Cotton Outlook

Special Feature

US$25

July 2012

World Long Staple Market

After surplus, return to deficit


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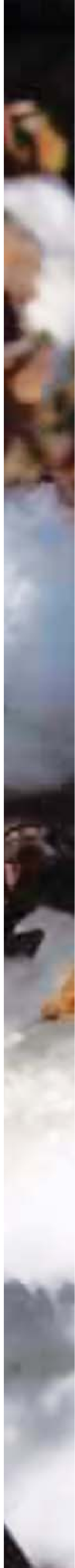

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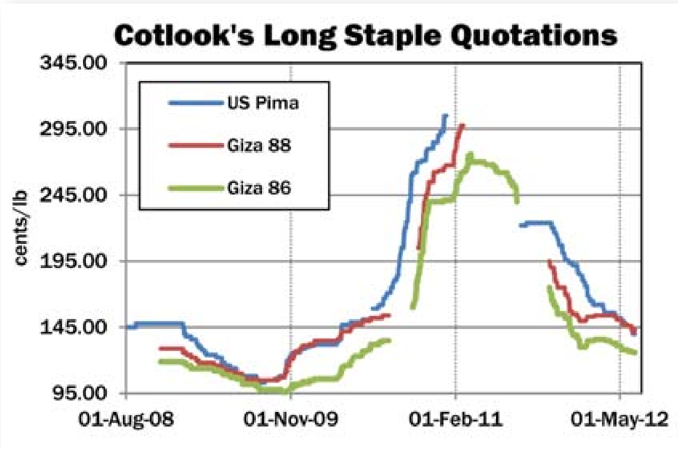
After surplus, return to deficit

By Ray Butler, Cotton Outlook

The 2011/12 season has witnessed long staple* production outpace consumption by a figure approaching 150,000 tonnes. Last year, strong prices encouraged farmers to plant, leading to the biggest world output in four years, whereas global economic factors appear likely to have precluded more than a modest recovery in consumption, compared with the preceding twelve months. The gain shown in total consumption between 2010/11 and 2011/12 in the accompanying table is in fact largely attributable to developments in Egypt. In the very uncertain economic and political times, government policy has placed emphasis on the consumption of domestic long staples to the discouragement of upland imports (including a formal ban during part of the period).

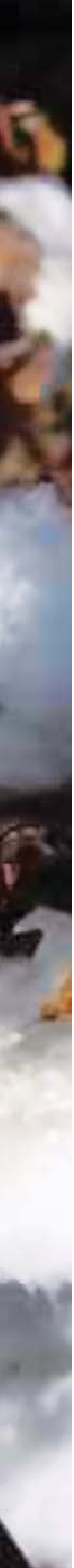


The descent from last year's unprecedented spike in world long staple prices has not been quite as steep as on the way up, but its speed and extent have proved equally problematical for the entire chain, from grower to trader, and trader to mill. As in upland cotton, the scope for contractual non-fulfilment, in a breakdown of good trading order, has been wide.

A consequence of the price turnaround is that the world long staple supply and demand balance is forecast to move into deficit in 2012/13, as farmers cut back sowings by a margin that will reduce output below consumption, despite the latter remaining generally in the doldrums.

According to our figures, world production in 2012/13 will decrease by 28 percent. Reductions are foreseen in the United States, Egypt and China. The US decline is put at over 20 percent, owing to the further diversion of land to permanent crops. Food security, as well as relative prices, is a potent issue in Egypt, and output, based on the final planted area data, could fall by close to 40 percent. The proportionate decline in output of the extra-long staple varieties is yet more pronounced. Meanwhile, significant losses during 2011/12 along the production/marketing chain are the driver of the sharp curtailment – more than 40 percent – predicted in China.

Some price-related decline of output is foreseen in Israel (last year's crop was boosted by late plantings, as world prices soared), while production will falter in Spain, owing principally to a shortage of planting seed.



World LS Output (tonnes)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13 v 2011/12
United States	137,275	167,000	185,458	93,839	84,913	109,755	184,130	144,025	-22%
Egypt	204,300	214,733	226,450	118,700	94,850	130,950	186,100	113,280	-39%
of which:									
ELS	42,881	52,907	40,740	23,339	12,901	27,921	38,490	14,000	-64%
LS	155,930	157,865	181,349	94,573	85,075	103,029	147,610	99,280	-33%
Sudan	36,038	29,684	14,229	8,593	2,055	4,482	17,000	15,000	-12%
Uzbekistan	10,000	12,000	10,500	5,000	2,200	2,000	2,000	2,000	Unch
Tajikistan	8,000	10,000	7,500	3,000	2,000	180	850	850	Unch
Turkmenistan	12,000	25,000	25,000	20,000	24,500	24,000	22,000	22,000	Unch
India	51,850	68,850	78,000	76,500	77,000	62,500	70,000	68,000 *	-3%
Peru	19,280	16,960	22,660	14,090	6,200	5,000	8,000	8,000	Unch
China	80,000	170,000	185,400	120,000	90,000	125,000	130,000	75,000	-42%
Israel	11,500	18,500	19,000	9,000	6,900	7,000	15,500	12,600 **	-19%
Spain		450	1,350	1,800	1,800	2,250	4,000	2,000	-50%
Australia	300	300	300	300	300	500	990	600	-39%
Total	570,543	733,477	775,847	470,822	392,718	473,617	640,570	463,355	-28%

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

The figure shown for the 2011/12 crop in Sudan has been lowered from the initial, optimistic figure of up to 30,000 tonnes (derived from ambitious plans to expand cotton production, outlined late last year by the Sudan Cotton Company Limited) to around 17,000 tonnes (88,000 bales of 420 lbs) as ginning draws to a close. This nevertheless represents a remarkable recovery from the low point reached in 2009/10. Whether the improved output level is sustainable, given the decline in world prices, remains to be seen.

No change is apparently in prospect in output in Central Asia, where Turkmenistan will remain the predominant supplier.

World consumption is forecast to grow overall at a rate of about six percent. While some countries will see contraction, or at best relative stability, one or two in Asia foresee strong recovery. Like world cotton use generally, predictions for long staple consumption remain difficult, given the prevailing global economic uncertainties.

World LS Consumption (tonnes)

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	12/13 v 11/12
Americas								
United States	8,491	7,838	6,532	6,532	6,000	5,500	5,500	Unch
Mexico	435	500	300	300	300	700	700	Unch
Peru	10,000	13,000	9,000	9,000	11,000	13,000	13,000	Unch
Europe								
Italy	10,000	4,000	2,500	2,000	3,000	2,000	2,000	Unch
Switzerland	8,000	7,000	3,000	2,000	4,000	3,300	3,300	Unch
Germany	5,000	4,500	3,000	2,500	5,500	4,100	3,800	-7%
Turkey	10,000	8,000	5,000	6,000	7,000	8,000	8,500	6%
Portugal	4,000	6,000	4,000	800	600	400	400	Unch
Asia								
China	190,000	170,000	205,000	200,000	165,000	140,000	160,000	14%
India	148,000	161,500	125,000	145,000	153,000	155,000	160,000	3%
Pakistan	55,000	85,000	30,000	45,000	35,000	45,000	50,000	11%
Indonesia	14,000	14,000	10,000	6,000	5,000	5,400	6,500	20%
Japan	13,000	12,000	8,000	4,000	9,000	5,500	5,000	-9%
South Korea	11,000	11,900	4,980	1,500	6,800	3,600	3,300	-8%
Bangladesh	10,000	18,000	10,000	12,000	10,000	7,000	7,500	7%
Thailand	10,000	18,000	9,000	7,000	5,000	8,000	9,000	13%
Taiwan	7,000	7,000	2,500	2,177	2,500	2,200	4,350	98%
Turkmenistan	4,000	4,000	2,500	2,000	2,000	3,500	3,500	Unch
Africa								
Egypt	79,572	126,758	43,119	77,469	33,616	76,000	70,000	-8%
Others	4,500	4,000	3,500	3,500	4,000	4,500	4,500	
Total	**608,448**	**687,996**	**488,181**	**534,778**	**468,316**	**492,700**	**520,850**	**6%**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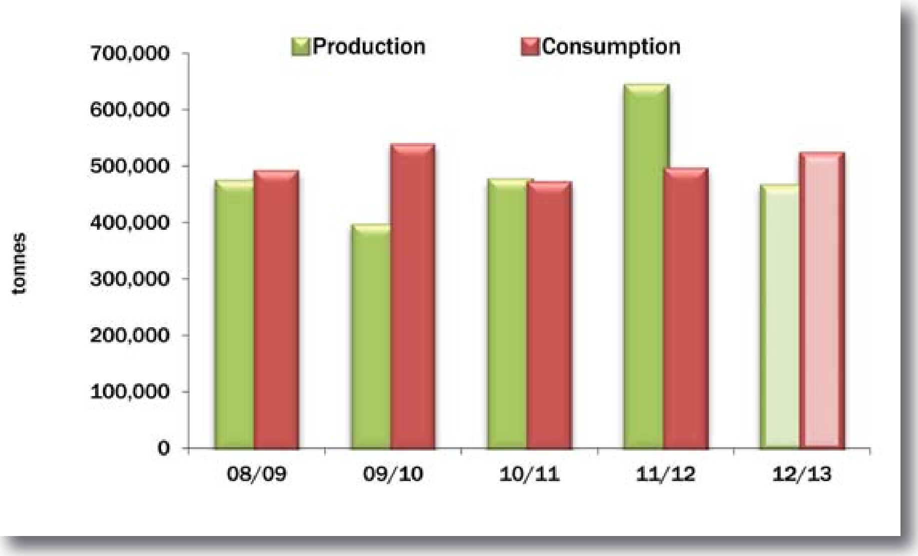
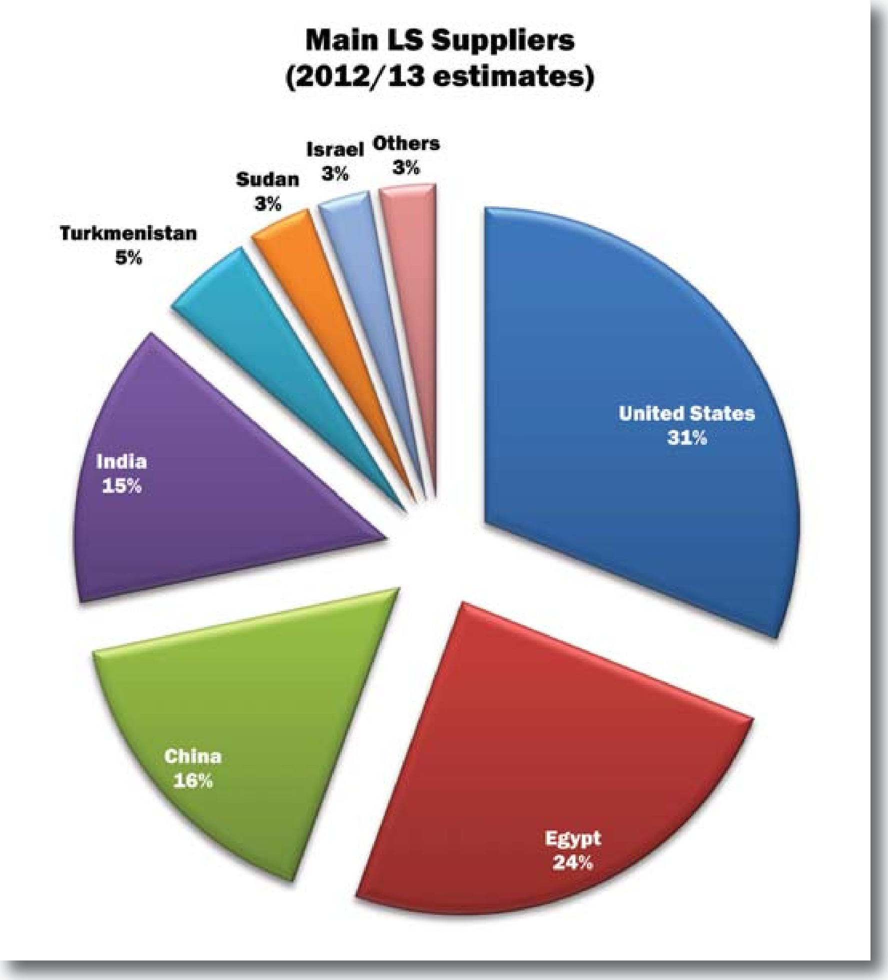
The articles appearing in this Special Feature discuss the specialised long staple sector from a number of different perspectives. Some contributors focus on production prospects in their countries (which are mostly downbeat, given the recent price direction). Matt Laughlin, from Boswell, makes clear that California's farmers will adjust plantings in line with market signals, while Deng Ang, from Changzhou, takes the hopeful view that this season's domestic surplus of long staples in China will be eroded. Cotton Outlook's sources in Egypt have meanwhile contributed to an article describing the changed production outlook in a season when priority has been given to production of food crops. Jonathan Spenser and Menahem Yogev dwell on Israel's push for excellence in yields, as well as quality and service.

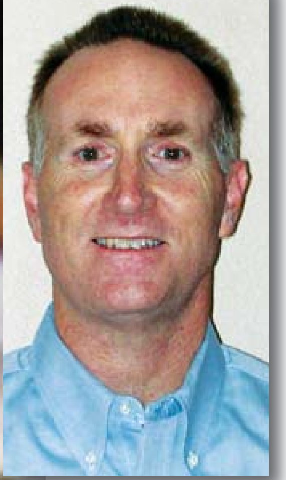


Others take a thoughtful view on industry prospects and the outlook for consumption. In the latter respect, on balance, an optimistic view is taken by Mr. Dhuria, from Vardhman Textiles, as regards prospects in India, which is also the stance taken by Huseyin Bys regarding Turkey's advantage, from its proximity to end markets, at least in the short term, and, indeed, by Luca Massardi, on the remnant industry in Europe's goal of excellence. Meanwhile, Junaid Vaid, from Pakistan, foresees a difficult market ahead, and strong competition in finer yarn counts from India, while Hissam Khandker, in Bangladesh, contends that local fashion and technology changes are acting against the use of expensive cottons.



The net result of our statistical forecasts is the suggestion that world production will fall short of world consumption in 2012/13 by close to 60,000 tonnes. This amount would represent slightly more than one third of the estimated addition to world stocks in 2010/11 and 2011/12, when production was boosted by record high prices.

*Long staple: use of this term in the statistics and editorial references compiled by Cotton Outlook is intended to refer to Gossypium barbadense varieties of all kinds (including hybrids), rather than a definition by specific categories of staple length or by the cotton's suitability for spinning a specific range of yarn counts. Other contributors may use different terms and employ different definitions, depending on the custom and practice in their country.



World Long Staple Market 2012

By Matt Laughlin, General Manager, Cotton Marketing Dept.
J.G. Boswell Company

Someone once said: "What goes up must come down." But the anonymous sage did not quantify how far down...

When cotton prices waded into unchartered waters early last year, most industry observers convinced themselves that the new lofty price range would be the rule and not the exception. Many of us not only managed to rationalize the unprecedented price ascension, but then extended the trend line into the second half of this decade.

That was a short-lived prediction.

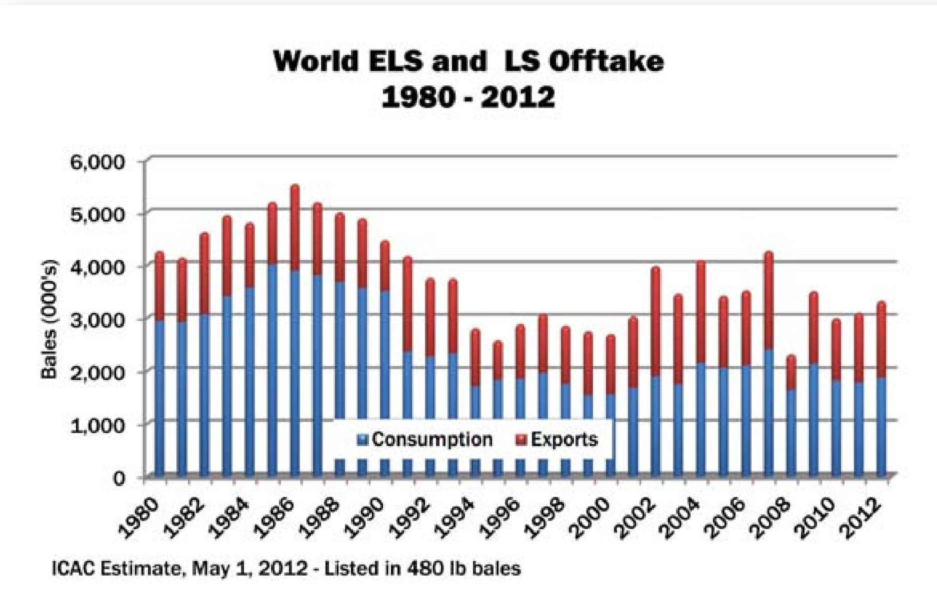
Yes, the world population will continue to grow as will the percentage of people with disposable income, and they will need to be clothed. But market conditions will always dictate consumer spending habits, and today's global economic climate dictates caution.

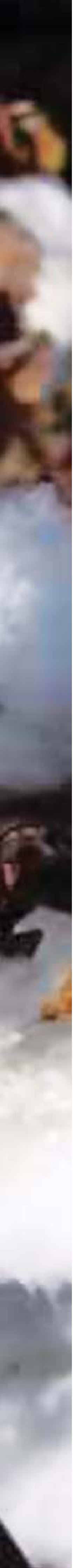
What went wrong?

We love simple answers, even clichés, so I am going with the easiest out: "It's the economy, stupid."

Of course it's not that simple, but time does give us the benefit of hindsight, and that view shines a bright light on a rapidly deteriorating global economy, especially in Europe. Commodity markets, including cotton, are most definitely impacted by economic influences beyond U.S. borders.

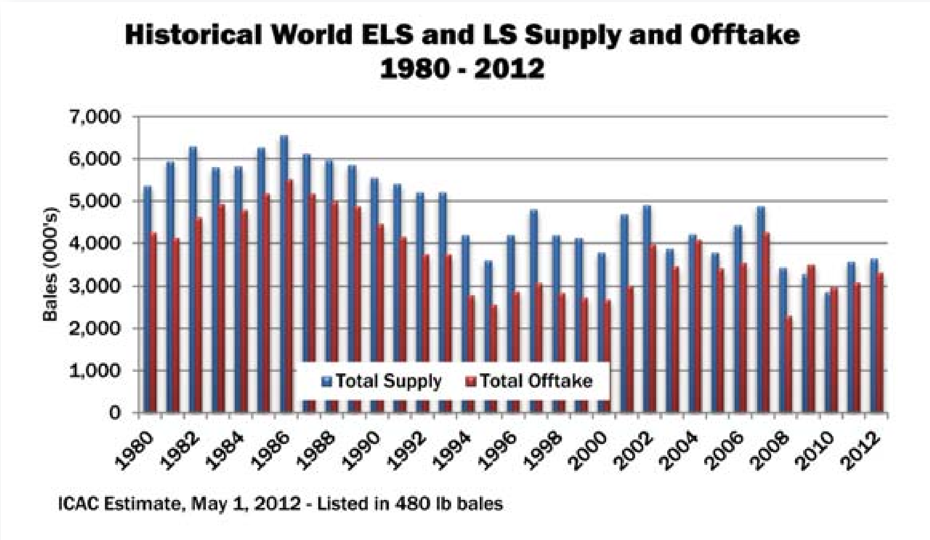
Just as we discovered four years ago when heading into a major global economic meltdown, the market can turn on a dime when conditions are warranted. It was a recession from which we never fully recovered, and this past year's cotton market is a grim reminder of that.





Consumer confidence was already on shaky ground when the financial security of the European Union began to fracture. And when consumers begin to retreat, retailers go into cost-cutting mode which trickles down to textile mills and eventually to raw materials.

Demand has slowed, credit remains tight, inventory is a dirty word and, under such market conditions, price is king.



And as price becomes more important, competition not only comes from other cottons, it also intensifies with man-made fibers. There is no doubt world cotton has lost market share to man-made fibers in the last 12 months and remains under pressure.

But, as always, the market will ensure that cotton remains competitive. It is the timeline we are uncertain about.

Looking back at Pima

Pima prices have fallen in near concert with upland prices over the past 12 months, even though not always for the same reason. Egyptian cotton sales began the marketing season lagging significantly behind U.S. pima export sales, and the Egyptian shippers' remedy was to discount early and often.

More than 370,000 running bales of U.S. pima export sales had been registered by the time Egypt came to the market in November 2011. But with little demand in the fine count yarn sector going forward, Egyptian and pima sales were limited as prices continued to plunge. The CIF Far East Cotlook CIF Quote for U.S. pima went below $2.00 November 29, 2011, and was at $1.40 on June 13 this year.

China is clearly the largest buyer of pima this season, outpacing all other buying countries combined since the summer of 2011. Their own ELS cotton production fell below expectations in 2011, thus creating more opportunity for U.S. pima... at a price.

And though Chinese textile mills prefer pima to Egyptian cotton because of better contamination control, it didn't prevent mills from leveraging the aggressive pricing of Egyptian cotton in order to expedite the price-cutting of pima.

Similar to what transpired in the upland market, the 2011/12 pima season quickly flip-flopped from being a seller's market to being overwhelmingly a buyer's market. But to further exacerbate the role reversal, pima and Egyptian cotton demand diminished to a trickle which accelerated the pace at which prices were being slashed.

Such problems beget more problems, and sustained price reduction in the cotton market simply piled more pressure onto textile mills already saddled with high-priced contracts. Going from bad to worse became a familiar theme for many mills already having difficulty coping with such a volatile market.

On the selling side, growers and co-ops and merchants continue to work with their buyers in an effort to get through the challenges of this season. It requires give-and-take on both sides, but solutions are not always easy to reach.

Cotton going forward

The main challenge facing textile mills today is the disparity between early season cotton purchase prices and today's market prices. Some mills are able to manage the spread, while many others are struggling to do so. And the supplier is getting squeezed.

Many shippers are allowing delayed shipments and other trade-offs, but those concessions aren't always enough. Some buyers are looking for buy-outs of contracts, rollovers to new crop or simply canceling contracts.

It wasn't that long ago when cotton contract defaults were rare, something that occurred in only the most extreme circumstances. Unfortunately, defaults have become much more common.

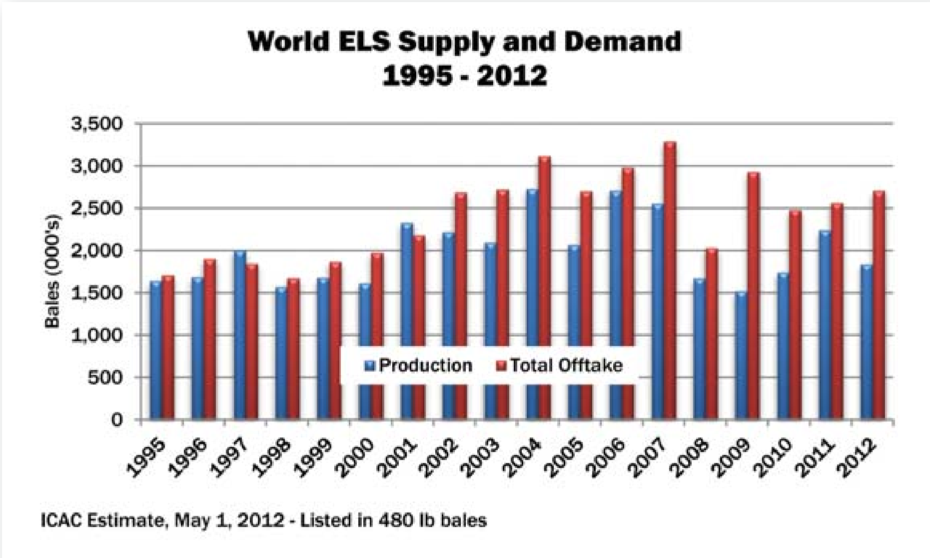
Shippers can be caught in the middle trying to supply cotton acquired from a producer, only to be rebuffed by a textile mill unwilling to honor a high-priced contract in a declining price market. Producers and/or shippers may sometimes be at fault during such disputes, but in the past four years textile mills have defaulted on hundreds of contracts, perhaps thousands.

It's difficult to keep U.S. cotton producers committed to planting cotton when their shippers cannot convey explicit confidence in the sanctity of contracts. We have domestic and international arbitration rules in place to provide as much protection as possible, but we are learning that these safeguards are not always enough.

We need universal acceptance and enforcement of such rules and rulings, equally applicable to both upland and pima cotton.

Both buyers and sellers do agree that the most destructive business cycle is during such dramatic price fluctuations as experienced over the past two years, arguably over the past four years. But agreeing on the best way to mitigate and manage such volatility proves to be more elusive.

Should we consider more spot selling and less forward selling? Would another possible solution be to consider more long-term contracts, or perhaps contracts with price ranges that trigger at certain thresholds? There have to be better ways in which contracts can be crafted to satisfy the needs of both parties.



ICAC Estimate, May 1, 2012 - Listed in 480 lb bales

We have to accept the fact that what has occurred over the past four years is more likely to be business as usual. And once we have come to terms with that realization, we have to be willing to seek better means of dealing with such issues. It's tantamount to the industry's success that we work with our textile mill partners to find mutually beneficial solutions.

U.S. cotton producers answer the call

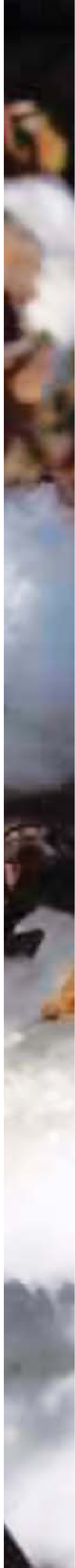
U.S. upland and pima producers will always respond to the tenor of the market. If demand is there and the price is fair, they will produce enough consistently high quality cotton to satisfy the market's appetite.

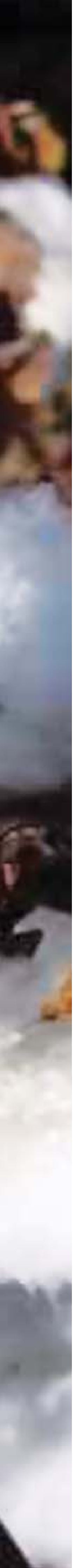
But if demand sputters and the price falters, growers will look at other crop alternatives. It's a similar scenario in most cotton-producing countries, but perhaps more so in the U.S.

Cotton producers in California, Arizona, New Mexico and far west Texas reduced their planted pima acreage this year by a combined total of about 25%. And if the market remains relatively depressed for the balance of the calendar year, it is safe to expect a further reduction in planted acres next year.

But growers are resilient, and that same determination applies to the entire U.S. cotton industry. Each sector consistently demonstrates to the world why the U.S. is the best source for upland and pima cotton.

Given the opportunity, U.S. cotton producers and shippers stand ready to deliver.





Egyptian Cotton Outlook

By Cotton Outlook's editorial staff

The political and economic upheaval that has occurred since the beginning of 2011 has complicated an already difficult market outlook for Egypt's cotton production and has required the payment of government subsidy to textile mills, so as to absorb some of the domestic supply and achieve the political imperative of supporting the price received by the farmer.

Egyptian Supply & Demand

(tonnes)

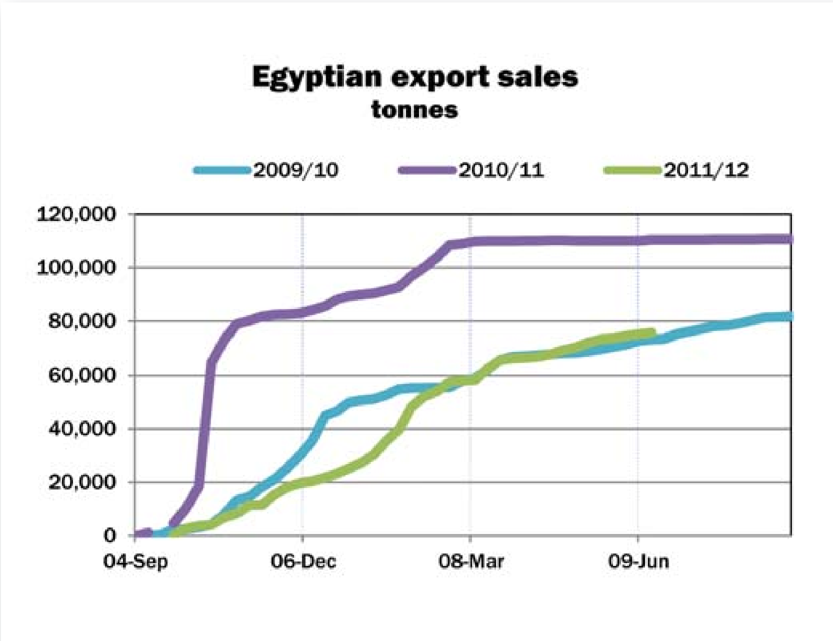
Carryover September 1, 2011		**26,270**	
2011/12 Production		186,100	
Imports*		14,000	
Total Supply			226,370
Consumption		90,000	
Exports		90,000	
Total Disappearance			180,000
Carryover September 1, 2012		**46,370**	
2012/13 Production		113,280	
Imports*		20,000	
Total Supply			179,650
Consumption		90,000	
Exports		70,000	
Total Disappearance			160,000
Carryover September 1, 2013		**19,650**	

*Upland cotton

The 2011/12 season saw cotton production, at 186,100 tonnes, climb to its highest level since the 2007/08 season, on the back of the record-high market prices then prevailing. By February last year, when few offers remained in the market, Giza 88 was commanding close to three US dollars per lb on a CFR Far Eastern basis, while Giza 86 prices ranged either side of 2.5 dollars through to around the middle of the year. Farmers planted 525,392 feddan (virtually acres) to cotton, according to the Egyptian Cotton Gazette, the two main components being Giza 86, at 376,959 feddan and Giza 88 at 97,649 feddan. At the time of writing, Egyptian Giza 88 offers had declined to the mid to low 140.00 cents per lb range, and Giza 86 to between 125.00 and 130.00 cents, though the business tempo had once again tailed off sharply, in a very challenging trading climate.

The price collapse has been a major factor in turning farmers away from planting cotton in 2012, though an additional motivation has been a requirement to grow more food at a time of grave economic crisis and rampant inflation. Despite a ban on raw cotton imports for much of the season, and the allocation of funds totalling E£150 million to subsidise the use of domestic varieties, mill consumption and exports seem set together to absorb less than the available supply, portending increased carryover stocks by the end of the current season. By early June, mills had received subsidy at the rate of E£100 per cantar (15 US cents per kilo) on 830,000 cantars (41,500 tonnes). A request was outstanding to raise the payment by 50 percent (100 percent for Upper Egypt varieties). A 50 percent increase would leave sufficient funds in the pot allocated to support the consumption of a further 446,000 cantars, and thereby raise the total amount of cotton on which subsidy will have been received to 1,276,000 cantars (63,800 tonnes). The subsidy is payable to mills on the presumption that a minimum price has been paid for lint (E£830 for Giza 86, for instance, or 128.00 cents per lb), thereby providing price support back up the supply chain.

In 2010/11, the season's export sales were virtually completed by the end of February, the commitments figure having reached an impressive amount of over 110,000 tonnes. 2011/12, by comparison, commenced at a predictably more pedestrian pace, which only really began to change as from the beginning of December 2011, as overseas spinners looked to begin replenishing inventories. The quantity registered by early June 2012 was comfortably over 76,000 tonnes, and traders expressed the view that the season's total exports might reach around 90,000 tonnes.



past, when some mills have been operating at 50 percent, or less. Should such improvement occur, Egypt would seem next season likely either to need to import more than indicated in the adjoining table (a politically sensitive issue, and improbale until the next crop has moved from farmers' hands) or to export less.

The cotton scenario, as for other sectors of the economy, remains overshadowed by the political climate, which remained in considerable doubt at the time this article was written.

As for 2012/13, planted area by mid-June was 329,000 feddan. No further cotton was being put in the ground at that stage, so the area indicated can be regarded, provisionally, as final. An area of that magnitude might be suffiicent to produce a lint outturn in the region of 113,000 tonnes (assuming average yields).

Some opinion is expressed that mill consumption will return to a more normal, substantially higher level (figures above 130,000 tonnes were recorded in the two season prior to 2010/11, and 200,000 tonnes or above was not uncommon during the earlier part of the last decade). This is a challenging prospect, given the poor state of mill finances, but economic viability would, it is argued, demand a better rate of capacity use than in the recent

After the Plunge, when will the Market Price Rebound?

By Fu Changjian, General Manager, and
Deng Ang, Vice General Manager,
Chang Zhou World Cotton Co., Ltd

After last year's price fall from Renminbi 48,000/tonne to 28,000/tonne, the purchase of long staple cotton in China's Xinjiang Autonomous Region entered into a stalemate in late September 2011. During the 2011/2012 season through to early June, when this article was written, the long staple price has plummeted from Rmb 34,000/tonne to about Rmb 24,000/tonne. The trading volumes were insignificant at the higher and lower ends of that range but large in-between. The continuous price decline has brought severe losses to ginneries, traders and spinning mills.

Long staple Supply & Demand (tonnes)

	08/09	09/10	10/11	11/12	12/13
Opening inventory	115,000	45,000	15,000	30,000	108,000
Output	120,000	90,000	120,000	130,000	90,000
Imports	25,000	80,000	60,000	88,000	30,000
Exports	10,000	Ignored	Ignored	Ignored	Ignored
Consumption	205,000	200,000	165,000	140,000	16,000
Ending Inventory	45,000	15,000	30,000	108,000	68,000

Notes to the table:

1. According to China's practice, a cotton year refers to the period from September through to the following August.

2. Inventories consist of industrial inventories, commercial inventories and social inventories.

3. Cotton of staple length 32 to 35 mm is not included in the table. This category of production in China is very unstable, sometimes large and sometimes small. Because different countries have different definitions for medium staple and long staple, there might exist certain differences in our statistics. With reference to China's Long Staple Standard (GB19635-2005) and Upland Standard (GB1103-2007), cotton longer than 33 mm is called long staple, while cotton shorter than 33 mm is called upland; and there exists no class called extra-long staple or medium staple. However, in practice, cotton with fibres between 32 mm and 35 mm in length is classified into the category of long staple or medium-long staple, and fibres longer than 35 mm are regarded as extra-long staple. Therefore, only after clarifying the length standards for long staple in different countries, can one truly understand the statistics of the output, import/export volumes and consumption in different countries.

Market performance and analysis

In 2011/2012, the long staple market was characterised by falling prices and shrinking trading volumes, which resulted from a combination of factors:

1. **Sharp contraction of consumption.** China's long staple consumption is largely dependent on the country's textile exports. Since the outbreak of the European sovereign debt crisis in 2011, both the

international financial markets and the commodity markets have gone through violent ups and downs. The European, U.S. and Chinese economies might, some fear, face a double dip recession. In such circumstances, China's exports of high-end textiles have been severely impaired. As Chinese textile mills receive fewer orders, a number of mills that have been customary users of long staples over the years have started to suspend or limit their production. Besides, the appreciation of the yuan against the US dollar has left enterprises cautious with regard to accepting orders for fear that currency fluctuation could erode any potential profits. Recently, a lack of spot transactions in long staples has been noted during periods of several days at a time.

2. **Increased output, larger imports.** Although total output was slightly lower than previous expectations, owing to a lower average yield per unit of area production in Xinjiang, it still hit 130,000 tonnes, a level that had not been exceeded since the 2007/08 season, owing to the large import contracts negotiated when the market was in its bullish phase. Furthermore, during the course of the subsequent price descent, some Chinese enterprises have kept hunting bargains. As a result, inventories have accumulated, placing even greater pressure on market prices.

3. The falling price of upland cotton was also one of the factors influencing long staple values.

Outlook for the New Year

China's long staple market will surely face two challenges in the season ahead, namely, huge inventories, which need to be digested urgently, and the unpredictable outlook for the global economy. Sharply decreased planting areas are nonetheless predicted in the major long staple producing countries (the US by about 20%, Egypt by 40% and China by 30%), bringing another variable to the market in the coming year. If the decreases in planting area globally are reflected in output data, the world supply will stand to be eroded. If the world economic situation gradually improves, and demand for luxury goods recovers, the eventual impact on market prices could be substantial.

Therefore, 2012/13 will be a year with both difficulties and opportunities. It remains to be seen at what stage a price rebound will take effect.

2012 Chinese Long Staple Market Overview

By Liang Wenying,
Xinjiang Yinlong International Agricultural Cooperation Co., Ltd.

From 2011/2012, given that the international political and economic environment turned increasingly complicated, that domestic consumer prices and labour costs surged sharply, and that the textile sector was in a downturn, the long staple market appeared gradually to be neglected.

According to the local agricultural sector, the area planted to long staples in 2011/12 was 969,500 mu, comprising 169,500 by the PCC's Agricultural Division I (AD I) and 800,000 mu in Awati County from which the lint outturn was 94,000 tonnes. However, the real output figure was probably between 120,000 and 140,000 tonnes.

I. Yield

1. Actual 2011/12 yield			
Item / Region	Planting area (mu)	Per unit area yield (kg/mu)	Lint yield ('0,000 tons)
Xinjiang Production and Construction Corps Agricultural Division I	169,500	95	1.6
Awati County	800,000	98	7.8
Total			9.4
(note 1 mu-0.0667 hectare)			

2. Estimated 2012/13 yield			
Item / Region	Planting area (mu)	Per unit area yield (kg/mu)	Lint yield ('0,000 tons)
Xinjiang Production and Construction Corps Agricultural Division I	129,500	115	1.5
Awati County	450,000	88	4
Total			5.5

In 2012/13, the same agricultural source gives the planted are as 579,500 mu – a like for like decline of 40% – with a prospective lint outturn of 55,000 tonnes.

According to our knowledge, however, AD I has planted 160,000 mu of cotton. Regiments 1, 2, 3 and 7 have each planted small amounts of long staple cotton. Total output is thus expected to be about 60,000 tonnes, down 30% to 50% from last year.

Over recent years, the long staple bases of AD I have been mostly located in Regiments 1 and 2, whereas Regiments 12 and 9 in Arar have planted a very limited area of long staple. On the one hand, AD I has aimed at preventing plant diseases and insect pests with rotation of crops between rice and cotton. On the other hand, as long staples have been less readily marketable in recent years, growers in Arar have not been very enthusiastic about producing the crop. AD I has been gradually reducing the area devoted to long staples, year by year, and has reserved only part of the areas for it. Agricultural Division III ("AD III"), meanwhile, has not planted long staples for the past five years; although AD III previously used planting seed from stocks provided by AD I, due to environmental or soil factors, the fibres produced in AD III's region proved to be rather short, in particular in the second planting year.

The reasons for this year's sharp decline in planted area in Awati County are as follows: some farmers believe that the current year in the local calendar (a 'leap year') is not propitious for agricultural production; despite inputs for long staples costing more, compared with upland cotton, and hand-picking costs being higher, the per unit area yield of long staples is lower than upland. If the long staple seed cotton price is not at least higher than the fine staple price by Rmb 2/kg, farmers will regard growing long staples as losing money. The difference in 2011 was near to that level (between Rmb 2/kg and Rmb 2.5/kg), so farmers' enthusiasm for long staples has diminished drastically. At present, the processing plant of the Awati County Cotton and Jute Company is leased to a private company and has not any proprietary business. When a private company runs a ginnery, its purchase of seed cotton depends on the marketability of the final product. In a poor market, a private company has little incentive to be an active buyer of long staple seed cotton.

II. Cultivation costs for long staples (Awati County, 2011)

Growing long staple involves the land rent or management fee, ploughing and damming fields; purchasing mulching film, seeds, drip tapes, fertilizers, topping, pesticides/herbicides; paying for sowing, water fees, picking, fuel and labor management. These and other costs total Rmb 2,300/mu, which is Rmb 110/mu more than for upland cotton. In a normal year, upland yield is typically 330 per kg, whereas the yield of long staples is 280 per kg. As a result, the cost of producing long staples is higher than that for upland styles by Rmb 1.6/kg.

III. Sowing and Growth

This being a Chinese lunar year sowing was relatively late, most of it having taken place around the end of April and in early May. In the course of sowing, the weather was very good without any strong winds or heavy rain and, therefore, was favourable for sowing. At the time of writing (early June) long staple plants were 26 to 38 cm in height and entering the budding period. Each plant was showing 4 to 6 buds and 9 to 11 leaves. Cotton plants were thriving.

IV. Quality Inspection

In May 2012, China's first Long Staple Research and Development Centre was set up in Awati County, Xinjiang, the hometown of long staples in China. The centre has established several departments, including Seed Breeding, High Quality Seed Breeding, Cultivation and Technical Services, and the General Cultivation Biological and Biochemical Laboratory.

Long Staples in Aksu

As previously stated, the actual long staple output in 2011/12 amounted to between 120,000 and 140,000 tonnes. The Aksu Fiber Inspection Laboratory has been offering notarized inspections for long staples on a trial basis. To date, 30,000 tonnes have been inspected, 75 percent of which consists of cotton belonging to AD I and local growers accounting for the balance. The inspection results show 88.32% of the fibres as being 36 to 39 mm in length; Grades 1, 2, 3, and 4 account for 35.58%, 55.9%, 8.07% and 0.44%, respectively. According to the notarized inspection results, therefore, this year's long staple characteristics show relatively good and stable quality.

V. Consumption

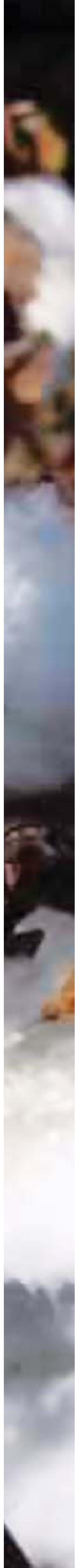
Given the price inversion between the domestic and overseas markets, there have been no exports over the past three years.

In 2011, the domestic consumption of long staples was between 60,000 and 80,000 tonnes.

VI. Price Trend

Since demand for long staples is not robust, and most spinners buy them to meet known consumption requirements, domestic prices have been declining. Long staple cotton is not covered by the state reserves scheme. To help long staple enterprises in Xinjiang, the Agricultural Development Bank (ADB) has arranged for eight enterprises that borrowed money from it to sell their cotton via the on-line supermarket on the website of the China National Cotton Exchange (www.cnce.com). On May 3, 5,649 tonnes of long staple were available for sale on line. In future, more long staple cotton will be offered in the same way.

In the coming season, cotton output is expected to be reduced by nearly 50%. However, 2011/2012 cotton inventories will be plentiful, and demand and supply may reach a balance. As at the date of writing this article, no sign had emerged of improvement in the long staple market.



ELS Cotton: A Promising Future Ahead in India

By I J Dhuria, Corporate General Manager, Raw Materials, Vardhman Group

The Indian textile industry has passed through many facets in its history of over five thousand years. Although in terms of the industry life cycle, the industry is in the maturity phase, in the context of the post-WTO liberal trade regime, it has the potential of starting a new phase of growth. One of the fundamental strengths of India has been, and will continue to be, the availability of cotton in a wide range of varieties, including ELS cotton. An open trade policy has ensured continued growth in ELS consumption even if domestic production lags behind.

Cotton production trend

Driven by increased productivity (in terms of higher yield linked with the use of *Bt* cotton and improved cultivation practices) and an expanded area under cultivation, cotton production in India has grown significantly over the years. Analysis of time series data related to cotton production reveals that the area rose from 7,700,000 hectares in 1991-92 to 8,800,000 hectares in 1999-2000 before expanding to 12,100,000 hectares in 2011-12. During the same period, cotton crop output increased from 2,020,000 to 2,650,000 tonnes, and then to 5,870,000. The growth was indeed impressive!

Increase in yield a key factor

Average yield of lint increased from 263 kg/hectare in 1991-92 to 278 kg per hectare in 2000 before growing to 554 kg/hectare in 2007-08. Since then, it has moderated somewhat (the assumed figure for 2011-12 is around 485 kilos). There are opportunities for further yield improvement, perhaps to attain a level of around 700 kilos (not too far short of the current world average) by 2020.

Foreign trade

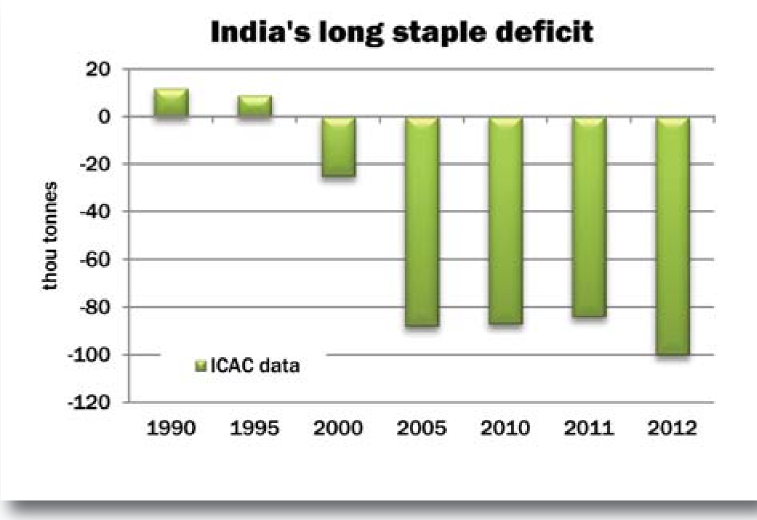
India has become a cotton surplus country in the past few years, something which seems set to continue in the long term. Export volume has risen from the negligible level of 50,000 bales (170 kilos each) in 2000-01, to an estimated 12,500,000/13,000,000 in 2011-12. The share of production going for export has risen from one percent in 2000-01 to 37% in 2011-12.

Obviously, the country is less dependent now on imports than it was before the breakthrough in domestic yields. However, the continued import by textile mills of certain varieties and qualities, like Pima or Giza, seems inevitable, so as to meet requirements for textile products that are linked to specific varieties of cotton It is expected, therefore, that premium cottons, like those mentioned, will continue to enjoy patronage from Indian textile mills in future.

Deficit in ELS cotton

Traditionally, India has been associated with Long Staple and Extra Long Staple cottons, which have been mainstays of the textile industry (together with other, higher value-added fibres, like silk) for the products needed to meet the traditional dress code of the country. In earlier years, therefore, the consumption of ELS cotton was mainly for the domestic market. From the late eighties and early nineties, exports of fine count cotton yarn also increased, with the result that the volume of ELS imports has also risen.

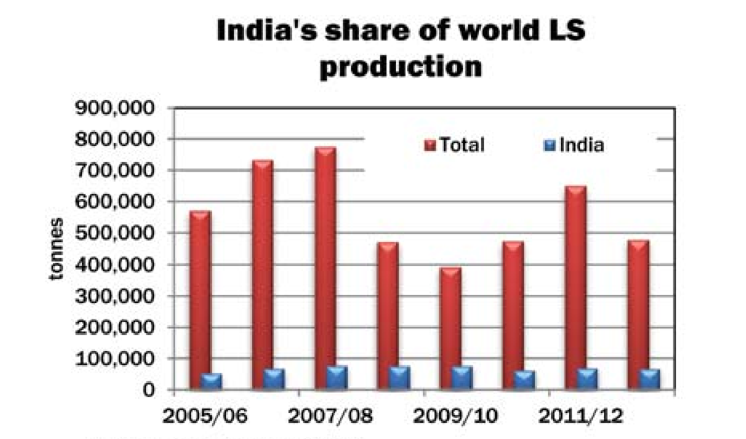
In the early 1990s, India produced far more ELS cotton than it consumed. Since then, however, growth in output has not been commensurate with the growth in demand. Principally, the failure is attributed to a lack of focus on ELS varieties. Even efforts made under the Cotton Technology Mission have failed to generate interest. Other contributory factors include the absence of remunerative prices, poor risk management strategies for the farmer, absence of research on seed varieties and a lack of an institutional mechanism or government support. The growing gap between ELS production and consumption in India is shown in the accompanying chart.



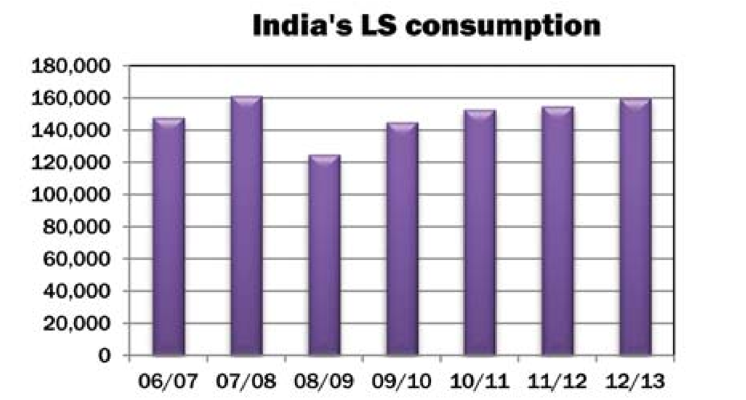
ELS cotton imports in India

The strong foundations of the textile industry in general, and of the spinning sector, have given it the competence to produce all kinds of spun yarn, including fine counts. As a large exporter, India enjoys a fair share of the fine count yarn imported by Japan, Europe and other high quality conscious markets. In addition, fine count cotton yarn is consumed in the ready-made goods sector, making garments for international brands. This has resulted in high use of fine count yarn by the spinning sector, thus sustaining fibre consumption.

In overall terms, of course, ELS cotton's share of India's total cotton consumption is relatively small, amounting to around five or six percent.



(Source: Cotlook, June 2012)



(Source: Cotlook, June 2012)

The accompanying table shows the production trend of cotton spun yarn into finer counts, which clearly demonstrates the rising production of fine count yarns.

Future outlook

It is our belief that imports of ELS will remain within a range of 80,000 to 100,000 tonnes per annum, given the acknowledged superiority of certain cotton varieties in the world and of certain brand effects.

A Sub Group on Cotton formed for drawing up a National Fibre Policy has forecast growth in India's yarn production to 8,300,000 tonnes by 2020. Of this, an estimated 55 percent, or 4,565,000 tonnes, would consist of cotton yarn. Assuming the share of fine count cotton yarn remains at six percent, the output would be 274,000 tonnes. The author's calculation is that this would equate to a requirement for about 380,000 tonnes of lint. Based on the present production of extra-long staple fibre at 68,000 tonnes, a large gap between demand and supply is likely to emerge that will need to be filled by increases in production or in imports. As India shifts toward exporting higher value-added textile products, the requirement for ELS cotton will increase proportionately.

Summing Up

World trade in clothing is dominated by goods made from cotton fibre, which take a prominent share of clothing imports by the USA, EU and Japan. In addition, demand is growing in India for cotton-based garments as incomes increase. The future of India's cotton textile industry is promising.

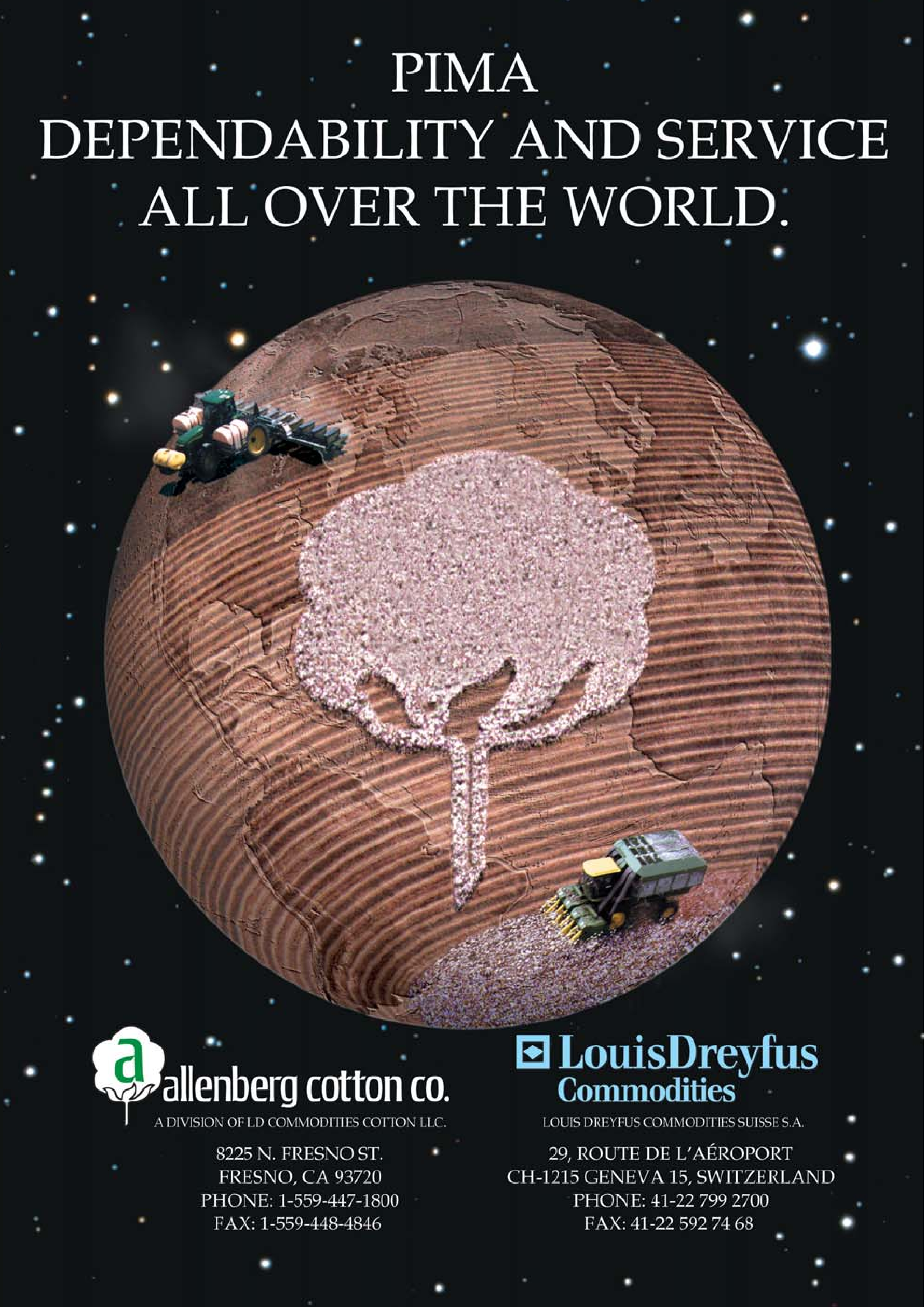
In light of the gains already made in terms of expanded cotton area and improvement in yield, focus should now be placed on increasing the share of ELS. In the last couple of years, government initiatives for increasing cotton production through increases in minimum support prices, together with the expansion of cotton exports, has given encouragement to cotton farmers. Suitable incentives should be given for producing ELS styles, as well financial and fiscal support for research and development of seeds, and promotion by the textile industry.

India will remain a strong player in the world's cotton yarn trade, including fine count yarns, in which it has acquired a good reputation. Consolidation of textile manufacturing in certain Asian countries plays to the strengths of India's textile industry. Therefore, emphasis on ELS cotton is important. Good scope exists for India to increase its share of world production, especially given that our share of world consumption has been growing. Institutional support in the form of close coordination between agricultural research institutes and farmers is a prerequisite, as is the government's strong support through a suitable incentive mechanism for production.

India: Production of fine count cotton yarn(mn kg)

	Cotton yarn	61-80s	81s and above	total of fine count yarn	% of fine count in total cotton yarn
1990-91	1510	64	33	97	6
2000-01	2267	52	39	91	4
2005-06	2521	96	58	154	6
2009-10	3079	108	52	160	5
2010-11	3490	125	58	183	5

(Source: Textile Commissioner Office, India)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FRESNO, CA 93720
PHONE: 1-559-447-1800
FAX: 1-559-448-4846
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Commodities
LOUIS DREYFUS COMMODITIES SUISSE S.A.
29, ROUTE DE L'AÉROPORT
CH-1215 GENEVA 15, SWITZERLAND
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FAX: 41-22 592 74 68

LS/ELS Demand in Pakistan

By Junaid Vaid, Director, A. E. Mohamedy & Co.

Pakistan is the world's third biggest consumer of raw cotton behind China and India and this order is maintained for long staple (LS) and extra-long staple (ELS) consumption as well. However, what distinguishes Pakistan from China and India in regard to LS and ELS consumption is that Pakistan does not produce any LS or ELS cotton, all of the output being of medium and shorter staples. So, Pakistan mills have to import almost all of their LS/ELS cotton requirements. Pakistan has nonetheless been a regular consumer of long staple cotton for decades: as the country's cotton consumption expanded generally during the 90's and first half of the last decade, the demand for ELS cotton also increased.

Mills have been importing ELS cotton from traditionally available growths, with US Pima, Egyptian and CIS being the main sources. However, over the last few years, with Indian cotton production almost doubling, Indian LS and ELS varieties have also proved to be popular. In particular, the Indian long-staple variety, MCU-5, has gained a very good market share, due to its lower price against the specifications of the variety. However, mills reliant on regular consumption of this variety have faced tough times over the last 2-3 years due to supply constraints caused by the Indian government's changing export policies. Some fine count spinners with compact spindles have even used better staple Pakistan cotton to replace MCU-5, and have managed to produce yarns with specifications acceptable to weavers.

Top grades of US Pima, along with Egyptian ELS types, have been always considered by Pakistan mills to be the best ELS cottons for spinning finer counts of yarn. However, the relationship between prices for various LS/ELS growths, and against upland cotton, dictates the market share of each growth and the overall level of LS/ ELS consumption. If ELS prices are on the higher side against upland cotton, mills tend to decrease their ELS consumption.

The graph below, representing US Pima imports into Pakistan, shows that there is considerable variance for

Pima demand from year-to-year. When US Pima prices are on the lower side, Pakistan mills tend to overbook and stocks are then carried over into the next season. With Pakistan mills having benefited immensely by forward booking US Pima during the 2010/11 season, there was a surge in forward bookings for Pima from the 2011/12 crop. However, with prices collapsing at the time of shipment, Pakistan mills have mainly relied on lower-priced Pima recaps during the latter part of the season to push their average prices lower.

Pakistan has imported 15,562 tonnes of Egyptian LS and ELS varieties during the 2011/12 season (figures till 26-05-12) and was only behind China, which imported 17,600 MT. The lower prices for Egyptian cotton during their peak season led to an increase in Egyptian import bookings. In contrast, shipments of CIS ELS have been reduced, owing to their higher prices against competing growths. Imports of Indian DCH-32 variety have increased this season, after supply constraints during the season before. Other ELS growths like Sudanese are also regularly imported by Pakistan mills, when prices are competitive against other growths.

During the 2012/13 season, most Pakistan mills anticipate lower LS/ELS consumption as they feel the relationship between upland and ELS prices will be skewed in favour of upland, owing to record upland cotton stocks. Furthermore, mills have also complained of lack of forward orders from retailers for fine-count products. With a bearish price sentiment prevailing in the cotton and textile industries, there are also hopes of a decline in ELS cotton prices during the next season, which, for now, is proving to be a deterrent for forward booking of Pima new crop.

Most of the products made from ELS are exported to the US and European markets, and there are concerns over the likely demand for premium textile products, owing to the challenging economic conditions in these markets. Recently, however, there has been an increase in local consumption of LS/ELS cotton resulting from an enhanced production of lawn and voile fabrics. However, some sources mention that carryover local stocks of such fabrics will remain at the end of current season.

Despite Pakistan mills being one of the most competitive producers of coarse count yarns in export markets, owing to cheaper local cotton prices, mills face very tough competition from India for fine count yarns. Indian mills, having access to a plentiful supply of LS/ELS varieties, are most competitive on the fine counts. As a result, some Pakistan mills have tended to import fine count yarns from India when Indian prices have been on the lower side.

Despite the lack of locally produced LS/ELS cotton, Pakistan is expected to be a healthy consuming market for these growths. The recent policies by the Chinese government to support their local cotton prices, amid falling world cotton values, have reinforced Pakistan as a top supplier of lower-cost yarn to China. Even for fine count yarns, spinners have complained that demand for branded yarn and products made from Pima and top Egyptian ELS varieties has been on the wane lately and buyers have been willing to buy unbranded yarns or products, as long as their quality specifications are met.

One of the biggest concerns for the local textile industry is the worsening power supply situation, which the government needs to resolve to ensure healthy viability of the local textile industry. With adverse market conditions lately, some of the fine count spinners have been keen not to increase costs by operating on expensive furnace oil. In consequence, their currently held LS/ELS inventories may last longer. The recent increase in local consumption of products made from these fibers is a welcome development. However, the local fine count market is mostly very price conscious and spinners are thus always under pressure to book cheaper ELS/LS growths to remain competitive.

Long Staples in Turkmenistan

Submitted by the State Concern 'Turkmenpagta'

Cotton production in Turkmenistan is one of the key national sectors and Turkmenistan is successfully producing both upland and long staple varieties. In fact, while the production of long staples has declined in other Central Asian producing countries over the past several years, Turkmenistan has become a major producer. This article provides an opportunity to give a brief overview to those who are not yet familiar with Turkmen long staple cotton.

Long staple varieties are grown in two provinces of the country, which have the suitable climate and soil conditions, namely Akhal and Mary velayats (provinces).

Locally-bred varieties such as *9871-I, Yoloten-14* and *Yoloten-32* are cultivated. The country has its own State Research and Development Institute, which works on improving existing and developing new varieties. The selection work includes over 1,000 varieties. To date, over nine long staple varieties have been developed and used in commercial production, including *8763-I, 9078-I, Ash-25, 9871-I, 9938-I, Yoloten-5, Yoloten-14, Yoloten-21* and *Yoloten-32.*

In general, Turkmen cotton has good quality characteristics. Planting takes place in April/May each year, with harvesting usually from August to October. The area, seed-cotton production and lint output over the past five years have been comparatively stable. The total area under cotton fluctuates around the 550,000 hectares mark, of which the area under long staples accounts for just four or five percent. This season is no exception: preliminary estimates suggest that the area under long staples is about 24,000 hectares. The long staple varieties usually produce a good seed cotton yield, and the preliminary projection for seed cotton output this year is placed at around 70,000 tonnes, from which some 22,000 tonnes of lint can be expected.

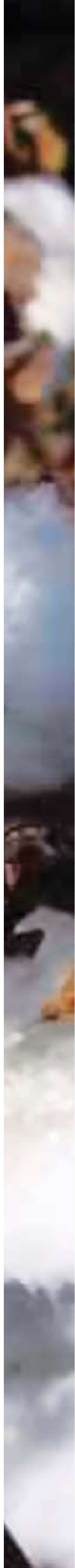
Over the years, Turkmenistan has developed a strong domestic processing sector for the production of yarn, fabrics through to finished goods, both for the domestic and the international market. For domestic production of fine yarns, local mills annually consume around 3,500 tonnes of long staples, the rest being offered for export sale.

Turkmenistan can boast one of the fairest trading mechanisms in Central Asia - regular weekly auctions at the State Raw Material Commodity Exchange, where a number of goods, including raw cotton and cotton by-products are offered for sale to international buyers. The starting prices for raw cotton at the auctions are based on Cotlook quotations on the day, minus discounts, and 100 percent pre-payment terms, ex-warehouse. Traditional consuming markets for Turkmen long staples are Turkey, India, Pakistan and Bangladesh.

Quality characteristics of selective ELS varieties

	Yoloten-14	9871-I
Growing period (no.days)	122	123
Prospective seed-cotton yield (centner/ha)	35.5	32.6
Ginning yield (%)	33.5	29.4
Staple length (mm)	40/41	39/40

Last year, the government of Turkmenistan organised its first International Cotton Fair and gave an opportunity for the attendance of many international guests from a number of countries, including China, Russia, UK, Germany, Turkey, Singapore and Uzbekistan, to familiarise themselves with the Turkmen cotton sector, the systems in place, the quality of cotton and the trading mechanism. The intention is to hold similar events every year and this year the fair is planned to take place on November 24th and 25th in the capital city of Ashgabat.



LS and ELS Cotton in Israel

Breaking Through the Yield Ceiling

By Menahem Yogev, Classing Institute Director, and Jonathan Spenser, Special Consultant, Israel Cotton Board

Long staple and ELS cotton have dominated the Israel cotton acreage for over a decade. A combination of well adapted varieties coupled to excellence in grower performance are now challenging common knowledge that upland cotton lint yields are greater than those of long staple and ELS types.

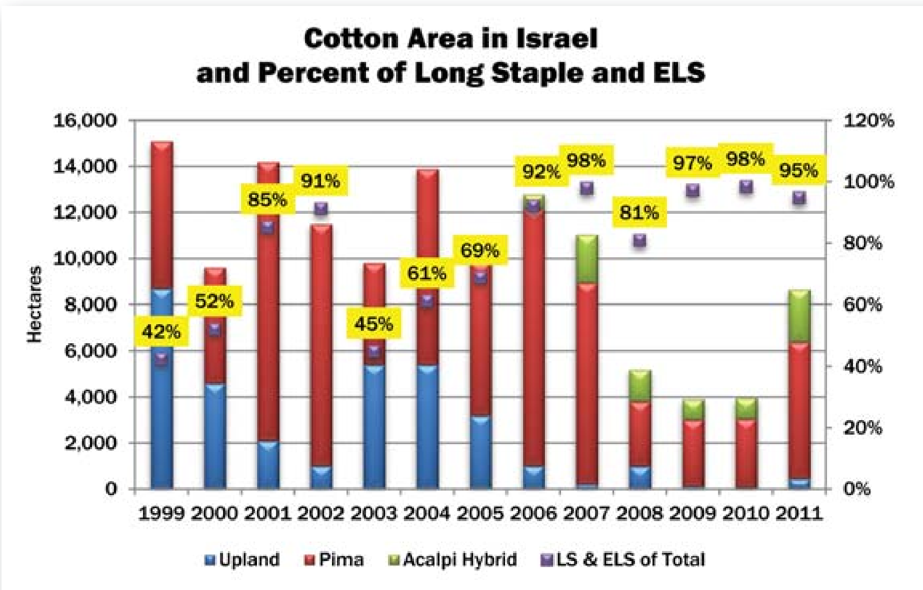
This trend is not new in Israel. Ever since the year 2000, Israeli-bred Pima varieties and, thereafter, Pima and renowned inter-specific hybrid cotton types, have accounted for the majority of the planted area. Since the crises of the late 1990's and lows of the last decade, upland cotton planting in Israel never really recuperated.

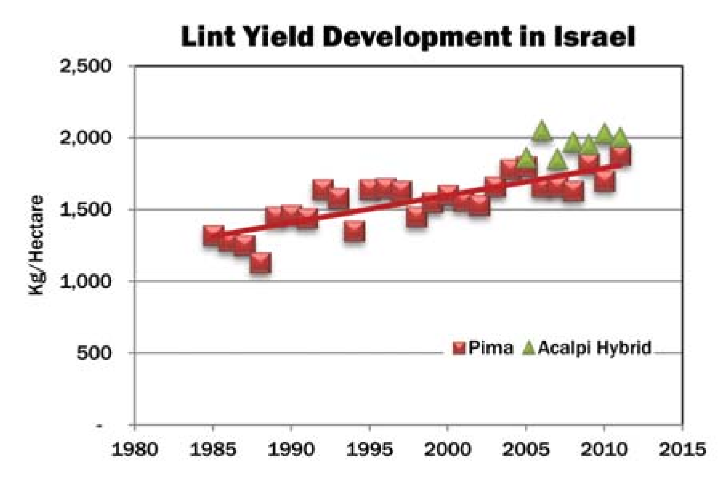
One of the main reasons was that Israel had an alternative: well adapted long staple and ELS varieties and a supporting organization and structure, adjustable enough to shift growers to successful Pima production at short notice.

Early days

The 1990's-2000's price crisis caught Israel well prepared. Long staple breeding programs originate back to the late 1970's. Traditional breeding and hybrid parent development based on CMS (Cytoplasmic male sterility) technology were under way. These foundations led to the timely launch of climate and condition tolerant varieties. Supporting knowledge in disciplines of pest and weed management, irrigation and fertilization scheduling and monitoring for Israel's 100% irrigated crop was developed concurrently by a dedicated team of extension agents, working in collaboration with research institutions and the industry.

This combination advanced a comprehensive knowledge package from bench to field as soon as the shift from upland to Long Staple was required.





Recently resurging

Since the latest global crisis of 2008/09, when cotton planted area dropped to an unprecedented low, price resurgence brought highly resilient Israeli growers back to the cotton field with new Pima varieties and long staple Acalpi hybrids in the lead.

2,500 Kilograms of Lint per Hectare

In advance of the 2010 season, just as the recent price hike became apparent, the ***Israel Cotton Board*** launched the "2,500 Kg cotton lint project" to promote yield and cotton production as a good choice of field crop.

The name designates the goal: to achieve a yield of 2,500 Kg per hectare of long staple lint.

The project rationale is based on the notion that the higher the yield, the higher the profit. It is well known that cotton does not lend itself to excess inputs. Excessive irrigation water, fertilizer or chemicals are more often than not detrimental to lint yield. Thus, optimizing management and cost of production usually maximizes yield and profits.

The "2,500" project is engaged in impacting every sector of the industry seeking to spur stakeholders into improved performance: Initiating research and development, working with scientists and breeders, supporting implementation of research results, disseminating knowledge and streamlining extension activities, encouraging growers into excellence in performance through individual extension, grower meetings and sharing of successful methodology with each other in our pledge for higher yields and profitability.

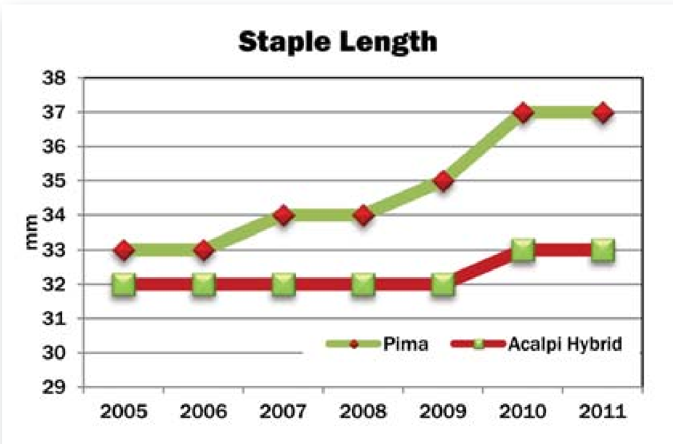
Specific activities have included participation and direction of research in irrigation scheduling, screening new varieties for growing regions and adoption of recent research findings on pest biology with a view to crafting a pink bollworm eradication program. Dissemination of knowledge has included publication of a newly edited "Best Practice Production Protocol", organizing the preferred methodology and contributing to extension agent and grower management at the field level.

The "jewel in the crown" has been the project growers' competition. Abiding by specific minimum field area requirements and sound management practice criteria, growers competed this year for the highest yield in town.

Results did not disappoint. Many growers exceeded the 2,000 Kg/Ha mark reflecting excellent field performance. Two growers actually exceeded the 2,500 Kg/Ha goal led by Kvutzat Yavne winning the competition with 2,620 Kg/Ha lint of Pima cotton.

No compromises

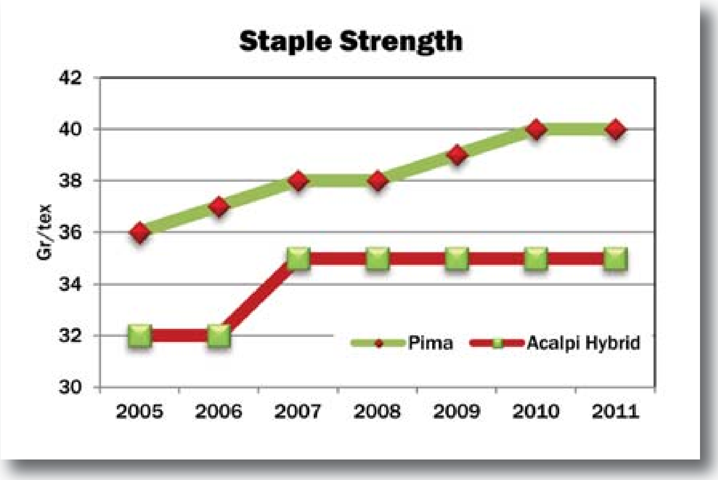
Taking grower yields through the existing ceiling is progressing with zero quality concessions.

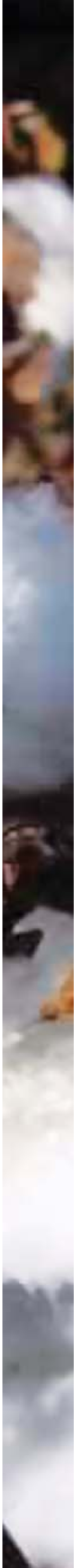


Variety development and management methodology are ensuring hand-in-hand yield and quality improvement. Abiding by industry standards, with 100% of our lint classed with a state-of-the-art Uster HVI (1000/1000) quality measurement system, lint performance competes at the top of the league.

Israel cotton is now exclusively and successfully marketed by ***Otto Stadtlander GmbH, Germany*** and consumed by the best and leading spinning mills all over the world; in Europe as well as in the East, Far East and South America.

The Israel Cotton Board Ltd. continues its tradition to be acclaimed for its top quality cottons, highest standards of growing, eminent reliability of shipments and contractual performance leading to excellent reputation for a world class product and service.





LS Consumption in Europe

Consolidating Towards Excellence

By Luca Massardi, Ecom Agroindustrial Corp. Ltd

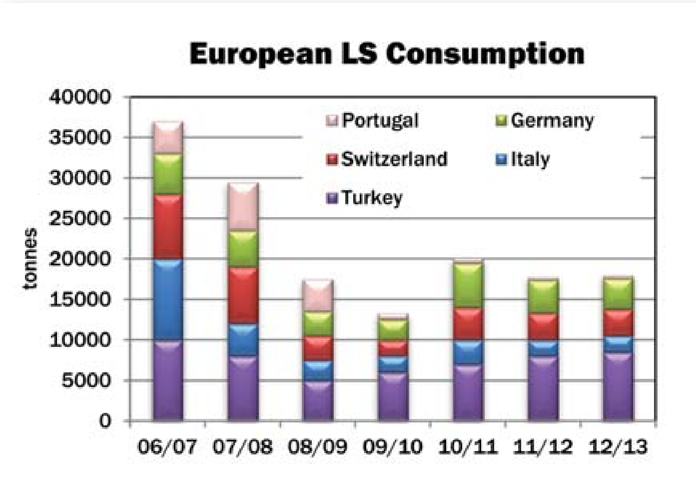
In Europe, the long staple market, which already accounts for a minute proportion of total world consumption of long staples, suffered a strong reduction from 2006/07 to 2009/10.

Over the three seasons mentioned, consumption dropped in the region (Italy, Switzerland, Germany, Portugal and Turkey) from a total of nearly 40,000 tonnes to as little as 13,300 tonnes (source: Cotlook World long staple consumption).

During the same timeframe, China, India, Pakistan and Bangladesh were clearly the main areas of expansion for long staple consumption, accounting in most season for between two-thirds and three-quarters of total use. World consumption reached a peak of almost 700,000 tonnes during the 2007/08 season.

European fine count spinners seemed destined to meet a rather quick end......

Since 2010/11, however, not only has European consumption stopped declining, it has shown signs of making some recovery. In that season, Italy, Switzerland, Turkey and Portugal altogether posted a remarkable recovery: consumption bounced back from a low of 13,300 tonnes in 2009/10 to over 20,000 tonnes, a level that has almost been maintained (thanks to continued expansion in Turkey) in 2011/12. No reduction, overall, is projected in 2012/13.



Have European fine count producers and manufacturers of luxury textiles finally found a way to compete in the challenging environment of high-end textile products? Will the overwhelming negative macro-economic scenario pull them back down again?

World demand for long staple cottons hit its lowest level during the season 2008/09, amid the global financial crisis that spread from America to the EU, Japan and the Far East. The collapse in consumption from one season to the next was no les than 30 percent!

The rebound that started during 2009 marked a dramatic turnaround.

An upturn in demand from a large number of import markets (notably China) led to significant reduction in carryover stocks, which fell to a record low at the beginning of the 2009/10 season.

The recovery from 12 to 18 months of stagnant demand coincided with a clearly foreseeable, record low output of long staple cottons during the 2008/09 season, and once again in 2009/10.

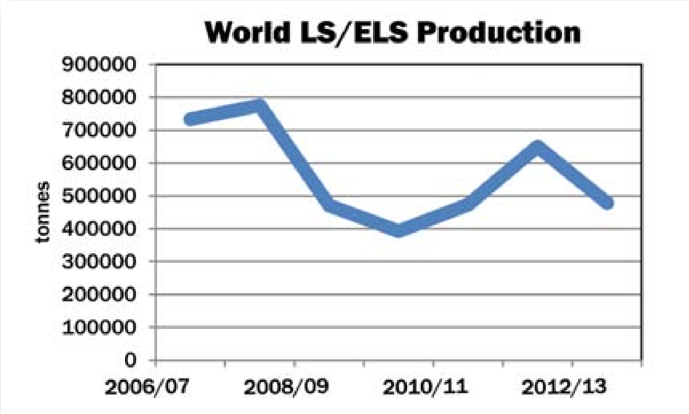
The result was an impressive change in market sentiment, and a rise in global prices to levels never touched before!

The peak prices were reached in late February/early March 2011 (Cotlook quotes for Pima Grade 2 were at 305.00 US cents per lb, and for Giza 88 at 297.50 cents, before being withdrawn on February 23, 2011, owing to the tight supply and scarcity of offers). The "all-time record" price levels brought about severe price rationing, and resulted, in consequence, a tremendous switch from heavy supply shortage to sizeable surplus,

After two "rescue" crops following the low level of output in 2009/10 and the skyrocketing prices in the early spring of 2011, the mood has changed once again. Starting last autumn, China's Xinjiang prices commenced a downward trend. Meanwhile, quotes for US Pima and Egyptian Giza varieties G88, having been above 220.00 cents per lb at the start of 2011/12 season, and still close to 200.00 for Giza 86, have declined significantly. In early June 2012, prices for both Pima and G88 had fallen to around the 140.00 cents per lb level, while G86 had retreated to about 125-126.00 cents.

A comparison with Chinese long staple prices (see attached table) demonstrates quite clearly why demand from Chinese mills for imported long staples is rather slow versus the previous season: local Xinjiang varieties are cheaper, at current levels, than either US Pima G2-2-46 or Giza 88.

Chinese, Indian and Pakistani long staple users mainly buy US Pima for mixing in blends with Egyptian (G86/G88), Sudanese or CIS to produce the most requested range of fine counts (Ne. 60s to Ne. 100s). By comparison, European spinners of fine counts had reached a crossroads: either stay in the mass market and struggle against the impressive competition from Chinese and Far Eastern manufacturers or take the way of excellence, through the research of new mixes (multiple fibres) and finer counts. The latter was a challenging scenario, since it required traditional spinners with long histories of production to give way to big Chinese and Indian textile groups in meeting the requirements for certain luxury fabrics and clothing from the most famous fashion brands worldwide.



Xinjang ELS

		RMB	CIF cts/lb
137	37 mm	24'900	136.9
237		23'950	130.9
337		22'150	119.5
136	36 mm	24'200	132.5
236		23'350	127.1
336		21'150	113.2

as of June 5th offers

source: Ecom Trading Shanghai Ltd

Xinjang cotton RMB/T converted to US c/lb CIF based 1% quota and quota price 3,000 RMB , 13% VAT, exchange rate 6.3 ; port charge and transport charge from port to factory not calculated.

Slowly, however, the strategy of producing top-end quality yarns that cannot easily be replicated appears to have become a viable option for a more promising future.

In Italy, for instance, *Cotonificio Albini* aims its products at the high-end shirting market by selecting the most precious cotton fibres produced worldwide – such as Giza 45, Sea Island - and by tuning its spinning units to produce superfine counts from Ne. 135 to Ne. 260; the result is unique fabrics that sell the 'excellence' philosophy of "made-in-Italy" to brands like D&G, Brooks Brothers, Hermes to cite some names.

Meanwhile, retail fashion groups, based mainly in the EU and the USA, having been initially tempted to turn eastward by attractive pricing, have experienced quality-related issues in supply from China and other eastern sources.

Although spinning finer counts requires less raw material, the consumer demand for luxury goods coming from, increasingly, China, India and Brazil, as well as from the USA and other markets where niche consumers look for the absolute best, seems to be driving the increased market requirement for long staple supplies.

Spinning fine cottons in Europe is reviving not by dint of quantity per se but by the drive toward superior quality.

New spindles are being put in place and direct cooperation is being sought with farmers and ginners who supply the cotton (for instance, in Egypt) with the aim of developing new varieties that will produce long staples capable of being spun up to Ne. 300s.

The current, negative macroeconomic situation appears not to be deterring the remaining European fine count spinners from investing in human and financial resources in pursuit of a future of EXCELLENCE.

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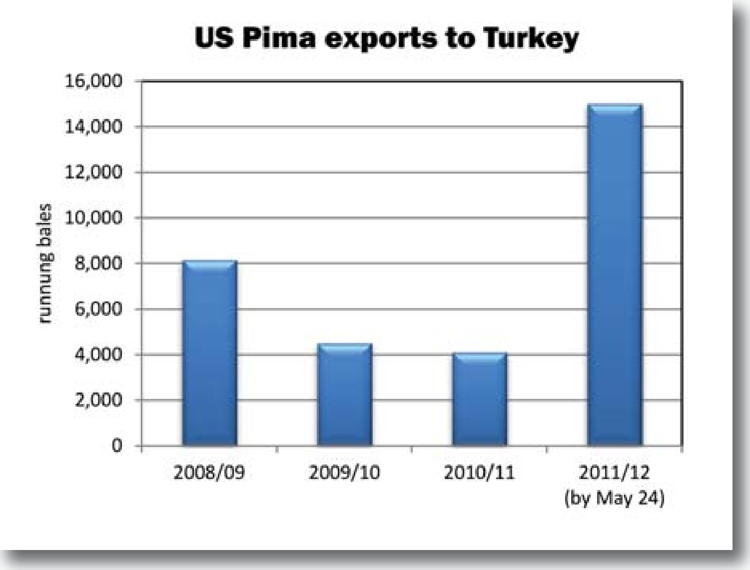
Turkey's Long Staple Consumption

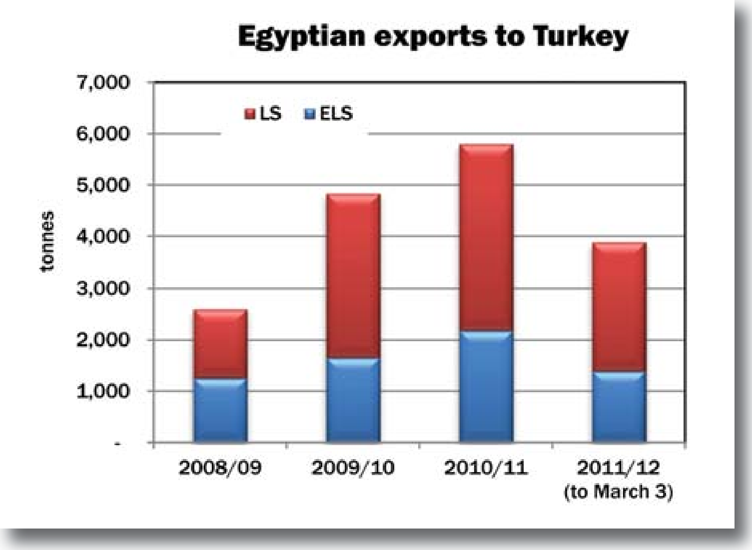
By Huseyin Bys, Akala Pamuk

Our estimate is that Turkey's long staple cotton consumption has shown an increase over the last two years as a result of recent investments in compact ring spinning.

Ring spinners in Turkey have been investing in compact ring spinning so as to be able to produce finer count yarns for high-end fabrics and clothing.

The increase is reflected by data (as published in the *Egyptian Cotton Gazette*) showing the quantity of raw cotton exports to Turkey from Egypt. Long staple styles have risen more than extra-long.





Calendar-year import data from the Turkish statistical institute confirm the trend, from 2009 onward. Imports from Egypt in 2009 were 3,050 tonnes, those in 2010 4,972 tonnes and the 2011 figure amounted to 5,016 tonnes. During the first quarter of this year, the figure recorded was no less than 2,322 tonnes.

USDA data also show an increase in US Pima exports to Turkey during the current season. As the accompanying chart shows, the quantity shipped from the US by May 24 was already more than three times as much as the volume shipped during either of the two preceding seasons.

There is also a little CIS (Turkmen) long staple cotton bought by Turkish spinning mills from time to time. Normally, Turkmen is considered for spinning up to single 50/60s combed yarns. The cotton is used mainly for two purposes:

1) To cheapen the US Pima or Egyptian Giza blends

2) To strengthen normal Turkish cotton blends

A few hundred tonnes per annum are typically consumed by Turkish mills but during the past season Turkmen was more expensive compared with other growths, which slowed down or indeed stopped the flow of supply.

According to ITMF data, Turkey' installed capacity in 2010 amounted to 6,500,000 short staple spindles (about 2.5 percent of the world total) and 255,139 open-end units (3.3 percent), while shipments in 2011 totalled 628,034 (4.4 percent) and 35,220 (6.2 percent), respectively.

Our view is that the increasing trend in long staple cotton consumption will continue for the following reasons:

Growth in income levels is leading consumers to purchase better quality textile products.

European retailers have recently adopted very much a hand-to-mouth approach in respect of new orders, so as to avoid building inventories. Orders are therefore smaller in volume. Turkey's industry is much better placed to compete for such business than its Far Eastern counterparts, including China, where manufacturers are generally not interested in such small-scale business.

Turkey can also serve the European markets on a much faster timescale, having both geographical and technological advantages.

There seems little reason to doubt that increased consumption of long staple cottons will be a feature of our market over at least the next two to three years.

The Bangladesh ELS Shuffle

By Hissam Khandker, Delcot, Bangladesh

With a year-on-year GDP growth of an average 7% per annum over that last decade, Bangladesh continues to be an expanding consumer market, supported by a population of 160 million. Local textile demand has continued to show growth of an estimated 12-15% per annum, especially in rapidly growing urban areas. High import tariffs on textiles and garments have also protected this sector and encouraged growth.

Long staple imports are primarily for local consumption in the domestic textile market. The market is segmented into a few large, local, vertically-integrated textile manufacturers and several hundred small and localised "cottage industries", using handlooms and power looms.

Currently the overall market share of ELS has retreated and it seems will continue to do so, being replaced by Indian DCH-32, Indian MCU-5 and SM 1-5/32" staple descriptions from Australia, the CIS and the United States.

Several factors have contributed to this shift out of ELS, the most important of which have been as follows:

1. Increased access to a supply of Indian MCU-5 and DCH-32, and a considerable price deferential to ELS.

2. Longer shipment lead times for Pima and CIS ELS, compared with the Indian origins.

3. CIS ELS has become more difficult to source throughout the past year.

Over the last 5 years, handlooms have in most part been replaced by power looms, which are considerably more efficient and require approximately half the labour input. Power looms have also the significant, added advantage of being able to produce fabric from a much lower yarn count.

Small handloom units work on a very limited capital base and they have become marginalised as a result of the increased cost of yarn, and their inability to raise the capital required for sustainable volumes of production.

The ELS market is focused on fibre for conversion into locally-used fabric that goes into the traditional Sari & Lungi (sarong) sector. Two significant shifts have taken place in this sector:

1. Fashion has changed, with ladies preferring the more durable and easy to wear ladies' suits (Shalwar Kamiz sets - Shalwar are loose, pyjama-like trousers. The legs are wide at the top, and narrow at the ankle. The kameez is a long shirt or tunic.) These are made from 100% cotton or blended yarns in 40s/50s count.

2. Secondly, on the shift from handlooms to power looms, manufacturers are able to produce fabric using the counts required using DCH-32 31 mm, MCU-5 or SM 1-5/32 staple fibre.

Currently ELS is being used either in blends with Indian DCH-32, MCU-5 or SM 1-5/32 for the middle to lower market segments, or on their own to go into

80s/100s counts for the local luxury consumer markets (primarily handloom-manufactured saris that retail at US$ 500/$1,500 per piece).

Consumption growth of 12-15% is expected in the middle to lower market segments, in which ELS cotton is used in blends in some but not all yarn. The luxury end of 80s to 100s using 100% ELS, or ELS blended with silk, is expected to show more modest growth of perhaps 4% per annum.

Garments and textiles for the export markets in N. America, Europe, Japan and Australia also continue to show strong growth prospects, and it is expected that manufacturers will start diversifying out of the traditional 30-40s knit yarn market into the woven sector. This will require large investment in capital equipment and access to power, and is expected to take place within the next 5 to 10 years. It is a development that would potentially bring increased consumption and demand for ELS for the yarn and textiles' export sectors.

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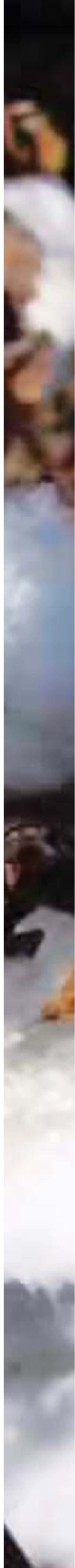


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