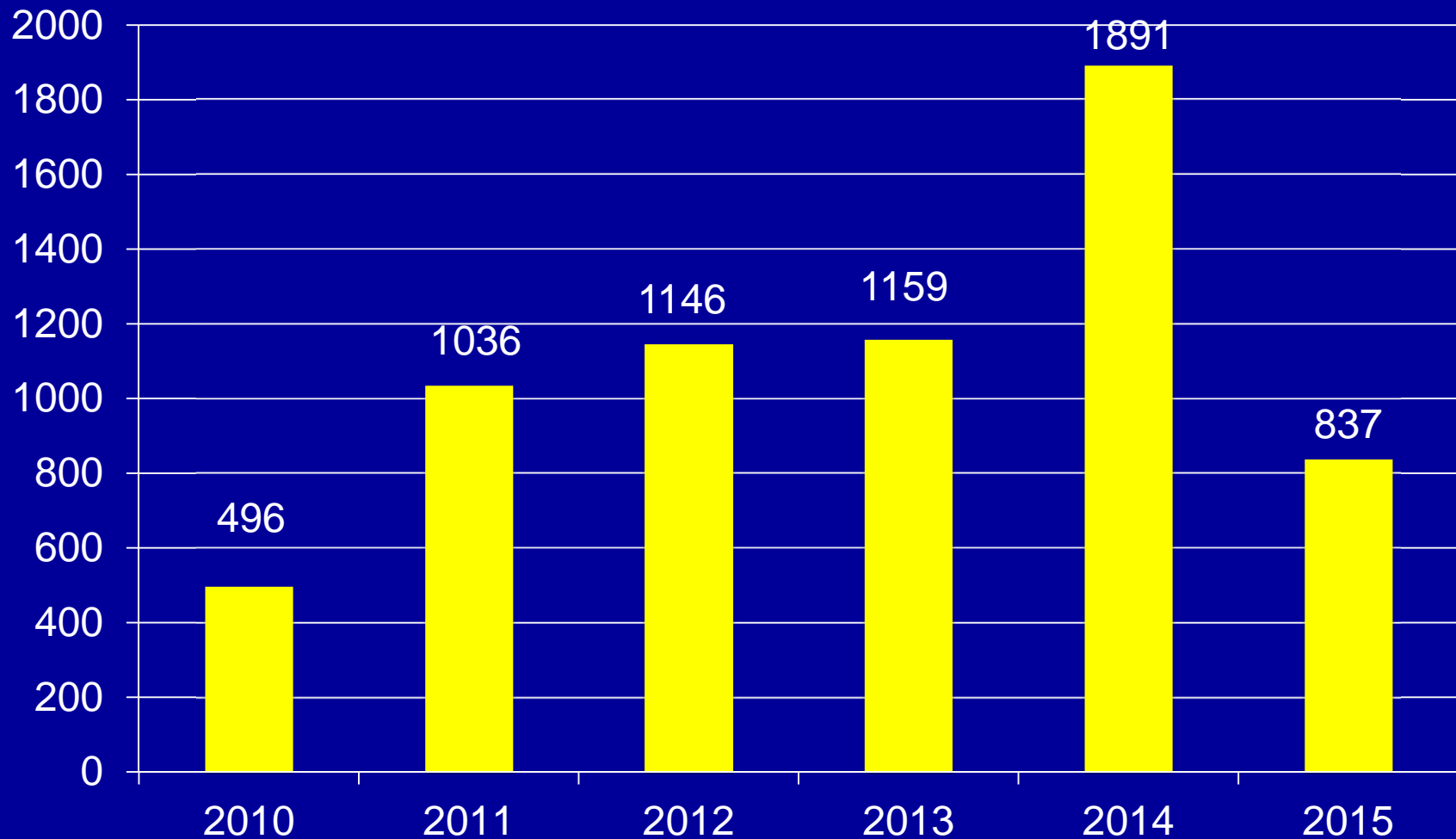
India 7%



Thailand 7%

VALUE OF ARBITRATIONS

(in millions of US\$)



Source: ICA

IMPROVING TRADING PRACTICES

- Training more arbitrators
- Pool of Chairmen introduced
- Mediated arbitration introduced
- Creation of Business Intelligence Unit/Country Focus Groups
- Enforcement Working Groups (country level)
- Reduce length & cost of arbitration
- Improve enforcement
 - ✓ Gov't and embassy level
 - ✓ "Top down" political pressure
 - ✓ Sanctions: Unfulfilled Awards List, reporting to CICA and Advisory Notice List



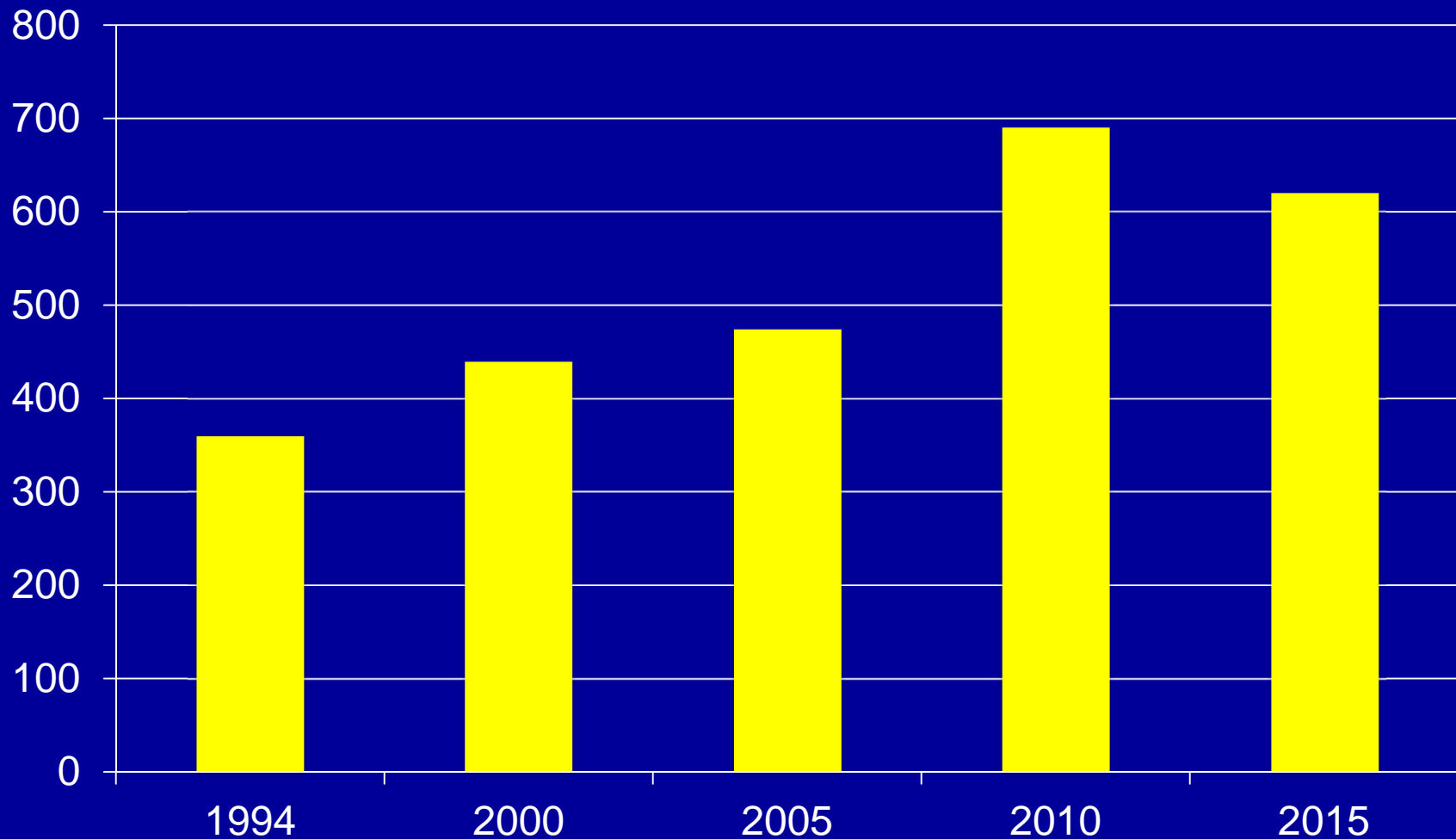
CONCENTRATION

(Number of companies in category)

	2015	2000	1994
Largest	10	17	19
Large	32	43	51
Medium	34	49	50
Specialized	350	365	N/A
TOTAL	426	474	N/A

AVERAGE TRADING VOLUME - LARGEST FIRMS*

thousand tons



*>200,000 tons/year

CHANGES IN STRUCTURE OF WORLD TRADE

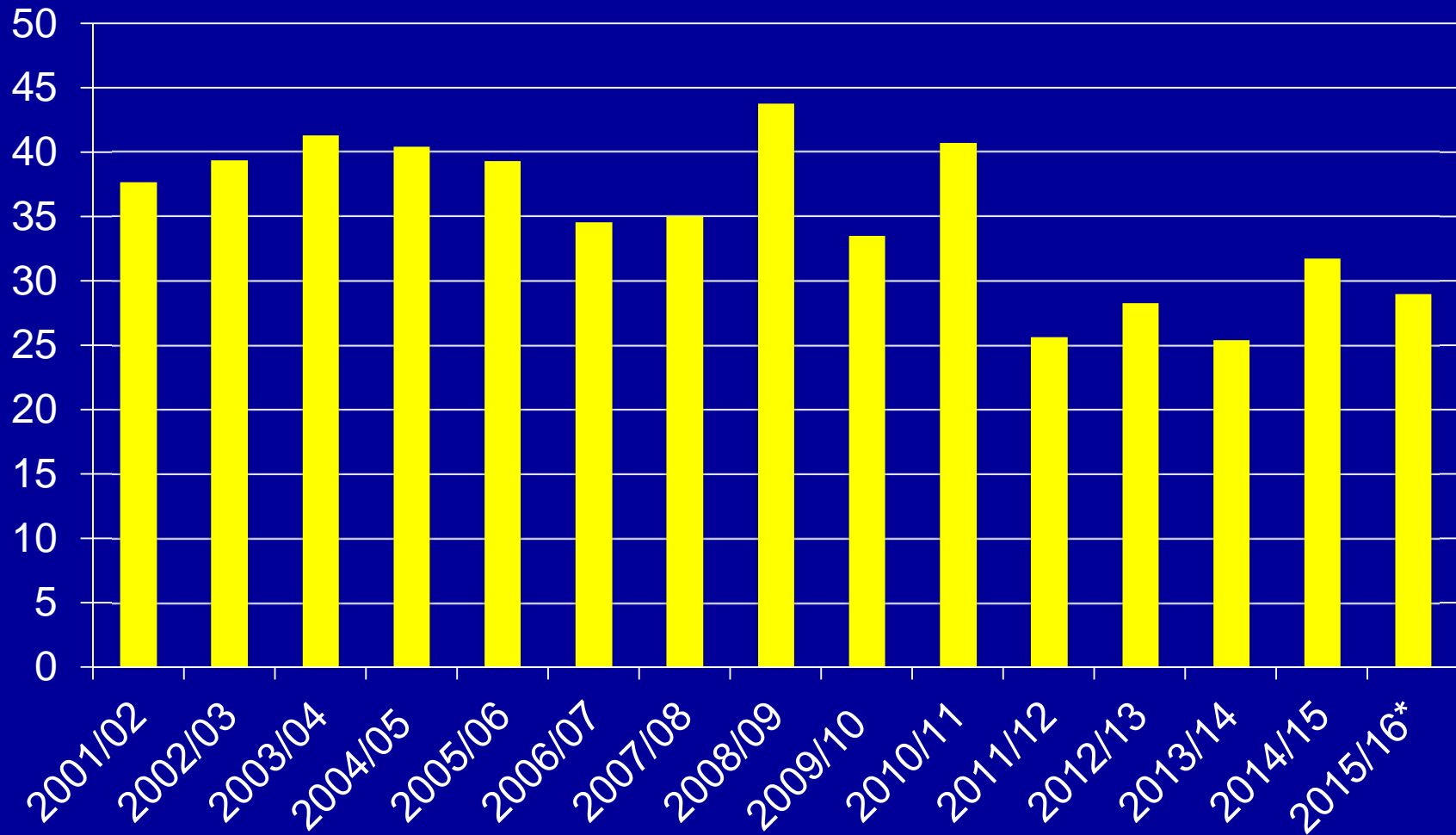
- Rise of very large multicommodity traders
- Decline of monocommodity family traders
- Privatization

CHANGES IN STRUCTURE OF WORLD TRADE

- Volatility aggravated, but did not cause, existing trends
- Concentration and diversification across commodities have improved resilience of cotton trade
- Despite greater concentration, sector remains highly competitive

HEDGING – No. 2 CONTRACT

(US exports as % of World)



WORLD COTTON CONTRACT

- Launched 2/Nov/2015
- Contract size: 55,000 lbs
- Quality: higher than No. 2 contract
- Origins: represents 73% of world cotton exports

WORLD COTTON CONTRACT

WORLD COTTON CONTRACT DELIVERY ORIGINS

WORLD COTTON CONTRACT DELIVERY POINTS



OPEN INTEREST

17/Feb/2016:

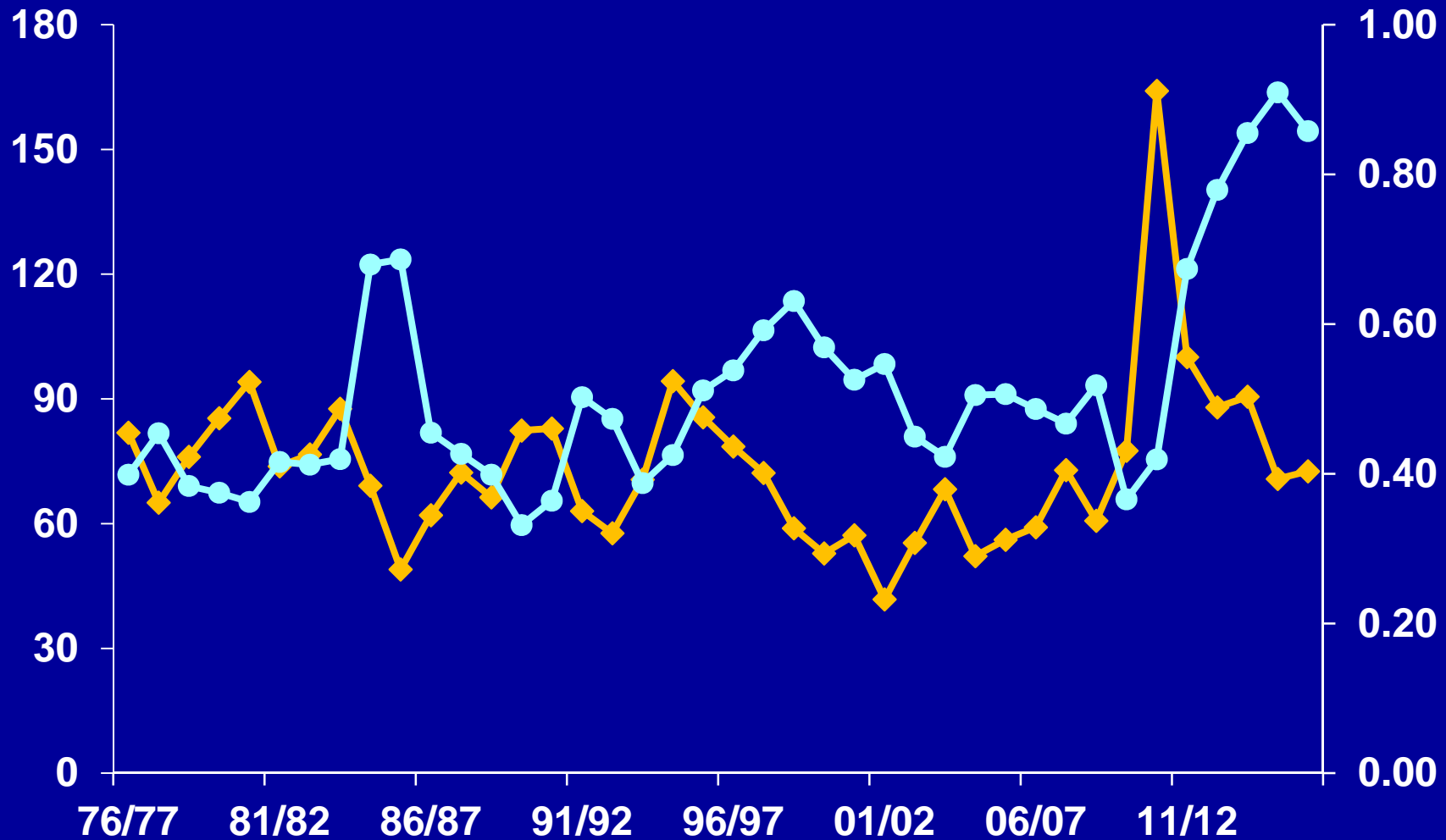
World Cotton Contract:	288
No. 2 Contract:	191,821

PRICES x STOCKS

(Cotlook A season average x stock-to-use ratio)

US cents / lb

SU ratio



CONCLUSIONS

- Trade dispute resolution methods have been strengthened
- Trade is more concentrated and conducted by larger firms – counterparty risk reduced
- Hedging still an unresolved issue
- Volatility unlikely to be a significant factor as long as stocks remain abundant
- 2011 was an extreme event, unlikely to be repeated in foreseeable future

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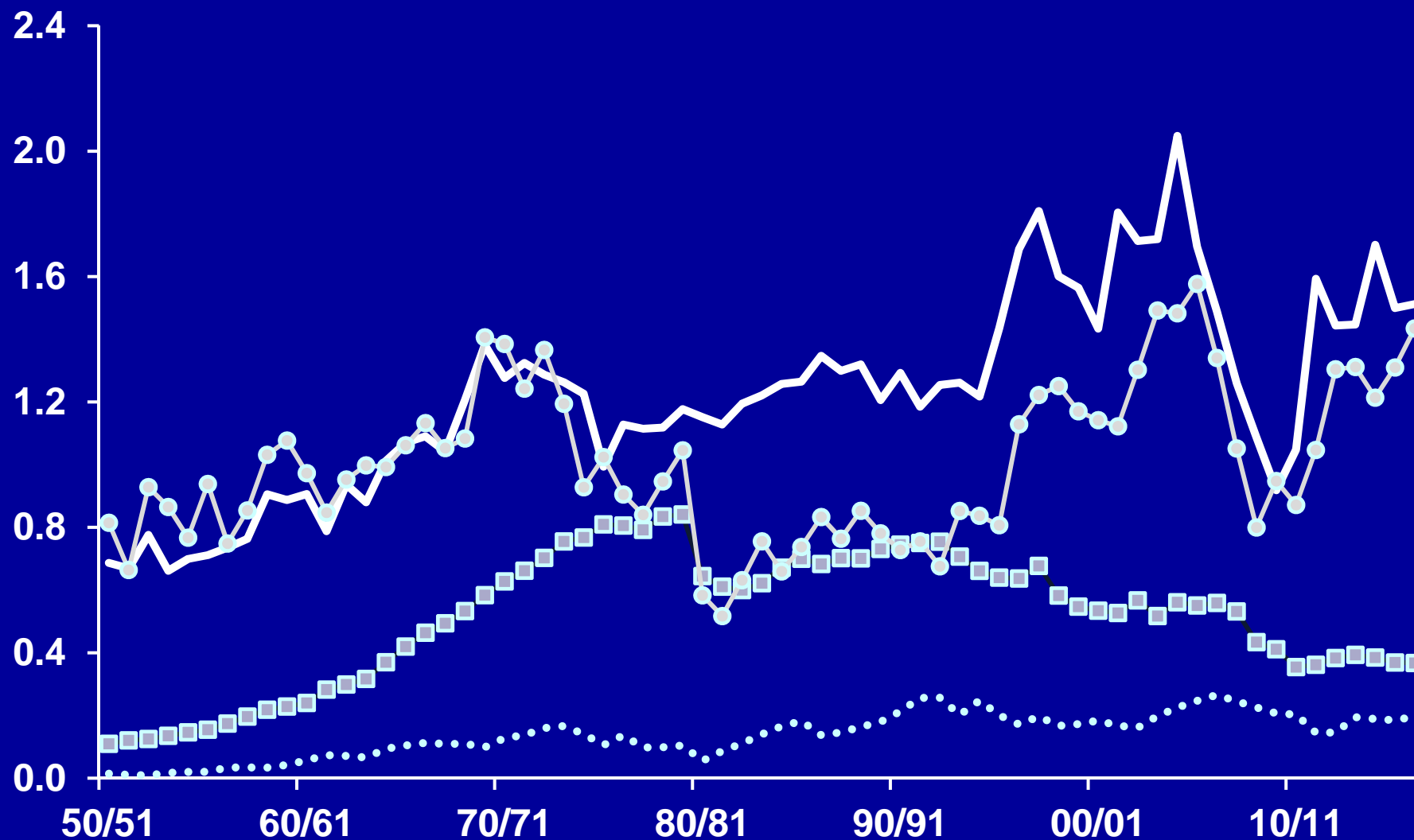
2. Africa Export Potential

- ✓ African Cotton
- ✓ Export Competitors
- ✓ Cotton Importers
- ✓ Outlook to 2020/21



African Cotton Lint: 1950/51 to 2015/16

million tons

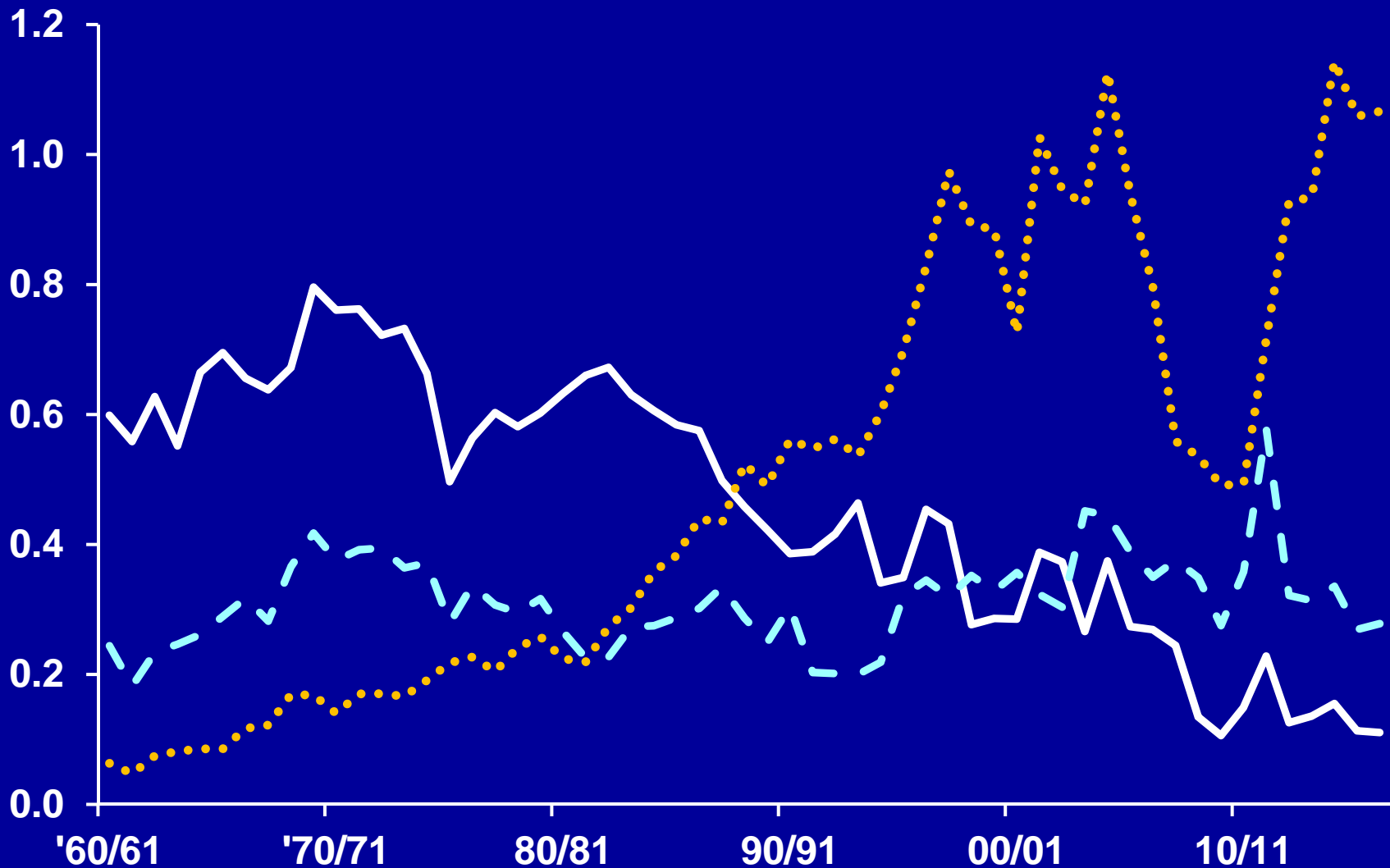


— Production ··· Imports —■— Consumption —●— Exports



African Production by Region

million tons



— North Africa

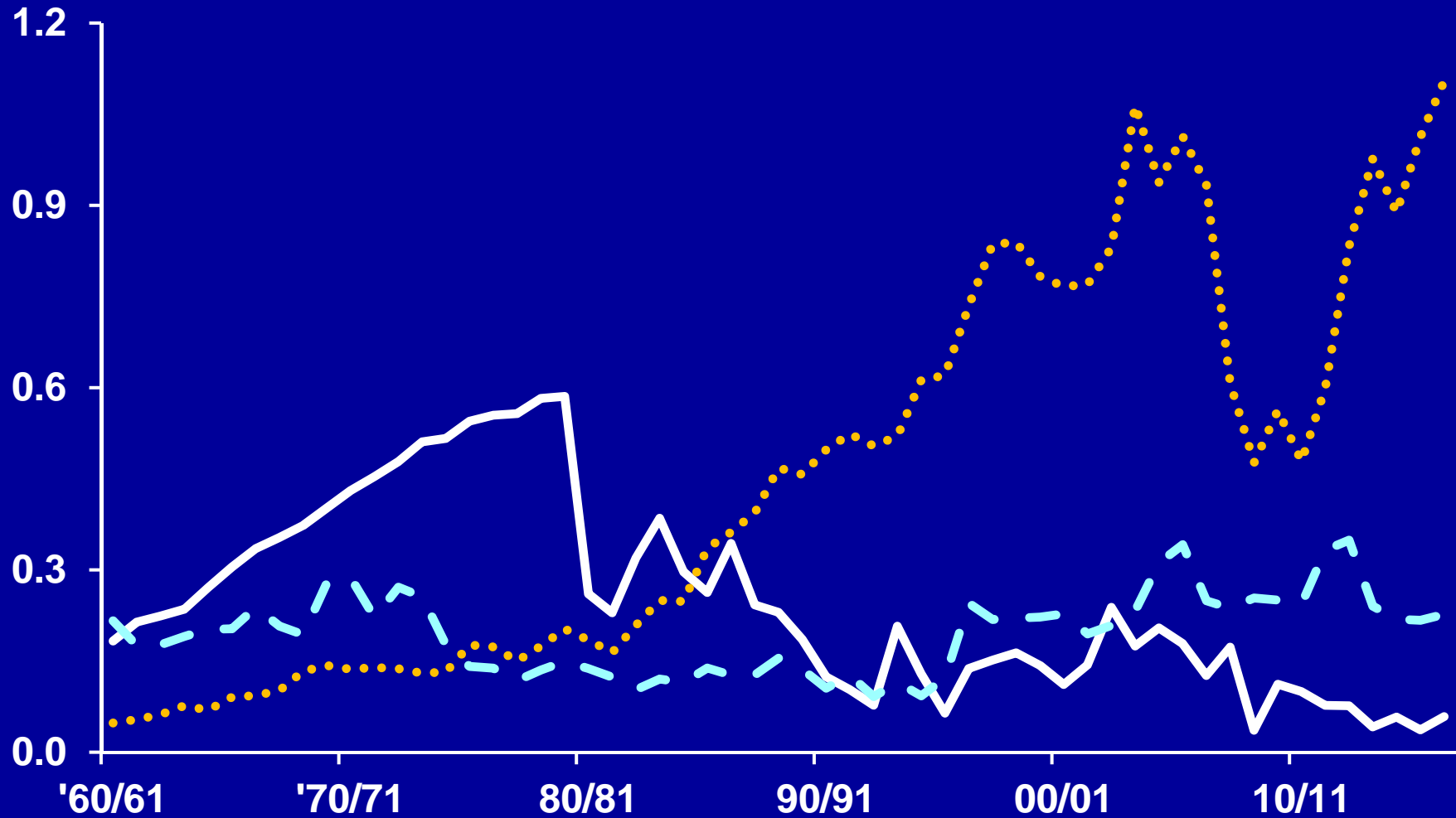
••• Francophone Africa

- - - South & East Africa



African Exports by Region

Million tons



— North Africa

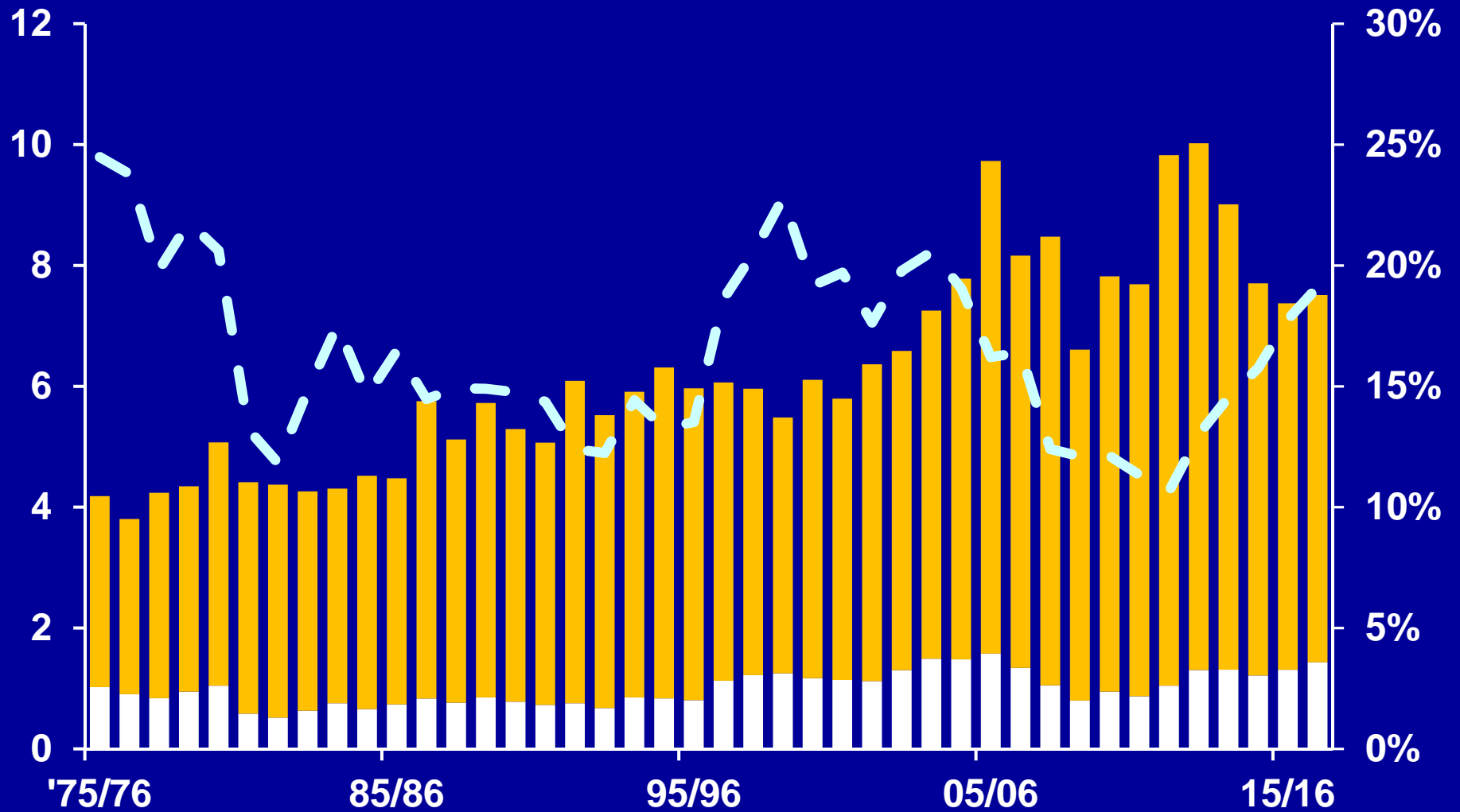
••• Francophone Africa

- - - South & East Africa



Africa's Share of World Exports

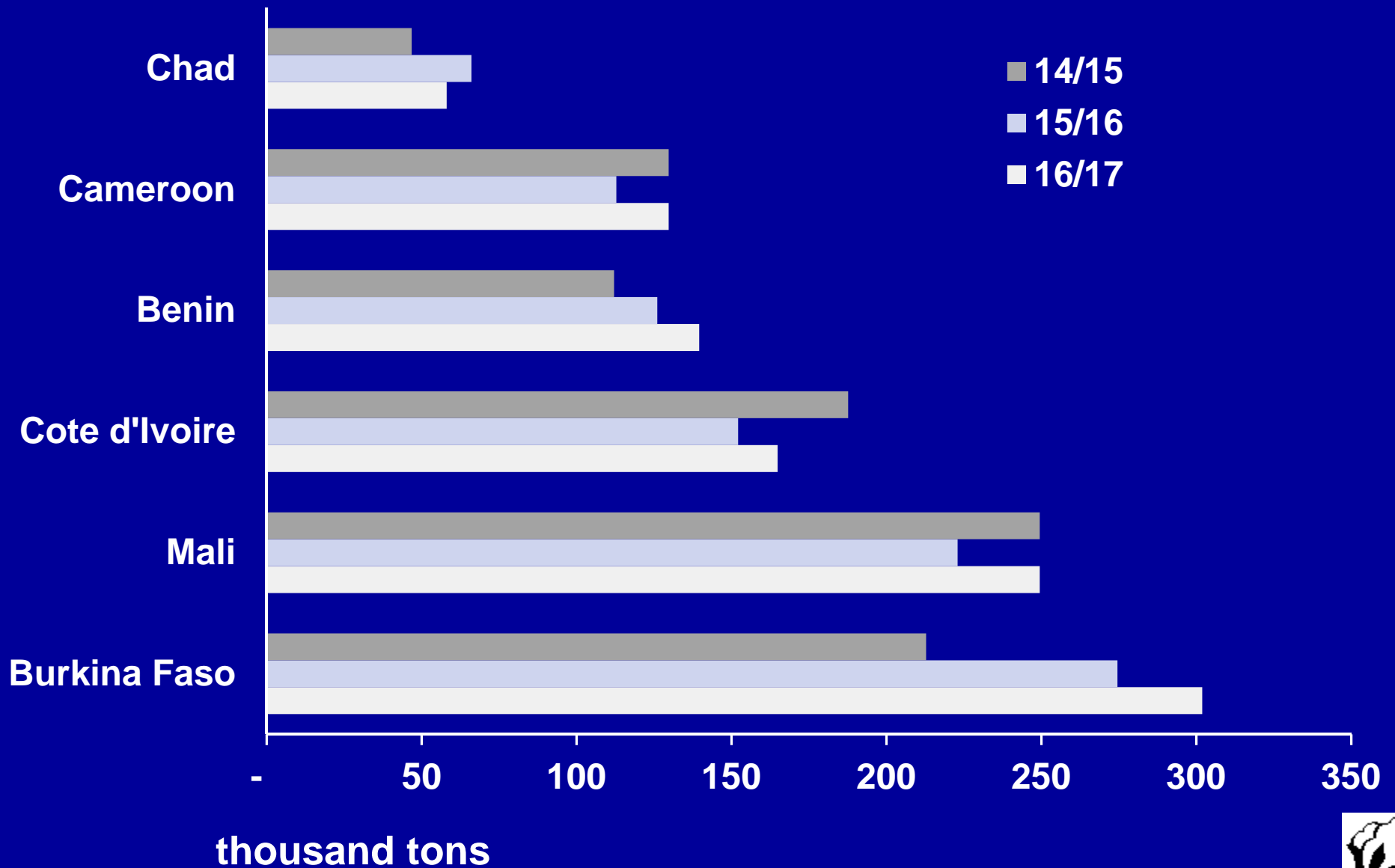
Million tons



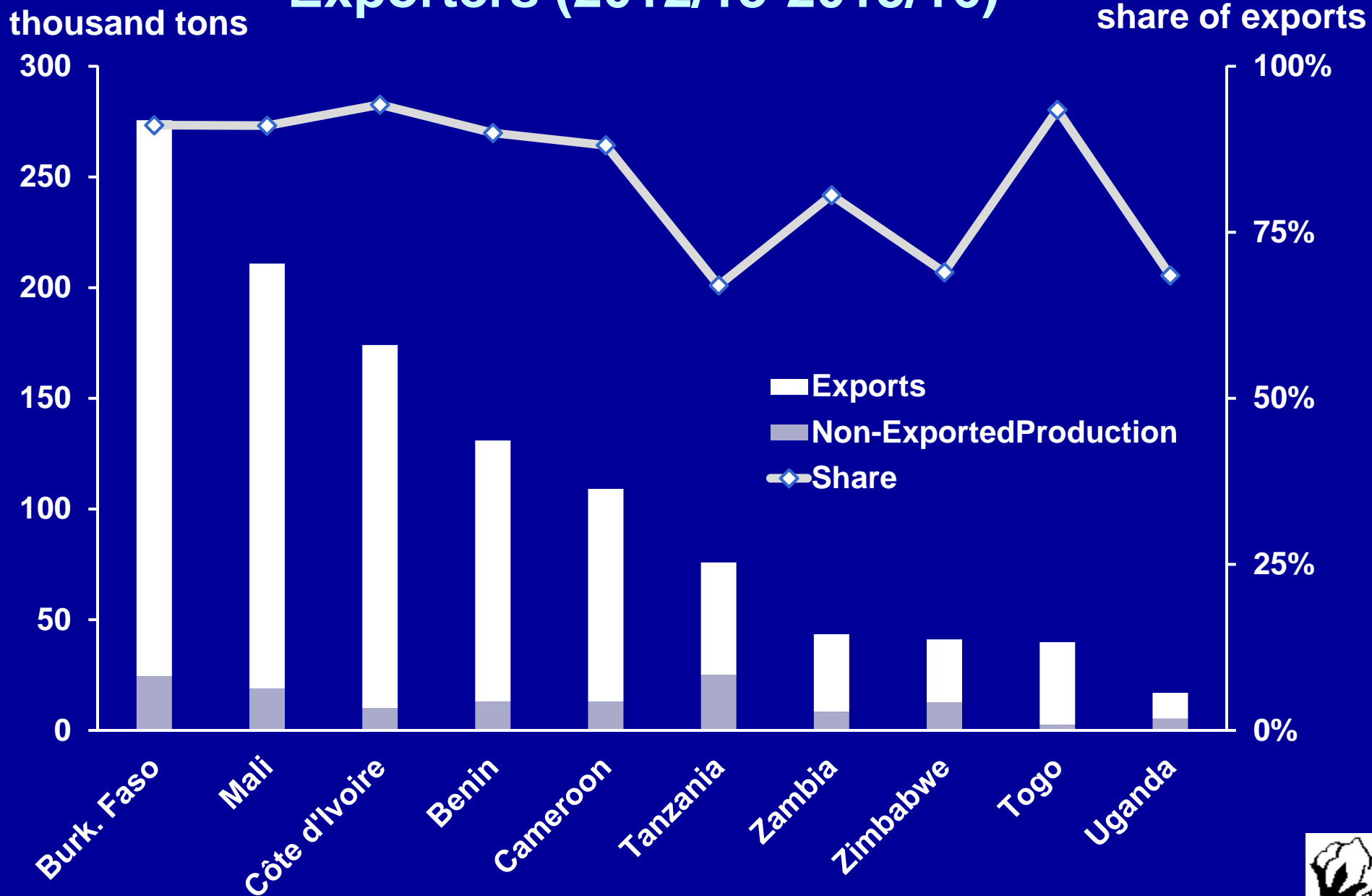
■ Africa ■ Rest of World - Share



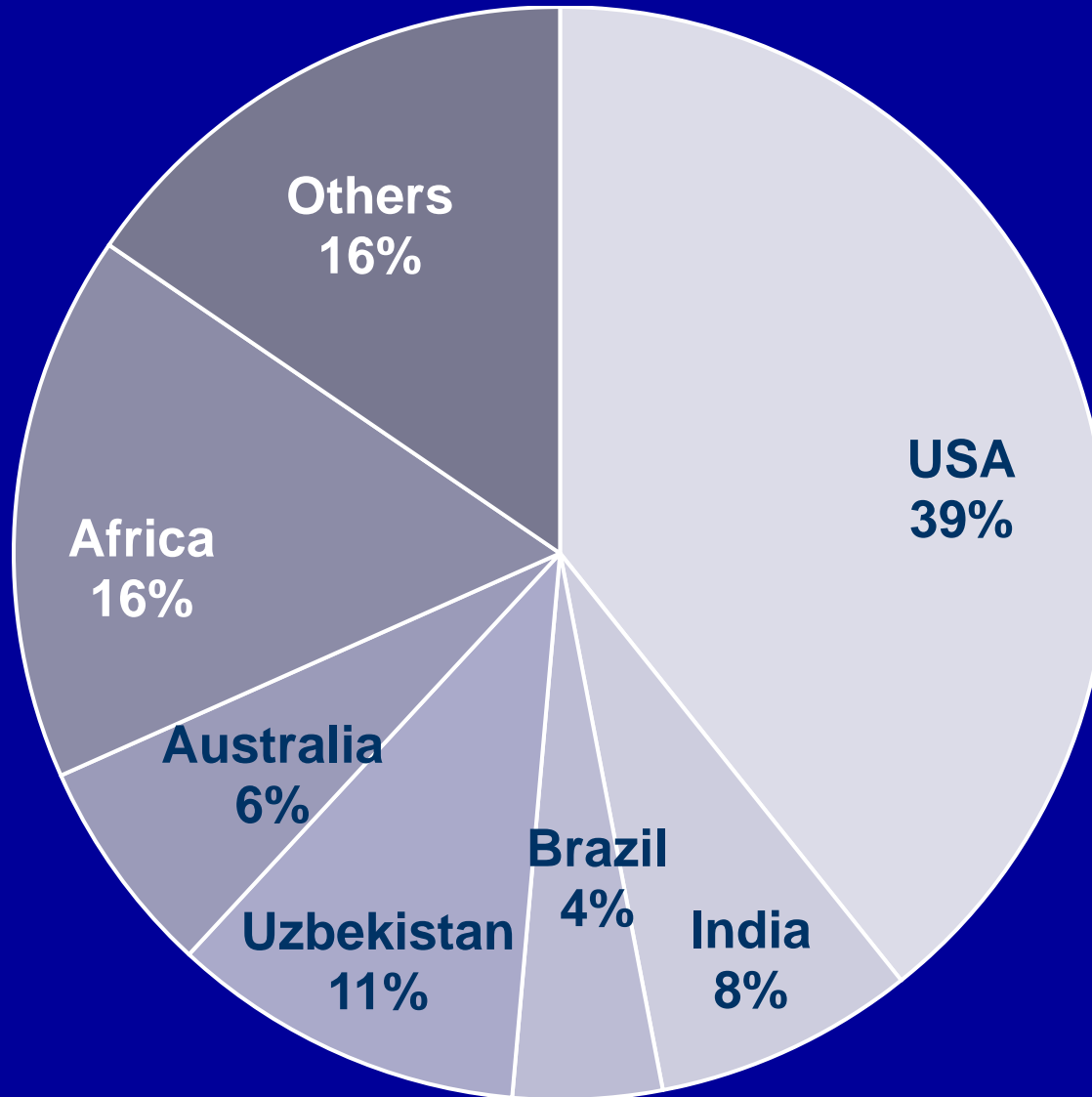
Top African Exporters



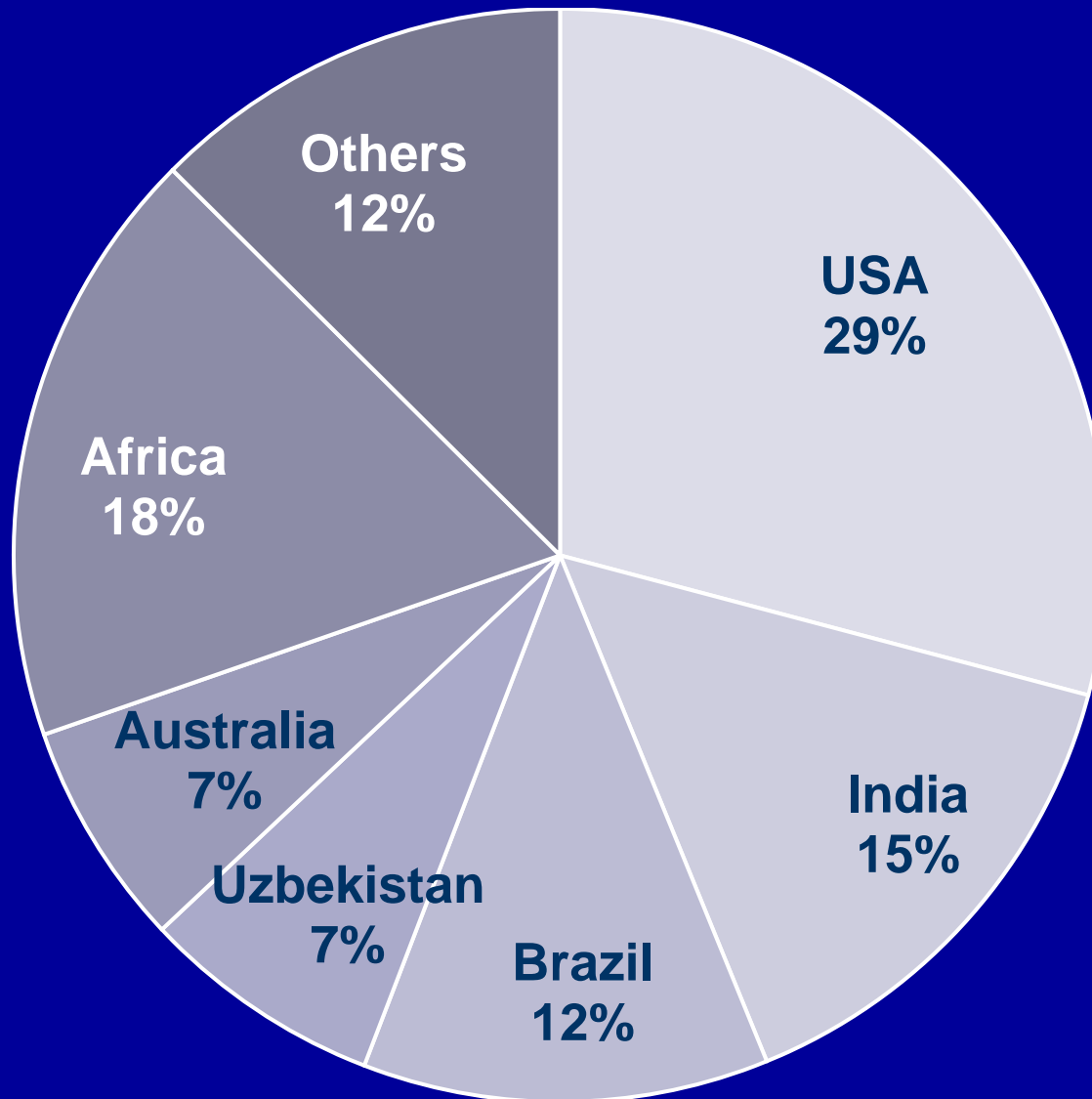
Share of Exports in Production of Top African Exporters (2012/13-2015/16)



World Exports 2005/06

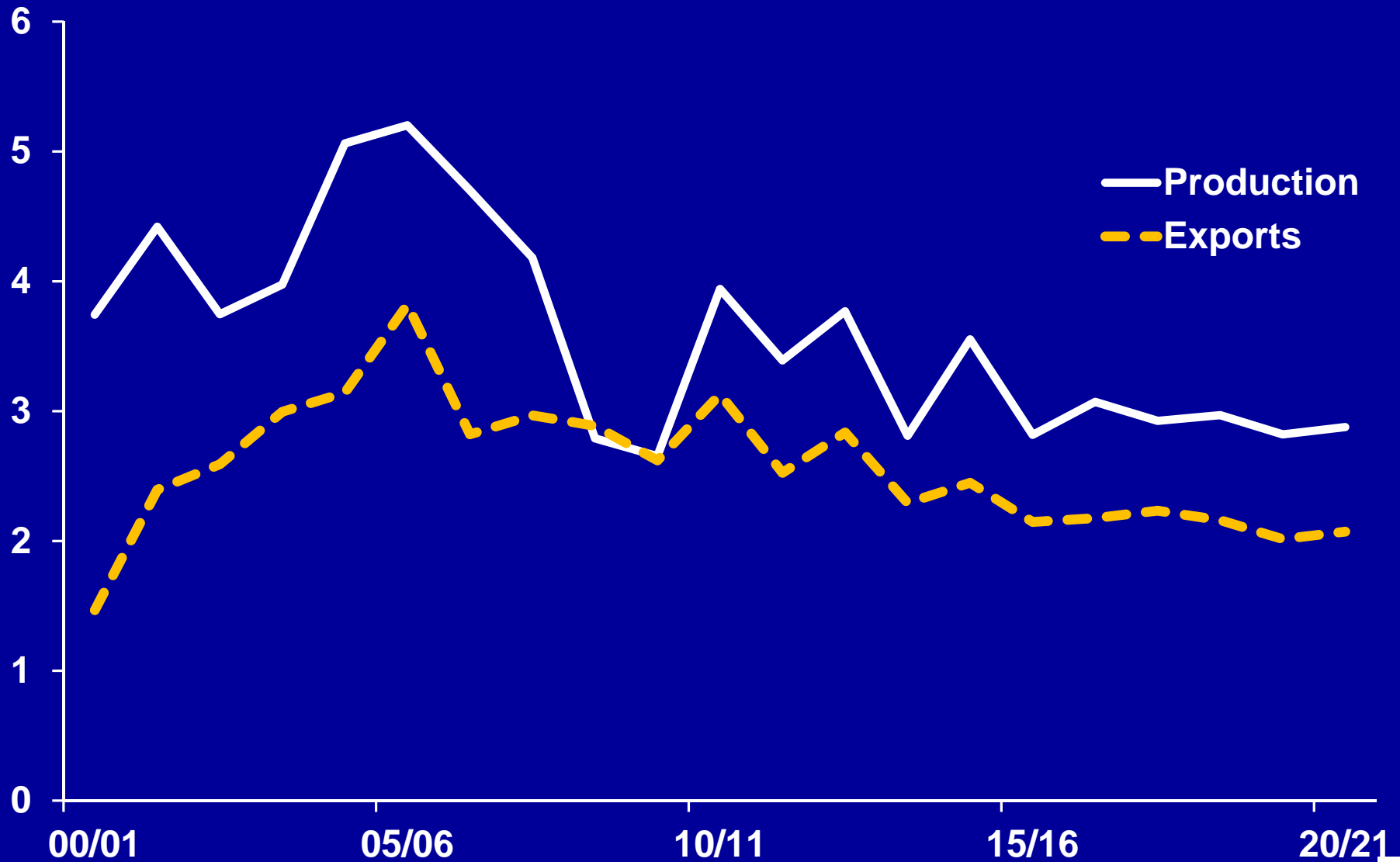


World Exports 2015/16



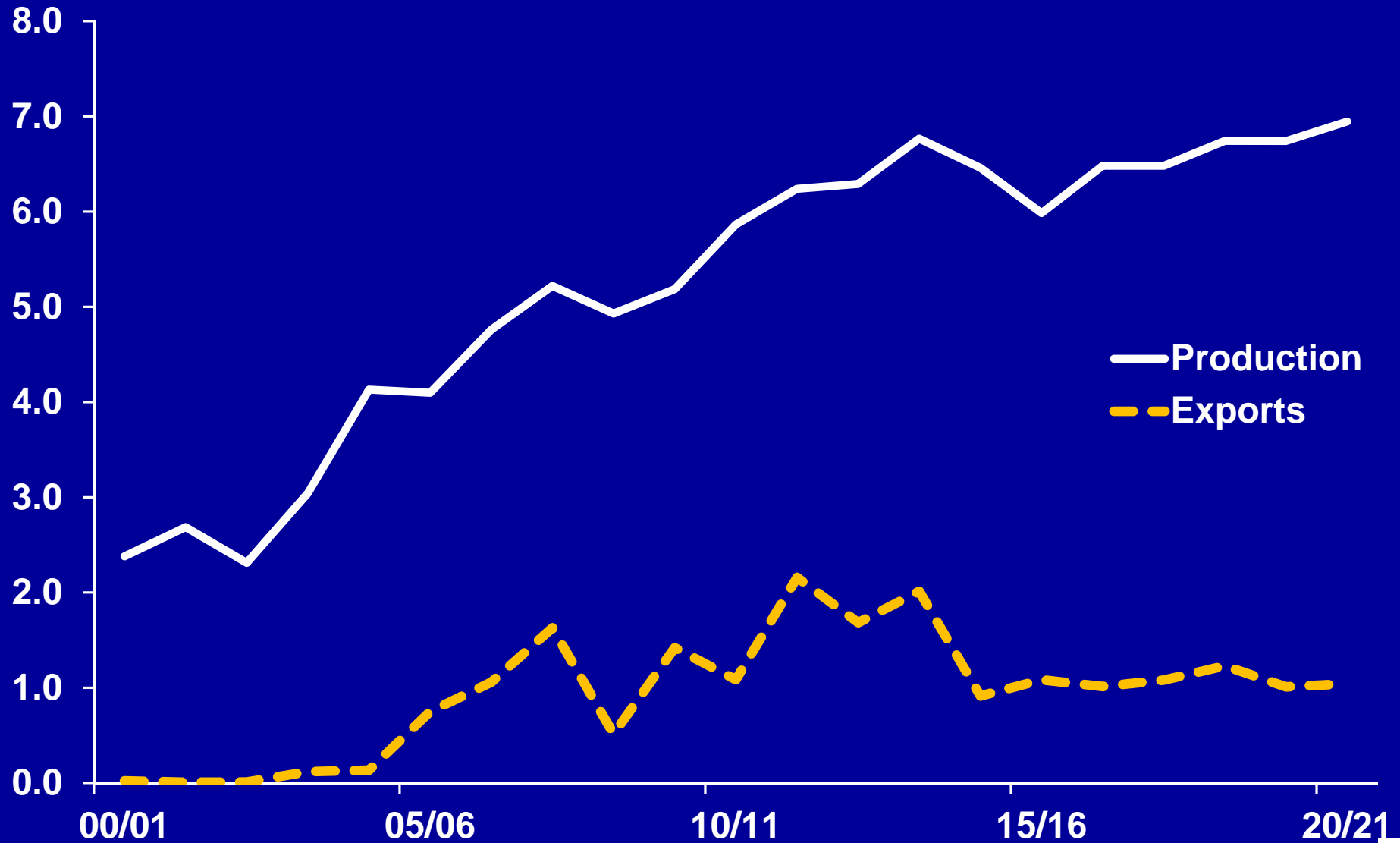
U.S. Production & Exports

million tons



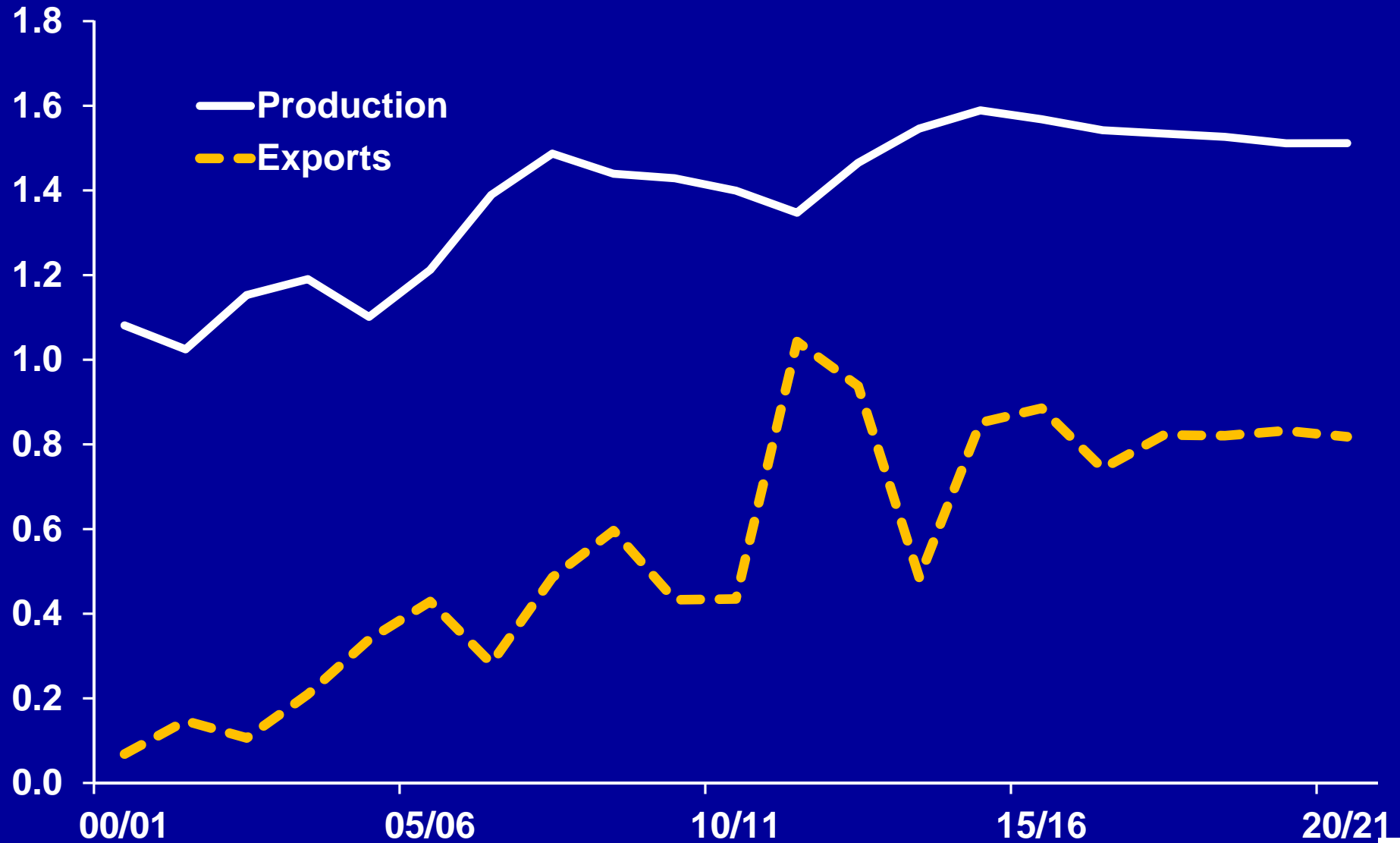
India Production & Exports

million tons

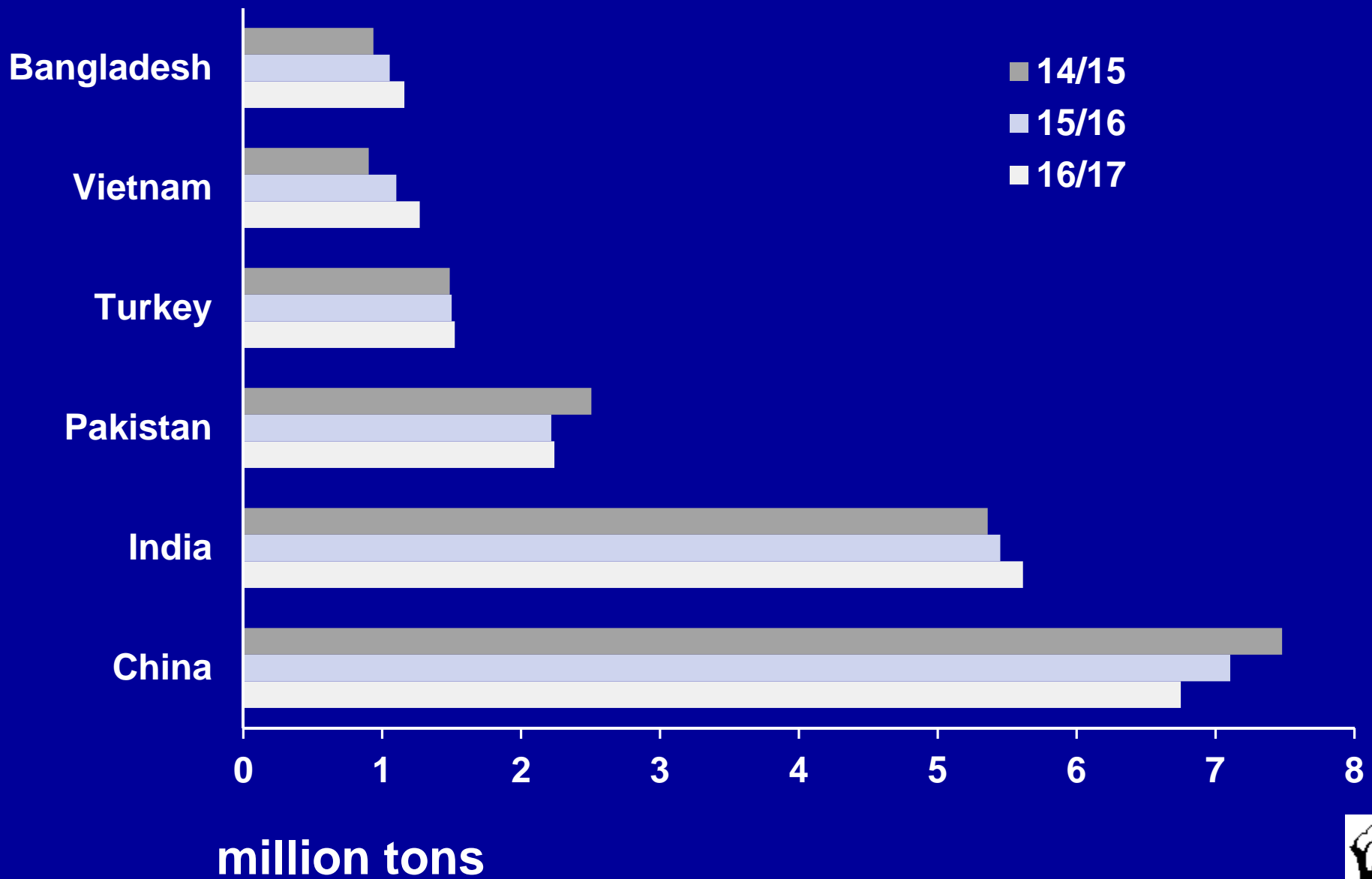


Brazil Production & Exports

million tons

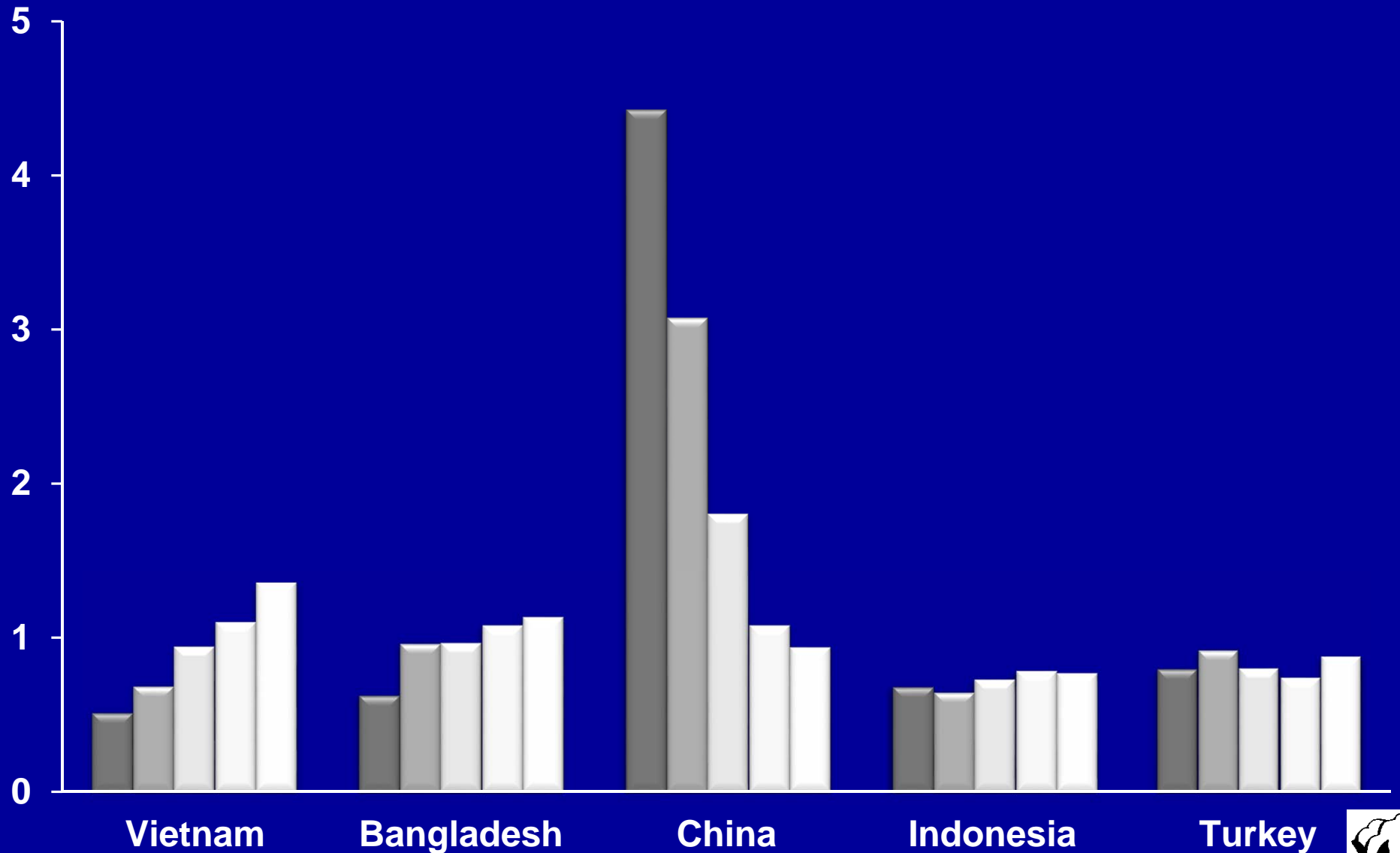


Cotton Consumption



Cotton Imports by Country 2012/13 to 2016/17

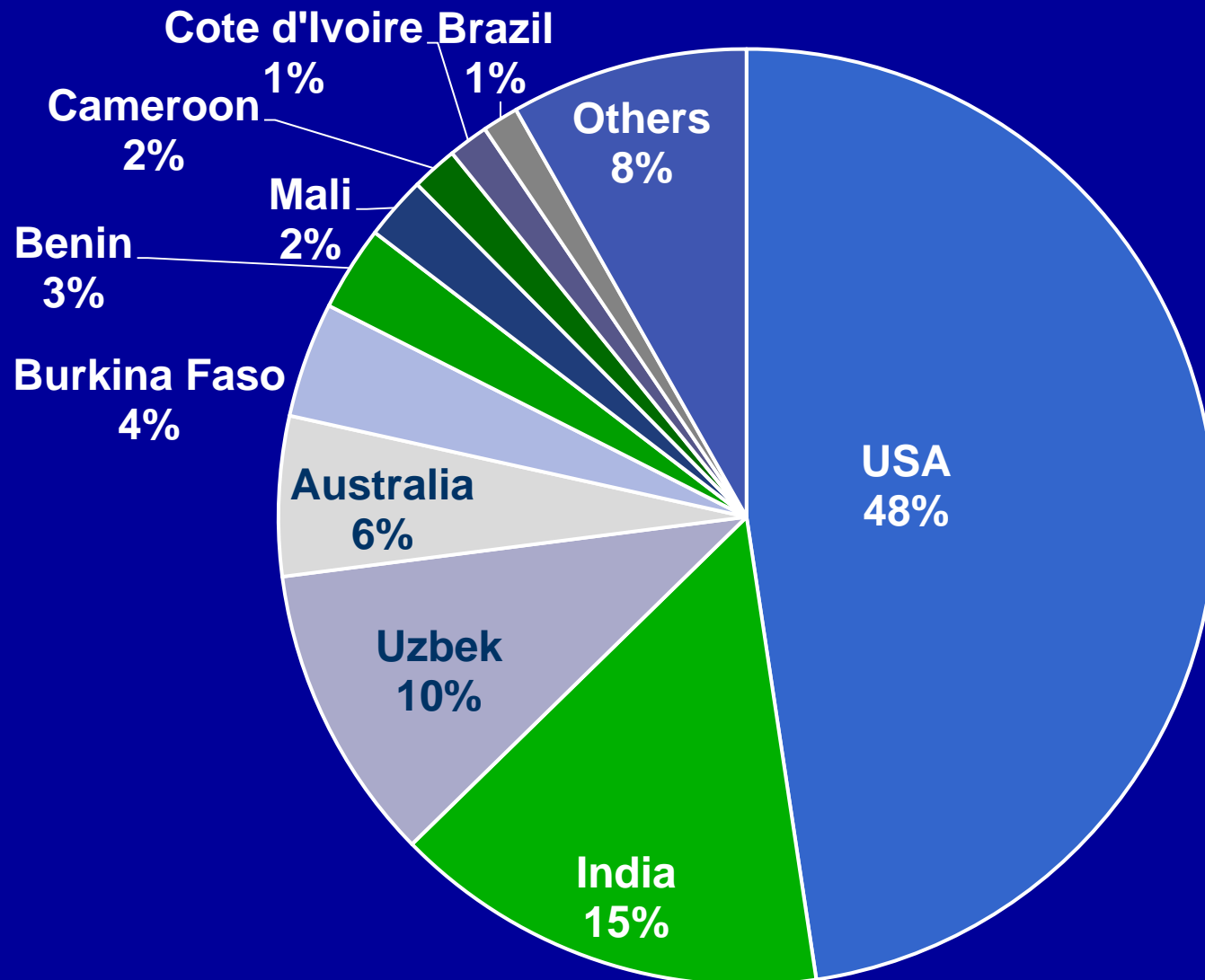
million tons



China Imports by Country

Average for 2002/03 to 2007/08

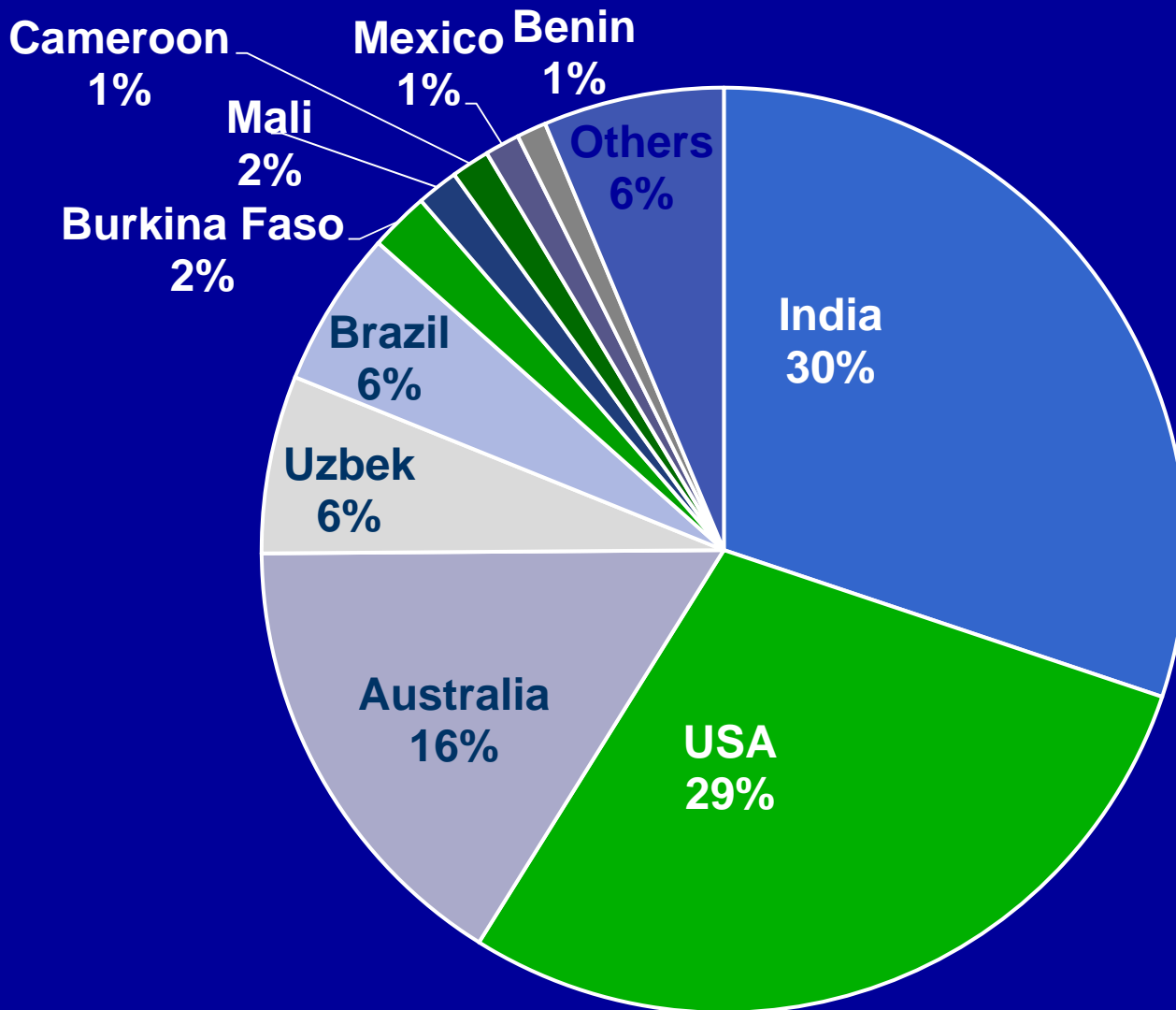
2.2 million tons



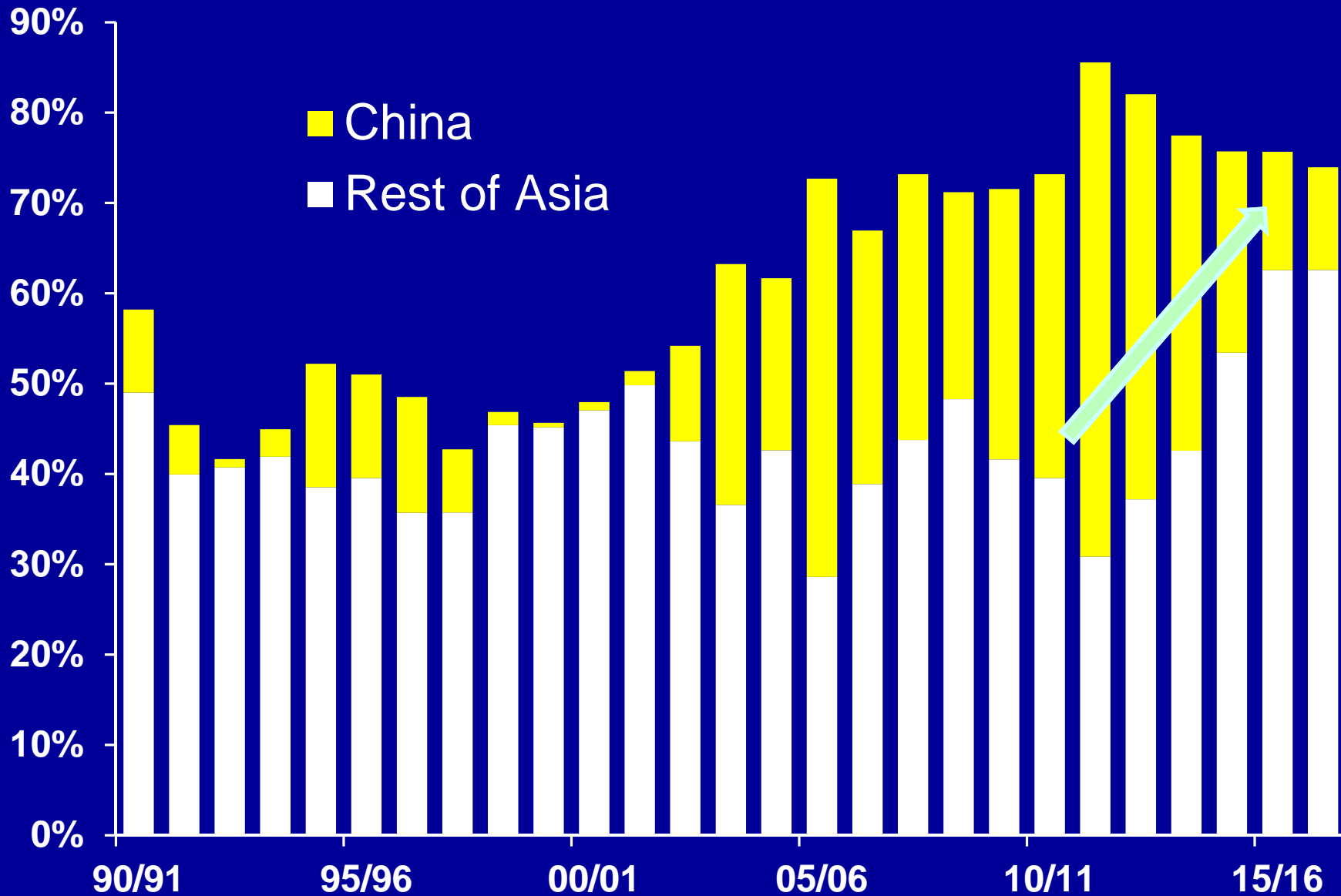
China Imports by Country

Average for 2010/11 to 2014/15

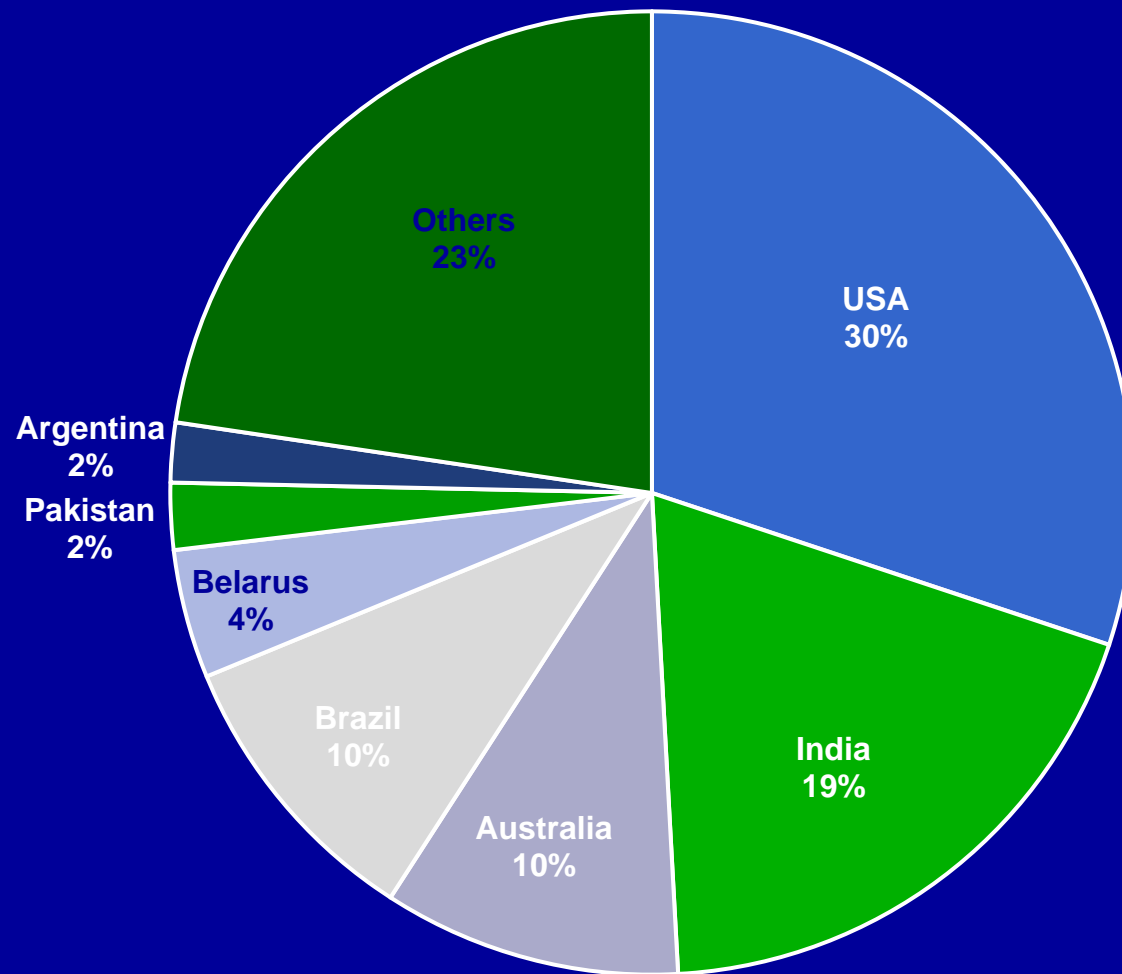
3.9 million tons



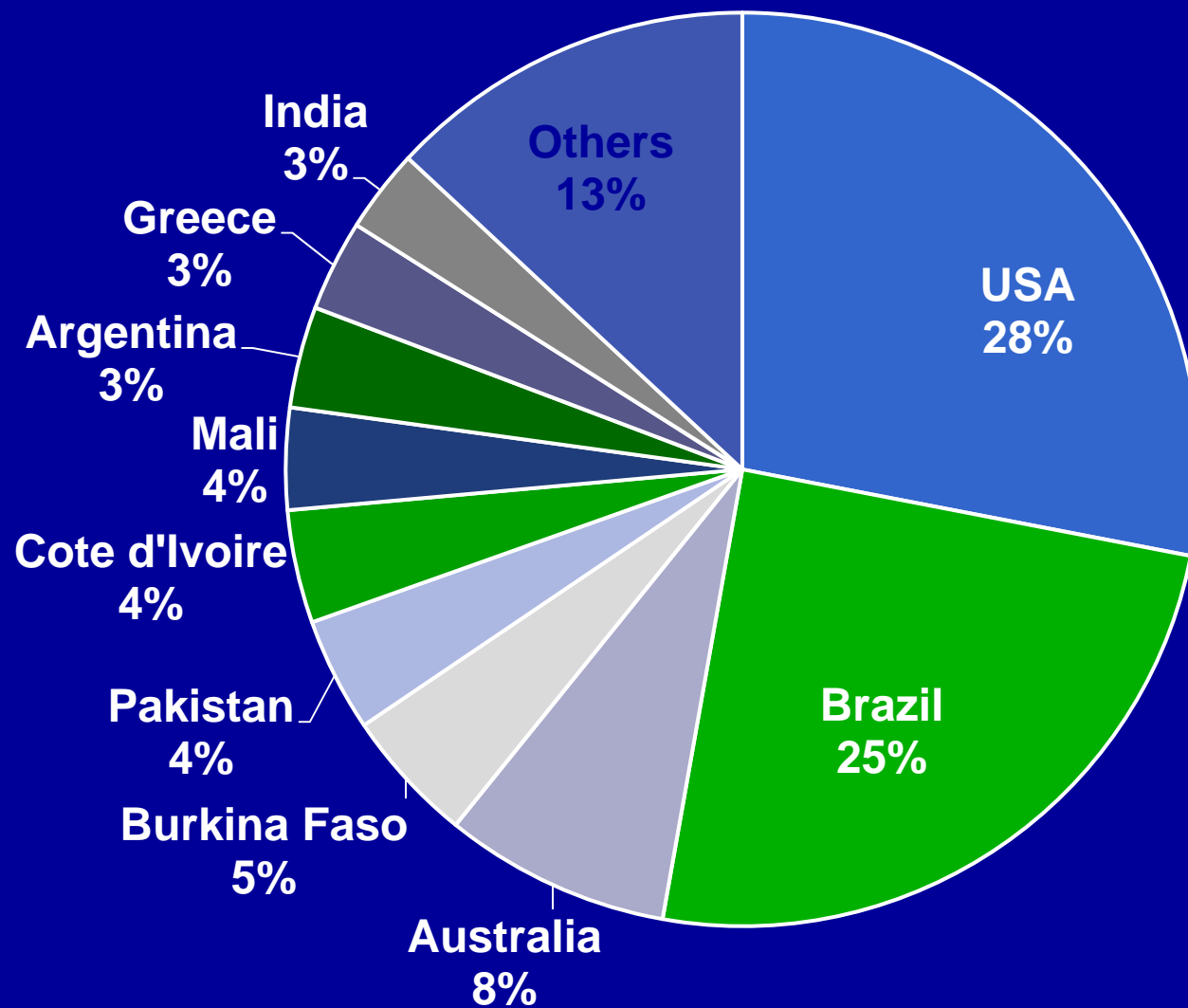
Share of World Imports



Vietnam Imports by Country 2014 Calendar Year



Indonesia Imports by Country 2014/15



Daily Prices: August 2013 to February 2016

U.S. Cents/lb.

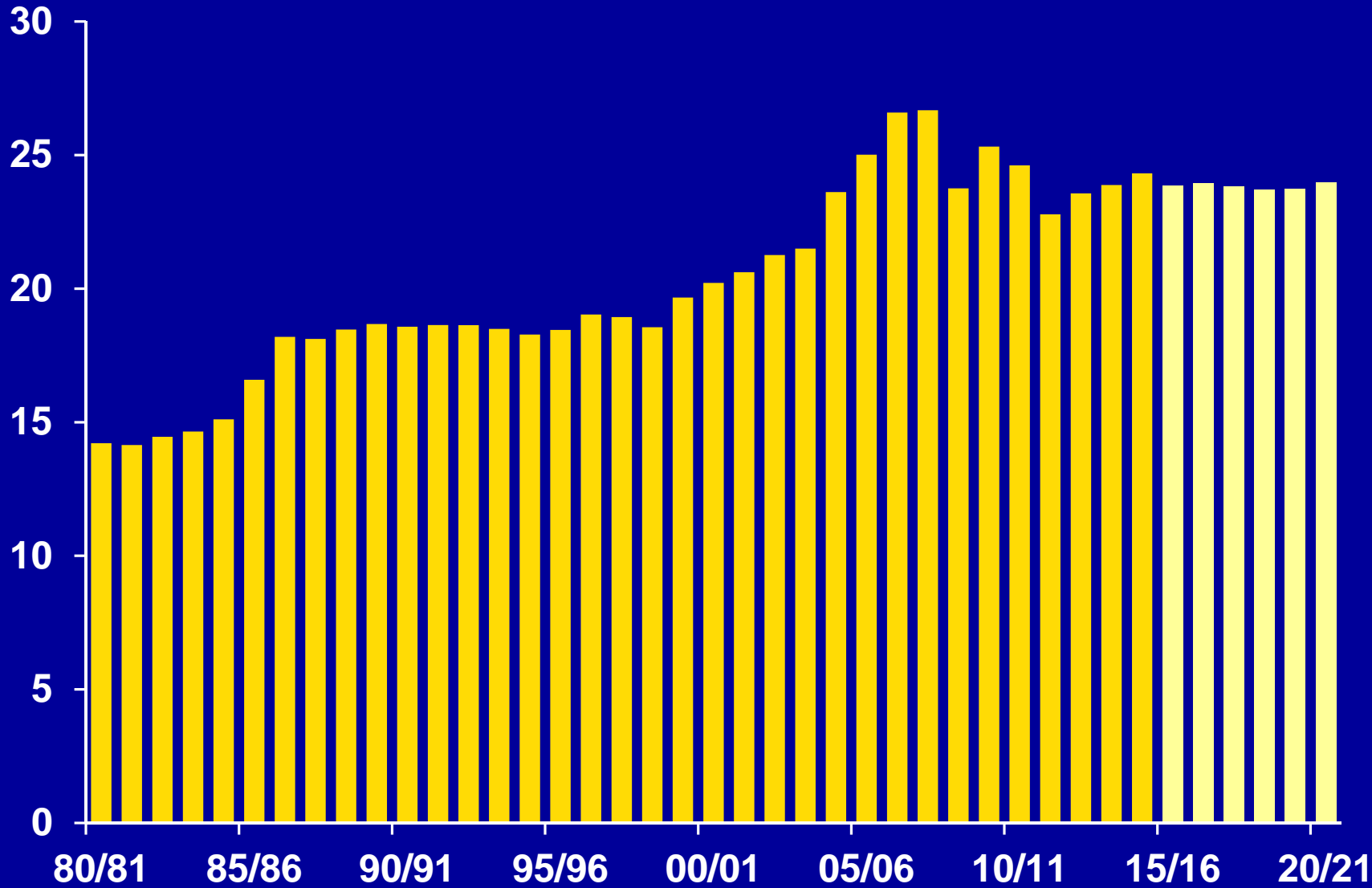


Source: Cotton Outlook Ltd.



Outlook World Cotton Consumption

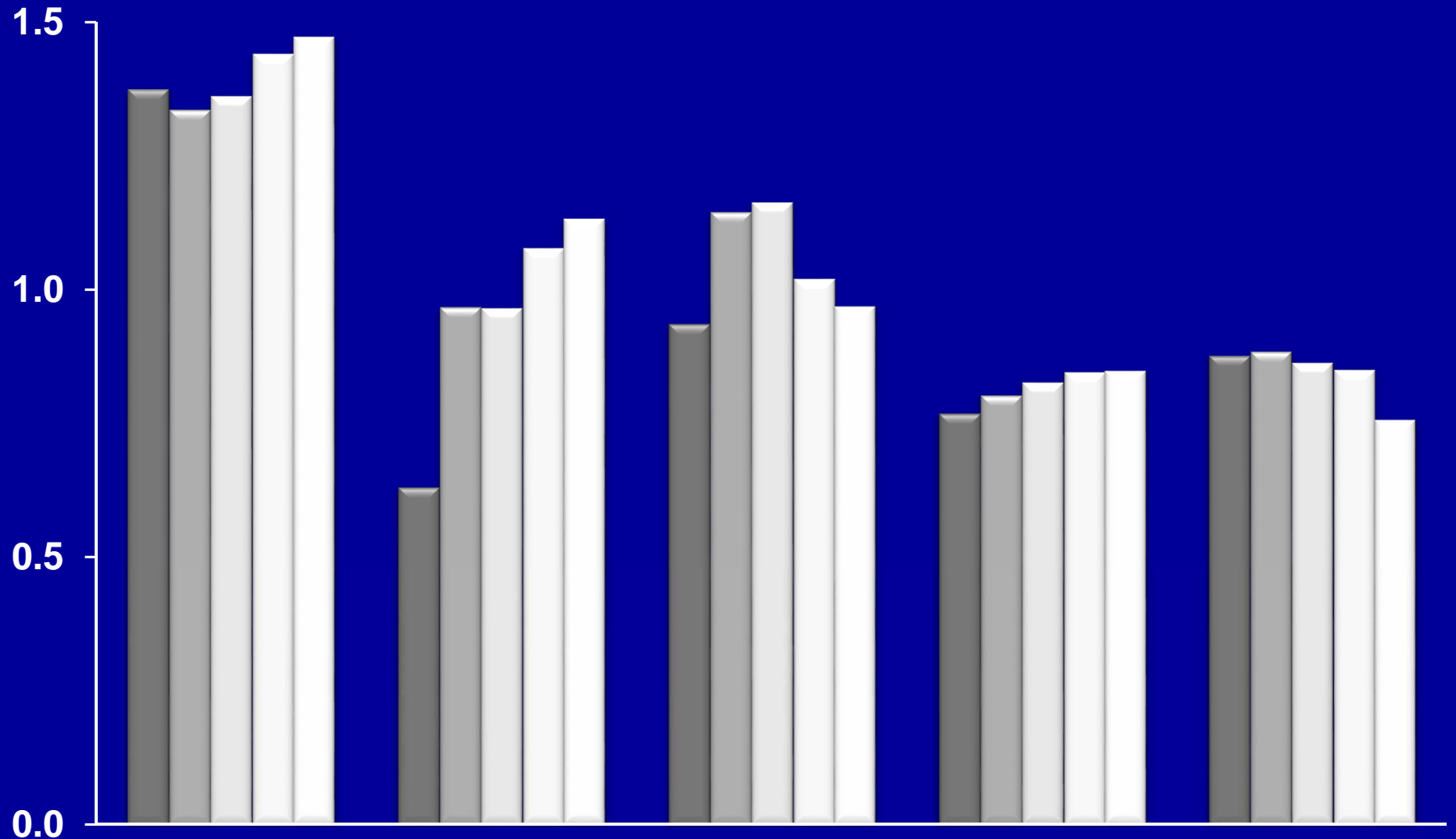
million tons



Cotton Imports by Country

2016/17 to 2020/21

million tons



Vietnam

Bangladesh

China

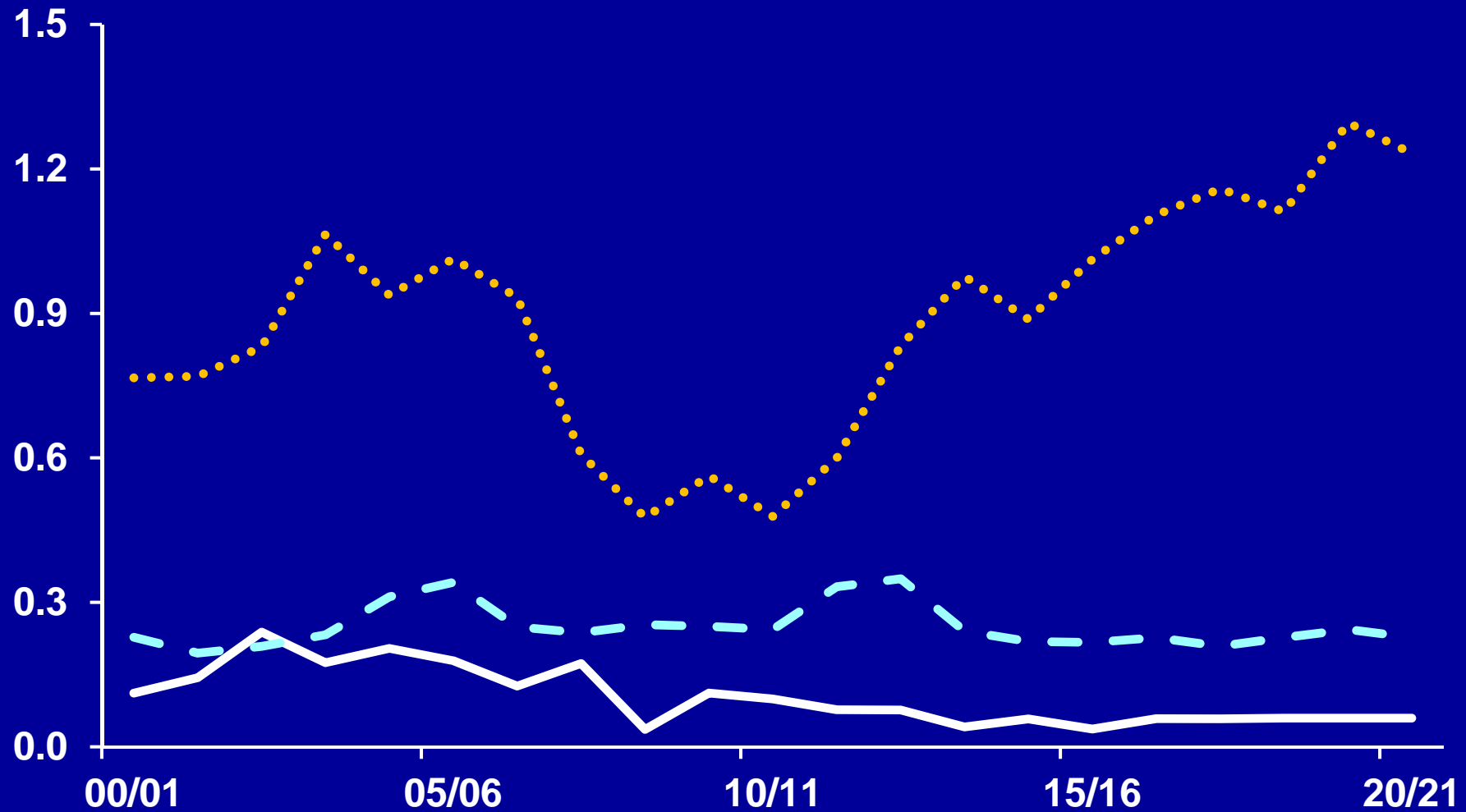
Indonesia

Turkey



Outlook for African Exports by Region

million tons



— North Africa ●●● Francophone Africa - - - South & East Africa



Thank you

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