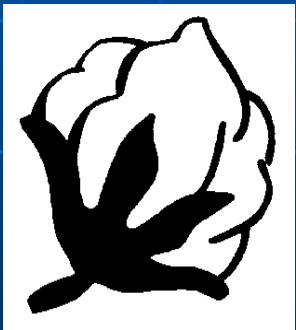
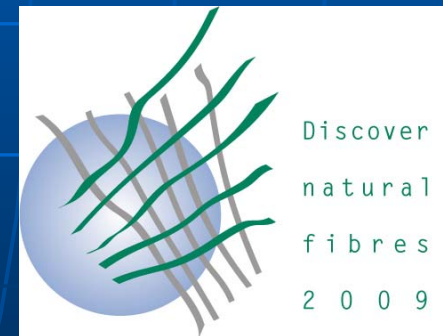


ICAC Price Model 2007



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Research Associate Program
April 8, 2009**



Explanatory Variable

- Stocks-to-mill use ratio=

$$\frac{\text{Ending stocks}}{\text{Mill use}}$$

- Higher SMU ratio, lower price
- Lower SMU ratio, higher price

Current Season Forecast

ICAC Model 2007

Change in Cotlook A Index in the
CURRENT season explained by
changes in:

- SMU ratio in the World-less-China in the CURRENT and PREVIOUS seasons
- SMU ratio in China (M) in the PREVIOUS season

ICAC Model 2007

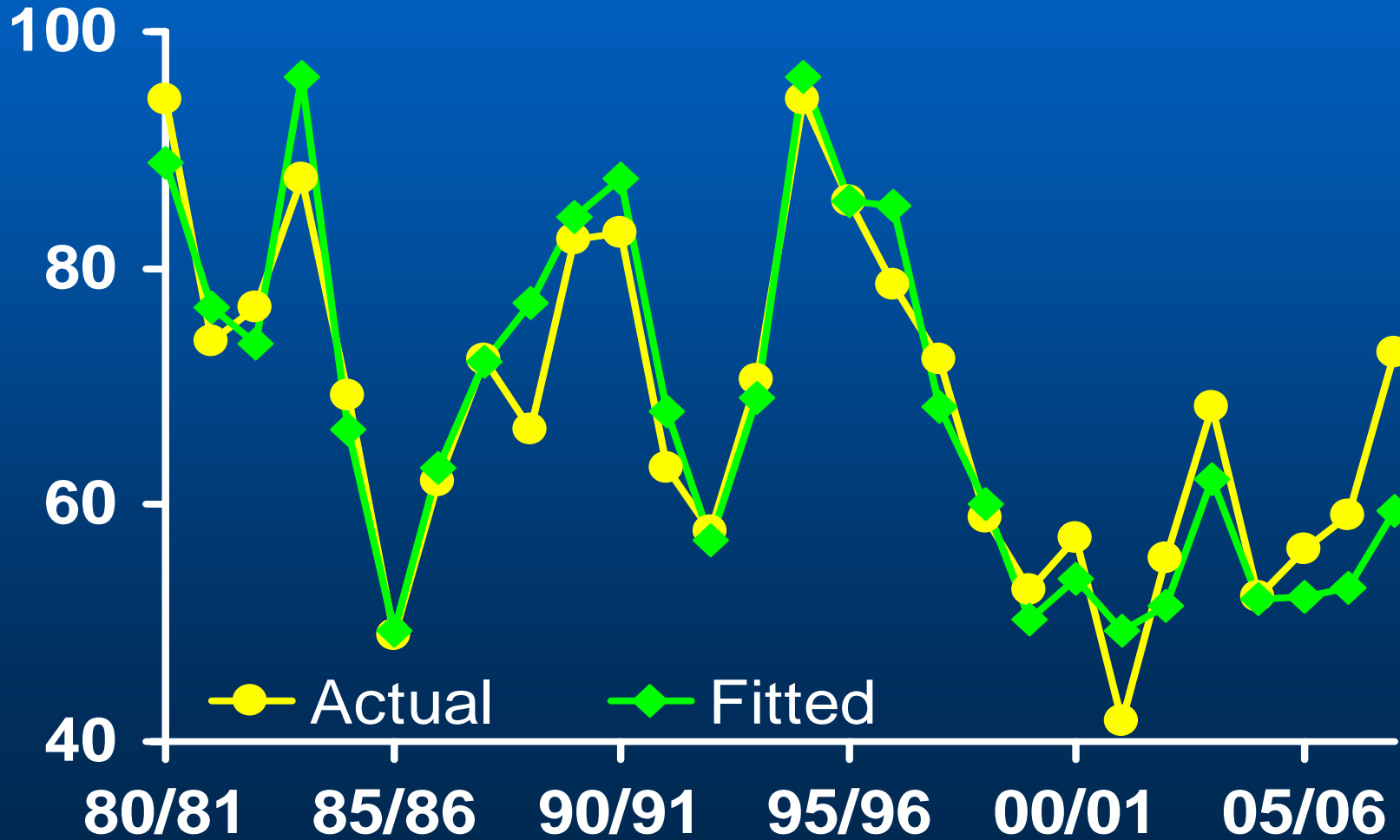
- 91/92-02/03 and 08/09-09/10:
China (M) net imports as a
percentage of world imports in the
CURRENT season

ICAC Model 2007

- Estimation period 1975/76-2007/08
- Model explains 84% of the variability in the change of the Cotlook A Index
- Final forecast accounts for the observed average Cotlook A Index since August 1 to date.

Observed and Fitted Season-Average Cotlook A Index

US cents per pound



ICAC Model 2007: Results

- 5% increase in SMU ratio in World-less-China in the current season induces a 5% price decline in the current season.
- If SMU ratio in World-less-China increases again by 5% in the following season, the Cotlook A Index will fall by 6.6% in that season (accumulated effect).

ICAC Model 2007: Results

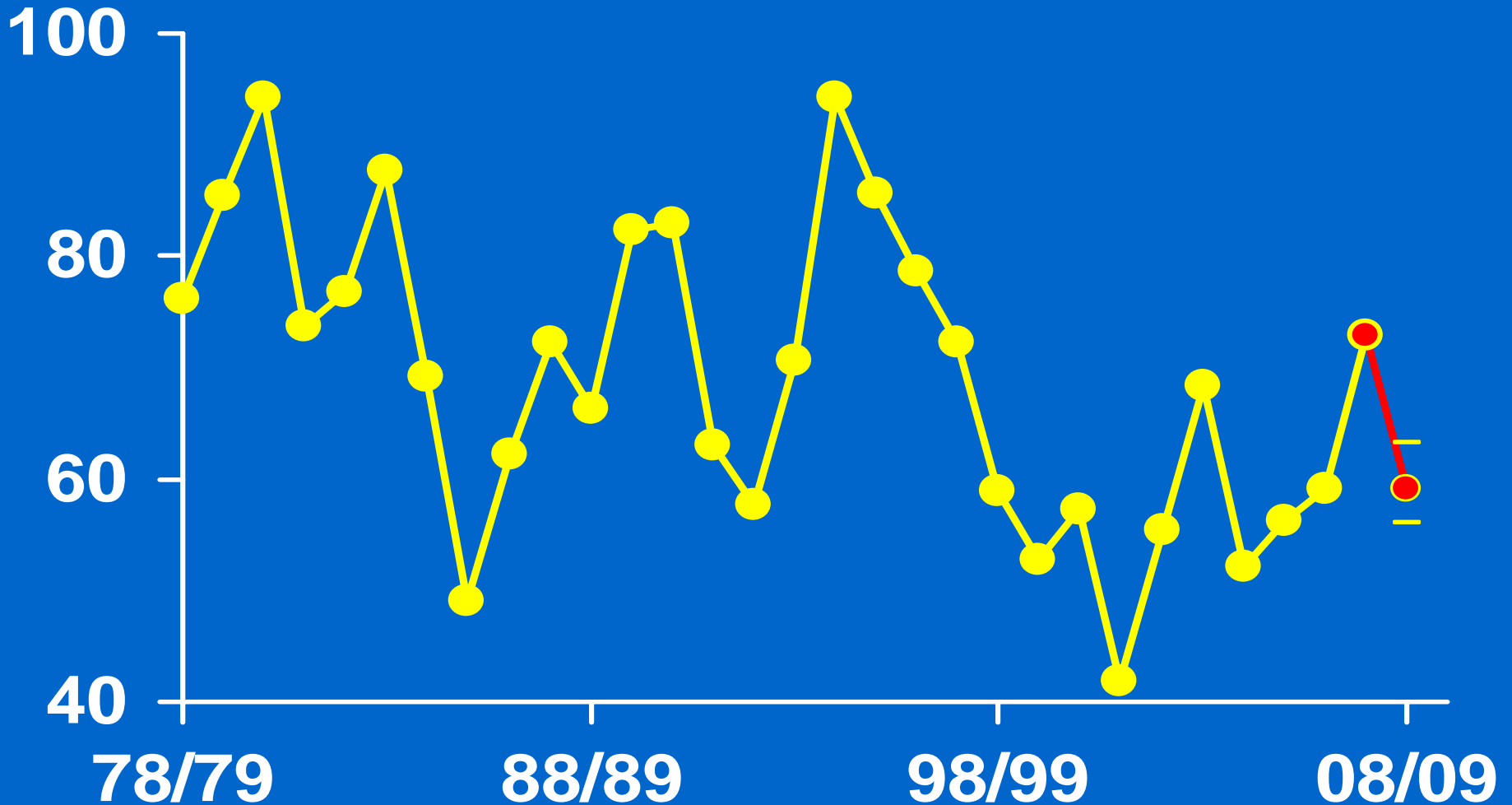
- 5% increase in SMU ratio in World-less-China in the previous season induces a 1.6% price decline in the current season.
- 5% increase in SMU ratio in China(M) in the previous season induces a 0.4% price decline in the current season.

ICAC Model 2007: Results

- 91/92-02/03 and 08/09: 5% increase in China net imports as a proportion of world imports in the current season induces a 7.5% price increase in the current season.

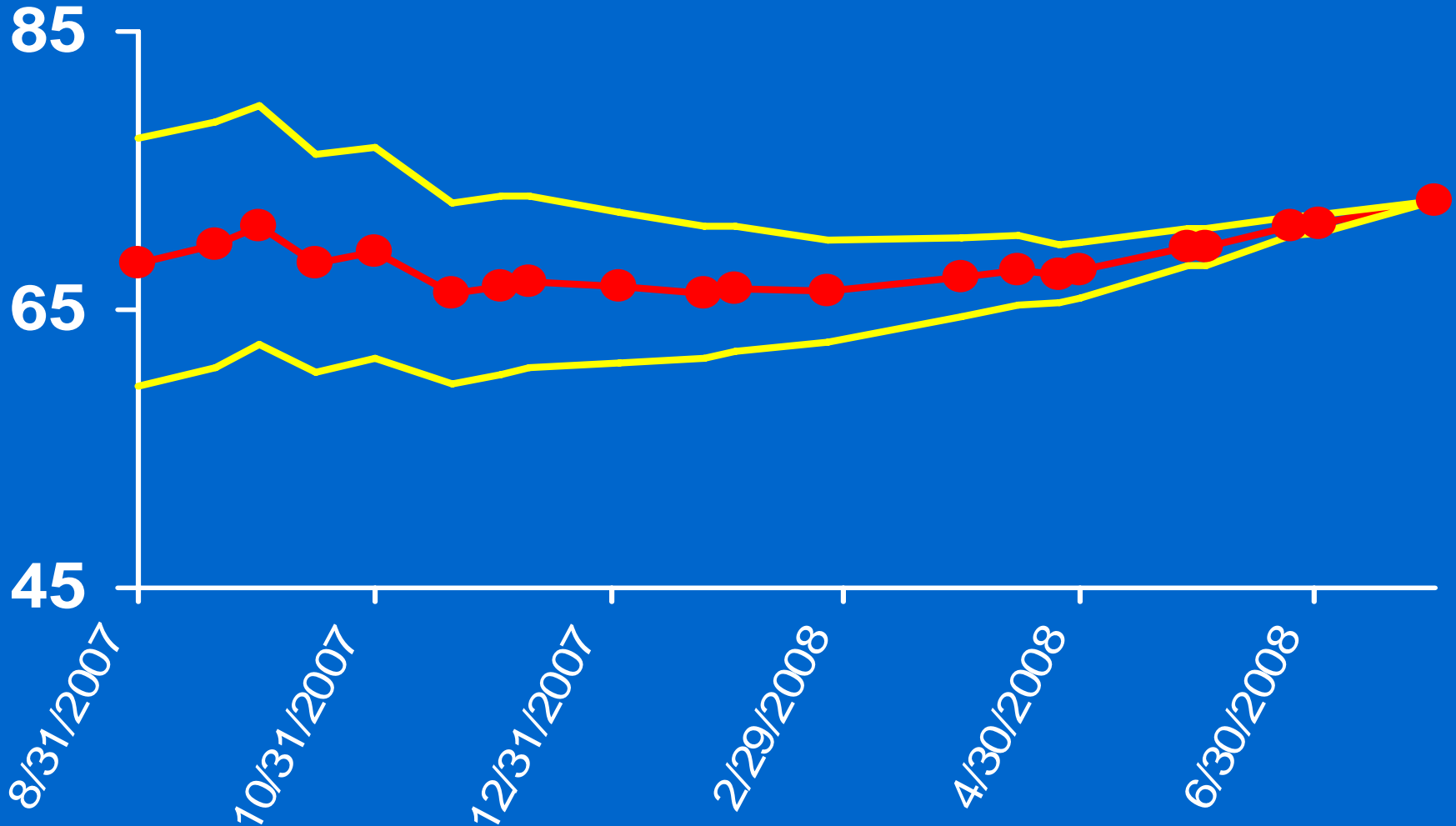
Season-Average Cotlook A Index

US cents per pound



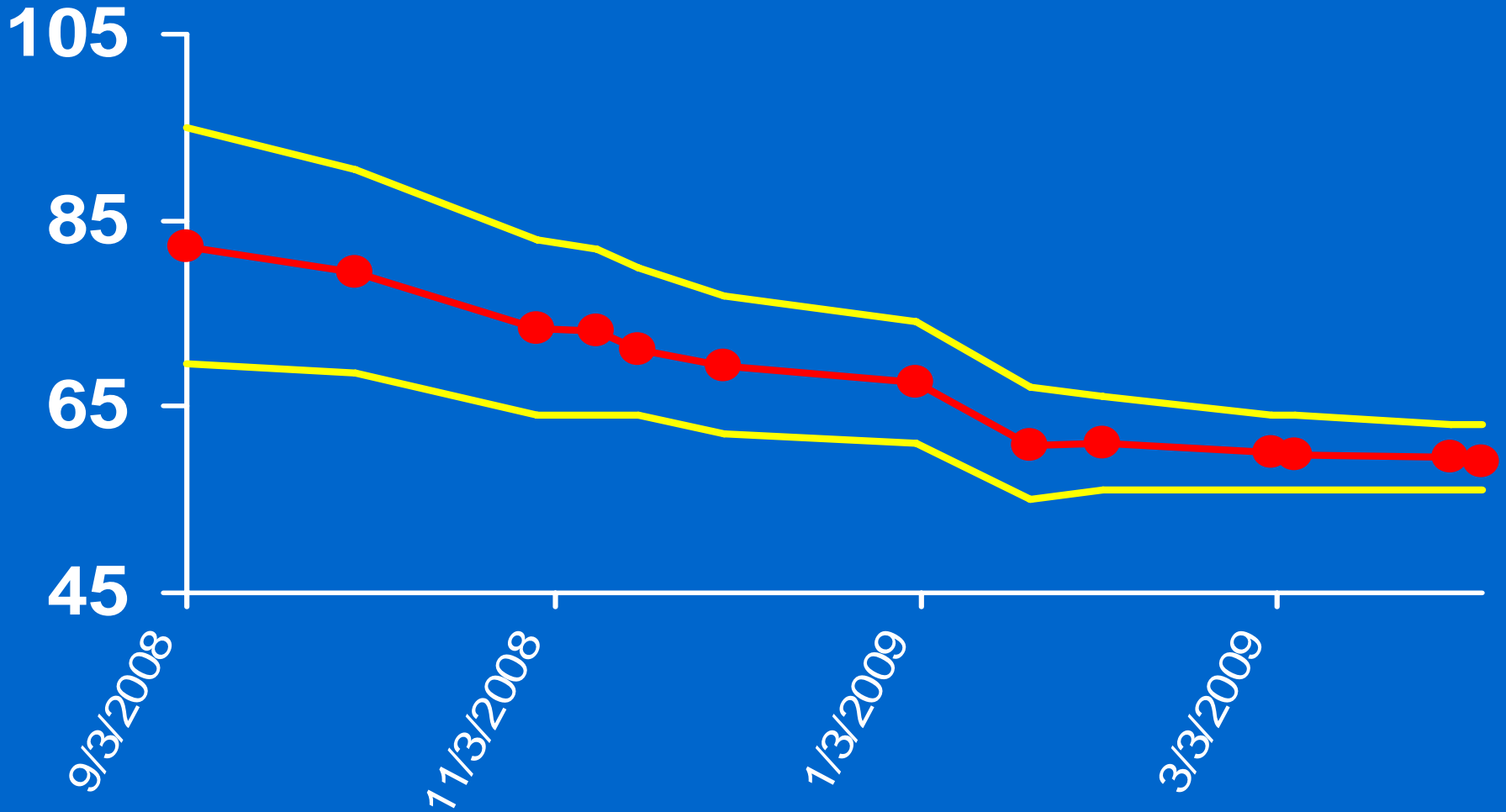
2007/08 Forecast

US cents per pound



2008/09 Forecast

US cents per pound



Next Season Forecast

ICAC Model 2007: Next Season

Change in Cotlook A Index in the NEXT season is forecast by:

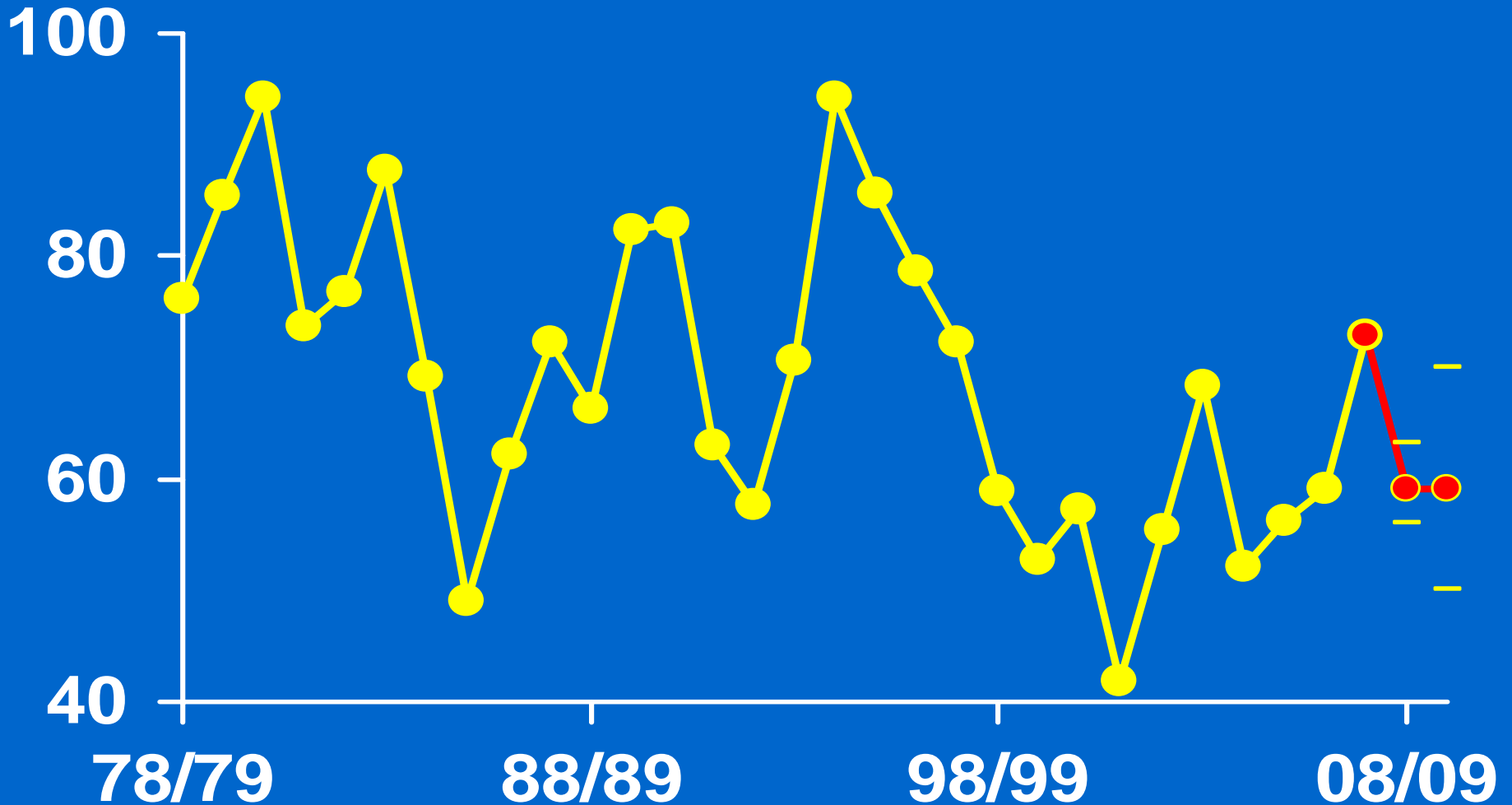
- Assuming the forecast for the current season will realize
- Using projected SMU ratios in the WLC for the current and the following seasons.

ICAC Model 2007: Next Season

- Using projected SMU ratio in China (M) for the current season
- OR projected change in Chinese net trade as a percentage of world trade in the next season.

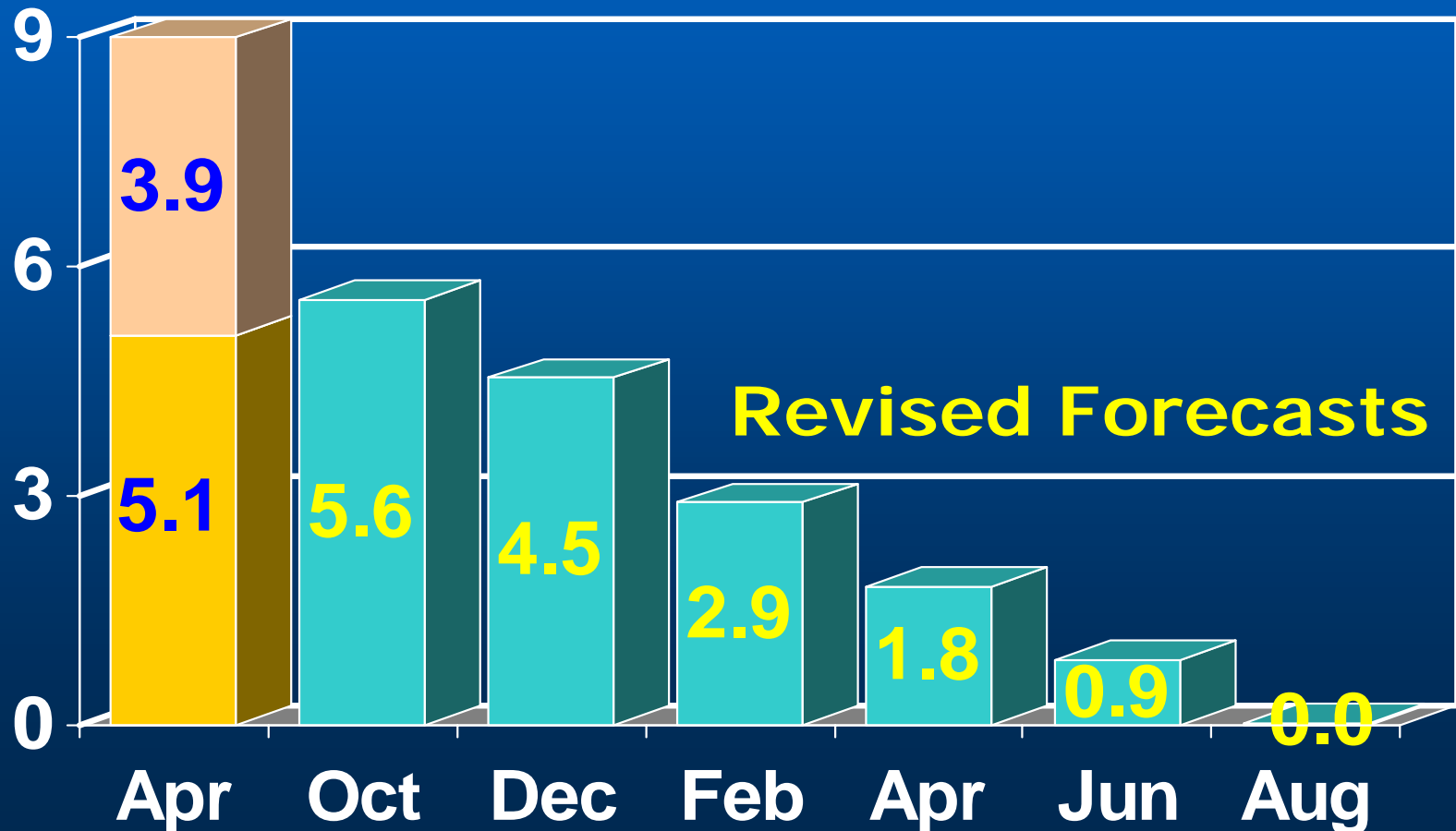
Season-Average Cotlook A Index

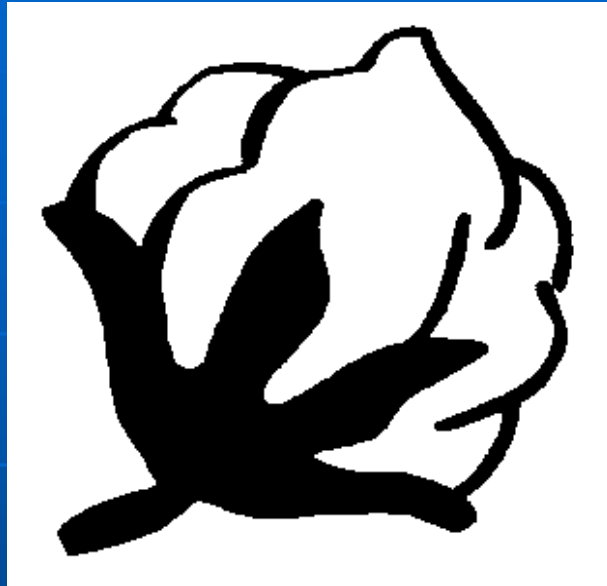
US cents per pound



Average Absolute Difference between one-season-ahead April Forecasts and Actual Cotlook A Indexes (01/02-06/07)

US cents per pound





International Cotton Advisory Committee