



Current Developments in the World Cotton Market and Short-term Outlook* *(Updated October 22, 2003)*

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Prices Recovered in 2002/03

Historically low prices in 2001 led to reduced production and record consumption in 2002/03. Cotton mill use rose to 20.8 million tons, outpacing production by 1.5 million tons. World ending stocks fell to an eight-year low of 8.8 million tons by July 31, 2003. Ending stocks outside China (Mainland) declined after rising for seven consecutive seasons. Net imports by China (Mainland) surged to over half a million tons. As a result, average international cotton prices recovered to 56 cents per pound, up 14 cents from the 30-year low of 2001/02. Yet, prices remained below the average of 70 cents per pound since 1973/74 for the fifth consecutive season.

Supply Down in 2003/04

Higher prices are boosting world production in 2003/04 but the rise in prices and the relatively slow economic growth is expected to reduce the rate of growth of world consumption.

World cotton supply (beginning stocks plus production) is expected to decline by some 700,000 tons in 2003/04 to an estimated 29.2 million tons, two million tons less than in 2001/02 and the lowest in five seasons.

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, 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.

* Paper presented to the 2003 China International Cotton Conference, 27-31 October 2003, Jiuzhaigou, Sichuan Province, China (Mainland). The International Cotton Advisory Committee is an association of 42 governments of cotton producing and consuming countries. The Secretariat of the Committee publishes information related to world cotton production, supply, demand and prices, and provides technical information on cotton production technology. Detailed statistics are found bimonthly in *COTTON: Review of the World Situation*, \$160 per year. A monthly outlook by fax is also available for \$300 per year or on the Internet (www.icac.org) for \$250 per year. Access to the weekly estimates of world cotton supply and use by the Secretariat is also available on the Internet for \$500 per year.

It is estimated that 20% of the 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 close to 40% by 2007/08, accounting for almost half of world output.

The U.S. dollar weakened against the currencies of most developed countries, but it remains relatively strong against the currencies of most developing countries. Yet, the weaker dollar has a negative impact on cotton prices in domestic currencies in the EU, the African franc zone and Australia.

World cotton area is estimated up by 8% to about 32.5 million hectares in 2003/04, close to the average since 1980/81. Cotton area planted in the Northern Hemisphere increased by 6% and plantings in the Southern Hemisphere are expected to rise by 29%.

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, yield in 2002/03 do not show any improvement from the average yield during the nineties. Weather was not favorable in major cotton producing areas and the world average yield is expected to stumble to 628 kilograms per hectare in 2003/04, down 10 kilograms per hectare from last season.

Production Up

World cotton production is forecast to rise by 1.1 million tons (6%) to 20.4 million tons in 2003/04, the third largest crop on record. World production of upland cotton is forecast to increase by 7%. In contrast, world production of extra-fine cotton is expected to drop by 16%, from 700,000 tons in 2002/03 to less than 600,000 tons this season.

Production in China (Mainland) is expected up 300,000 tons to 5.2 million tons, maybe less. U.S. production is forecast slightly up to 3.8 million tons. In India, output is expected to rebound to 2.75 million tons, up 450,000 tons. In Pakistan, production is forecast to reach 1.8 million tons. Production in the African franc zone is expected up to surpass one million 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 a record of one million tons, up 150,000 tons. In contrast, Australian production is projected to collapse to a 16-year low of 280,000 tons.

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 up. Prices of polyester, the main competitor of cotton, fell sharply since March 2003 and cotton is now more expensive. The bottom line is that the growth rate of world cotton mill use is expected to abate from 3% in 2002/03 to about 1.4% in 2003/04. Still, world mill use is projected to reach a record of 21.1 millions tons.

The booming textile industry in China (Mainland) has been the driving force behind the increase in world cotton mill use. Between 1999/00 and 2002/03, mill cotton consumption in China (Mainland) jumped by an estimated 1.6 million tons, whereas mill use decreased by 400,000 tons 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% nine percentage points more than in 1998/99. Mill use in the rest of the world is expected to stumble to 14.4 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 1.4 million tons in 2003/04, down 1.1 million tons from 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.

World Exports Down

Skyrocketing imports by China (Mainland) boosted world cotton exports to a record of 6.7 million tons in 2002/03, 35% of world production. Cotton produced with genetically engineered varieties is entering the world textile pipeline in increasing volumes and accounted for an estimated 34% of world cotton exports in 2002/03. There are no price differentials between genetically engineered and conventionally produced cotton fiber and textiles. World exports are expected to decline to 6.5 million tons this season, 32% of world production. With the exception of the United States and Brazil, the top 10 consuming countries will be net importers in 2003/04. China (Mainland)'s imports are projected to reach a record of 1.1 million tons in 2003/04.

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. 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 2.4 million tons in 2003/04, 37% of world exports, despite a further increase in shipments to China (Mainland). Exports from the African franc zone and Brazil are forecast up.

Stocks Shrinking

World ending stocks are expected to decrease by 700,000 tons in 2003/04, to 8.1 million tons. The world stocks-to-use ratio is forecast to decline from 42% to 38%, the lowest since 1993/94. Ending stocks outside China (Mainland) are projected to shrink to a three-year low of 6.7 million tons in 2003/04. Yet, the stocks-to-use ratio outside China (Mainland) is forecast up from 51% last season to 54% in 2003/04. The ratio averaged 40% during the 1990s.

Price Projections

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 exceed one million tons in 2003/04, double from last season.

Market fundamentals suggest that the Cotlook A Index will average 65 cents per pound in 2003/04, nine cents higher than last season. This would be the highest average in six seasons, but still five cents below the 30-year average.

The value of world cotton production is estimated at over \$29 billion in 2003/04, up \$5.5 billion from last season and \$9.4 billion more than in 2001/02. However, the average revenue per hectare, estimated at about \$900, will remain lower, in real terms, than before 1998/99, in spite of the improvement in world average yield. Subsidies and other government measures continue to have a negative impact on cotton production and trade affecting cotton farmers, especially in the developing and least developed countries.

Initial projections for the 2004/05 season suggest that world production will climb to a record of 21.9 million tons, outpacing consumption by half a million tons, while net imports by China (Mainland) are projected at 950,000 tons. Consequently, the forecast for the season average Cotlook A Index in 2004/05 is 60 cents per pound, down five cents from the projection for 2003/04.



SUPPLY AND DISTRIBUTION OF COTTON

October 22, 2003

Years Beginning August 1

	1999	2000	2001	2002 Est.	2003 Proj.	2004 Proj.
Million Metric Tons						
BEGINNING STOCKS						
WORLD TOTAL	10.699	10.097	9.664	10.617	8.79	8.10
CHINA (MAINLAND)	5.023	3.812	2.987	2.730	1.87	1.42
USA	0.858	0.852	0.000	1.622	1.17	1.19
NET EXPORTERS	2.754	2.765	3.096	3.838	3.14	2.96
NET IMPORTERS 1/	7.945	7.332	6.568	6.779	5.65	5.14
PRODUCTION						
WORLD TOTAL	19.090	19.461	21.509	19.263	20.39	21.90
CHINA (MAINLAND)	3.829	4.420	5.320	4.920	5.20	6.19
USA	3.694	3.742	4.420	3.747	3.81	3.90
INDIA	2.652	2.380	2.686	2.312	2.75	2.64
PAKISTAN	1.911	1.816	1.802	1.736	1.79	1.79
UZBEKISTAN	1.128	0.975	1.055	1.033	0.94	0.99
TURKEY	0.791	0.880	0.922	0.900	0.93	0.94
OTHERS	5.084	5.248	5.303	4.615	4.97	5.45
CONSUMPTION						
WORLD TOTAL	19.644	19.882	20.185	20.818	21.07	21.43
CHINA (MAINLAND)	4.700	5.200	5.600	6.300	6.70	7.00
INDIA	2.939	2.924	2.910	2.882	2.91	2.95
EU, C. EUR. & TURKEY	2.427	2.363	2.436	2.393	2.31	2.29
EAST ASIA & AUSTRALIA	2.094	2.075	2.127	2.052	1.98	1.96
PAKISTAN	1.698	1.764	1.883	2.034	2.09	2.16
USA	2.230	1.929	1.676	1.583	1.39	1.25
BRAZIL	0.852	0.873	0.830	0.760	0.78	0.81
CIS	0.561	0.657	0.669	0.667	0.69	0.72
OTHERS	2.144	2.097	2.053	2.147	2.22	2.29
EXPORTS						
WORLD TOTAL	6.107	5.855	6.467	6.667	6.52	6.66
USA	1.470	1.472	2.395	2.591	2.41	2.29
UZBEKISTAN	0.893	0.800	0.810	0.809	0.69	0.71
CFA ZONE	0.771	0.755	0.756	0.837	1.08	1.02
AUSTRALIA	0.696	0.849	0.662	0.595	0.35	0.42
GREECE	0.310	0.244	0.290	0.275	0.26	0.31
SYRIA	0.252	0.212	0.180	0.120	0.19	0.15
CHINA (MAINLAND)	0.370	0.097	0.074	0.164	0.05	0.05
IMPORTS						
WORLD TOTAL	6.055	5.748	6.150	6.425	6.52	6.66
EAST ASIA & AUSTRALIA	2.052	1.995	2.148	2.012	1.85	1.88
EU, C. EUR. & TURKEY	1.652	1.453	1.597	1.357	1.24	1.22
CIS	0.316	0.412	0.412	0.412	0.41	0.41
SOUTH AMERICA	0.525	0.316	0.242	0.335	0.27	0.30
CHINA (MAINLAND)	0.030	0.052	0.098	0.685	1.10	1.00
TRADE IMBALANCE 2/	-0.052	-0.106	-0.318	-0.242	0.00	0.00
STOCKS ADJUSTMENT 3/	0.004	0.094	-0.054	-0.030	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	10.097	9.664	10.617	8.790	8.10	8.57
CHINA (MAINLAND)	3.812	2.987	2.730	1.871	1.42	1.56
USA	0.852	1.307	1.622	1.172	1.19	1.55
NET EXPORTERS	2.765	3.096	3.838	3.143	2.96	3.39
NET IMPORTERS 1/	7.332	6.568	6.779	5.647	5.14	5.18
ENDING STOCKS/USE 4/	0.40	0.45	0.54	0.51	0.54	0.55
COTLOOK A INDEX 5/	52.80	57.20	41.80	55.70	65*	60*

1/ Includes Brazil, China (Mainland), Colombia, India, Mexico, Pakistan, Turkey and traditional importers.

2/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

3/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

4/ World-less-China (Mainland) ending stocks minus China net exports, quantity divided by world-less-China consumption.

5/ U.S. Cents per pound. The projections for 2003/04 and 2004/05 are based on net China (Mainland) trade and world-less-China (Mainland) ending stocks-to-use ratio.

*/ 95% confidence interval extends 12 cents above and below the point estimate.