

# Cotton Outlook

## Long Staple

### UPDATE

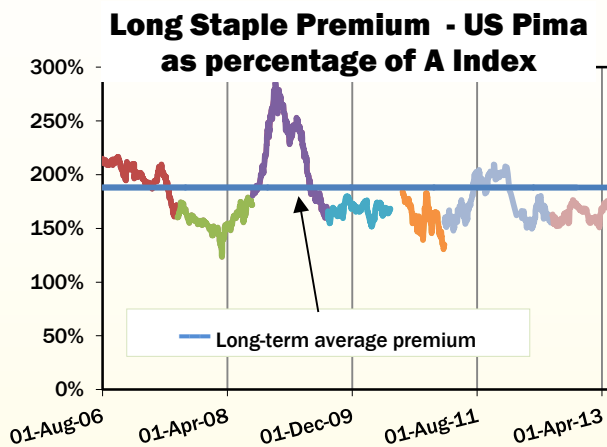
May 2013

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### Summary

Since our last Long Staple Update was published in November 2012, a significant shift in sentiment has occurred on the world long staple market. The pace of export business, notably in US Pima, has accelerated, and offering rates have followed an upward trajectory, though some of that bullish momentum appears to have dissipated in recent weeks.

Upland values have also gained ground since the turn of the year. As a result, the premium of long staple values over upland (as measured by the ratio of Pima prices to the Cotlook A Index) remains below its long-term average.

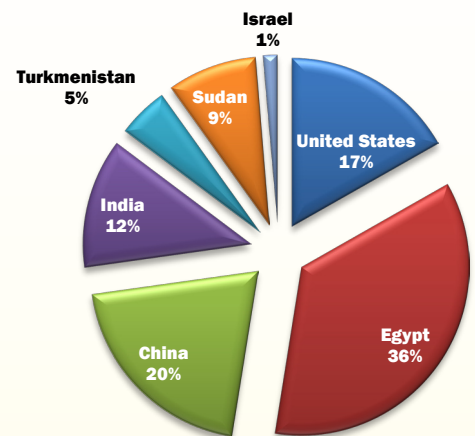


Developments in China appear to have provided the catalyst for the advance of prices. Local long staple values have risen impressively in recent weeks, amid expectations that farmers will turn away from long staples this spring. One of the unintended consequences of the government's cotton support policy has been to lessen the attraction of cultivating long staples, since the state reserves purchasing system incorporates no price incentive for such varieties. However, the strong rise of domestic long staple prices in the period prior to plantings has itself cast doubt on the likely extent of the downturn in China's long staple area.

### Production

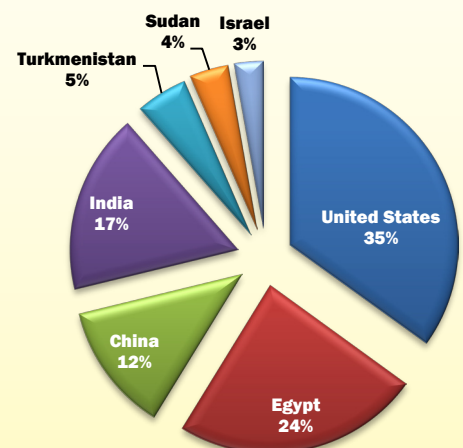
Over the past ten years, world long staple output has fluctuated between slightly below 400,000 tonnes and over 771,000. The outlook in 2013/14 is for output to be toward the bottom of that range, at less than 420,000 tonnes, and for Egypt to contribute a much smaller amount to the world total than was customary ten years or so ago. Although US Pima output will itself be reduced, it will probably account for over a third of world production.

#### Change in LS production over ten years



#### Main LS producers 2003/04

World Output = 598,684 tonnes



#### Main LS producers 2013/14

World Output = 416,968 tonnes

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U.K.  
Tel : 44 (151) 644 6400  
Fax : 44 (151) 644 8550  
E-Mail : editor@cotlook.com  
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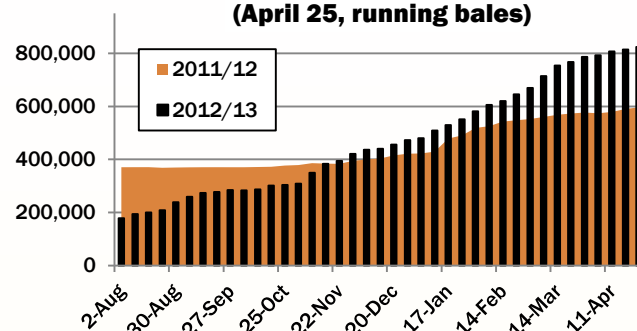
In the United States, pending the release of final ginning data, the 2012/13 crop is estimated to have produced about 780,000 bales (almost 170,000 tonnes), which together with an opening stock of 269,000, implies a total supply for the season of 1,049,000 bales. USDA increased its US Pima export forecast by 25,000 bales to 775,000 bales in the April WASDE report. Through the week ended April 25, total Pima export commitments were estimated at 823,900 running bales (say, 857,000 statistical bales) with more than 13 weeks remaining in the marketing year.

Whereas, in November, cumulative sales were on a par with those in 2011/12, the latest total is no less than 38 percent above the corresponding figure a year earlier. Sales to China are 56 percent higher, and those to India up by more than 80 percent.

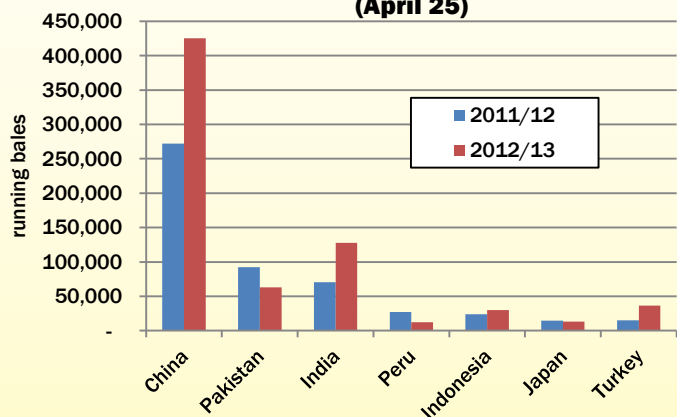
This year's sown area will clearly be reduced, owing to a number of influences, including the continued shift of land in California to permanent crop planting and reduced water allocations. Water availability on the west side of the San Joaquin Valley remains a major concern and obstacle for production this year. Irrigation water allotments were cut to their lowest levels in four years, and challenging soil conditions in that area are expected to impact cotton production. Drier than normal January and February conditions left Sierra Nevada snowpack levels well below average as spring approached.

Grade 2-2-46 on February 1 stood at 135.00 cents per lb, CFR Main Far Eastern ports; the comparable value on May 1 was 160.00 cents, a rise of almost 19 percent.

**US Pima Export Sales  
(April 25, running bales)**



**US Pima Export Sales by Country  
(April 25)**



The recovery in Pima prices since the beginning of February, however, has perhaps mitigated the extent of the fall, having influenced some late planting decisions. Cotton Outlook's published, representative quotation for

**World LS Output  
(tonnes)**

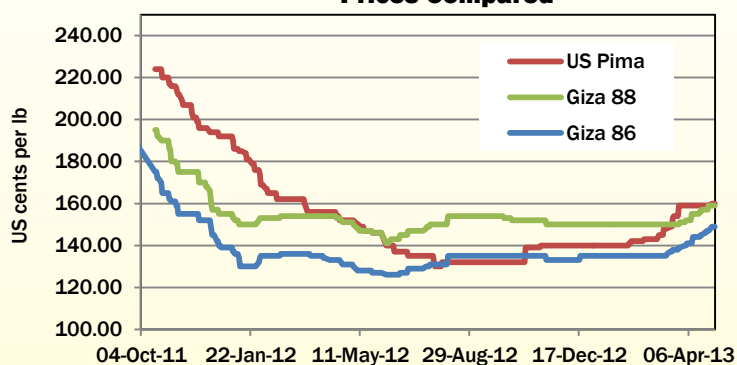
	2012/13	2013/14	2013/14 v 2012/13
<b>United States</b>	169,825	140,868	-17%
<b>Egypt</b>	100,000	96,000	-4%
<b>of which:</b>			
<b>ELS</b>	11,000	6,000	-45%
<b>LS</b>	89,000	90,000	1%
<b>Sudan</b>	15,000	15,000	Unch
<b>Uzbekistan</b>	2,000	2,000	Unch
<b>Tajikistan</b>	500	1,000	100%
<b>Turkmenistan</b>	18,000	20,000	11%
<b>India</b>	65,000	70,000	8%
<b>Peru</b>	8,000	8,000	Unch
<b>China</b>	50,000	50,000	Unch
<b>Israel</b>	14,500	11,000	-24%
<b>Spain</b>	2,000	2,500	25%
<b>Australia</b>	600	600	Unch
<b>Total</b>	<b>445,425</b>	<b>416,968</b>	<b>-6%</b>

Our 2013/14 output estimate is around 647,000 bales – say 141,000 tonnes – which would represent a reduction on the year of 17 percent. By April 25, export sales commitments of Pima for shipment next season amounted to 60,900 running bales, versus 44,400 the year before and no less than 318,900 by the same date in 2011.



Egypt's cotton area last year fell by no less than 35 percent, as farmers turned to the production of food crops in the aftermath of the revolution, and in face of soaring inflation and the country's desperate lack of foreign exchange with which to finance food imports. Much the same foreign currency constraints persist, and the incentives for farmers to return land to cotton remain elusive. Hence, a reduction in cotton area is already evident in Upper Egypt and varying estimates prevail as to the amount by which plantings may prove to have fallen in the main governorates in the Delta. However, last year's growing conditions were less than ideal, and farmers devoted less resource to purchasing inputs. In consequence, average yield fell sharply (over 18 percent less than the preceding five-year average). It is hoped this year to encounter more favourable conditions, both weather-wise and in terms of availability of fuel and fertilisers, and hence to see a recovery in yield to more normal levels. Despite, therefore, little enthusiasm for returning to cotton, output is expected to show a recovery, particularly in regard to Giza 86, now the predominant variety. Production of the Giza 88 extra-long staple variety is expected to decline to a few thousand tonnes, partly as some land is switched to the new variety, Giza 92.

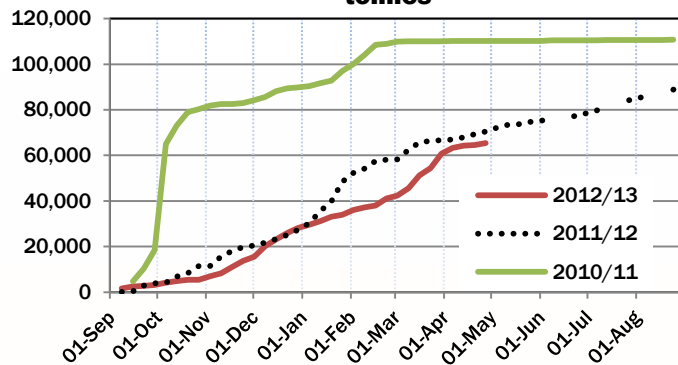
### Prices Compared



Export activity in recent months has been rather slow to gain momentum, despite an ostensibly favourable international market environment. The pace of sales did accelerate during March, however, and by early May the cumulative sales total for 2012/13 was only modestly behind the corresponding figure a year ago.

Export prices have to some extent reflected the upward trend in evidence internationally, but the increase has been less pronounced than in the case of US Pima.

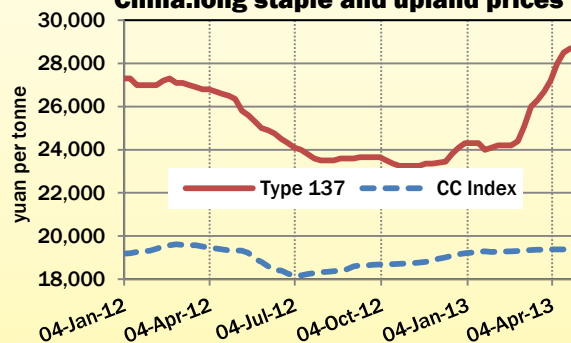
### Egyptian export sales tonnes



Since early November, Cotlook's Giza 86 quotation has risen by just over 10 percent, and Giza 88 by less than 5 percent. The narrowing of the differential between the two varieties is consistent with the relative tightness in the supply of the former.

Production of long staples in China's Xinjiang Autonomous region is difficult to pin down, since last year witnessed reports of these varieties being mixed with upland cotton, so as to take advantage of the state reserve procurement plan (in the absence of a specific, separate arrangement for long staples). Farmers' returns from selling long staple seed cotton outside of the reserves were reported at times to be lower than those for upland varieties. The quantity of long staple lint reaching the market, therefore, is estimated to have been no more than 50,000 tonnes, or merely 38 percent of the estimated quantity available the season before. Against this background, it was anticipated that the area planted to long staple varieties would fall sharply in 2013; a reduction has doubtless occurred, though the mood has changed over the past couple of months owing to market price increases (Type 137 has risen by over 18 percent since mid-February) and as a result of an increased awareness on the part of

### China: long staple and upland prices





farmers that China's and the world supply outlook are tight. For the time being, our forecast is that the lint production reaching the market will be about the same as last year, though the increased prices could result in the number being higher.

Indian output of 33 mm staple cotton and above is estimated in 2012/13 to have reached around 65,000 tonnes, which represented almost a ten percent fall from the year before. Initial ideas are that a small recovery might be recorded in 2013/14, with price once again a major influence.

Very little change is anticipated in Central Asia. Turkmenistan, the region's largest producer of long staples, aims to sow roughly the same as last year's intention (which was defeated by adverse weather at planting time, with land diverted to upland varieties). Hence production could increase slightly, to perhaps 20,000 tonnes, which is nonetheless still at the low end of the recent production range.

## Consumption

World consumption of long staple cottons is forecast to increase by two percent, to almost 480,000 tonnes, which would be the highest since the 2009/10 season.

Our figures have been amended to reflect published export data for 2010/11 and 2011/12 from the United States and Egypt, and to take account of known export commitments for 2012/13. Looking ahead, growth spots may concern India and Bangladesh, as well as parts of Europe.

European long staple consumption declined to less than 15,000 tonnes by 2009/10, as the industry withered in face of Far Eastern competition, but the recent trend has been one of recovery, notably in Turkey, owing partly to the region's logistical advantages in regard to European market access, and also in Germany. The region's

World LS Consumption			
(tonnes)			
	12/13	13/14	13/14 v 12/13
<b>Americas</b>			
<b>United States</b>	5,500	5,500	Unch
<b>Mexico</b>	725	750	3%
<b>Peru</b>	13,000	13,000	Unch
<b>Europe</b>			
<b>Italy</b>	3,000	3,000	Unch
<b>Switzerland</b>	2,000	2,000	Unch
<b>Germany</b>	2,500	5,000	100%
<b>Turkey</b>	15,000	15,000	Unch
<b>Portugal</b>	400	400	Unch
<b>Asia</b>			
<b>China</b>	155,000	150,000	-3%
<b>India</b>	120,000	140,000	17%
<b>Pakistan</b>	50,000	45,000	-10%
<b>Indonesia</b>	7,000	6,000	-14%
<b>Japan</b>	4,000	3,500	-13%
<b>South Korea</b>	2,600	2,600	Unch
<b>Bangladesh</b>	12,000	12,500	4%
<b>Thailand</b>	9,000	9,000	Unch
<b>Taiwan</b>	1,500	2,500	67%
<b>Turkmenistan</b>	3,500	3,500	Unch
<b>Africa</b>			
<b>Egypt</b>	60,000	55,000	-8%
<b>Others</b>	4,500	4,500	
<b>Total</b>	<b>471,225</b>	<b>478,750</b>	<b>2%</b>

consumption is currently predicted to rise slightly further in 2013/14,

In South East Asia, in contrast, the direction of long staple mill use has continued downward. Japan, Indonesia, South Korea, Thailand and Taiwan may between them consume slightly less than the amount used in Europe.

Our figures therefore continue to indicate a shortfall of supply during the current season, and suggest a further, sharper tightening during 2013/14.

## Cotton Outlook's Long Staple Annual Review 2013

Cotton Outlook's Special Features are distributed to our subscribers worldwide, and are translated into Mandarin and made available to participants in China's textile industry. In addition, our Annual Long Staple Review is targeted specifically at mill consumers of long and extra-long staple cottons.

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