

# The Crises Influencing the World Cotton Market



Armelle Gruère, ICAC  
April 8, 2009

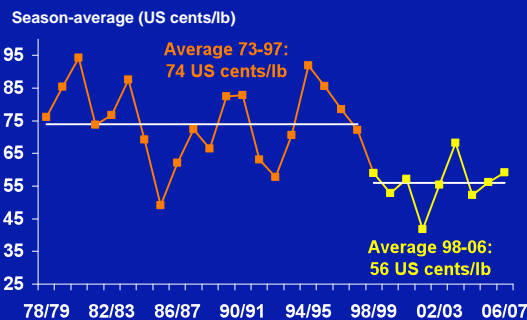


## Outline

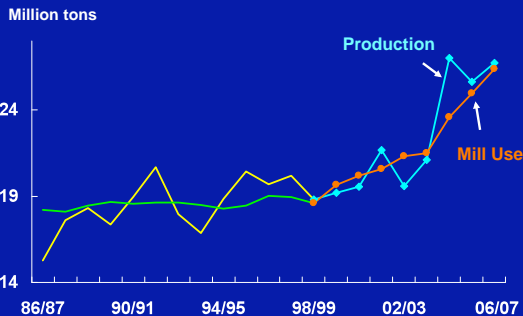
1. The world cotton market until 2006/07
2. The world cotton market in 2007/08 and 2008/09
  - The crises affecting the world cotton market
  - Cotton prices in 2007/08 and 2008/09
  - Increased government support in 2008/09
3. 2009/10 world cotton supply and use outlook

## THE WORLD COTTON MARKET BETWEEN 1998/99 AND 2006/07

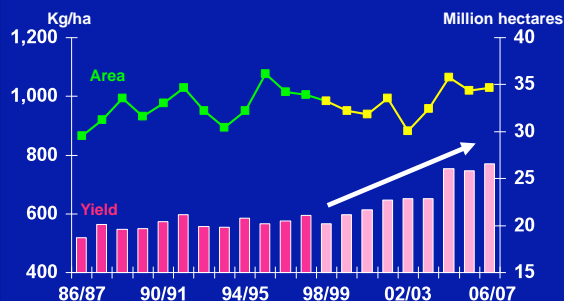
## Cotlook A Index

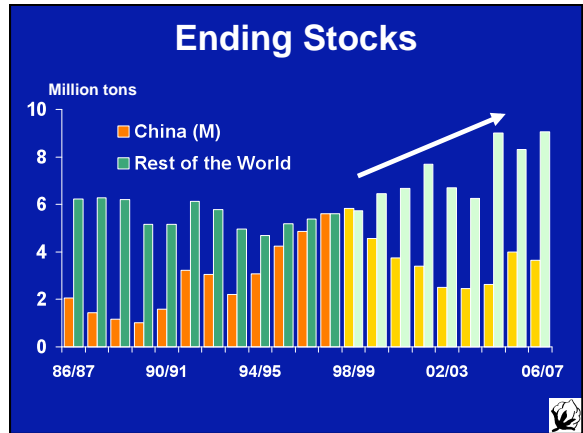
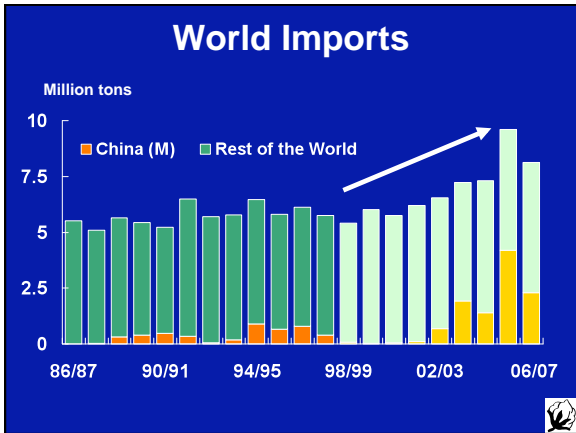


## World Production & Mill Use



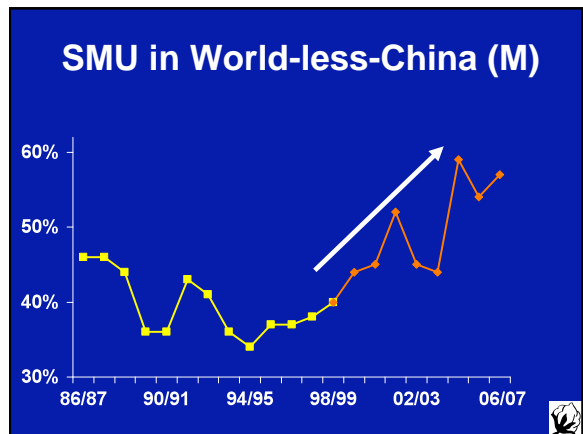
## World Cotton Area and Yield



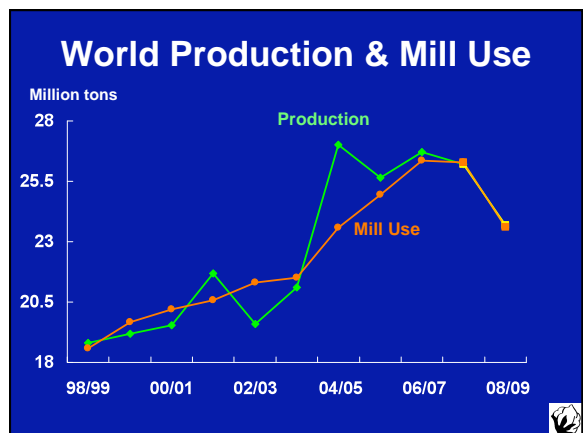


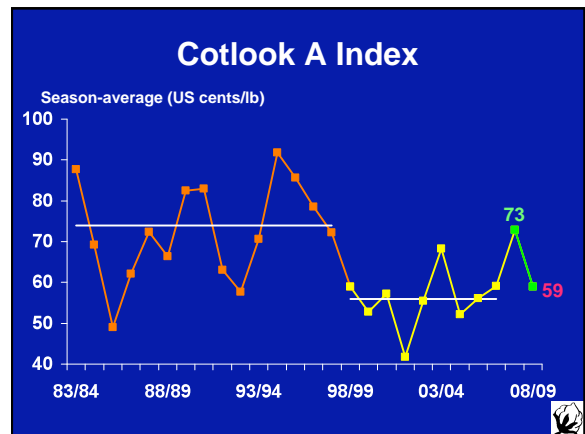
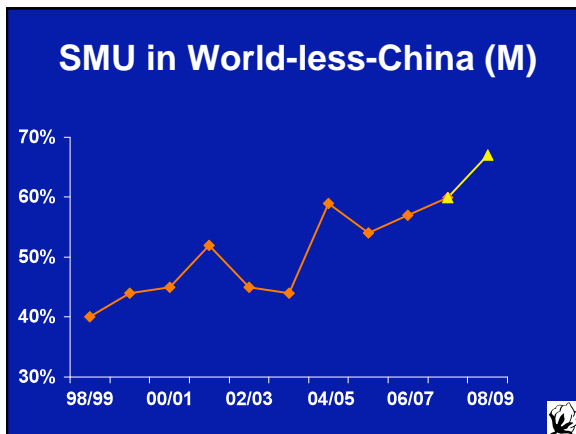
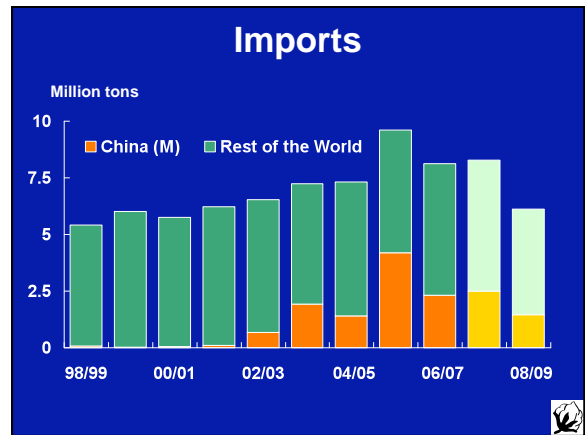
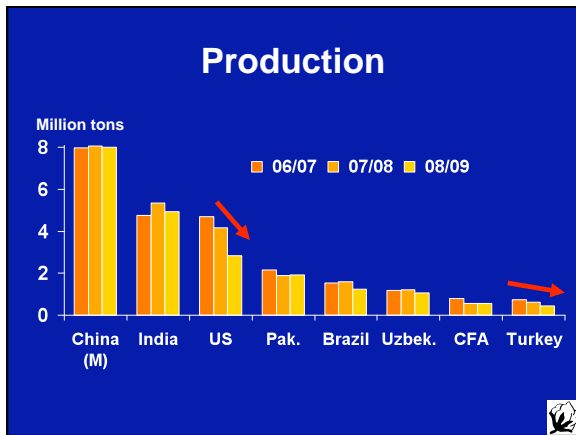
### Variables Affecting ICAC Cotton Price Forecast

- Main variable  
= Stocks-to-mill use ratio (SMU)  
= Ending Stocks/Mill Use  
in World-less-China (M)



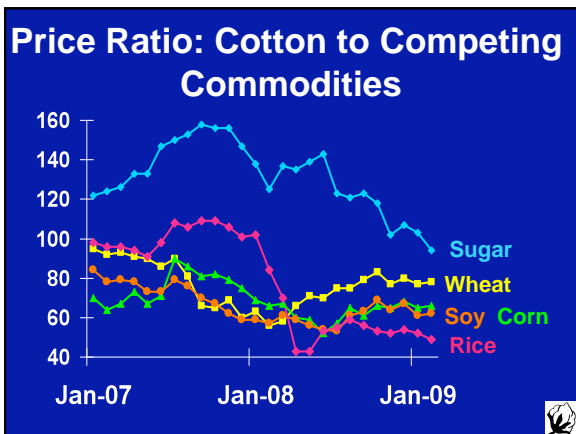
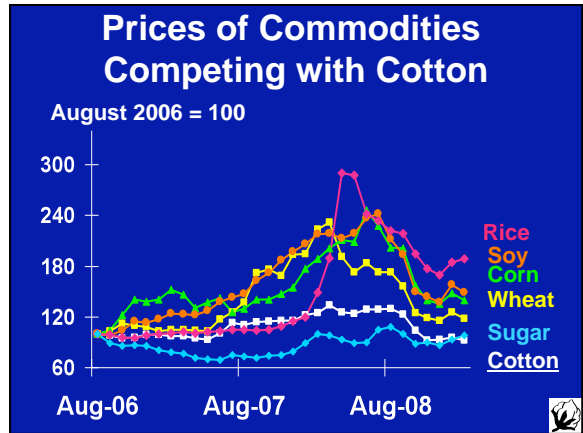
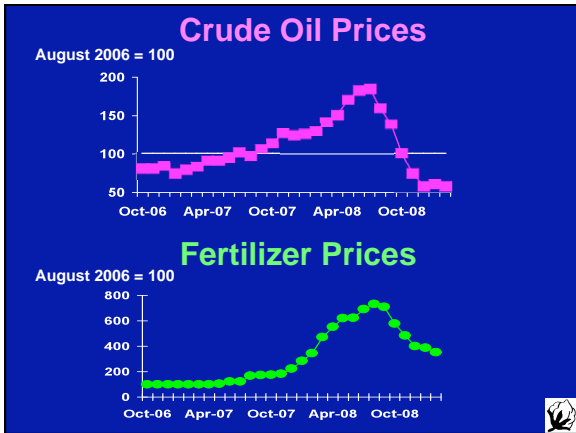
### THE WORLD COTTON MARKET IN 2007/08 AND 2008/09





- ### The Crises Affecting the World Cotton Market
1. Global Commodity Price Crisis
  3. Cotton Futures Market Crisis
  5. Global Financial and Economic Crisis

- ### 1. Global Commodity Price Crisis

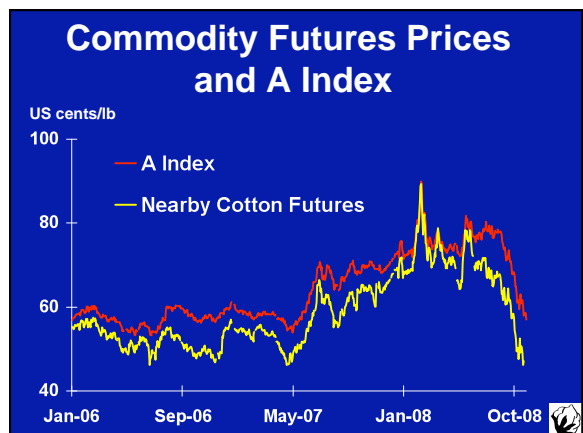


**Global Commodity Price Crisis**

- Increase in cotton production costs
- Prices of competing crops rose faster than cotton prices

⇒ contributed to the decline in world cotton area and production in 2007/08 and 2008/09

**2. Cotton Futures Market Crisis**



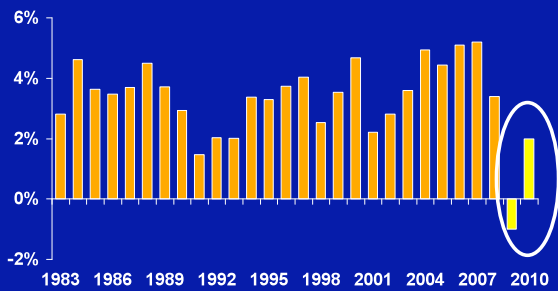
## Cotton Futures Market Crisis

- March 2008 spike in cotton futures prices
- ⇒ Substantial losses amongst cotton merchants
- ⇒ Trading cotton is harder than in the past

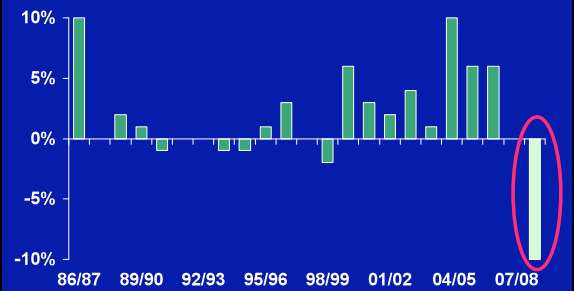


## 3. Global Financial and Economic Crisis

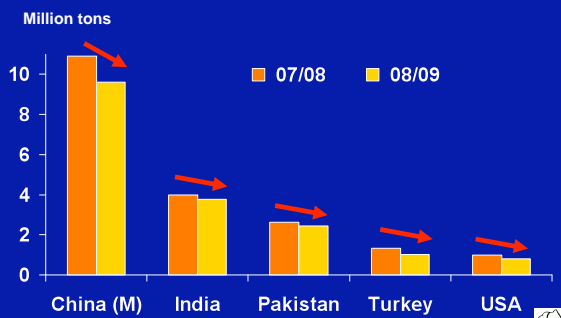
### Growth in World GDP



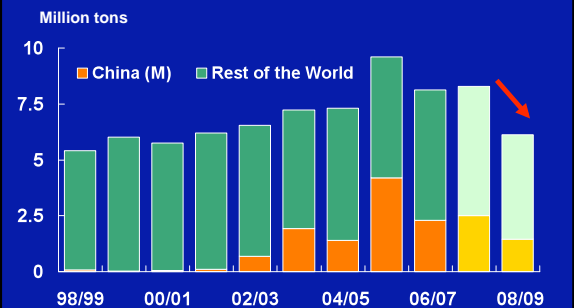
### Growth in World Cotton Mill Use

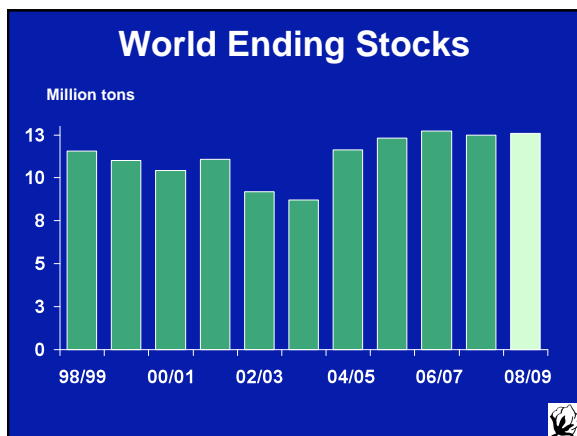
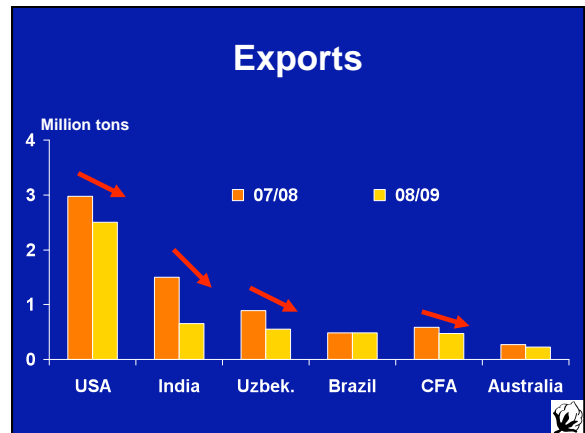
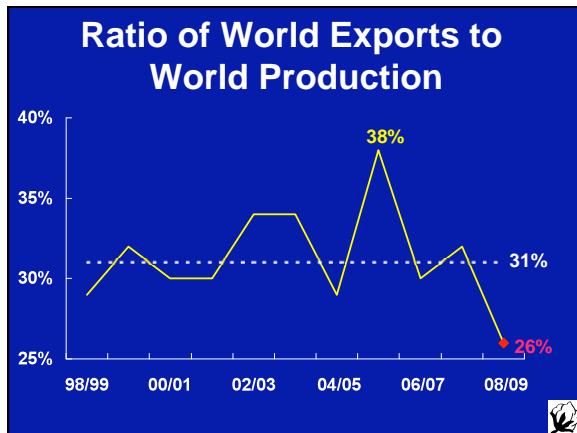


### Cotton Mill Use



### World Imports





### Global Financial and Economic Crisis

- Slower global economic growth
- Tightened credit conditions

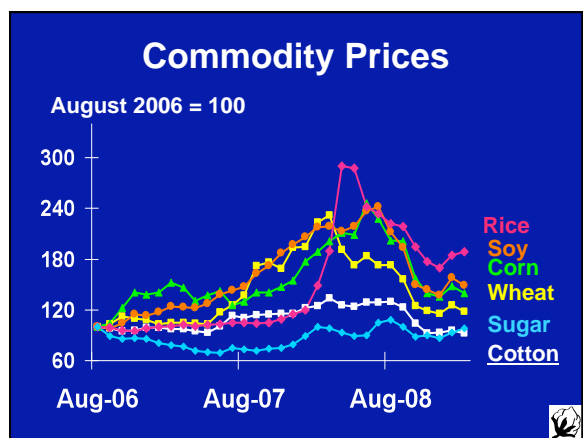
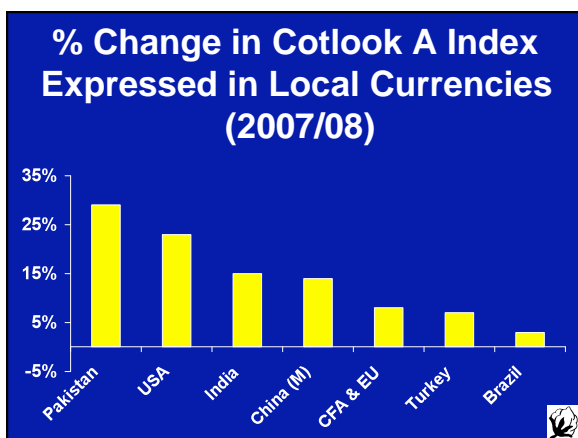
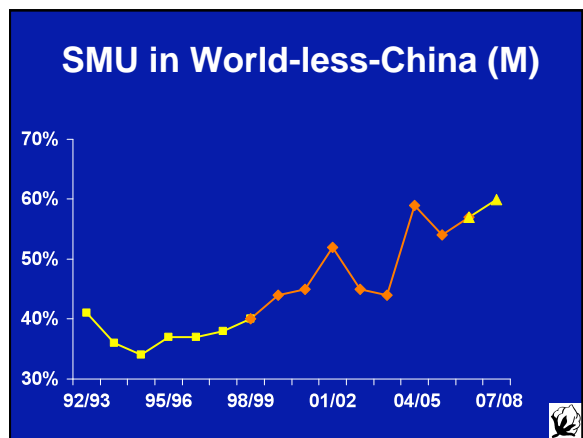
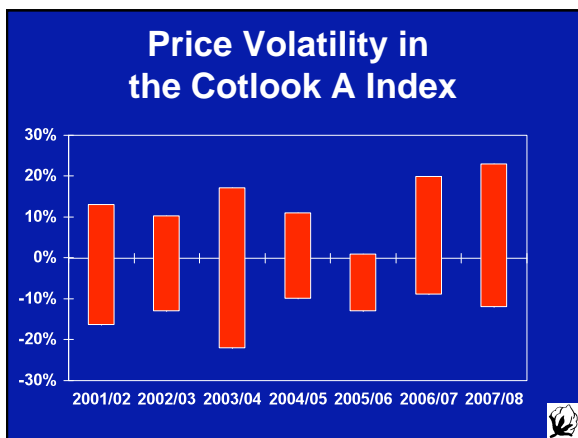
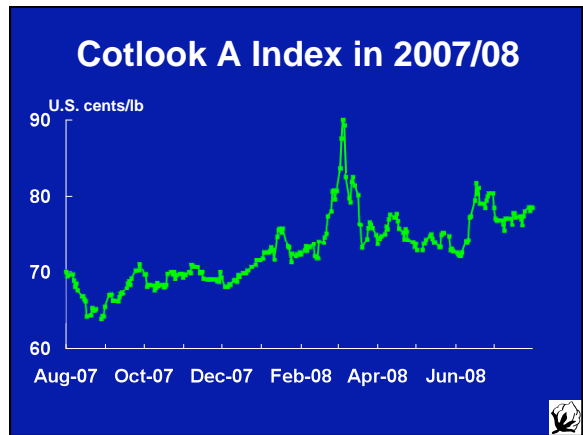
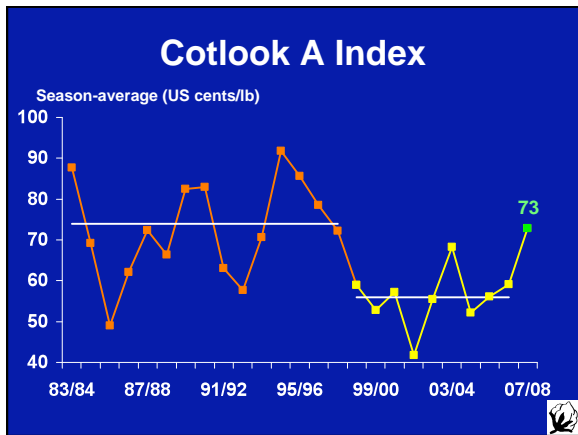
⇒ Affects primarily cotton consumption

⇒ Indirectly affects cotton trade, stocks and production

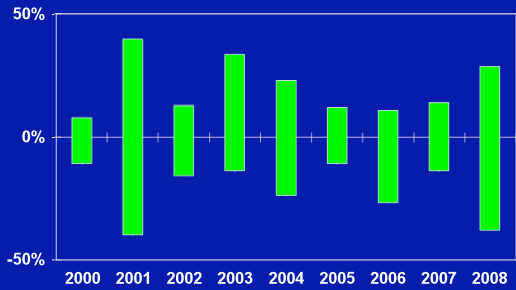
### The Crises Affecting the World Cotton Market

1. Commodity Prices ⇒ PRODUCTION
3. Cotton Futures Market ⇒ TRADE
5. Global Economy ⇒ CONSUMPTION (and trade, stocks and production...)

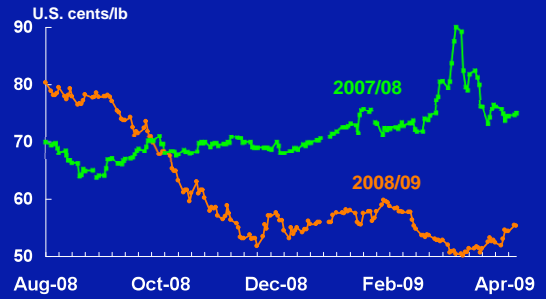
### Cotton Prices in 2007/08 and 2008/09



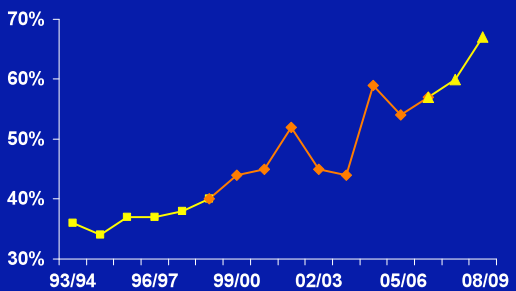
### Price Volatility in December Futures Contracts



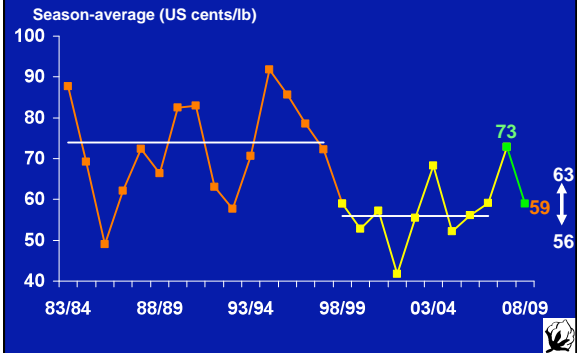
### Cotlook A Index in 2008/09



### SMU in World-less-China (M)



### Cotlook A Index

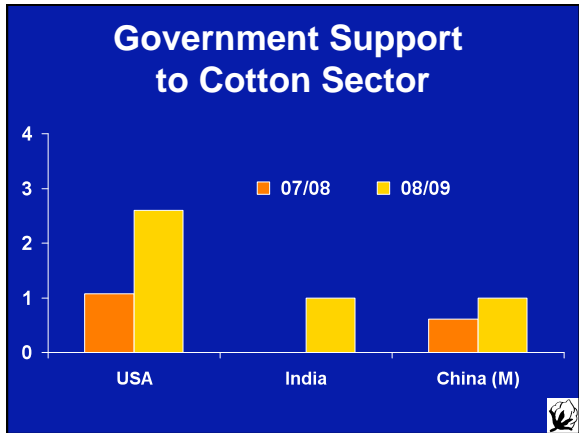


### Increased Government Support in 2008/09

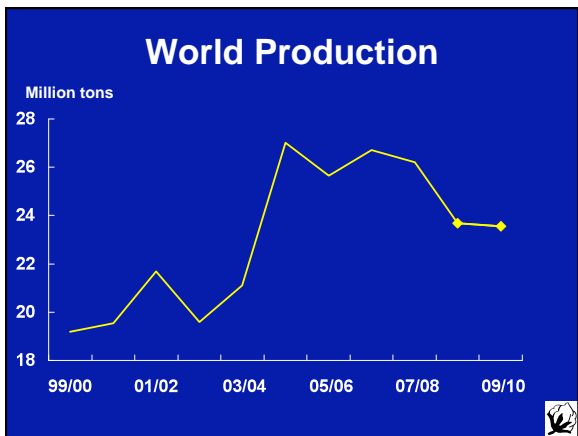
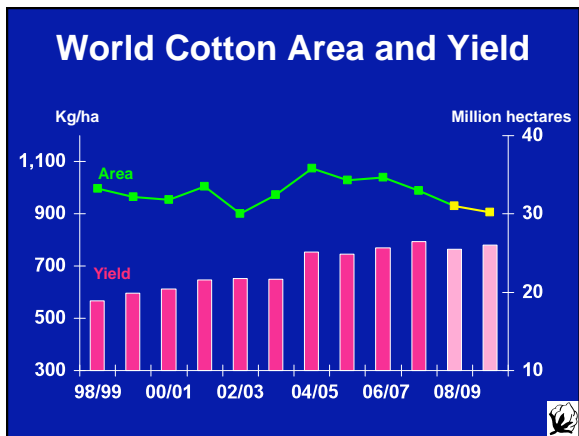
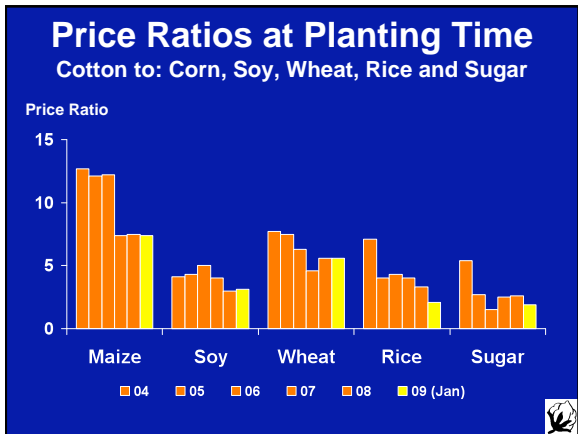
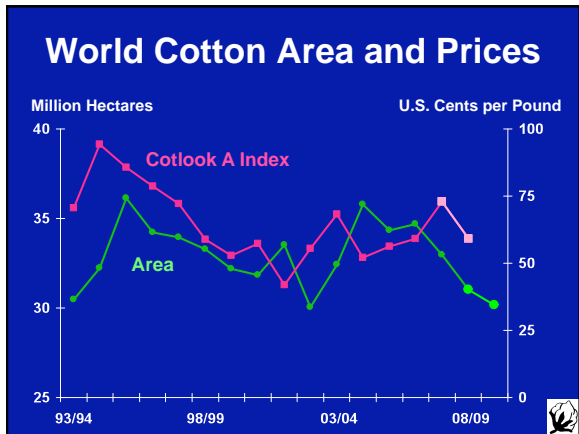
### Government Support in 2008/09

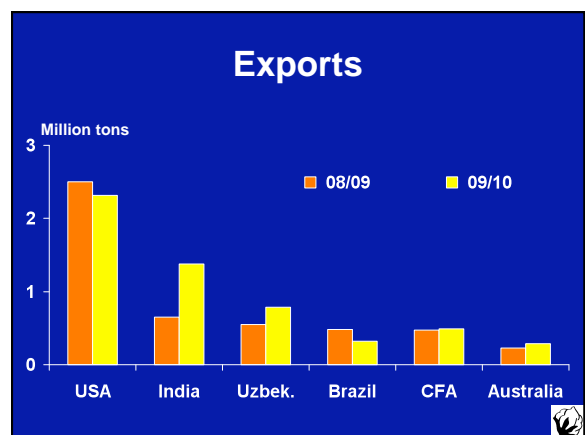
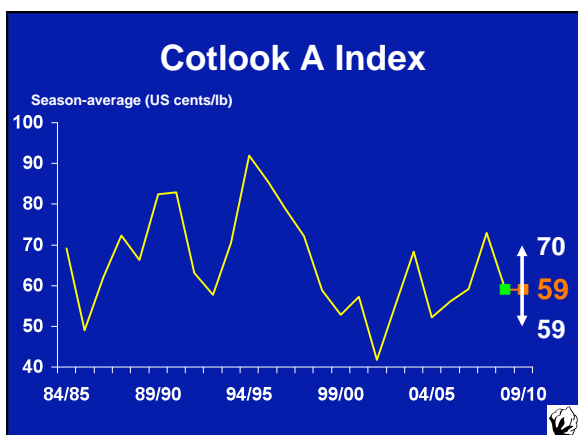
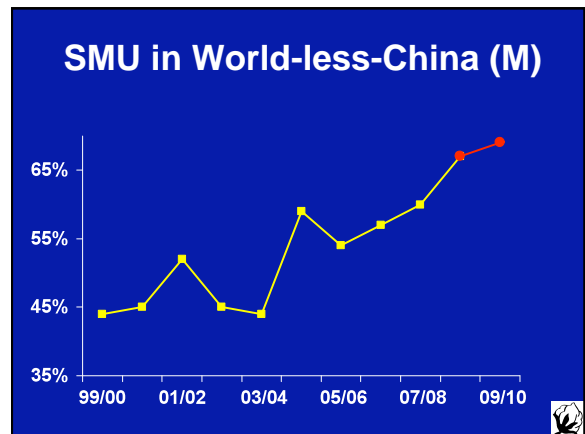
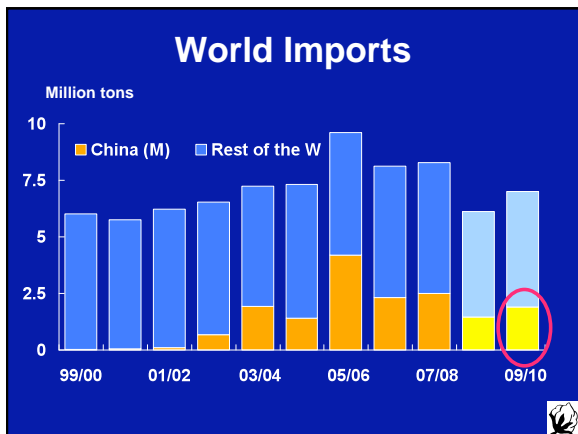
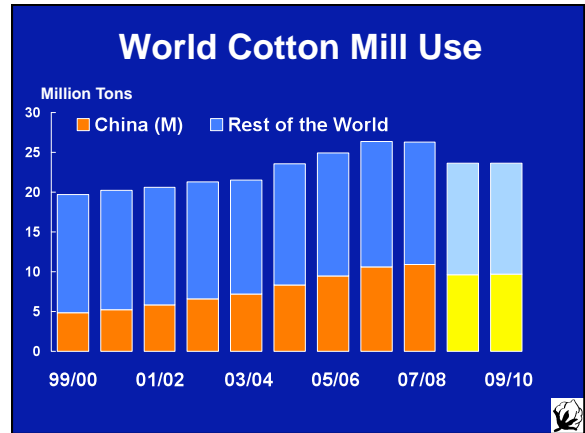
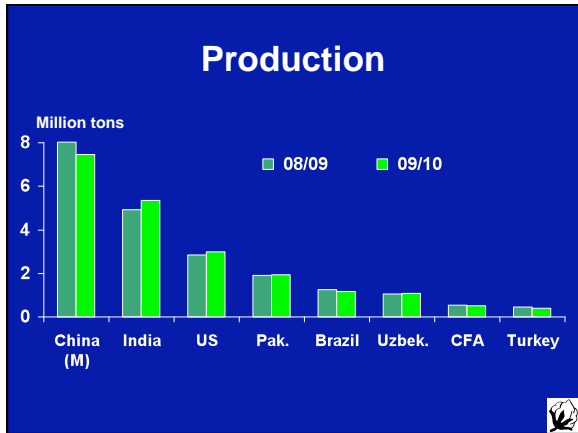
- China (M), India, USA
- Total: 5 million tons or 20% of 2008/09 world cotton crop are currently under government's control
- China (M): Major uncertainty regarding timing and manner of release into the market





## 2009/10 WORLD COTTON SUPPLY & USE OUTLOOK



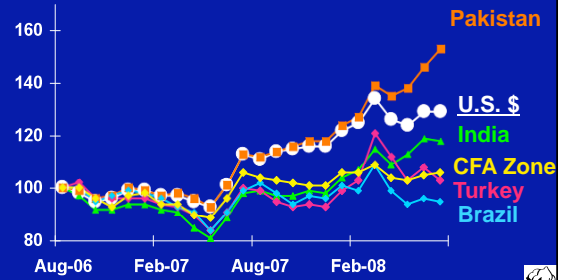




International Cotton Advisory  
Committee

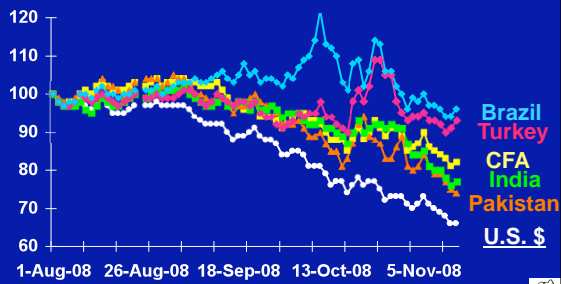
### Cotlook A Index

August 2006 = 100



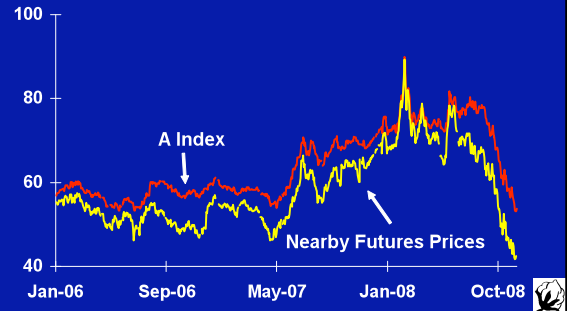
### Cotlook A Index

August 1, 2008 = 100



### Cotton Futures Prices and A Index

US cents/lb



### U.S. Futures Prices at Planting Time Ratios of Corn and Soy to Cotton and Cotton Planted Area



### U.S. Futures Prices at Planting Time Ratios of July SRW to Dec Cotton in Sept-Oct



