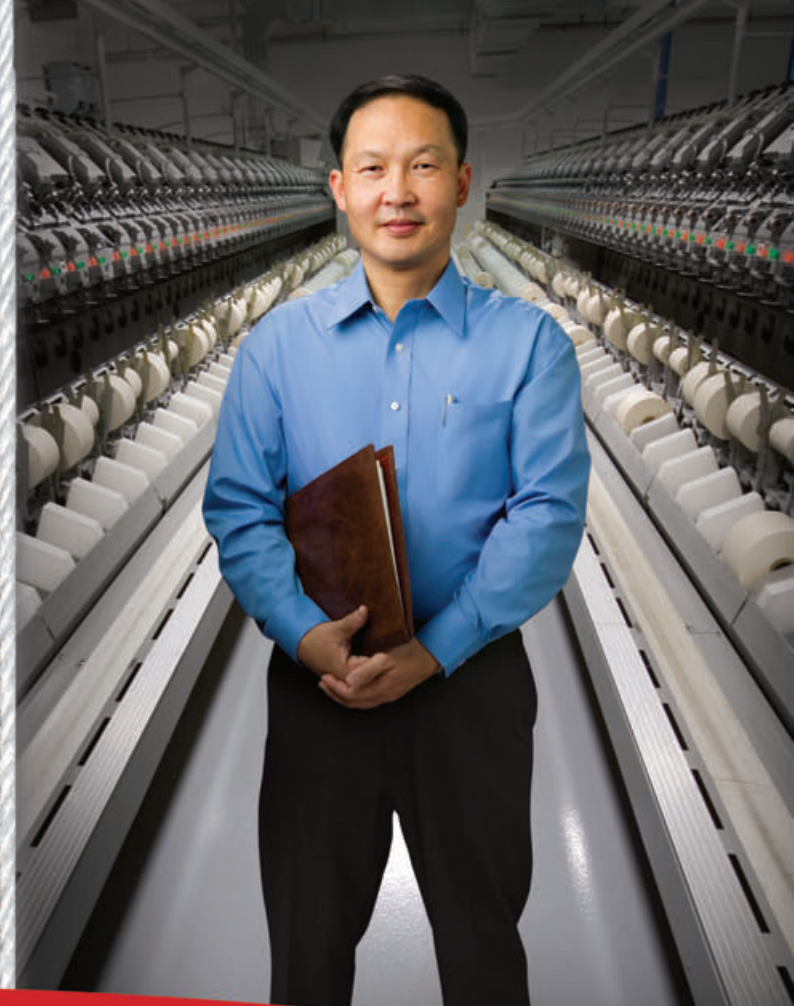
Cotton Outlook

Special Feature

September 2008

World Long Staple Market

Uncertain Times



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Contents

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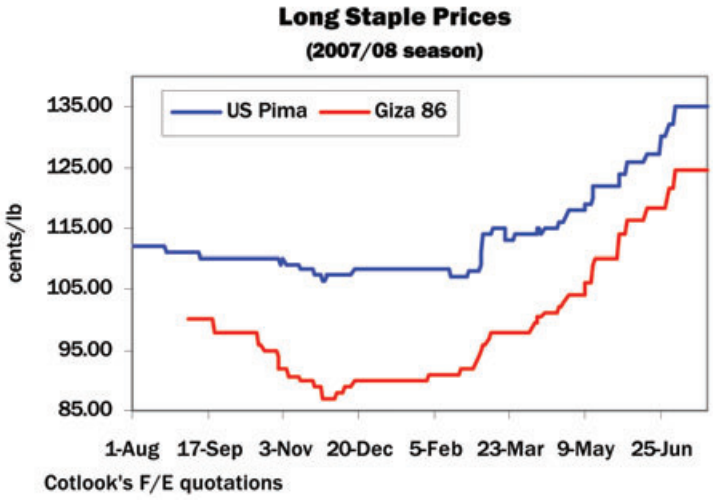
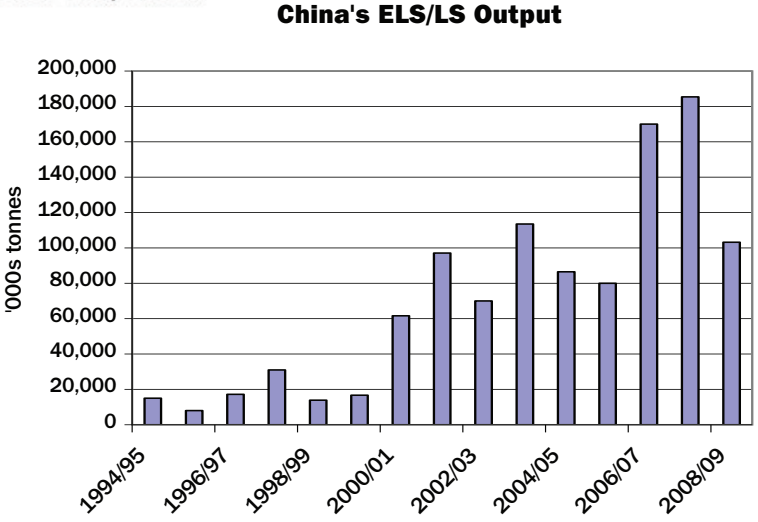
Uncertain Times

By Matt Robinson,
Cotlook Limited

The 2007/08 marketing year marked a return to volatility in the global long staple market, after the relative price stability that had characterised the 2006/07 season. Cotlook's US Pima Grade 2 quotation fluctuated between a low of 106.50 cents per lb, CFR Far Eastern ports, set in November 2007, and a high at the end of the season of 135.00 cents. The difference of 28.50 cents compares with a 15-cent trading range in 2006/07. The movement in Egyptian prices has been still more impressive, with our Giza 86 quotation rising from a low of 87.00 cents per lb, CFR Far Eastern ports, to a high of 124.50 cents. The initial depression in prices, particularly those for Egyptian, came about as large crops sought a home. In contrast, price developments during the second half of the season were governed increasingly by the success of those early marketing efforts and the prospect of a tightening global supply situation.



According to our estimates, global long staple production in 2007/08 reached 770,158 tonnes, an upturn of nearly seven percent on the already sizeable outturn recorded the previous season, representing the biggest output since 2001/02. A record Pima crop was harvested in the US, while a new high was also recorded in China, marking the latest stage in the impressive growth witnessed in recent seasons.

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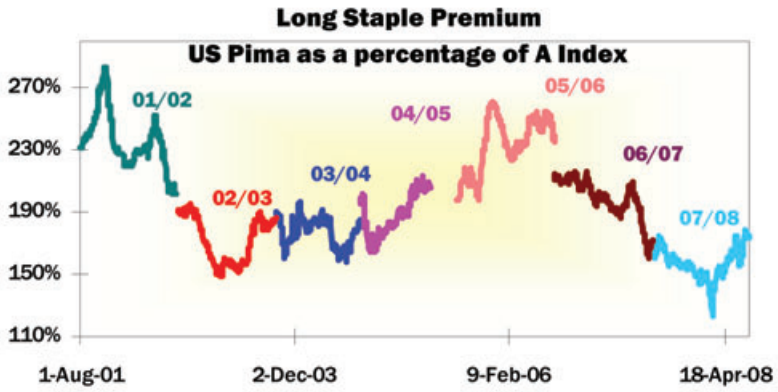


Outturn in Egypt also rose from 2006/07 but remained well down from the levels witnessed early in the decade.

The marketing of the major export crops was facilitated by the fact that, as prices declined to find a level acceptable to buyers, they converged with rising upland values. As a consequence, the premium commanded by long staple varieties declined to its narrowest in the modern era. The premium spent most of the season well under 60 percent (and when upland prices spiked in early March, fell to as little as 23 percent), compared with the recent high in the 2004/05 season of 160 percent.

US shippers also continued to benefit from the Pima Competitiveness Payment, which was triggered in early October at a rate of 3.89 cents per lb. It reached a peak in early December of just over 12 cents per lb, before declining steadily during the remainder of the season and finally disappearing in early June. The Competitiveness Payment is maintained in its current format in the new US Farm Bill.

Demand for *barbadense* varieties was particularly brisk in South Asia during 2007/08. Sales of US Pima to Pakistan and India (the second and third largest import destinations) increased by 34 and 53 percent, respectively.

Exports to China increased by a much less significant margin of four percent, but the country remained the largest consumer of Pima.

With US Pima exports during the 2008/09 season totalling 808,400 running bales (about 181,000 tonnes) by the end of the season and domestic consumption running at below 9,000 tonnes, modest inroads appear to have been made into the sizeable (by historical comparison) stocks that were carried into the 2007/08 season (estimated by the USDA at 141,000 statistical bales or 31,000 tonnes).

Similarly, in Egypt, exports of 135,000 tonnes (up 80 percent from the previous season) and a domestic offtake of ELS/LS varieties of around 140,000 tonnes (up 75 percent) have ensured that the higher stocks taken into the marketing year are much depleted.

Supply & Demand

(Egyptian and Imported)

tonnes

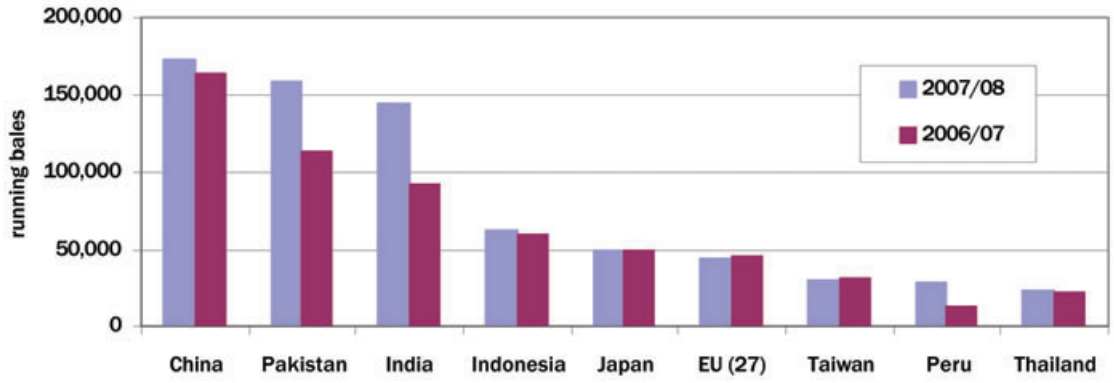
Carryover September 1, 2007*	**72,332**	
2007/08 Production	226,000	
Imports	40,000	
Total Supply		338,332
Domestic Consumption	180,000	
Exports	135,000	
Total Disappearance		315,000
Carryover September 1, 2008	**23,332**	
2008/09 Production	125,000	
Imports	80,000	
Total Supply		228,332
Domestic Consumption	180,000	
Exports	30,000	
Total Disappearance		210,000
Carryover September 1, 2009	**18,332**	

*including 68,042 tonnes of domestic cotton, according to CATGO

Nonetheless, our global production and consumption estimates suggest that supply exceeded demand last season, inviting the question, where is that surplus being held?

To a large extent, the answer would appear to be China. Production and consumption were in balance in that country in 2007/08, yet China was the largest importer of US Pima, taking up close to

Major Pima Export Markets



World Extra Long and Long Staple Output
tonnes

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09		2008/09 v 2007/08
United States	84,717	152,943	147,683	94,122	162,335	137,275	167,000	185,458	**106,685**		**-42%**
Egypt	207723	313171	286347	196948	290112	198811	210771	226,000	**125,000**		**-45%**
of which:											
ELS	30,973	51,262	65,812	58,386	77,555	42,881	52,906	38,000	**16,000**		**-58%**
LS	176,751	261,909	220,535	138,562	212,557	155,930	157,865	188,000	**109,000**		**-42%**
Sudan	21,000	30,000	54,000	48,000	50,000	44,000	21,400	15,000	**12,500**		**-17%**
Uzbekistan	11,200	17,000	16,500	17,000	14,000	10,000	12,000	10,500	**9,000**		**-14%**
Tajikistan	10,000	18,000	33,000	17,000	13,500	8,000	10,000	7,500	**4,000**		**-47%**
Turkmenistan	20,000	30,000	24,000	27,300	22,900	12,000	25,000	25,000	**18,000**		**-28%**
India	85,000	80,000	60,000	70,000	69,700	51,850	68,850	78,000	**82,000**	*	**5%**
Peru	12,537	6,000	3,600	4,048	8,000	9,211	14,000	15,000	**12,000**		**-20%**
China	61,600	97,100	70,000	113,500	86,500	80,000	170,000	185,400	**103,200**		**-44%**
Israel	8,000	19,000	16,500	7,300	14,000	11,500	18,500	19,000	**8,200**	**	**-57%**
Australia	3,300	7,945	1,362	114	392	300	300	300	**300**		**0%**
Others	4,000	3,000	4,000	4,000	4,000	3,000	3,000	3,000	**3,000**		**0%**
TOTAL	529,077	774,159	716,992	599,332	735,439	565,947	720,821	770,158	**483,885**		**-37%**

**includes cotton with staple of over 33mm*
***includes Pima and Acalpi*

World Long and Extra Long Staple Consumption
tonnes

	2006/07	2007/08	2008/09	08/09 v 07/08
Americas				
United States	9,798	8,493	7,620	-10%
Mexico	435	500	500	0%
Peru	10,000	13,000	11,000	-15%
Europe				
Italy	10,000	4,000	3,500	-13%
Switzerland	8,000	7,000	5,000	-29%
Germany	5,000	4,500	4,000	-11%
Turkey	10,000	8,000	6,000	-25%
Portugal	4,000	6,000	5,000	-17%
Czech Rep	2,500	2,000	1,500	-25%
Slovak Rep	2,500	2,000	1,500	-25%
Spain	800	600	400	-33%
Asia				
China	170,000	190,000	190,000	0%
India	140,000	161,500	170,000	5%
Pakistan	55,000	85,000	50,000	-41%
Indonesia	14,000	14,000	14,000	0%
Japan	13,000	12,000	10,000	-17%
South Korea	11,000	11,900	11,000	-8%
Bangladesh	10,000	18,000	18,000	0%
Thailand	10,000	18,000	15,000	-17%
Taiwan	7,000	7,000	6,000	-14%
Turkmenistan	4,000	4,000	3,000	-25%
Hong Kong	650	400	300	-25%
Africa				
Egypt	80,000	140,000	70,000	-50%
Others	4,500	4,000	3,500	-13%
Total	**582,183**	**721,893**	**606,820**	-16%

40,000 tonnes. Imports of Egyptian cottons totalled approaching 10,000 tonnes. Exports of Chinese ELS/LS varieties are placed at only 10,000 tonnes. Mrs. Liang Wenying, Chairwoman of Nongken, indicates in her article that close to 100,000 tonnes have been carried over into the new season. Those stocks have already come under the scrutiny of the international trade. To date, the prices at which the cotton has been quoted have generally been deemed unworkable for export. However, that is not to say that stocks in China could not yet play a more prominent role in global trade in the months ahead.

Our global forecast for 2008/09 suggests a drop in production of around 37 percent, to 483,885 tonnes (the smallest in ten seasons), owing in no small part to the diversion of land to grain and oilseed crops that has been a feature of the broader cotton market. However, that trend has been exacerbated in ELS/LS varieties by the small price premium commanded over upland cottons when farmers in the Northern Hemisphere were making their planting decisions. As a number of our contributors also point out, severe water shortages in key growing regions in the United States and Central Asia have also taken their toll of plantings.

With crop prospects unlikely to improve significantly between now and harvest, and prices already at very firm levels, the main area of doubt is the potential level of mill demand. Offtake is as always difficult to assess; witness the differing views offered by our contributors from India. Our consumption forecast for 2008/09 stands at 606,820 tonnes, down 16 percent from last season, with reports already suggesting that mills are unlikely to maintain consumption at the current prices levels, particularly in the prevailing global economic climate. As always, in trying to evaluate demand for ELS/LS cotton, a key factor, and one which is somewhat intangible, is the elasticity of demand beyond that stimulated by strict, end-use requirements. The 2008/09 season could well be defined by the extent to which the transient nature of offtake acts on prices.

Egypt's Cotton Acreage Under Seige

By Edy Hegetschweiler,
Paul Reinhart A.G

The figures are breathtaking!

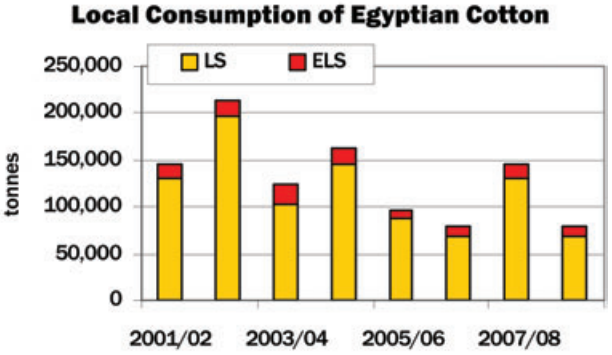
In 2007/08, Egypt's cotton acreage of only 587,000 feddans (one feddan = 1.038 acres) was the country's third smallest in history. This acreage resulted in a production of 225,000 tonnes; not a very bright figure, but still guaranteeing a sizeable exportable surplus. Initial projections for 2008/09 called for a cotton area of 480,000 feddans, 18 percent below the already disappointing figure for the previous season. Actual plantings, however, now turn out to be much lower. Only a disastrous 316,000 feddans are reported as having been planted. This is 46 percent – in words, forty six percent - below last season's acreage!

For the individual varieties the comparison of figures reveals the following:

Variety	Planted acreage (feddans)		Variation
	2007/08	2008/09	
Giza 88	95,000	60,000	37 pct less
Giza 86	335,000	207,000	38 pct less
Giza 80/90	121,000	48,000	60 pct less
Total	587,000	316,000	46 pct less

Production is expected to drop accordingly from 225,000, to 120,000 tonnes, of which Giza 88 will contribute around 20,000 tonnes (against 38,000 tonnes in 2007/08), Giza 86 around 82,000 tonnes (131,000) and Giza 80 and 90 about 18,000 tonnes (45,000).

Domestic consumption of Egyptian cotton will also drop from 145,000 tonnes to 80,000 tonnes,



suggesting that imports of upland styles will increase.

At the end of the day, one arrives at an exportable surplus of only 40,000 tonnes in the 2008/09 season. Even allowing for a small carry-over of 10,000 tonnes, not more than 50,000 tonnes at best will be available for export. This compares with export sales of 135,000 tonnes in 2007/08. Breathtaking/dramatic!

I remember very well the opinions and assurances heard so many times: cotton acreage will never drop to below 400,000 feddans. But, these opinions were given before the effects of the food crisis hit the Egyptian farming industry.

What has happened?

It is definitely not the craze for producing ethanol from corn that made Egyptian farmers abandon cotton. No, it is predominantly rice which did the job. Rice gives the farmer today a much better return on investment than cotton. The input cost is much less, it is much less labour intensive and does not require any hired labour, labour which is needed during the cotton season for controlling insects and for handpicking, and which today is hard to find. On top of that, rice has a shorter growing season, enabling farmers to start planting other crops earlier, thus leading to additional financial benefits for the farmer.

Will cotton acreage make a strong comeback in 2009/10, thanks to the high prices which we will see during the 2008/09 season? Will the cycle of small acreage and high prices followed the next season by large acreage and low prices continue? Well, I personally think that things may have changed. World food prices may for various reasons not come down to levels where cotton growing will get competitive again on the scale we had seen in the past. It remains to be seen, but I have the strong feeling that at least some of the cotton acreage lost in the recent past will not come back. Only in the case of a sustained drop in rice prices will we see cotton acreage bouncing back decidedly.

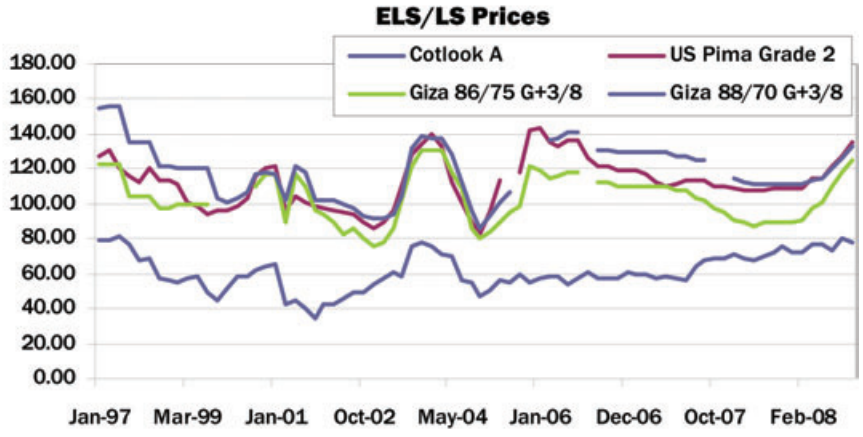
However, another point I would like to mention here is the growing appetite of the local Egyptian spinning industry to produce more and more fine counts. I am talking of the many state of the art spinning mills which have started production lines in the past 24 months and those getting under steam now or within the next few months, not to mention the projects which are still in the planning phase. Local consumption of Egyptian ELS and LS cottons will definitely grow further in the near future and a swing back of the cotton production acreage to at least something in between last year's and next year's size would be most welcome in order to at least guarantee an exportable surplus of perhaps 80,000 tonnes overall.

On another front, Egypt will also have to find ways and means quickly to import a larger quantity of upland cotton. The stringent fumigation requirements currently in place have to be reviewed and adjusted to allow much larger quantities to be imported. In case the phytosanitary requirements are not changed, then fumigation capacities in Egyptian ports will have to be doubled at least in order to avoid unacceptable bottlenecks. As an additional measure, the list of approved countries qualifying for the import of upland cotton into Egypt will have to be expanded.

Is the siege on ELS/LS cotton acreage which gave the headline for this article only an Egyptian feature? No! We are noticing a similar situation in practically all ELS/LS producing countries. In California, the Pima crop may well be less than half of what it was in 2007/08. In the Sudan, farmers in the Gezira are planting anything but Barakat. Instead, of a crop of 200,000 bales (about 36,000 tonnes) as projected, production may not surpass the 100,000-bale mark (18,000 tonnes)in 2008/09. In China's Xinjiang province, experts think that ELS acreage has been reduced by between 30 and 40 percent. In Central Asia, ELS production is expected to be 47 percent down from 2007/08. Practically everywhere we are confronted with a marked reduction in ELS/LS acreage for 2008/09 and this on top of a close-to-zero stock situation at the end of the current 2007/08 season.

Why is ELS/LS cotton acreage losing out so heavily to food crops? I think one of the main reasons is that cotton is at the same time an agricultural and industrial commodity. What do I mean by this? Cotton is being used by a very much diversified industry involving many different manufacturing stages and requiring a lot of time before the final product reaches the end consumer. During this rather complicated and long process, many individual supply and demand markets are being created for semi-manufactured goods, markets that do not necessarily react to developments in cotton prices. In fact, I think that semi-manufactured textile products and textile end-products have almost never reacted to price developments occurring at the raw-material stage. Even if they ever do, it

takes a long time for the price tag on the shirt or blouse to change. Food prices on the other hand react quickly. If wheat prices go up, your baker will within a few weeks change the price tags on almost everything he is selling. If rice prices go up, your supermarket will adjust prices quickly. If coffee prices go up, next time you go to the bar at the corner, your espresso will cost more. If cotton prices go up, nobody cares. The effect of this is that wheat, rice and coffee producers, and producers of many other agricultural commodities, almost immediately can get better prices for their products, so long as demand continues to be strong at higher price levels. In today's situation, with higher food prices likely to stay, cotton will therefore lose acreage to products with a shorter reaction time to price changes. This is what we see today and, in my opinion, it is not only the ELS and LS sector which is, and will be, affected. That is what I meant when I wrote that cotton is at the same time an industrial as well as an agricultural commodity.



On the consumer side, it acts like an industrial raw material, the same as metals, with prices not moving so quickly. On the other hand, it has to compete on the farm level with products which move quickly as the relationship between supply and demand is changing.

Add to this some more reasons for smaller plantings in some particular areas, such as a distinct lack of sufficient water supplies in California's San Joaquin Valley, and all of a sudden you start to understand why, in particular, ELS/LS cotton is losing 40 percent of its world acreage from one season to the other!

Of course prices have reacted. Egyptian Giza 86 today costs 43 percent more than in December 2007 and Giza 88 costs 20 percent more. Should food prices (and in Egypt this means in particular rice prices) stay where they are now, the higher prices for cotton may not bring back a lot of cotton acreage during the season 2009/10. This is the message which to me seems to be very important: there is no guarantee anymore that after a season with a reduced acreage and high prices there will follow a season with an increased acreage and lower prices. This was the rule in the past but in future it may no longer apply.

And then, last but not least, let me ask you this question: is what is happening now to world's ELS/LS plantings perhaps just the forerunner of what may happen to upland acreage? If cotton cannot compete on the farm level with food products, worldwide acreage will gradually be reduced to a point where cotton, thanks to higher prices, can again hold its own against rice, wheat, soybeans, sugar, sorghum and many other products.

This leads me to one final conclusion, the period of cheap cotton prices may just be over, and not only for ELS/LS varieties.

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Are Rising Commodity Prices Leaving Extra-Long Staple Cotton Behind?

By Marc Lewkowitz,
Executive Vice President, Supima Association

The last year has seen tremendous changes in ELS/LS staple crops and forecasts. At this time last year, the outlook was filled with optimism about increased planted acreages, increased consumption and a healthy industry. For the most part, these buoyant forecasts were all realized. But, what a difference a year can make, especially when coming off a record season like 2007/08.

The 2008/09 crop year is being looked at very differently, with substantial drops in planted acreage across most ELS/LS growing regions and the anticipation of rising prices. Although these two aspects go hand in hand, they are being fueled by significant underlying changes in other industries and commodities. We are all aware of the frighteningly volatile energy markets. The large increases in prices have begun to impact all segments of the cotton industry. As is typical, each segment is looking for ways to mitigate the increase in costs by pushing if off onto another segment. Unlike in recent years, it seems that the options to transfer cost increases to others in the production chain are limited, with manufacturers (garment makers, home textile manufacturers, weavers, knitters and spinners) and growers already working with modest, to non-existent margins of profits. As the proverbial sayings go, you can't squeeze blood from a rock or get a lemon tree to bear apples.

For American Pima, water has also become an issue. In California, it is estimated that the state has about 80 million acre feet of water available on an annual basis, of which a little more than half is used throughout the year. Overall availability does not seem to be the main problem, but rather the delivery of the water to the right areas, when it is needed. The difficulties, or inefficiencies, arise as a result of a lack of water storage facilities and delivery systems. Additionally, restrictions are in place for water delivery that further inhibits the movement of water to those that need it. This has resulted in prices for supplemental water rising to new record levels, reported to be over US$900 per acre foot of water. Taking this figure into account, in an extreme case scenario, it is easy to see that American Pima in California is not a viable crop if dependent upon supplemental water. If a crop typically requires about 3 acre feet of water and yields 1,200 lbs per acre, then the cost of water at over $2,700 per acre easily exceeds the net revenues from that acre of about $1,320 (based on a price of 110.00 cents per lb). The price of the supplemental water is still tenable for some other higher valued crops, such as almond, but the likelihood that it will make its way onto any American Pima cotton is highly suspect. The obvious result is that cotton acreage is losing its footing to other more profitable agricultural products, with even the higher priced ELS cotton no longer a viable choice for some farmers.

In addition to rising energy and water costs, the prices for any other item, including equipment, labor, insurance, seed, fertilizers and chemicals, to name just a few, are also increasing. This is not only affecting growers, but transcends all various industry segments and geographical boundaries. This has also led to competition between agricultural commodities for available land, as farmers struggle


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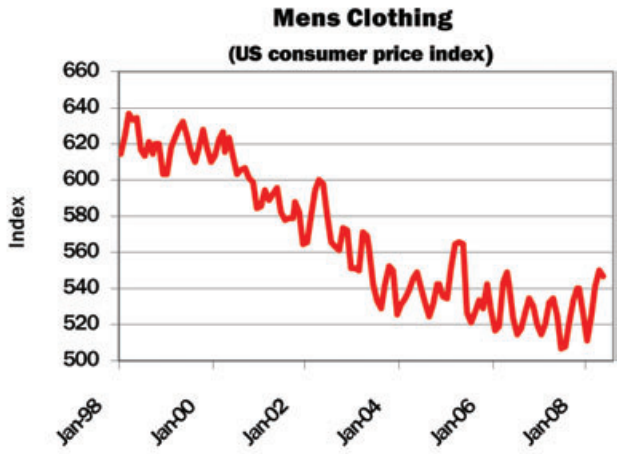

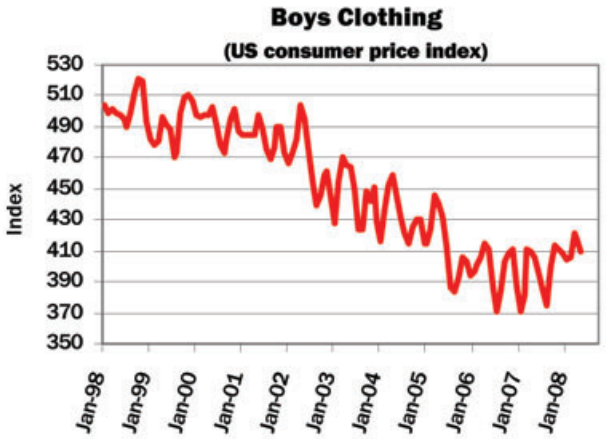

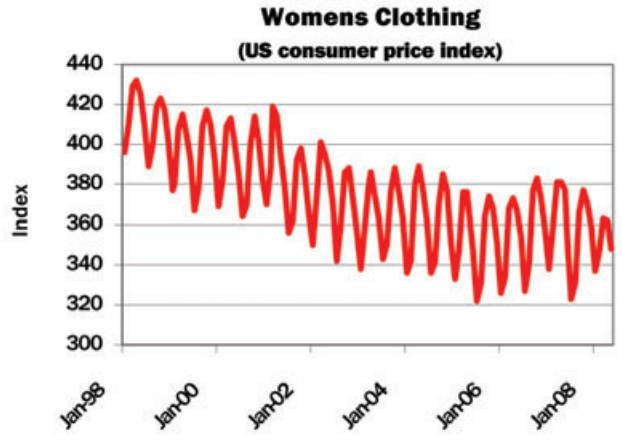

Source: Bureau of labor statistics.

to manage these escalating costs versus yields and potential returns. The result is that the 2008/09 crop year is looking to see global ELS production fall. The latest International Cotton Advisory Committee (ICAC) Extra-Fine Cotton report from July 10, 2008, indicates that ELS/LS production will drop over 1,200,000 bales in 2008/09 to just over 2.2 million bales (480 lbs). That output, along with 517,000 bales in imports, when compared against an estimated total consumption of about 3.3 million bales suggests a drop in global ending stocks of around 600,000 bales.

Although demand is expected to continue to remain strong, there is no doubt that there will be a reduction in consumption due to expected price increases. In the past three monthsof the 2007/08 season, American Pima prices, based on a CFR Far East basis, rose from 115.00 to 135.00 cents per lb. Prices are likely to increase even more. The most obvious reductions in consumption will come from the marginal products in which premium ELS/LS fibers have been squeezed into. With increased prices, the products that will prevail are the premium products that have not yet been discounted and where operating margins have not been sacrificed for the sake of picking up a new client or customer.

While other commodity prices are soaring, the US has seen a completely contrary trend on the prices of apparel. The three accompanying charts were captured from the Consumer Price Index (CPI) section of the Bureau of Labor Statistics website (http://www.bls.gov/cpi/). From the charts, it is quite obvious that retail prices of clothing have tumbled over the last ten years. With falling CPI apparel prices and rising production costs, an impasse will be reached between the buyers and sellers that will only be resolved through supply and demand adjustments. This adjustment has already started with an estimated decrease in American Pima planted acreage of 30% from last year, to 202,000 acres (82,000 hectares). This is the third lowest planted acreage figure of the last 10 years, but it could be even lower and closer to the 169,000 acres that were planted in the 2000/01 crop year.

Even with all the challenges noted above, the US is coming off of the largest American Pima crop on record of 851,800 statistical bales (185,500 tonnes). At the same time exports of American Pima also reached a new, all-time high of over 830,000 bales, as of July 10, 2008. Demand for ELS/LS cotton has seen healthy growth, ELS and LS cottons are being used in a growing variety of products due to their quality characteristics. The question remains as to how much will be consumed, at what price and what will that price be relative to the increasing price of other commodities? Ultimately, with ELS/LS cotton typically only amounting to about three percent of the global cotton crop, they should find a predominant home in the top quality cotton products produced and consumed around the world. These items will have to find higher price and value points which will allow for a fair market for the fiber and its products throughout the manufacturing and marketing chain. The alternative would be to see the disappearance of ELS/LS crops, as farmers switch to other agricultural products and higher priced synthetic fibers supplant cotton.

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النيل الحديثة للأقطان

Outlook for Chinese Long Staple Cotton Market in 2008/09

By Liang Wenying,
Chairwoman, Xinjiang Nongken Import and Export Group

Cultivation of long staple cotton in China is mainly focused in Akesu (incorporating the No. 1 Division of the Production and Construction Corps) and Kashi (incorporating the No. 3 Division of the PCC).

The planted acreage of long staple cotton in 2007/08 was 1.545 million mu (15 mu = 1 hectare) and the yield was 1,800 kilos per hectare, which brought the total output to 185,400 tonnes. That total output is similar to the figure for 2006/07 announced by the Xinjiang statistics bureau. The maintained high level of production is mainly attributable to the stable long staple market situation during the past three years. Average profits from long staple cotton have been 50 percent higher than those obtained from upland cotton, which has influenced farmers' planting decisions. Favourable weather has also helped achieve bumper crops.

An informal survey conducted by Nongken shows that long staple cotton plantings in No 1 Division of the PCC were 350,000 mu in 2008/09, down by 400,000 mu from the previous season. The acreage in Awati county (the major long staple production area in Akesu outside of land cultivated by the Military Group) declined by 300,000 mu to 510,000 mu, while average yield is expected to remain at around 1,800 kilos per hectare. There has been no long staple cotton planted in Kashi this season. Total output might therefore fall by 50 percent to 103,200 tonnes. Temperatures during May this year were below ideal and young crops were affected by high winds. However, temperatures recovered quickly from late May through June, which boosted crop progress to what would be considered normal for that time of year. The Water Saving Irrigation Area in Akesu region now covers around 700,000 mu, against 200,000 mu in 2007/08, and might be helpful for raising local output by 10,000 to 20,000 tonnes this year. The variety promoted in 2008/09 is the improved "Xinhua No 21" seed, which is more vigorous and higher yielding. In addition, the No. 1 Division's Science Institute is researching a new variety called "Xinhai No 25".

Production costs have increased this year. Land rental has risen from 6,000 to 12,000 yuan per hectare in Xinjiang's 'local regions' (the areas not controlled by the PCC - PCC has no such cost). Other costs, such as agricultural materials, water, electricity, plastic soil covering, labour have also

increased. The total cost of production is expected to rise from 18,000 – 24,000 yuan per hectare to 24,000 – 27,000 yuan per hectare (based on hand picking).

Long staple cotton prices were only around 17,000 yuan per tonne as new crop arrivals began in 2007/08 and sales progress was slow. At that time, the export rate was around 100 cents per lb, FOB China main ports, but little business was concluded. Prices, have recovered slowly since June this year. Delivered mill prices for 2007/08 crop have at the time of writing [*editor's note: the article was written in late June*] moved up towards 17,500 yuan per tonne and those for 2006/07 old crop to about 16,500 yuan per tonne. Export offers have risen to around 105 cents per lb, FOB China ports. The government supports exports of long staple cotton, which this season (2007/08) might reach in excess of 10,000 tonnes, of which Xinjiang Nongken might export 8,000 tonnes, in advance of the new crop arrival.

According to our knowledge, unsold stocks of 2006/07 long staple cotton currently total around 10,000 tonnes all of which have been shipped to interior regions for sale. Uncommitted stocks of 2007/08 crop are around 88,000 tonnes, which are awaiting better prices. Mills have maintained a hand-to-mouth purchasing strategy and this situation might not change in the short term. Total domestic long staple consumption in 2008 will be roughly 200,000 tonnes, while imports will not exceed 50,000 tonnes, most of which is US Pima.

We believe that planted area in the biggest three long staple producing countries (the US, Egypt and China) will drop in 2008, which will lift market prices. Sales of long staple cotton on the domestic market have been dull of late. Since sales of high count yarns by Chinese mills have been slow, the market situation might not change until September or October, when the final global output becomes clearer and confirmation is forthcoming that local supply has fallen by 50 percent, as we expect now.

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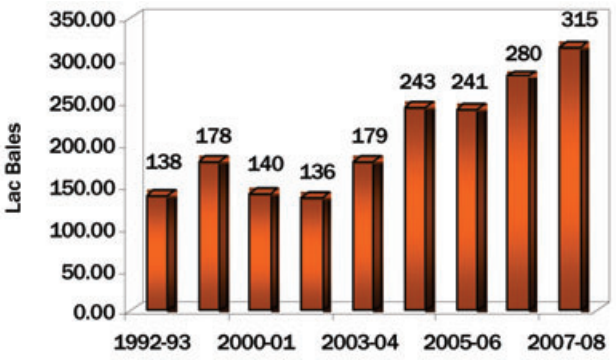
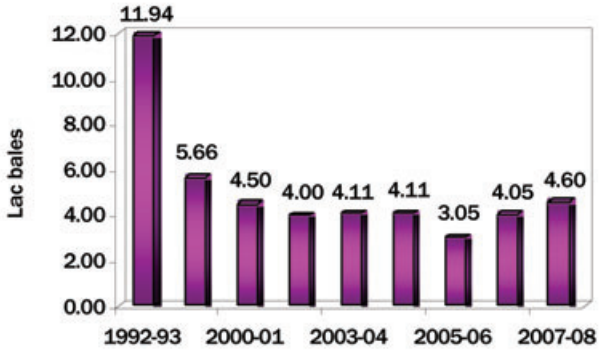
India ELS Cotton: The Long and Short of it

By I J Dhuria,Corporate General Manager, and Mr. Rajesh Singla, Chief Manager, Vardhman Textiles Ltd

Cotton production booming.....



…….but ELS cotton output dipping.



During the last fifteen years, a great change has come over Indian cotton cultivation. From a modest crop of 13.8 million bales in 1992/93, production has boomed to 31.5 million bales (170 kg) in 2007/08. However, interestingly, so far as production of ELS cotton during the period under review is concerned, the reverse trend has been witnessed, as ELS output in 1992/93 was 1.194 million bales, dipping to 0.46 million bales in 2007/08. Another turnaround in the Indian cotton scene is that the country has become a net exporter of cotton and in 2007/08 over 10 million bales have been exported all over the world. However, in ELS cotton, India has turned from being a net exporter to a net importer. Last year, India imported 500,000 bales of ELS Cotton. In 2007/08, India harvested a record crop, as its average yield swelled to 565 kg per hectare, compared to a mere 311 kg per hectare in 1992/93. In contrast, yields obtained from ELS varieties have declined, and last year an average of only 349 kg was obtained. Looking to all of the above, there appears to be a mystical relationship between Indian upland and ELS production.

Textiles Scenario

With the addition of 2.4 million spindles in 2007/08, India's installed capacity has risen to 39.27 million spindles, an increase of about 6.5% from 2006/07. The Indian textile industry accounts for about 23% of the world's spindle capacity making it the second highest after China. The fact of the matter is that, in the last 8 years, new investment in this sector has totalled US$20.37 billion.

Production of cotton yarn increased from 2,121 million kg in 2003/04 to 2,948 million in 2007/08, an increase of 39%. During the same period, output of total spun yarn increased from 3,052 million kg to 4,000 million, an upturn of 31%. Despite the growth of blended yarn and 100% non-cotton yarn, the lion's share of total yarn production is still

State-wise Area, Production and Yield of ELS Cotton-2007-2008

S.N.	States	Hectares	Bales (170 kg)	Yield per hectare
1	Karnatka	81,000	1,50,000	310
2	Madhya Pradesh	65,000	1,50,000	392
3	Andhra Pradesh	28,000	50,000	303
4	Tamilnadu	50,000	1,10,000	374
	TOTAL	2,24,000	4,60,000	349

claimed by cotton yarn. By 2012/13, total production of yarn is projected to be 4,775 million kg, out of which cotton yarn's share is likely to be 3,390 million kg, or 71%.

In the eleventh five-year plan, the government of India called for investment of US$34 billion in the textiles and apparel industry. India's share of the global textile export market is expected to increase to 7 % by 2012 from the current level of 4%. Of the total volume of textiles made from ELS varieties, India currently exports 45%, but that proportion is likely to go up to 65% shortly. India's textile industry is passing through an interesting and difficult phase, but looking to its resilience, the sector should overcome all difficulties and will be able to convert challenges into opportunities.

Growth of Extra fine Cotton Yarn Production

Fine count (61s and above) yarn production totalled 91 million kg in 2000/01, but has swelled to 205 million kg in 2007/08, registering a whopping increase of 125%. During the same period, production of cotton yarns up to 60s count has increased by only 26%. The share of total output commanded by fine count cotton yarn production has increased to 7% in 2007/08, up from 4% in the previous marketing year. By 2012/13, fine count yarn production is forecast to have increased by 16% from the 2007/08 total.

This could be an indicator of things to come and serves as a wake-up call for spinners, particularly manufacturers of fine count yarn, for making efforts to increase the supply of ELS cotton from the domestic crop. Worldwide, there is a trend to go finer, not only in textiles, but also in apparel. Apart from this, spinners also prefer ELS cotton because it runs better on their high-speed machines.

Journey of ELS Cotton in India

Until the 1970s, India was a well-established importer of ELS varieties. During that decade, assisted by multi-pronged research and development efforts, a radical transformation took place on the local ELS scene. By the mid-80s, India had started to emerge as a net-exporter of ELS cotton.

In 1974, Sujata was crossed with St. Vincent Sea Island seeds to create a variety which had staple length of over 1-1/2 inch and stelo strength of 32 gtex (equal to 40 gpt on HVI). By any standard, this was the finest cotton ever produced in India. The first letters of each variety (Sujata & Vincent) were used to create the name of the variety, SUVIN. The variety proved popular with spinners, who were able to use it to produce 180s counts and above. The prized SUVIN crop dwindled gradually and today annual output is around 1,500 bales, all from Tamilnadu state, compared with 14,000 bales in 1990/91.

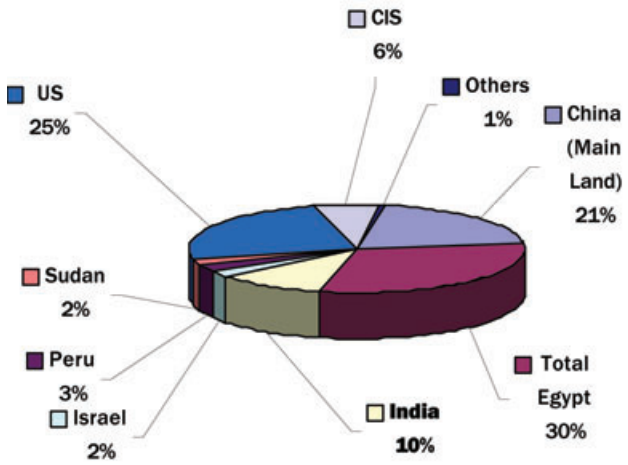
Concurrently, the Dharwar research centre took up development of other varieties like Varalakhsmi, DCH-32, etc., which produced a staple length of 1-7/16 to 1-1/2. These varieties have been the mainstay of consumption by local spinners for the production of various super fine counts for the past several years.

DCH-32 is the principal ELS variety currently grown in India. This variety is over 20 years old and has been successful in the states of Karnatka

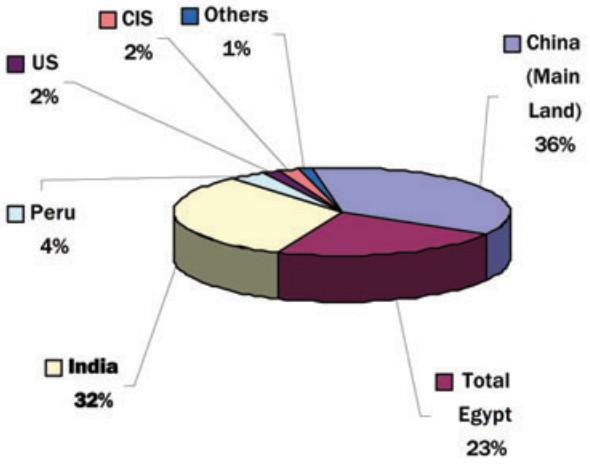
Characteristics of ELS Cotton

Parameter	DCH-32 (Available locally)	GIZA-70 (Exotic)	PIMA (Exotic)
Staple length	34-35 mm	34.5-35.5 mm	35-37 mm
Micronaire	2.8-3.2	3.8-4.5	3.5-4.5
Strength (g/tex)	25-25.5	29-31	30-32
Uniformity ratio (%)	40-42	46-47	45-47

World ELS Production 2007-08



World ELS Consumption 2007-08



and Madhya Pradesh. The fibre characteristics are a staple length of 35mm and over, 28 Gtex (approximately 35 gpt on the HVI mode) and Micronaire of around 3.2 at the beginning of the season, gradually declining as the season progresses. This cotton is best suited for spinning NE100s, but as the staple drops marginally towards the end of the season to around 33 to 34mm, it becomes suitable for spinning NE80s.

Some of the MCU-5 types grown in the northern part of the east coast, in the states of Andhra Pradesh and Orissa, are generally described as ELS cottons, as they can produce a staple length of 33mm. Although the entire crop of MCU-5 may not be of this staple, a small portion of the crop is. The cotton of such staple length is mixed with true ELS types to spin upto NE60s yarn.

Why ELS cotton?

- It can be used for fine counts.
- High export potential.
- More demand in both domestic and international markets.
- Proportionate demand with higher cost.
- Recent trend is to produce fine yarn.
- Consumer is looking for high quality fabrics.

Change of tastes

Of late, a growing preference has been discernible among local spinners for foreign ELS growths, such as US Pima and Egyptian. The reasons for this may be attributed to the following:

(a) Attractive fibre properties, including better span length, higher tensile strength, optimum Micronaire and better lustre value.
(b) It is free from foreign matter contamination (though this is not 100% applicable to Egyptian).
(c) Uniform quality.
(d) At times, overseas buyers of fine count yarns insist on the use of imported ELS varieties for their product.

Present ELS supply and demand in India

India has always been a land of contrasts. One can see the best of luxury and bare necessities going together. The best cars in the world will be seen alongside the oldest mode of commuting – the bicycle. The latest, high-end fashion worn alongside century-old fashion. This is the case in textiles too, as there has been a good demand for super fine varieties of fabric, though the majority of the population is poor.

The current domestic requirement for ELS cotton is expected to rise to 1.0 million bales in 2008/09 (approaching one third of worldwide consumption), compared with 0.73 million bales in 2002/03. Local production is running at around 0.46 million bales, making a potential deficit next season of 0.54 million bales.

The Indian ELS Cotton Balance Sheet

`000s tonnes

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Beginning Stock	45.5	26	23	22	37	19	20	23
Production	80	60	70	70	52	69	78	85
Imports	29	67	58	70	60	80	85	60
Supply	**154.5**	**153**	**151**	**162**	**149**	**168**	**183**	**168**
Consumption	125	125	128	135	140	148	160	165
Export	2							
Disappearance	**127**	**125**	**128**	**135**	**140**	**148**	**160**	**165**
Ending Stock	**27.5**	**28**	**23**	**27**	**9**	**20**	**23**	**3**
Stock-to-use	**0.22**	**0.22**	**0.18**	**0.2**	**0.06**	**0.14**	**0.14**	**0.02**

Source: ICAC Report June 5, 2008

Indian ELS production has been declining for many years, from 32% of worldwide production in 1992/93, to 10% in 2007/08. China, Egypt and the US contribute as much 21%, 30% and 25 %, respectively (see chart on opposite page, top).

The mismatch in local ELS supply and demand has resulted in sustained, sizeable imports. The US and Egypt are the main suppliers, though smaller quantities are imported from the Sudan, Central Asia, Israel and Peru.

Diminishing carryover stock of ELS cotton

As is evident from the table (opposite page, bottom), the stock–to–use ratio, which was 22% in 2002/03, has decreased to 14% in 2007/08 and could fall to 2% in 2008/09. As a rule of thumb, the ratio should be around 25%, in order to keep spindles running all the time.

However, with the introduction of the Genetically Engineered Approval Committee (GEAC) approved Hybrid MRC-6918 Bt and HXH Bt, the yields obtained from ELS cotton in India are likely to improve in the future.

Future scenario

By 2010, local ELS offtake is likely to touch 1.5 million bales and by 2015 it may be as high as 2.0 million bales. More and more spinners in India are turning towards the production of fine count yarns. India is emerging as the powerhouse in home textiles, as well as high-end fashions, which push up demand for high quality fabrics. In addition, the purchasing power of all sections of Indian society has risen substantially because of growth in GDP. To top it all, the concept of using ELS cotton in super fine yarn is gradually getting outmoded. ELS cotton is being used to spin lower counts, such as NE30s to NE40s, used in the manufacture of products like towels, bedlinen and home furnishings. These non-conventional applications have compounded the problem of a widening gap between local supply and demand. All the above will help turnover in the domestic textiles market (basic + value-added) to leap to US$60 billion by 2015 from current total of US$28.5 billion.

Regarding the supply scenario, there is significant scope for improvement because a big gap exists between actual yield and potential yield. The science of plant breeding and genetics has conquered new frontiers and improvements have been made in the fields of agronomy and physiology, to maximize the output per plant and shorten the time required for cultivation.

What is now needed is greater government and industry co-operation in order to bring the research from laboratories into the field under the **"Lab to land programme"**. Another major initiative is the promotion of **"Contract farming"** on a wider scale. Another area of focus could be to increase the area under ELS cotton cultivation through the provision of adequate price incentives to farmers. The present ELS cotton market is miniscule (hardly 1.5% of total cotton output) and therefore is not attracting as much attention as it should from all stakeholders. However, there is no denying that some of the southern cotton and mill associations have been doing a commendable job in promoting ELS cotton, but these efforts need to be accelerated and spread to almost all cotton growing states.

The road to self-sufficiency will doubtless be long and torturous, but it is not that an unachievable goal. Hopefully, great opportunities on ELS front will not go begging!

Trends in LS/ELS Consumption in India - the 2008/09 Outlook

By Mr. Shri K N Viswanathan,
Hon.Secretary, South India Cotton Association

India has been a traditional consumer of Long and Extra Long Staple (LS/ELS) cottons, but domestic production of those varieties has been declining sharply, as farmers have not been getting sufficiently remunerative prices. Of course the LS varieties have not only registered an increase in volume, thanks to the introduction of BT varieties, but there is also substantial upgradation in quality. The staple length is longer, more sustained and the strength and uniformity have also gone up more in varieties like Bunny Brahma, MCU5 and, in some areas, Shankar-6.

Regarding consumption, fine count spinners are happy to use the LS varieties, but in the case of ELS varieties, the focus is on end users requirement; i.e. their parameters for special applications. For these special requirements, cotton is imported from origins such as the Sudan, Central Asia, Egypt and the US.

Prices for the ELS varieties from Sudan, Egypt, and US range at present (the end of June) from 105 to 135 cents per lb, CFR.

Reports indicate that production of these varieties is likely to shrink in 2008/09. In India also, the production of ELS varieties is expected to be lower.

Consumption of LS/ELS cotton has been declining for the past few years due to lower demand for yarns spun from those varieties from the domestic market. However, mills that spin yarn for use in special production for exports are continuing to import Egyptian, Central Asian an US Pima.

Indian ELS Imports

	Egyptian (tonnes)	US Pima (480-lb bales)
2004/05	24,951	76,000
2005/06	8,273	75,000
2006/07	11,274	91,600
2007/08	5,828.55#	145,900*

Figures for CIS imports are not available.

Sources: The Egyptian Cotton Gazette and Supima.

#by March 1, 2008 *by July 3, 2008

Indian consumption therefore will continue in a similar trend in 2008/09 both in LS and ELS. The LS consumption will remain at about 1.5 million bales. However, ELS offtake may decline by about 15% from an estimated 900,000 bales in 2007/08 to about 770,000 bales in 2008/09, owing to a downturn in consumption of the domestic ELS variety DCH-32.

Author's Note: Local classification of long staple (LS) varieties is based on staple lengths of 31 mm to 33 mm, and can include Bunny Brahma, MCU5 and some small quantities of MECH-1 and Shankar-6. The classification of Extra-Long Staple is reserved for *Barbadense* varieties.

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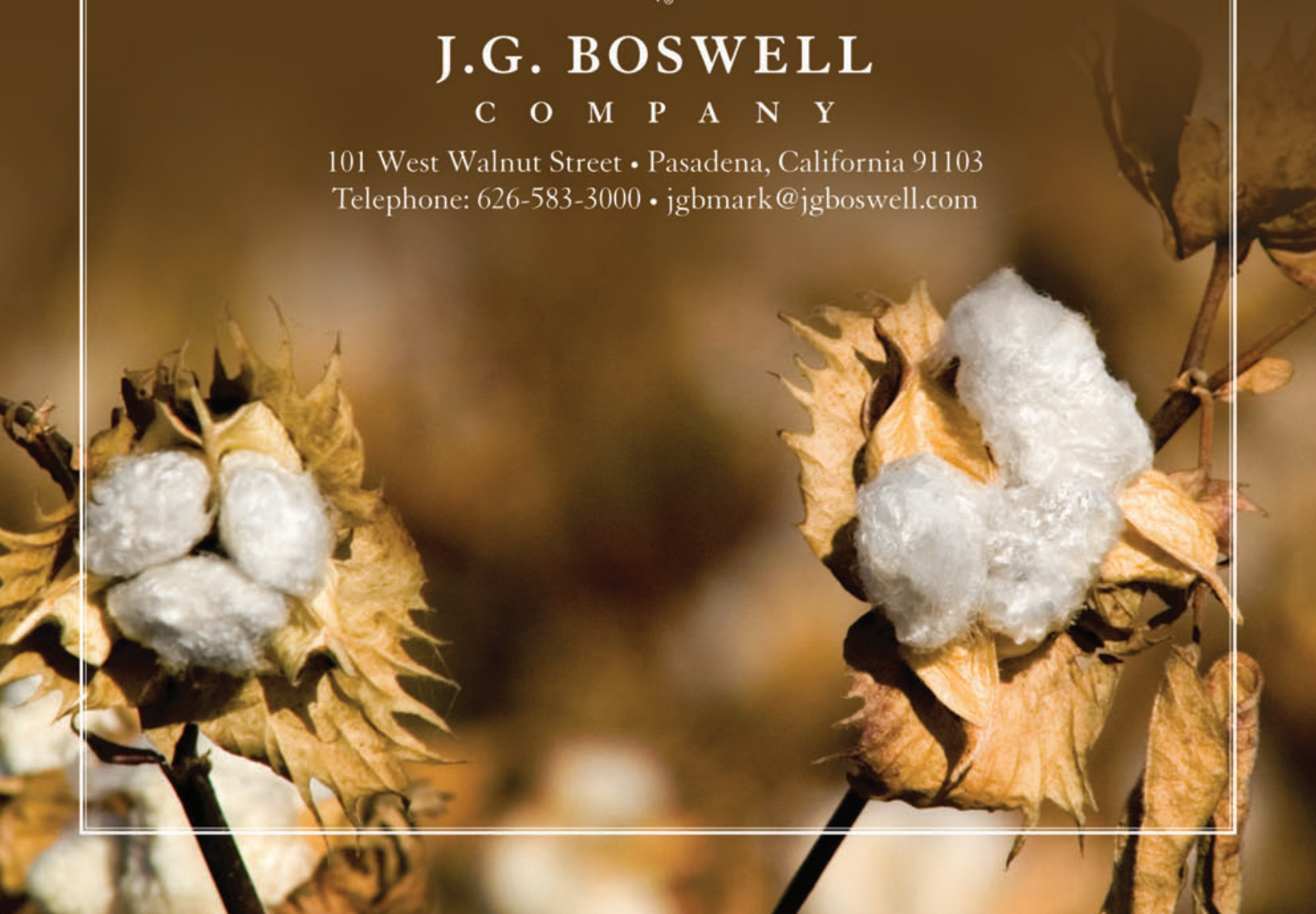

Long Staple Cotton in Central Asia – Sustainability in Question.

By Galina Fisher,
CIS Editor, Cotlook Limited

In our last annual review, in August 2007, we questioned the sustainability of long staple production in the Central Asian region, in view of the obvious downward trend in production during the past two decades. In the 2007/08 season, aggregate production of long staple cotton declined to around 43,000 tonnes (according to our final estimates), representing merely 13 percent of what was once produced in the early 1990's.

Today, there are a number of major obstacles to achieving improvements in production. These, as we have mentioned in the past, include the absence of state production targets for these varieties, significant pressure on farmers to attain the overall planned volume of cotton output (which diverts efforts to the upland crop), the poor quality of planting seeds (and the absence of any visible progress in developing new varieties) and the poor application of prime inputs (which are often in short supply or lacking altogether). In addition, the water situation in the region is increasingly becoming a key factor in the sustainability of cotton production as a whole, but in particular for water-thirsty, long staple strains.

The start made to the new 2008/09 growing season is not looking too promising. An unusually harsh winter, followed by the very early arrival of a dry, hot spring, adversely affected planting operations in the region in general, with some fields lost altogether and large areas (mainly in Uzbekistan and Tajikistan) having required replanting. The need for irrigation water, at a much earlier juncture than normal, was substantially higher than usual. However, the availability of water in some areas of Uzbekistan was limited and a shortage of power to operate water pumps was noted in Tajikistan.

As a result, in ***Uzbekistan***, according to official information, whilst the initial intention was to expand the area under newly-developed varieties at the expense of older ones, the actual planted area resulted in the bulk being sown to the traditional *'Termez-31'* strand. Two districts in Syrkhandar province remain the only growers of LS varieties.

Uzbekistan 2008/09 LS varieties/area

Variety	Initial intentions	Actual plantings
	hectares	
Termez –31	5,000	13,620
Denov	10,000	0
Syrkhan-14	5,000	680
Total	20,000	14,300

In ***Tajikistan***, the area planted to long staples this spring (all in the southern province of Khotlon) declined to around 8,200 hectares – historically, probably the smallest on record - against 47,000 hectares initially intended by the authorities, and merely half of that planted in 2007/08. As in Uzbekistan, only traditional varieties, namely *'Bahsh –9326'* and *'Vahsh –750'* were used, which in the past have produced disappointingly low yields.

In ***Turkmenistan***, where it is always difficult to gauge prospects at this stage, owing mainly to official information being either exaggerated, misleading, or unavailable to the outside world, private views are that production of long staple cotton this year should not be dramatically different from the level attained in 2007/08.

Our initial estimates suggest that aggregate production of long staples in Central Asia could prove to be around 31,000 tonnes, making it the lowest level since 2005/06.

Much will depend on the availability of water and other inputs during the remaining vegetative period, as well as weather conditions immediately prior to and during the harvest period. Our estimates might at this stage be regarded, therefore, as being at the higher end of expectations.

As far as marketing is concerned, the Central Asian long staple crops continue to make their way mainly into consuming markets in Asia.

Water in Central Asia

Central Asia is a dry and arid region with immensely diverse topography ranging from high mountains and glaciers to vast and dry steppes and deserts. The region is rich in water resources but more than 90 percent are concentrated in the mountains of Kyrgyzstan and Tajikistan. The region's two major rivers, the ***Amu Darya*** and ***Syr Darya***, originate in these two countries, while Uzbekistan, the single biggest consumer of water, Kazakhstan and Turkmenistan, are located downstream. As much as 40 percent of the region's water resources are concentrated solely in Kyrgyzstan.

Rising water consumption began when the region was turned into a huge cotton production area during Soviet times. An impressive irrigation network, canals, and reservoirs were built to serve cotton production. However, this development has had disastrous effects on the environment as the region's two major rivers were almost fully diverted for cotton irrigation.

The Soviet regime built huge water reservoirs in Kyrgyzstan and Tajikistan, primarily to support cotton production in Tajikistan and Uzbekistan. Several hydropower stations were also built. Power grids in the region were united into a single regional network. Through this network, upstream countries exported electrical power to downstream countries during the winter, and imported it during the summer when water is pumped into the cotton fields. Coordination of the water flows during the hot season was managed from Moscow.

When the Soviet Union collapsed, water use, which had previously been a domestic issue, suddenly became a subject of international mediation and today water is one of the key issues in the region. The upstream states view water as a commodity for trade and profit, especially since they are poorly endowed with other resources. Control over water is also important for them as they need it to generate much of their own power needs.

Bilateral and multilateral water arrangements are constantly being renegotiated. In recent years, Kyrgyzstan has become increasingly vocal that its water should be viewed in the same light as the region's other major resources - gas and oil - as a commodity.

Growing concerns over the falling level of water in the Aral Sea and its disastrous consequences have added another factor. International agencies, including the World Bank, the United Nations (UN) and the Organization of Security and Cooperation in Europe (OSCE) have offered assistance while also pressuring countries to regulate the water flow so as to prevent the Aral Sea from drying up even more.

During the present decade, the region has been experiencing the worst droughts in a century. Water shortages have directly affected the production of cotton and other agricultural production, eroding living standards.

Tension escalated further his year. Plenty of snow fell in the mountains during the winter period. However, the winter was unusually severe with temperatures in places falling below 20 degrees, forcing Kyrgyzstan and Tajikistan to use a far greater than normal amount of water for energy generation. Furthermore, according to Kyrgyz and Tajik water officials, the snow fell in the wrong places and reservoirs were not sufficiently replenished. Kyrgyzstan's massive Toktogul reservoir, as a result, is claimed to be well below normal levels.

As recently as in June, in a bid to resolve the water issue before the summer set in, officials from Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan met in Bishkek to discuss ways to share fairly the region's water and energy resources. However, reports after the event suggested that the talks had not only failed to generate any agreement, but may have exacerbated water and energy tensions.

In the absence of a coordinated approach, the water issue is likely to remain unresolved in years to come. Today, individual states are seeking unilateral solutions. Tajikistan and Kyrgyzstan plan major hydropower projects to resolve domestic energy shortages and earn hard currency from electricity exports. Kazakhstan, meanwhile, recently announced that it will build the southern Koksaray reservoir and an official launch took place on June 25th (this project has been pending for ten years and finally was approved this spring).

As for cotton, however, the availability of water for irrigation will continue to play a key role in the sustainability of production.

High Quality Long Staple Cotton for Anyone, Everywhere

By Yossi Dror, Field Crop Product Manager
Hazera Genetics, Israel

Every cotton grower on the globe would love to get an extra 20 cents per lb of lint for his cotton. A few of them (actually only 2% of the world's cotton growers) can do it by growing long staple (LS), Pima-type varieties. However, for the majority (98% of growers) only by growing improved upland varieties can they achieve a partial premium.

Hazera Genetics, the largest Israeli seed company, which has been breeding, marketing and selling cotton seed varieties for over 40 years, has a solution to offer.

After years of development, *Hazera Genetics* is introducing a new line of long staple varieties that can be grown in almost any conditions around the world, but which produce a desirable combination of long, strong and fine fibres.

This upgraded combination of characteristics increases the spinnability of the lint and enables the production of higher yarn counts. It is well known to spinners that higher values of fibre elongation improve the work of the lint during the spinning process.

The new varieties are adapted to a large range of conditions, so they can be grown in any cotton area, including those with limited water for irrigation, salinity and a short growing season; factors which prevent the cultivation of today's LS varieties. Under these conditions, the new LS varieties still produce desirable lint yields of high quality fibres. They can be both saw and roller ginned.

The new generation of varieties have been tested for the last few years in different locations, under various growing conditions and practices all over the world. Their performance and output competed successfully with other LS Acala and Pima varieties.

Hazera Genetics' varieties have extremely high vigour in the first stages of development and establish a bushy, multilateral stand within a short time after emergence. That enables them to produce and accumulate more bolls in a short time, to benefit from the most favourable conditions of the season, required for complete maturation of the fibres.

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As more good arable land is succumbing to urbanization and fresh water available for crop irrigation is becoming increasingly scarce, non-food crops will be pushed into marginal areas. *Hazera Genetics'* cotton varieties with their high vigour are the best match for those poorer soils with an alkaline background and the most suitable for brackish water irrigation. Indeed, yields usually depend on a stable irrigation regime, but *Hazera Genetics'* varieties can withstand a non-stable irrigation regime and are more flexible with irrigation timings and water quantities than other varieties.

At times like today, when prices for other commodities are sky-rocketing, while cotton prices trail behind, Hazera Genetics' short season varieties can play an important role as a second crop, after silage-wheat or other hay crops. Growers' experiences show decent yields from plantings in late April/early May (Northern Hemisphere) and, in the extreme, even from early-June plantings.

The new varieties could increase the availability of improved LS cotton for local and international markets, to the benefit of the developed textile industry. The upgraded value of Hazera LS cotton will increase growers' profits and improve the competitiveness of this cotton with other crops.

The main fibre characteristics of the new LS varieties are shown in the accompanying quality table. These are averages of values obtained in different trials and observation plots and are dependent on the growing conditions.

Fibre Quality Table

VARIETY	Length		Strength	Elongation	Micronaire
	(mm)	(Inch)	(gr/tex)	(%)	
HA-670	34.2	1.35	34	10	3.6
HA-690	32.7	1.29	35	11	3.6
HA-701	33.7	1.33	34	10	3.6
HA-260	32.7	1.29	38	12	3.7
HA-786	34.4	1.35	34	10	3.7

心手相牵 *Joint Heart & Hand*

一起飞翔 *To Fly Together*

SDMT

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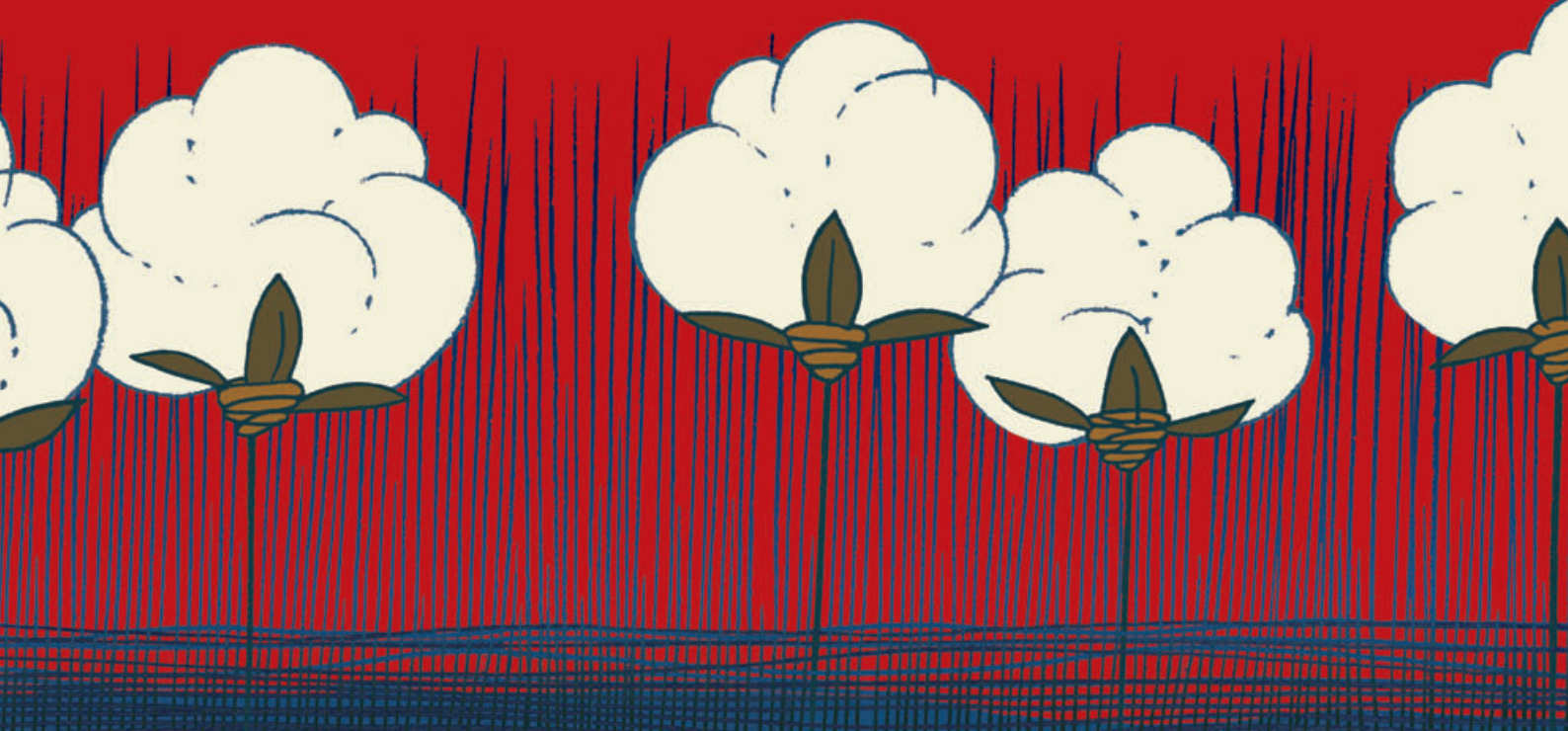

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