Cotton Outlook

Special Feature

US$25

August 2011

World Long Staple Market

Different season, different market

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Page design and layout by Pam Jones, Cotlook Limited.
Published by : Cotlook Limited, Outlook House, 458 New Chester Road, Rock Ferry, Birkenhead, Merseyside, CH42 2AE, U.K.
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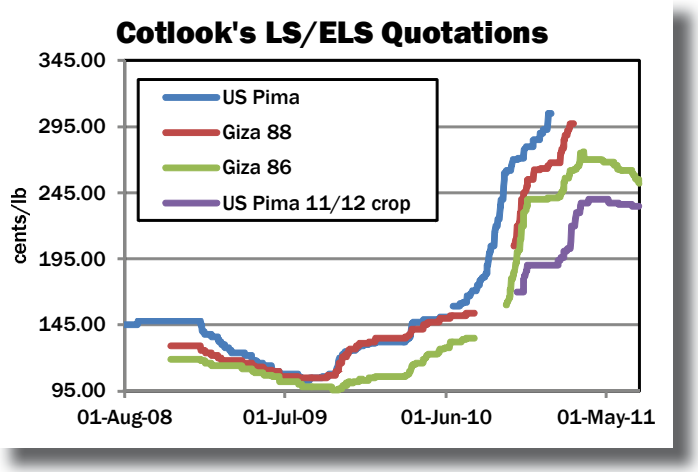
Different Season, Different Market

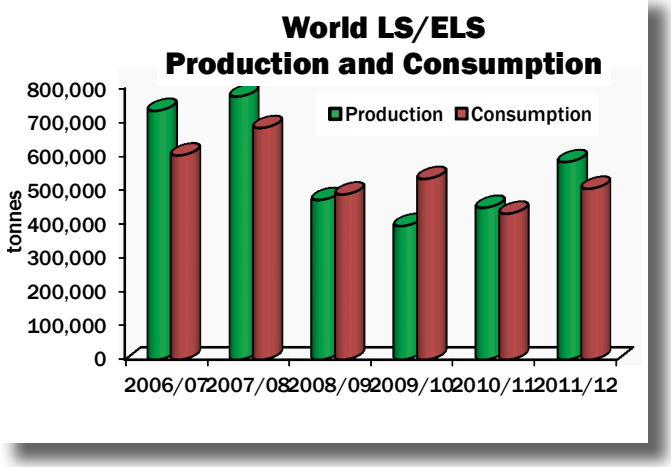
By Ray Butler, Cotton Outlook

World LS/ELS production during the 2011/12 season was projected in our estimates, made prior to the commencement of planting, to expand by no less than 36 percent, to over 620,000 tonnes, on the back of the exceptionally high prices that have prevailed throughout the 2010/11 marketing year.

In our first quarterly update of the year, published in March, reference was made to prices soaring in recognition that 'supply would not be sufficient to meet demand'. In fact, Cotlook's representative quotations for US Pima and Egyptian Giza 88 were withdrawn during March. Although evidence of offers subsequently surfaced from time to time, the levels were sky high, and the quantities offered were minimal.



Since its introduction in February this year, furthermore, our 2011/12 crop US Pima quotation advanced to almost 245.00 US cents per lb, before retreating to 235.00 cents at the time of writing.



In face of these high prices, farmers around the world initially showed enthusiasm for growing LS/ELS descriptions. In the US, early forecasts placed the intended acreage at 252,000 acres, 24 percent more than that cultivated in 2010. In Egypt, a figure above 500,000 feddan (virtually acres) was foreseen (and has in fact been achieved) for the first time since the 2007/08 season, the figure having shrunk to the historically low level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sounded for the outlook in the US Far West, following a very slow start to the growing period (though weather conditions have recently tended to pick-up). As Supima remarked at planting time, despite sales of seed being high, "a good portion will never make it out of the bag this season". As Ernie Schroeder forewarns from a US perspective (though doubtless applicable globally), no two seasons in the long staple market are the same. In Egypt, a figure above 500,000 feddan (virtually acres) has been achieved for the first time since the 2007/08 season (having shrunk to the historically low level of below 300,000 feddan during the 2009/10 season), though the impact remains to be seen of late planting of a portion of the crop.

World Extra-Long and Long Staple Output (tonnes)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2011/12 v 2010/11
United States	137,275	167,000	185,458	93,839	84,913	105,596	152,581	44%
Egypt	204,300	214,733	226,450	118,700	95,458	137,054	179,455	31%
of which:								
ELS	42,881	52,906	40,740	23,339	12,900	22,614	32,112	42%
LS	155,930	157,865	181,349	94,573	85,075	114,440	147,343	29%
Sudan	36,038	29,684	14,229	8,593	2,000	6,096	7,000 #	15%
Uzbekistan	10,000	12,000	10,500	5,000	2,200	1,500	2,000	33%
Tajikistan	8,000	10,000	7,500	3,000	2,000	180	850	372%
Turkmenistan	12,000	25,000	25,000	20,000	25,000	20,000	15,000	-25%
China	80,000	170,000	185,400	120,000	90,000	125,000	140,000	12%
India	51,850	68,850	78,000	76,500	77,000	62,500	81,000 *	30%
Peru	19,280	16,960	22,660	14,090	6,200	5,000	8,000	60%
Israel	11,500	18,500	19,000	9,000	6,900	7,000	14,000 **	100%
Spain		450	1,350	1,800	1,800	2,250	4,000	78%
Australia	300	300	300	300	300	500	600	20%
TOTAL	570,543	733,477	775,847	470,822	393,771	472,677	604,486	28%

*includes cotton with staple of over 33mm

**includes Pima and Acalpi

China foresees a slight upturn in output of ELS varieties in 2011/12, for a second successive season. Furthermore, both our Chinese contributors refer to the existence of a substantial carryover, suggesting that a bearish price view might take some time to dissipate.

Initial forecasts suggested India's domestic ELS output (32.5 mm and longer) would increase to 85,000 tonnes in 2011/12. That figure may not quite be achieved, observers now say. Furthermore, our sources indicate that output in 2010/11 proved to be far lower than initially anticipated. The gap between domestic output and the requirements of finer count yarn spinners remains wide, leaving a substantial requirement for imports.

In Central Asia, Turkmenistan, the largest producer, is expected to see output register a decline, while Tajikistan, which foresaw a strong recovery in plantings from the very low level of a few hundred hectares only in 2010, has seen that ambition defeated. Since Uzbekistan is no longer a significant producer of long staple styles, Galina Fisher, our CIS editor, once again questions the future viability of production throughout the region.

In Australia, viability is also questionable in the foreseeable future, notwithstanding the availability of ample water, as genetically-modified upland varieties are found to be much easier to grow, in comparison to Pima.

On a sharply contrasting note, the revival of Peru's cotton sector is strongly heralded by Federico León y León, the president of the National Cotton Producers Association. Also, in Spain, where ELS production was re-introduced in 2005 (in Andalucia),

and has grown to several thousand tonnes, contributors to our Special Feature this year discuss the prospects for reviving cotton production in Alicante. Israel meanwhile expects output to double from last season.

Reinhart's Jürg Stahel discusses world supply and demand issues in general, and foresees a firm price outlook, even if the heights of the past year are not reached.

As for 2010/11, our estimates of world consumption of long staple varieties during 2011/12 have been trimmed in face of the dramatic slowdown in cotton markets generally, and the resultant curtailments in mill output. The response from South Korea to our question about long staple consumption prospects is perhaps typical: the wide disparity in current cotton inventory values and attainable prices has prompted a 20 percent cut in local output, while customers appear inclined to postpone yarn orders until the last possible moment.

Global mill use is nevertheless forecast to recover partially in 2011/12 (our data show an increase of nine percent). However, given the stronger resurgence foreseen in production, our projections foresee an expanded net surplus of supply, more than double the 2010/11 season's figure, following the sharp depletion of stocks that occurred in 2008/09 and, more spectacularly, in 2009/10.

World Long and Extra-Long Staple Consumption (tonnes)

	06/07	07/08	08/09	09/10	10/11	11/12	11/12 v 10/11
Americas							
United State	8,491	7,838	6,532	6,532	6,000	6,500	8%
Mexico	435	500	300	300	300	400	33%
Peru	10,000	13,000	9,000	9,000	11,000	13,000	18%
Europe							
Italy	10,000	4,000	2,500	2,000	3,000	2,500	-17%
Switzerland	8,000	7,000	3,000	2,000	1,000	1,000	Unch
Germany	5,000	4,500	3,000	2,500	5,500	5,000	-9%
Turkey	10,000	8,000	5,000	4,000	3,000	3,500	17%
Portugal	4,000	6,000	4,000	800	600	600	Unch
Asia							
China	190,000	170,000	205,000	200,000	165,000	180,000	9%
India	148,000	161,500	125,000	145,000	125,000	130,000	4%
Pakistan	55,000	85,000	30,000	45,000	35,000	45,000	29%
Indonesia	14,000	14,000	10,000	6,000	5,000	5,000	Unch
Japan	13,000	12,000	8,000	4,000	11,000	10,000	-9%
South Korea	11,000	11,900	4,980	1,500	6,800	6,100	-10%
Bangladesh	10,000	18,000	10,000	12,000	10,000	10,000	Unch
Thailand	10,000	18,000	9,000	7,000	5,000	5,500	10%
Taiwan	7,000	7,000	2,500	2,177	3,500	4,000	14%
Turkmenista	4,000	4,000	2,500	2,000	2,000	3,000	50%
Africa							
Egypt	79,550	126,750	43,100	77,450	42,000	50,000	19%
Others	4,500	4,000	3,500	3,500	4,000	4,500	13%
Total	608,426	687,988	488,162	532,759	444,700	485,600	9%

The Impact of High Prices on the Trading and Consumption of Long Staple Varieties

By Juerg Stahel, Paul Reinhart AG

What made the Extra-Long staple (ELS) prices rally?

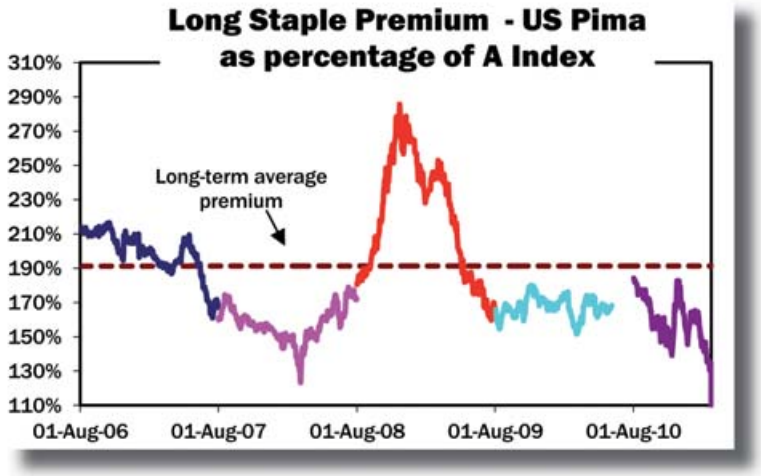
Cotton Outlook's previous Annual Long Staple review was published in July 2010. At that time, the Cotlook 2010/11 prices for US Pima, Egyptian Giza 88 and Giza 86 stood at 155.00 cents/lb, 154.00 cents/lb and 135.00 cents/lb, respectively, and there were discussions whether there would still be potential for further price improvement. As we now know, there was! Within the subsequent seven months, prices rose by a phenomenal 95 percent.

What were the reasons for this price explosion?

The carry-in of the US Pima 2008/09 crop of about 300'000 bales and the small 2009/10 crop of roughly 400'000 bales were fully registered for export in July already, and the other ELS varieties were largely sold. As no cotton was readily available, customers focused on ELS 2010/11 new crop cotton, predominantly US Pima, since first offers of Egyptian Giza 86 and Giza 88 were not available before September and October, 2010. Statistics show that by the end of June, September and December last year, respectively, about 80'000 bales, 200'000 bales and 390'000 bales of US Pima 2010/11 crop cotton were registered for export, respectively. The December portion alone corresponded to about 80% of the expected crop. In view of the short supply, customers accumulated huge quantities for fear of escalating prices.

At that time, demand for fine count yarn was enormous, and spinning mills could easily pass on the necessary price increases to their customers. The world economy was very solid and whatever was offered could be sold at the same time. The more was sold, the more producers increased their prices. Especially in the months of October and November 2010, prices rose by between three and eight percent on a regular basis. The ELS business was booming and many clients consumed even more cotton than anticipated. Another important reason for the rally of ELS prices was that upland prices rose by a fabulous 150% (Cotlook A Index 1.7.2010: 85.35 cents/lb, 15.2.2011: 214.90 cents/lb) during this period, resulting in below average premiums of long-staple cotton against upland cotton.

In summary: the rare combination of robust demand, tight supply and an extraordinarily strong ICE futures market was leading to this price explosion of historical dimensions.



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How do high prices impact a trader's business?

With prices around 250.00 to 300.00 cents/lb it is obvious that the need for capital is growing for all parties involved. The international trader is affected the same as the Egyptian supplier, or the Chinese spinning mill. The capital which used to be adequate for five container loads two years ago nowadays is sufficient for merely two container loads of the same quality. Stock positions of merchants all of a sudden tie up more than double the amount of capital for the same quantity. In a rising market, traders additionally need to reserve a substantial amount of credit for possible margin calls so as to cover the short hedges of upland cotton. However, higher credit requirements do not necessarily mean that credit lines are raised in proportion with the increasing needs. Even though Central Banks have provided ample liquidity to the financial system, risk considerations have become a very important concern since the financial crisis, so the availability of credit to all sectors of the economy is limited.

The recent volatility of commodity prices in general, and cotton especially, adds to the general risk concerns and does not contribute to higher credit availability. The consequences for the parties involved have included a requirement to adjust their businesses to fit their means. Across the supply chain, stocks are kept to a minimum, pre-payments and sales on credit are restricted, and there is less forward contracting. In many places, growers have a hard time to increase their production due to more expensive inputs and limited availability of finance.

Besides credit concerns, the extraordinary volatility also creates an immediate problem for a merchant. Contract sanctity has become absolutely crucial and defaults can be devastating. This is especially true for ELS cotton which cannot be hedged and where price swings can be even more erratic. The effect of defaults and the consequent market differences can be demonstrated in the following example:

Back in July 2010, a US Pima of grade 2-2-46 for shipment December 2010/January 2011 was bought at 140.00 cents/lb, FOB West Coast. By the end of December 2010, at the time of shipment, the price for the same quality amounted to 270.00 cents/lb. In other words, the difference in price was 130.00 cents/lb! For a relatively small quantity of 100 metric tons, the difference accounts for almost US$300'000. For many decades, 130.00 cents/lb was a standard price for ELS cotton, not the price difference created in a period of five months only. There is nothing more important in the world of trading than contract sanctity as there is no way to manage this problem effectively. Therefore long-term relations and a careful selection of business partners are now more essential than ever.

How is consumption impacted by high ELS prices?

In times of rising ELS prices, consumption largely depends on the development of the market for upland cotton. If ELS prices accelerate, clients will try to replace extra-long-staple with medium-staple cotton which fluctuates in line with the physical upland prices. In the bull market of the second half of last year that was not the case, since upland prices even increased at a faster speed. When, however, US Pima and Giza 88 approached 300.00 cents/lb, many clients tried to reduce the price of their blends, without jeopardizing the guaranteed parameters of their yarns. In India, some clients started to use their price-wise more attractive, home-grown ELS varieties, with a lower strength and offered yarns with different strengths at different prices. In many cases, their clients apparently opted for the lower priced yarn with the lower strength. While switching to artificial fibres is an important factor in reducing demand for upland cotton, we have so far no evidence that it is also affecting ELS consumption.

Another possibility for ELS spinners to stretch their stocks is to produce finer yarns.

In the end, what decides about consumption is the retail market for garments. Whether consumption of products made out of ELS cotton is shrinking at retail level due to high ELS cotton prices is very tough to call; the situation is probably different in each country.

Where do prices go from here?

ELS stocks out of crop 2010/11 are very limited. The US Pima crop 2011/12, especially in the San Joaquin Valley, has been planted after the ideal time-frame, on average, and, therefore, we don't expect a record yield. About half of the 2011/12 crop is already sold. Plantings of the Egyptian crop have also been slightly behind schedule; nevertheless an increase in quantity of about 45% can be expected. Sowing of the Chinese ELS crop in the southern part of Xinjiang occurred under good conditions and a 20% higher crop is anticipated. The increase in production might already be considered in the price basis for the ELS crops 2011/12.

On the other hand, mills will do their utmost to reach the new season (when ELS cotton is offered at a discount of roughly 20%). However, it is difficult with as little stock as possible to anticipate what the overall impact on demand will be.

The ELS supply/demand analysis shows that stocks will continue tight, even allowing for some weakness in consumption.

An additional factor which influences ELS prices is the development of the upland cotton market, where new crop cotton is also traded considerably lower compared to offers out of current crop. For new crop 2011/12 prices we have to assess the bearish effects of a possible reduction in consumption, as well as the bullish factors related to weather problems, especially in West Texas.

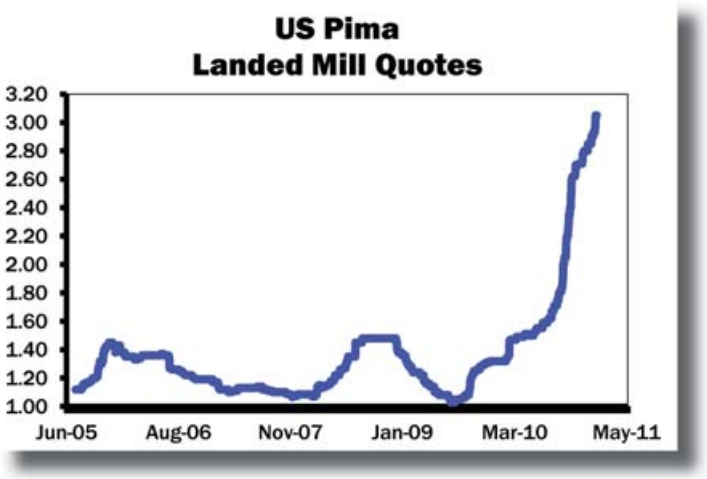
This all said, what is the conclusion? We should not be misled by the current doldrums of new business, which will not last forever. As far as we can see, ELS products are still in demand at retail-level and, therefore, we feel that once the current de-stocking cycle is over, prices will probably be well sustained also in the new crop. Those mills that are not covered until new crop cotton arrives will still have to pay a substantial premium. While we have no crystal ball, and no market prediction can be certain, we can be sure that the ELS market will remain challenging and nerve-racking – possibly even more so than the market for upland cotton.

US Supima – Are Any two Seasons the Same?

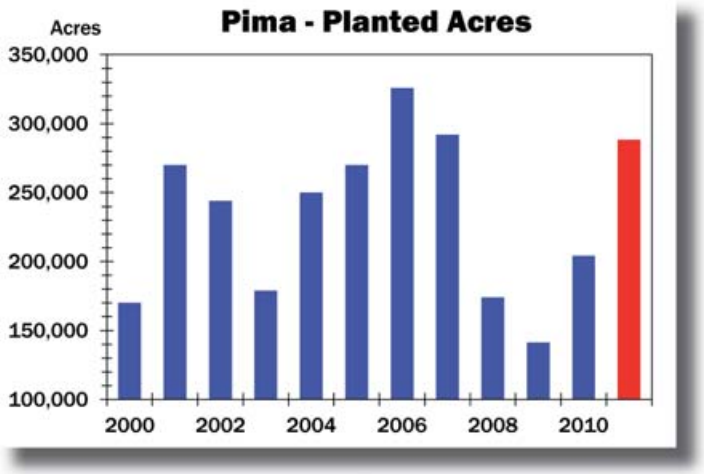
By Ernie Schroeder Jr, Jess Smith and Sons

One of the interesting characteristics of cotton marketing is the challenge in developing new strategies every year. We have always been told "No two seasons are the same". With early growing conditions in California, this adage may be tested.

The 2010/11 season saw a late crop and cool early temperatures. Yields for US Pima were below average. However, it was not supply that drove prices to record levels. Demand was the key factor, with mills finding it difficult to locate Extra Long Staple cotton at any price. Landed mill prices for US Pima rose to over $3.00 per pound, before becoming nominal in the early spring of this year. Some maintain that the prices in the 2010/11 season were an aberration. Others suggest that the higher prices are needed to attract acreage needed for world demand and that future prices will exceed the levels of the 2005-2010 seasons.



Very limited stocks are remaining at the end of the 2010 season. 2011 will begin with practically zero carryover. A challenge for mills will be making the transition until new crop becomes available. Although traditionally carryover is estimated as of August 1, in fact US Pima new crop will not become generally available until December.



While higher prices did occur in the 2010 crop, not all growers shared in those prices, as a large portion of the crop was sold prior to the rise that took place starting at harvest time. With California accounting for over 90% of US Pima, acreage is often determined by non-market factors, such as the availability of water. In 2011, water was more ample than in recent years and Pima prices were also more attractive. The bottom line is that Pima acres rose over 40% from last season. Perhaps

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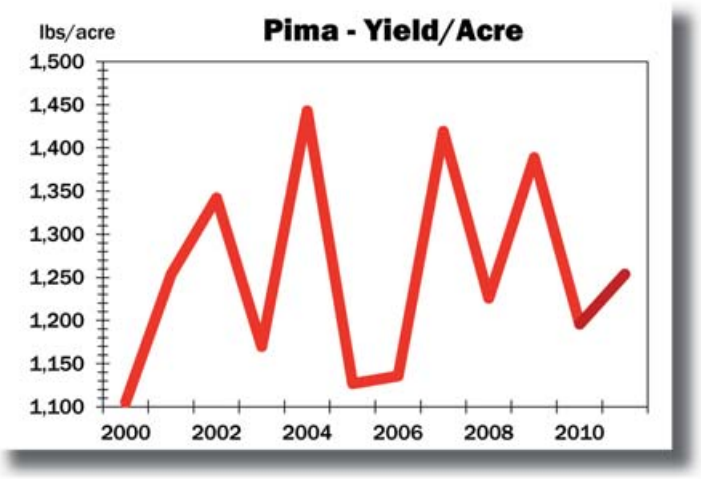
even more significant, however, is to realize that even with prices at the highest level ever for producers, Pima acreage did not reach the levels attained in 2006 and 2007. With expansion of permanent crops, such as Almonds and Pistachios and the loss of many gins, the maximum potential acreage for Pima in California has fallen.

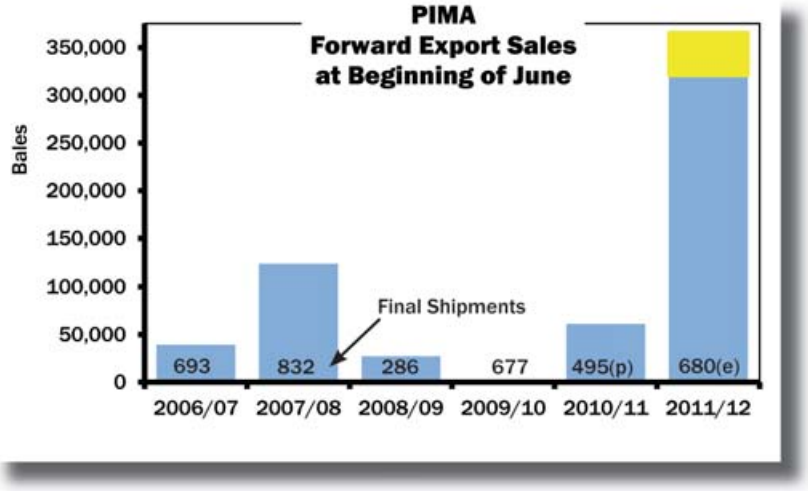


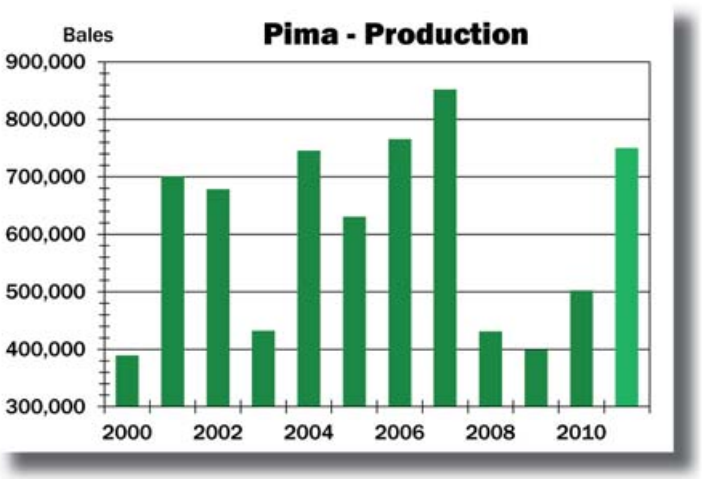
Compared with the 2010 season, Pima in 2011 was sown closer to traditional planting dates. However, following planting, temperatures remained very cool, with even lower degree days of heat through the end of May than last year. Historically, Pima yields are variable but it appears likely that 2011 should be near average, at about 2.5 bales, or 1,250 pounds per acre.

At average yield, total US Pima production could rise to 750,000 bales, up from 504,000 in 2010. This would be more than in each of the last 3 years, yet below the levels of 2006 and 2007. While mills may have been surprised to see stronger prices for Pima, it appears that with rising costs, growers have not received a signal to expand Pima all the way back to the levels previously planted.

Exports of Pima in the 2010/11 season were limited by supply. With practically all bales of Pima shipped out by the end of July, exports reached 495,000 bales. This left just 7,000 bales in supply to last until December, when the new crop is ginned. With mills worldwide exhausting their stocks of Pima to make the transition to new crop, demand for early Pima deliveries has been outstanding. As of early June, sales for the 2011/12 season had already exceeded 320,000 bales. Another 40,000 that was sold for delivery in the 2010/11 season appear likely to be rolled forward into the 2011/12 season. With over 360,000 bales committed, over 50% of the anticipated Pima production was spoken for just as the crop was planted. This is almost three times more than the quantity ever before committed this early in the season.

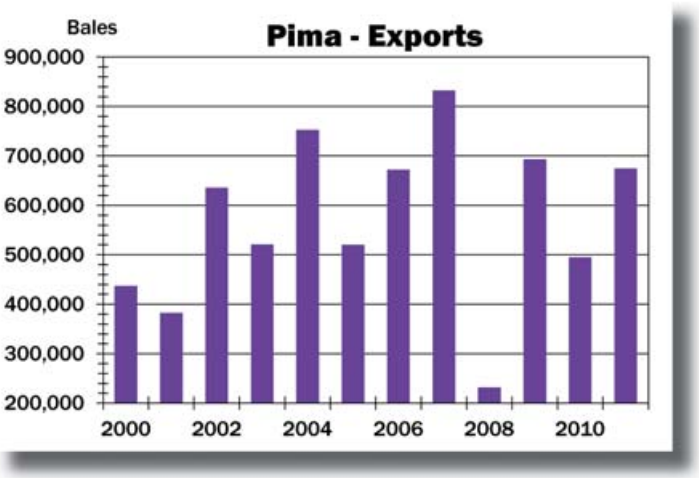
Pima exports are anticipated to rise to just under 700,000 bales. Following the early commitments, during the early summer, there has been limited "apparent demand". The question facing the market is whether this is a longer-term reflection of a slow yarn market and weak demand for fine count yarns, or the result





of mills having already covered cotton up until early 2012 and now being willing to wait to commit further. Mills who did not cover Pima early will find very limited supplies available to be shipped prior to early 2012.

Stocks of Pima on August 1, 2012 are expected to be around 50,000 bales. While this is much larger than those a year earlier, only about 10,000 bales per month will be available to make the transition to new crop. In the period of December to July shipments are expected to be about 100,000 bales per month, so ending stocks will still remain extremely tight at the end of the 2011/12 season.



Last year we suggested that Pima prices could rise to record levels, which occurred as demand exceeded supply. As we look to the 2011/12 season, will it be a repeat of 2010/11? Remember, the adage we refered to at the beginning of this article, "no two seasons are the same". It looks like there will be a late Pima crop, with production falling short of demand and limited ending stocks. Sounds familiar? However, the new factor in 2011/12 is that demand for fine count yarn does not appear as robust as in early 2010/11. While Pima prices will remain firm, weak demand may result in them being less likely to reach the peaks of 2010. However, with large early sales, Pima prices are expected to remain well above price levels in any season prior to last year.

While the current outlook suggests firm prices, we have seen that the ELS market often does not follow its initial instincts. Mills and growers are reminded to keep a vigilant eye on Pima prospects, both on the crop and on demand, for signs that might change current projections.

Written on June 21, 2011

U.S. PIMA SUPPLY & DEMAND

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	'000's Bales (480 Lb)					
Begin Stocks	78	141	139	305	18	7
Production	765	852	431	400	504	750
Consumption	39	36	29	32	30	30
Exports	672	833	232	694	495	680
End Stocks	188	156	305	18	7	47

Simple Supply and Demand

By Marc Lewkowitz, Executive Vice President, Supima

It is all so simple they say 'no futures market to worry about, no futures and options to contend with, a pure cash market makes dealing with American Pima and other ELS cottons so easy'.

Well, if you are reading this, you know all too well that if the statement were true, you, along with everyone else reading this article, would all be retired and living a life of plenty! The fact is that nothing about the American Pima market or ELS cotton markets is simple or consistent. The market always seems to be charging head strong into the latest market trend and as soon as the market trend switches direction, everyone steps off the train to avoid being left as the last one at the last stop. We see this analogy at play in the market time-and-time again, as factors and variables gain or lose strength. Sometimes they are precursors to what is coming ahead and other times they are just reactionary.

It is easy to look back at the history of the market and make acknowledgements and observations of what happened at that time, and what the influences were during that time to apparently cause the market to react in certain ways. Take for example the prevailing market conditions leading up to the crop planting of the 2008/09 crop. The U.S was coming off of a record production year of 852,000 bales in 2007/08. Even with record production and a large crop the previous year, exports were also record-breaking, at 833,000 bales, and ending stocks were reduced from 188,000 bales to 156,000 bales. Demand had been good, but it had come at the cost of prices for ELS fibers that had been softening at the same time. Simple supply and demand. More production equals lower prices, which then gives rise to the expectation that production is likely to fall. Even with the largest export sales on record, the market began to unravel. Initial planting estimates for the 2008/09 crop began to look gloomy after prices had fluctuated in the low 100 us¢/lb. range. Considering the strong demand in the preceding year and with forecasts calling for the new crop to be about half the previous year's size, prices began to rise again towards the 150 cents per lb. level. However, as prices rose, sales were not materializing as quickly; shortly after the harvest in 2008, demand started to evaporate and prices for the fiber began to tumble. This was at the end of 2008 and into early 2009 as the global economy headed into a meltdown. Brands and retailers had begun to see weakening store sales and it didn't take long for replenishment orders to get cancelled, new production orders to get shelved and existing inventories to be shuffled between stores, as various store locations were shut down. While prices for new purchases of American Pima fell again towards 100 us¢/lb., existing inventories of the fiber were being sold out of mill hands in

order to reduce outstanding debt and inventory, while bringing in some cash flow to keep businesses running. Prices for those existing inventory sales were done at synthetically low value levels - below the then current market price - that did not truly reflect the actual supply/demand balance sheet.

Fine count spinning mills need ELS cottons to keep running. The flexibility of the mill to change the balance of production to new counts is not an easy process and is limited in scope. Globally, ELS and LS production is restricted. A rule of thumb is that total ELS/LS production represents only about 3% of the annual global cotton production. So, when there is little demand for ELS/LS cotton, there is plenty of supply, but when things change and demand returns, supply and prices quickly get put under tremendous pressure; we saw this recently with the return of orders, as the global economy worked its way out of troubled financial times, towards the end of 2009. The American Pima quotations from Cotton Outlook reached a recorded low in August 2009 of 103 us¢/lb. It took until the middle of October 2009 for prices to price reached 110 us¢/lb. From there onward, prices climbed for over a year until reaching a record high level of 305 us¢/lb. in the middle of February 2011. During this period of price increases, two American Pima crops were harvested. The 2008/09 crop had a production of 430,000 bales and the 2009/10 crop had a production of 400,000 bales. The two crop years together were smaller than the total record crop in the 2007/08 crop year. The U.S. saw a small increase in production during the 2010/11 crop year with production of almost 500,000 bales.

There seemed to be a revitalization of enthusiasm about cotton and American Pima in the U.S., as prices soared on their stratospheric ride. The industry was full of conjecture about substantial increases in production for the 2011/12 crop year, and initial seed sales seemed to corroborate much of that early sentiment. However, that in itself was simply not enough. The United States Department of Agriculture National Agricultural Statistics Services (USDA–NASS) released the first official acreage report for American Pima on June 30. The report indicated total plantings for the 2011/12 crop year of 289,000 acres. Arizona acreage was estimated to be 11,000 acres, the largest plantings in that state since 1998 and 340% increase over last year. California's acreage was put at 260,000 acres, second only to the 274,000 acres planted in the 2006/07 crop year. New Mexico's acreage was almost unchanged from last year, at 3,000 acres, and Texas was estimated at 15,000 acres, slightly down from last year. The total acreage number was very close to that planted in the record production year of 2007/08. While plantings were good, though not at the record levels many had hoped, the 2011/12 crop faced some significant challenges to get started. Unlike the 2007/08 crop, which had the second highest yield on record of 1,419 lbs/acre (1,590 kg/ha), this year, spring planting weather and early season growing conditions have not been ideal. Cool weather continues to hinder plant development and inconsistent weather patterns have had their impact. Generally speaking the U.S. crop is expected to be about 2 weeks late. Assuming that 2011/12 crop is 100% harvested and that yield averages 1,200 lbs/acre (1,345 kg/ha), then production could be 722,500 480 lb. statistical bales or about 696,000 running bales. This would represent more than a 40% increase in production over the 2010/11 crop year.

Strong demand was stripping away every last bale of U.S. ELS inventory over the last year. Prices were going up, so were the prices of yarns made with those fibers. Prices had risen to such a degree that by March 2011 the first significant signs of a pushback on yarns materialized. As quickly as the first signs of a demand slowdown developed at the new, elevated price levels, a complete cessation of new orders seemed to follow. Brands and retailers quickly evaluated the rapidly moving price matrix and realized that these new price levels did not allow for existing business to continue to run, based on the new input cost level. One significant factor in this development was the apparent slow reaction of price transparency through the supply chain. While price development on the fiber level is generally a relatively slow moving factor on forward contracted cotton, when inventory levels are tight at mills, and more of a 'just in time' buying methodology prevails, price volatility can quickly manifest itself through the supply chain. At this point in time it is probably safe to say that the incessantly rising prices evident last year are probably concluded. A period of some price stability is in order until the next wave of efforts to secure future supplies begins. In that regard, it is worthwhile pointing out that while projected production for the new crop year of about 700,000 bales represents a healthy return of supply, a substantial proportion has already been sold. As of June 30, USDA's export showed new crop sales already totaling 322,300 running bales (about 335,000 480 lb. statistical bales). Along with normal U.S. domestic consumption, therefore, about half of the crop has already been sold. Finally, this production will not be harvested until November 2011; together with the existing balance of supply, it will need to cover mill requirements until the 2012/13 crop is harvested in November 2012.

Egyptian Plantings Exceed Expectations

By Cotlook's Editorial Staff

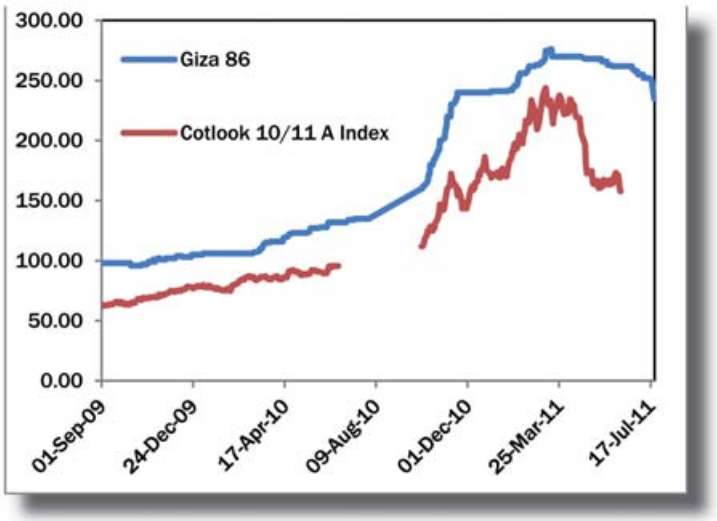
The political and economic disarray affecting Egypt have dominated attention since the revolution earlier this year.

The cotton sector has been under considerable pressure in both respects, given its high profile under the old regime and its importance both as supplier of raw material to a vital industry and as a substantial earner of foreign exchange.

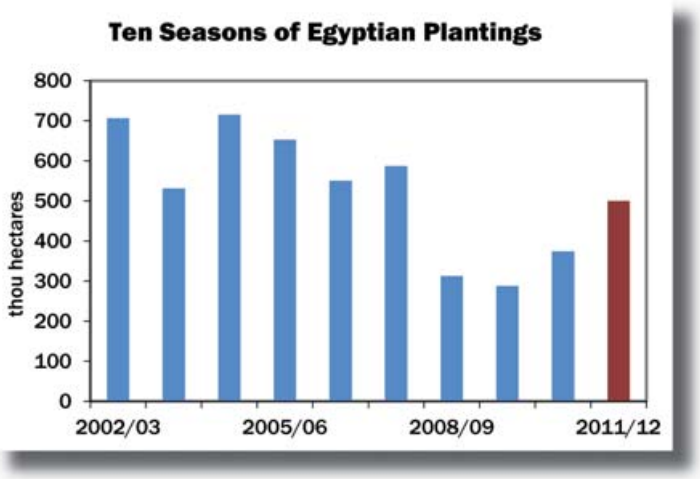
The local textiles sector has seen its earnings diminish, on the one hand under pressure from competitively-priced imports, and on the other hand from the effect of global economic influences, which have reduced export business momentum.

Egypt witnessed a vibrant start to export sales registrations of raw cotton during the 2010/11 marketing year. Within a matter of weeks, commitments had reached some 80,000 tonnes (predominantly of Giza 86), as mills scrambled to secure supplies in a strongly rising market, leaving almost a further 31,000 tonnes to be registered through to the end of April, 2011. After that, cotton exporters voluntarily imposed a month-long moratorium on registering further quantities for export, with the purpose of stemming complaints as to raw material shortages from the domestic industry.

The imposition of the moratorium came at a point at which international demand for raw cotton was evaporating, in face of mounting stocks of finished products and declining prices. Although price volatility has been less apparent in the long staple niche sector than in the mainstream upland cotton market, the Giza 86 price (according to Cotlook's data) reached a peak of 275.00 US cents per lb CFR main Far Eastern ports in early March, since when it has retreated (by the end of June) to 255.00 cents, a decrease of seven percent. During the same timeframe (until its withdrawal on June 10, 2011) the Cotlook A Index had lost over 35 percent of its value.



Like traders in other growths, the major concern of Egyptian sellers has been to effect shipments in a falling market. At around the time of the revolution, fear was engendered that the government might be induced to stop raw cotton exports, so as to conserve supplies for the domestic industry. That led to a surge in advance payments from overseas buyers, a measure that was deemed appropriate so as to secure the cotton. By the end of June, however, the proportion unshipped, or for which advance payment had not been received, stood at almost 23 percent, leaving a considerable volume (almost 25,000 tonnes), much of it presumably consisting what must now be high-priced cotton, still to be moved.



As for the season ahead, the initial expectation was for high plantings, above 210,000 hectares, but the revolution prompted doubt and uncertainty, and it was only thanks to a late spurt in sowing (under pressure from the new government to restrict plantings of rice, on grounds of conserving water supplies) that saw the initial aim exceeded. Estimated sowings by early June amounted to 210,251 hectares, from which observers anticipate lint output might reach or exceed the 179,000 tonnes currently shown in Cotlook's world production forecast. This would represent both the largest cultivated area and the biggest output volume since the 2007/08 season, when over 246,000 hectares were under cotton and lint production exceeded 226,000 tonnes. However, a considerable proportion of the crop was put in the ground later than normal, and the impact on average yields remains to be seen.

Long Staple Market Situation in India

By B. K. Patodia, Chairman, GTN Group of Companies

Before I delineate the Long Staple market situation India, let us take a quick peep into India's cotton heritage and a brief account of overall cotton situation in India.

Cotton – India's Heritage

Long before a large part of the world woke up to civilization, India became its cradle. Indian people were clothed in fine fabrics. The journey of cotton in India can be traced back to the pre-Vedic period (7000-2300 BC)

Dacca muslin, described as the 'web of the woven wind', was created from Indian cotton. Considered as finely crafted riches, it became one of the most coveted treasures in the Western world and was believed to be unmatched by any other. Thus, India has a long tradition of producing high quality cotton and finest fabrics.

Overview of India's Cotton Production

The overall cotton production in India has taken a quantum leap from 14 million bales in 2000-01 to 31.2 million bales (170 kgs) in the current season 2011-12. The main contributory factor for expansion in the cotton production was introduction of BT seeds. Another was schemes operated under the Technology Mission on Cotton, launched in February, 2000. The benefits of the Technology Mission were: transfer of modern technology to farmers, extension work for creating awareness, improvement of market yards, modernization of ginning and pressing factories and setting up of new modern plants.

However, the story is quite the reverse in respect of extra-long staple cottons. There is a big gap between demand and supply of ELS cottons, which is bridged by imports. It is pertinent to mention that 1983-84 to 1989-90 was a golden period for ELS cotton production in India. Production reached as high as 1.22 million bales with Suvin cotton production of 44,000 bales. However, in subsequent years, the production of ELS cotton dwindled and is currently stagnating around 0.5 million bales. While on this, it may be stated that production of LS cotton in India is more than adequate to meet the industry's needs.

Staple-wise Production of LS / ELS Cottons in India

As per the Cotton Advisory Board set up by the Ministry of Textiles, Government of India, classification of Indian cottons in terms of staple length is done as under:

Short staple	(20 mm & below)
Medium staple	(20.5 mm to 24.5 mm)
Medium long staple	(25.0 mm to 27.0 mm)
Long staple	(27.5 mm to 32 mm)
Extra long staple	(32.5 mm & above)

Table below gives information about Staple-wise Production in India

Staple-wise Production of Cotton in India

Quantity in million bales of 170 kgs

Staple Group	2006-07	2007-08	2008-09	2009-10	2010-11
Short (below 20.0 mm)	0.6	0.4	0.35	0.35	0.4
Medium /Medium Long (20.5 to 27 mm)	5.4	6.1	6	5.7	6.2
Long Staple (27.5 to 32.0 mm)	21.62	23.7	22.2	23	24.1
Extra Long Staple (32.5 mm & above)	0.39	0.5	0.45	0.45	0.5
Total	28.01	30.7	29	29.5	31.2

Source: Cotton Corporation of India

Consumption of Extra Long Staple Cottons in India

Total consumption of ELS in India ranges between 1 and 1.2 million bales, comprising 0.5 million bales of indigenous cotton and 0.5 to 0.7 million bales of imported cottons. The Ministry of Agriculture has projected that consumption of ELS in India will reach 2 million bales by 2015. Table below gives information about consumption of extra-fine cotton in India during 2006-07 to 2010-11.

Estimated Consumption of Extra Long Staple Cottons

Million bales of 170 kgs

Year	2006-07	2007-08	2008-09	2009-10	2010-11
Consumption	0.88	0.97	1.13	1.11	1.20

Source: Office of the Textile Commissioner

Note: Above figures are based on available information on consumption of indigenous extra long staple cotton and estimated consumption of imported cotton.

Global Production of LS / ELS Cottons and India's Share

Global production of LS / ELS declined in 2008-09 and 2009-10 but recovered sharply in 2010-11, thanks to the upward price trend experienced in 2009-10. China, Egypt, USA, India and Sudan together account for almost 90 per cent of world production.

India's share in the global production of LS / ELS cottons in 2010-11 worked out to be around 17 per cent (editor's note: according to ICAC data) as against over 18 per cent in the previous season (Cotlook's figures suggest 14 percent).

In terms of consumption, China is the largest user of LS / ELS cottons, followed by India and Egypt.

LS / ELS Cotton Varieties in India and our Experience

Long staple varieties grown in India are Bunny Brahma (29.5 mm – 32 mm) and MCU-5 (31 mm – 33.5 mm). Extra-long staple varieties include mainly DCH-32 (34 mm – 36 mm), Suvin (36 mm – 38 mm), and to some extent Superior MCU-5 (33 mm – 34 mm).

SUVIN

Suvin, often described as golden fibre, was evolved by crossing Sujata with St. Vincent Sea Island cotton. It was introduced in 1974 with a staple length of 36 – 38 mm strength of over 40 – 42 GPT, Mic. 3.0 – 3.3 and elongation close to 8%. This was the finest cotton ever produced in India with spinnability upto 240s count. The resultant fabric had a very soft and silken touch. Its production in initial years touched as high as 44,000 bales, strongly supported by several corporate spinners like our own group and Lakshmi Group of Mills. This cotton became very popular, especially in Japan for very high-end products. Over the years, the production of Suvin saw a steady decline and currently hardly 1,000 bales are being produced in Tamil Nadu. The reasons are: very high cost of production, low productivity (4-5 quintals per acre), and long duration of the growing period.

DCH - 32

DCH-32 was released in 1981 and is the major ELS variety. It is successfully grown in the states of Karnataka, Madhya Pradesh and in certain parts of Tamil Nadu. DCH-32 has a 2.5% span length of 34 – 36 mm with fibre strength 32 – 36 GPT, 3.0 – 3.6 micronaire and is ideal to spin counts 80s – 120s. The best quality DCH-32 comes from the State of Karnataka. However, as the season progresses, the quality parameters tend to go down. Over the years, there has been a noticeable improvement in micronaire value and reduction in neps. The main drawback is broken seed coat particles, trash and contamination. Research efforts are going on to improve the fibre strength and, once that is achieved and contamination and seed coats are controlled by better harvesting and ginning practices, this variety has the potential to become an alternative to GIZA 88 or PIMA.

MCU-5

This cotton, released in 1968, is mainly grown in States of Andhra Pradesh and Orissa and parts of Tamil Nadu. MCU-5 typically has a creamy feel with staple length of 31 mm – 33.5 mm, strength 29 – 31 GPT, Mic. 3.6 – 4.5. Here again, these values go down as the season progresses. Also, there are many variations in HVI data from season to season. The other concern from spinner's point of view is high contamination. Continuous efforts to educate the farmers and ginning and pressing factory managements to reduce the contamination are undertaken mainly by leading mills and have started to produce results. This variety is used for counts ranging from 50s to 80s and is very popular for shirting end use. The fabric made from this cotton has a very good feel, almost close to Egyptian cotton. R & D efforts are going on to further improve this variety in respect of length and strength. MCU-5 grown in certain parts of Tamil Nadu and Orissa, has staple length upto 34 mm and can be classified as ELS.

Our Experience in Use of Imported ELS Cottons

Our GTN Group of Mills has been the largest user of LS / ELS cottons, both indigenous and imported, for the last several years. The Group has been laying special and strong emphasis on quality in production. Consequently, the Group has carved a niche for its high quality yarns in the sophisticated markets in the world.

The production of ELS cotton, mainly DCH-32, which had reached over 1.2 million bales in 1980s, has over the years come down to 0.5 million bales in 2010-11. The consumption on the other hand has been steadily going up. The shortfall is being met by import of ELS cotton, mainly PIMA from USA, Egyptian Giza, Sudanese and CIS cottons.

American PIMA

Over the years, India has become the second largest importer of American PIMA, which is branded as SUPIMA. American PIMA enjoys superiority over other ELS cottons mainly for its excellent grading system and it is contamination free. In respect of majority of American PIMA, the HVI properties are: staple length 34-36 mm, mic. 3.7-4.5 and strength around 39-42 GPT. Other important factor in favour of American PIMA is very high yarn realization, it being a clean cotton, almost free of trash and having high uniformity. The only drawback in this cotton is high level of neps due to mechanical processing. In the earlier years, there was a very high level of stickiness which made the processing of PIMA difficult but due to vigorous efforts made by SUPIMA Association, this problem is largely overcome. Another noteworthy feature of using PIMA cotton is the excellent brand promotion done by the SUPIMA Association, which helps in marketing of SUPIMA branded yarns. This cotton is suitable for spinning superfine counts from 80s to 120s and being contamination free, the end product is well appreciated, especially for white applications.

Egyptian Giza

Major ELS varieties are GIZA 45, GIZA 70, GIZA 88 and LS GIZA 86. Out of the above, GIZA 45 and GIZA 70 are practically defunct. Egyptian GIZA cotton traditionally has been famous for its silky lustre and excellent hand feel of the fabrics produced from Egyptian cotton. Unlike PIMA, the cotton is less neppy and is very processing friendly. Unfortunately, high level of trash and contamination brings down the value of this cotton. Consequently, spinners are always concerned about quality claims from the customers. Only choice is to manually hand clean the cotton, which involves additional cost.

GIZA 88 has staple length of 34 – 3 mm, mic. 3.9 to 4.3 and fibre strength of 39 to 43 GPT. It is suitable for spinning yarns from 80s to 140s. The quality of long staple GIZA 86 over the years has come down. Its staple length which used to be 33+ is currently 31 to 32 mm. Mic 4.5-4.8 and strength 37-39 GPT. The import of GIZA 86 into India is mainly because of its fibre characteristics and silky feel.

Sudan

India used to be a large importer of Sudanese cotton in the past, in spite of the very sticky nature of the cotton. However, in the recent past the import has come down to less than 10,000 bales. Similarly, CIS ELS cottons are also being imported but not in significant volume.

Depleting Stocks and Soaring Prices

During the last two cotton seasons, prices of LS / ELS cottons surged to historic high levels. Table below gives average prices of LS / ELS varieties in India during the last three seasons.

Average Spot Quotations of Indian LS / ELS Cottons

(Rs. Per Quintal)

Cotton Year (Oct – Sep)	Bunny /Brahma	MCU – 5	DCH-32
2008-09	6,385	6,635	8,660
2009-10	8,080	8,670	11,740
2010-11 (Average of Oct, 2010 – May, 2011)	14,010	14,775	18,610

Source: Cotton Association of India

It will be seen from the table that prices of LS varieties have escalated by over 120 per cent and that of ELS variety by 115 per cent between the cotton season 2008-09 and October, 2010 – May, 2011. On the other hand, cotton yarn, fabrics and garment prices have not kept pace with cotton prices, impacting margins of all segments in the value chain.

Globally, also, LS / ELS prices have reached unprecedented high levels in recent years. This has primarily occurred on account of imbalance in the supply and demand for such cottons. In fact, while the consumption is on the rise, production has been lagging behind. Further, the stocks-to-use ratio has also been declining. It was 66 per cent in 2008-09, 23 per cent in 2009-10 and 22 per cent in 2010-11.

During the cotton season 2011-12, global production of LS / ELS cottons is expected to rise on account of farmers expanding the area for such cottons on the back of higher prices obtained by them in the current season. This, I believe, might bring some stability in the prices of LS / ELS cottons.

India - a Pioneer in Exports of Extra-fine yarns

India has been the leading supplier of fine and superfine counts of yarn both in the domestic and international markets. About 8 million spindles are currently engaged in India to produce fine and superfine counts of yarn. India's share in the world exports of fine / superfine counts of yarn is over 40 per cent, which has potential for further increase. It has achieved a distinction of being the pioneer in exporting value added, high quality, fine and superfine cotton yarns, fabrics and garments.

Production of such yarns in India has been progressively rising, registering a growth of 25 per cent between 2006-07 and 2010-11.

Table below gives the relevant information.

Production of Cotton Yarn of Counts Above 40s

(Million kgs)

Year	41-60	61-80	Above 80	Total
2006-07	220	91	53	364
2007-08	220	97	58	375
2008-09	226	99	52	377
2009-10	246	108	52	406
2010-11 (Projected)	275	121	58	454

Source: Office of the Textile Commissioner

Several international manufacturers of fine count shirting have shifted their manufacturing activities to India, and hence the demand for LS / ELS cottons will rise considerably in future. This apart, LS / ELS cottons, of late, are increasingly being used for production of special products, like home textiles, bottom weights and denim.

Having dealt with current scenario of Indian and imported LS cottons. I would like now briefly to touch upon the constraints and strategies for overcoming the shortfall situation.

Constraints in the Production of ELS Cottons

i. Ginning outturn of such cottons is low at 30 per cent, and Micronaire is typically low.

ii. Productivity of such cottons is less than non-ELS varieties.

iii. Varieties are late maturing, which leads to quality problems.

iv. Being a long duration crop, employment of more labour is required, which adds to the cost of production.

v. Density of fibres on seed is low as compared to foreign varieties.

Strategies for Higher Production of ELS Cottons:

a. Increase area under ELS varieties from 0.2 to 0.7 million hectares.

b. Development of Bt version of ELS seeds in adequate quantity.

c. Improve soil health by use of appropriate nutrients.

d. Adopt better management practices.

e. Renovate fibre quality parameters of existing varieties.

f. Disseminate modern technologies amongst farmers for increasing productivity of ELS cotton.

g. Project mode approach through contract farming.

h. Scientific development of new genotypes having fibre quality at par with Egyptian cottons.

i. Introduction of low cost micro-irrigation system.

National Fibre Policy Recommendations

To tackle the problem of shortfall in supply of ELS cottons, Confederation of Indian Textile Industry (CITI) submitted to government a vision statement on ELS cotton. The measures recommended in the vision statement included: increase in production and productivity, improvement in quality, augmentation of quality seeds, Mission-mode approach, and setting up a Special Purpose Vehicle (SPV) with public and private sector partnership.

After considering CITI's vision statement, the National Fibre Policy of the Ministry of Textiles has recommended adopting a mission-mode approach and suggested setting up an inter-ministerial board to implement the same. The National Fibre Policy further envisages setting up of a Technology Mission for specialty cottons like Suvin, other ELS varieties and organic cotton. The Policy has recommended a special support scheme in order to sustain such long duration crop and keep alive the interest of farmers in the growth of ELS cottons with a special emphasis on Suvin cotton.

I am sanguine that the recommendations, when implemented, will usher in a new era of successful journey of ELS cottons in India.

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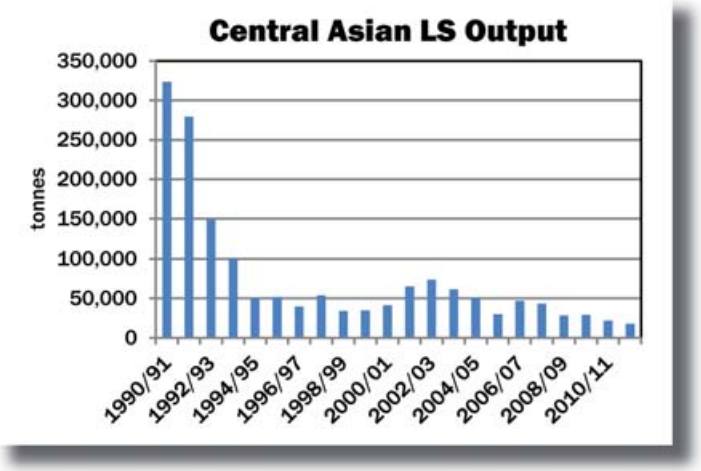
Long Staple Cotton Production in Central Asia – Diminishing Trend Persists

By Galina Fisher, CIS Editor and Director, Cotlook Ltd

In last year's edition of our Annual Long Staple Review we already noted that long staple production in Central Asia is on a diminishing trend, and expressed the view that the future prospects for recovery are very bleak.

Readers may recall that long staple varieties are grown in three of the five Central Asian cotton-producing countries, namely Uzbekistan, Turkmenistan and Tajikistan, whose aggregate production of all cotton during the 2010/11 season is estimated to have been around 1,358,000 tonnes, of which less than 1.6 percent consisted of long staple varieties.

In 2011/2012, the long staple share of total output is expected to be even smaller, based on our initial projections. Aggregate production of cotton in the three aforementioned countries is set to rise to some 1,390,000 tonnes, whereas output of long staples seems set to decline further, to perhaps 17,850 tonnes.



The question of the sustainability of long staple production in Central Asia has been an issue for many years and is now proving to be well founded. The steady decline of production can be traced back over two decades (upland production has fallen much less during the same period).

The most common factors contributing to the decrease include the following: poor quality planting seed, lack of funds for research and development of new/ improvement of traditional varieties; poor incentives for farmers to cultivate these labour intensive and time-consuming growths; absence of official long staple targets (despite strong pressure to attain overall production plans) as well as poor ginning facilities. Weather has also played a crucial role at times, given the prolonged growing period for these varieties and the requirement for ideal weather conditions.

Despite favourable sowing conditions both last year and this year, farmers seem to prefer crops that give better returns; high upland cotton prices have also contributed to the lack of interest in cultivating long staple varieties.

Turkmenistan continues to be Central Asia's largest producer of long staple varieties; output has fluctuated in a very narrow range. This spring, cotton planting generally has been completed on target, and increased output should be attainable for a second season in a row. However, long staple production is expected to decline, partially as a result of poor incentives; much less land was planted to these varieties. The country enjoys good climatic conditions in the southern provinces of Mary and Akhal. In 2010/2011 output reached some 20,000 tonnes. This year, from the smaller area sown, potential output could prove to be no more than about 15,000 tonnes.

Most of Turkmenistan's output continues to go for export, though a few thousand tonnes are used locally. For export, cotton is marketed via auction sales at the Commodity Exchange in Ashgabat. During the past few years, the start of each season's sales campaign has been delayed, and large stocks, including a proportion of long staple varieties, have tended to be carried forward to the following marketing year. The 2010/11 marketing campaign, however, began at the end of November (earlier than in previous years) but the volume sold to date is low – around 5,500 tonnes – so a relatively large quantity may once again be carried forward into the new marketing year. Business appears to have been hampered by the high starting asking prices set at the auctions, which for many international buyers often do not work in the current market climate. The main consuming markets are South Asia and the Far East, and, to a lesser extent, Turkey.

Uzbekistan, the largest cotton producer in the region, and one of the biggest exporters of cotton to the international market, has nowadays a very insignificant production of long staple varieties. During 2010/2011, not more than 1,500 tonnes were produced, from a total crop of over 900,000 tonnes. In 2011/2012, little increase is foreseen in long staple output.

While overall production in Uzbekistan has a defined state target and rigid control, there is no clear plan, nowadays, for long staple production, varieties of which are sown in one southern province, Surkhandar, which has a suitable climate. According to private comments, the long staple cotton produced generally has good staple and strength, but quality is sometimes marred by poor ginning. Typically, the proportion of high grades is minute. The main markets have been China and Bangladesh, where the cotton is typically used in blends with other varieties. All of the 2010/11 crop has been committed.

In **Tajikistan,** the production of long staple cotton during the past several seasons has declined tenfold. In 2010/11, output fell to the historically lowest level of just 180 tonnes. As elsewhere, farmers have faced financial constraints and a lack of prime inputs, and, at times, inclement weather has proved a deterrent. Weather conditions has been at times further deterrent. The bulk of long staple cotton is now cultivated in Khatlon, the most southerly and largest producing province.

The intention this year was to plant some 10,000 hectares, but results, once again, have proved disappointing. According to the Ministry of Agriculture, long staple varieties account for no more than 2,000 hectares, whereas the overall area under upland varieties is estimated to have increased from 164,000 hectares last year, to 200,000 hectares.

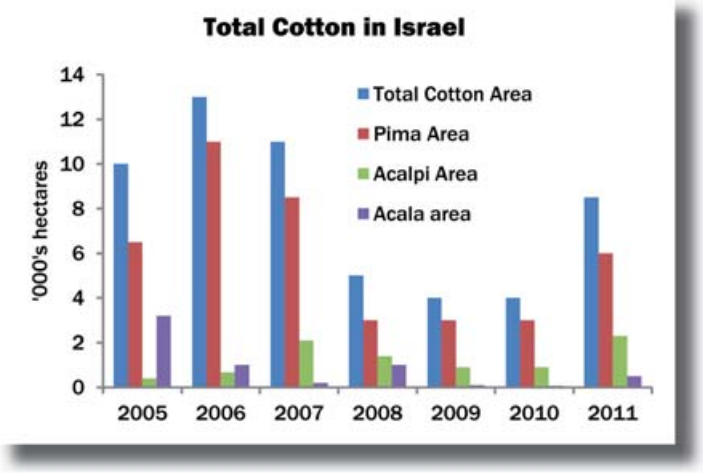
Long staple yields in Tajikistan tend to be the lowest in the region. Potential output in 2011/2012, at around merely 850 tonnes, would represent only marginal improvement from 2010/11. The key export market is Turkey, however, small volumes find their way to Far East too.

Future prospects: There is no real evidence to suggest that revitalisation of production of long staples is possible in the short-to-medium term. The same could be said about prospects for the long-term future. Only with significant changes in the production methodologies, rewards to farmers and the attention paid by governments could secure any chances for better prospects. Otherwise, the declining trend is likely to persist. So, on this note, we ask the question, once again, as to whether Central Asia will still grow long staple cotton in the not distant future.

Cotton in Israel: Towards a Brighter 2011/12

By Menahem Yogev, Classing Institute Director, Israel Cotton Board

ELS (Pima) and LS (Acalpi) cotton are Israel's cotton varieties in recent years (Israel produces small quantities of organic Pima as well).

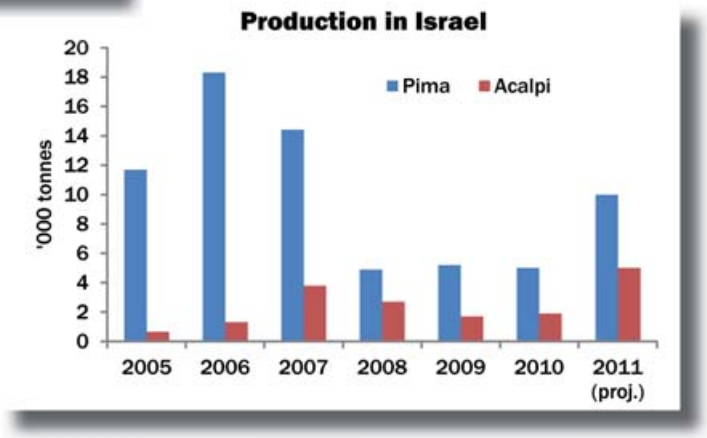


All of the output consists of non-genetically modified varieties

A major reduction in cotton area occurred in 2010/11, resulting in total cotton production as low as 7,000 tonnes, which was in response to low cotton prices and better profitability of other competing crops such as corn, sunflower and chick-pea.

However, the rising prices of cotton this season have convinced Israel's farmers to return to cotton fields (about 90 farmers versus 40 last season), and the area in 2011/12 season has climbed to about 8,600 hectares. Thus, projected production is about 15,000 tonnes, of which 10,000 tonnes will consist of Pima and the balance of Acalpi. A high percentage has been already committed to final buyers.

The growth of cotton in Israel is guided by ecological ideas. Cotton is drip irrigated with recycled water attaining 2 goals: drip irrigation can save about 20% of water use compared to other irrigation systems; also, the use of recycled water in this semi-arid area ruled by shortage of fresh water enables Israel to grow cotton and to keep the land clean.



Furthermore, Israel has been practicing Integrated Pest Management (IPM) in cotton for

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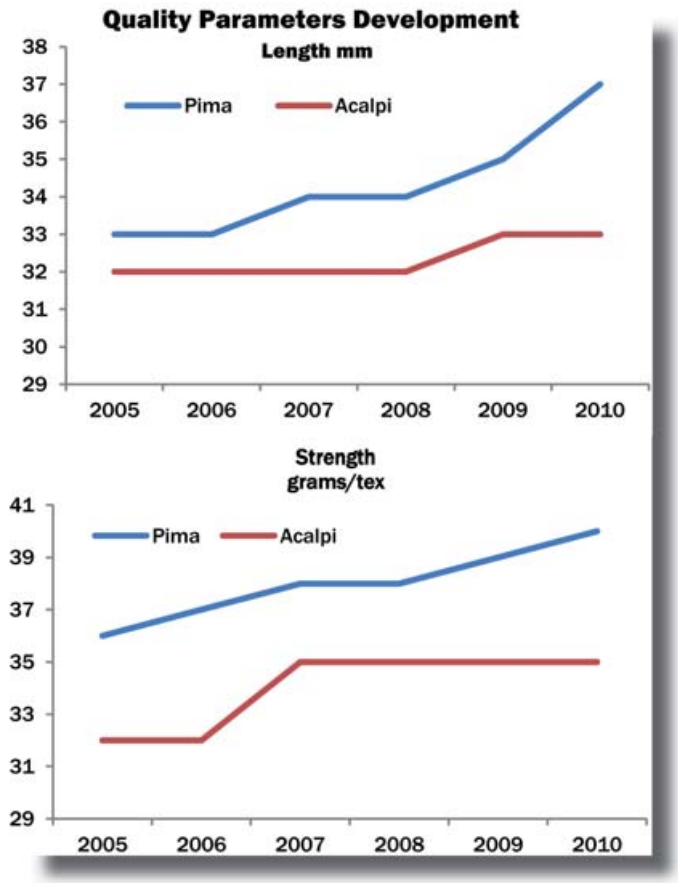
the last 25 years, reducing by half the use of chemical treatments against pest and diseases.

Varieties

Credit should be given to Israel's breeders and researchers who intensively work on new improved varieties and agro technical procedures, to reach higher yields, higher qualities, and better adaption to shorter season.

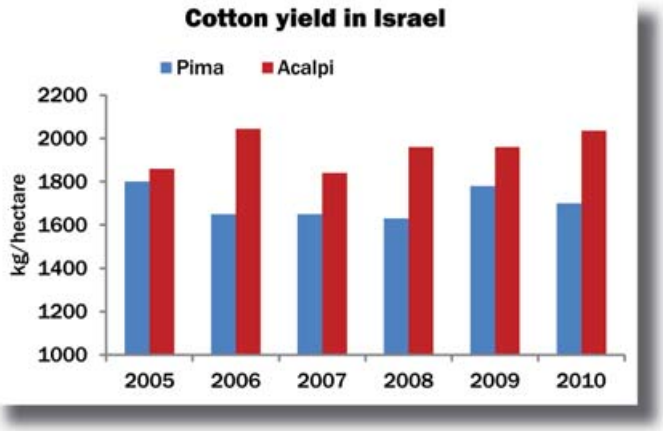


Pima – ELS

In the last couple of years the Pima variety grown in Israel, developed by Israel Seeds Co., has given high yields (above 2,000 kilos per hectare), high qualities and less susceptibility to diseases.

Acalpi – LS

The Acalpi variety is a hybrid of Acala and Pima produced in Israel by Hazera Genetics Ltd.



It has been grown commercially for about six years, during which time Israel's farmers have learnt how to maximise its potential and reach high yields of 2,500 kilos per hectare.

Alongside, spinning mills have also learned to benefit from this variety and the demand for Acalpi is continually growing.

Parameters:			
Variety	Length (HVI)	Mic. (HVI)	Strength (HVI)
Pima	36-38 mm	3.7-4.5	39-42 GPT
Acalpi	34-35 mm	3.5-4.1	34-37 GPT

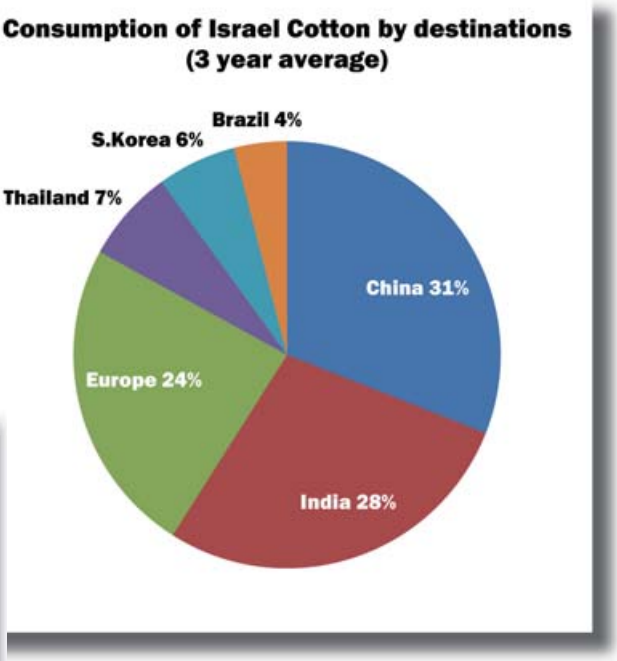
All cotton in Israel is machine picked and roller ginned

Quality measurement will be conducted by the newest Uster's HVI (1000/1000).

In the coming season 2011/12, and a further improvement will be made in Israel's mechanized production by using the new John Deer module-builder cotton pickers.

Marketing

For the last two years, Israel's cotton has been exclusively and successfully marketed by Otto Stadtlander GmbH, Germany. Israel cotton is consumed by the best and leading spinning mills all over the world; in Europe as well as in the Far East, South America and so on The Israel Cotton Board Limited will continue its tradition of being well known for high quality cotton,



high standards of growing, high standards of shipments and contractual performances, together with a good reputation for reliability.

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New Technology, Drought, Stifle Pima in Australia

By David Dowling, Editor, Australian Cotton Grower

Apart from the drought which devastated the Pima cotton production areas for several years up until 2010, the biggest impediment to long staple production in Australia is the relative ease with which upland cotton can now be grown. The new Bollgard and Roundup Ready Australian varieties, developed by CSIRO plant breeders and sold by Cotton Seed Distributors, have made it much easier to routinely grow upland crops yielding over 10 bales per hectare without the twin evils of insects and weeds.

A few years ago, it looked as if Australia was starting to develop a small but stable Pima industry. The crop was well established in the far western production areas of Tandou and Bourke and had been successfully trialed in other areas such as southern NSW and the Gwydir Valley.

But the drought had the biggest impact on these Pima regions, where production went to near zero for several years and most of the experienced farm staff were lost to the industry. As water has become available in the past year or so, growers have realized they can devote the same large areas to upland cotton with the reduced staff levels available. The farm staff requirements for Bollgard/Roundup Ready cotton are much less than for conventional cotton production.

According to Ian Cole from North Bourke Ginning, even with a big price premium, it would be hard for them to go back to growing Pima cotton.

"Nine years of drought knocked out a whole level of our management and we won't be able to get them back," says Ian. "Most of the bug checkers, agronomists and chemical applicators have moved on, so it would be hard to go back to growing conventional crops, Pima or otherwise."

North Bourke has one of only two roller ginning operations in Australia. It has been sitting idle for the past few years and is likely to stay that way.

The other roller gin is at Tandou in far south west of New South Wales. With the retreat of Pima production from other areas, Tandou is now the only Pima producer and processor in the country.

After several years of drought, Tandou grew 400 hectares of Pima in the 2010-11 season – about 10 per cent of its total planting. Next season, with plenty of irrigation water available, they will probably grow about 6,500 hectares of cotton, while the Pima area is likely to double to 800 hectares. This is still well short of their peak Pima crop of 3,000 hectares before the drought.

"Our Pima cotton yielded around 7 bales per hectare this season," says Tandou's Brendan Barry, "while our upland averaged around 9.5 bales per hectare."

With Pima prices at about AUD$850 per bale, the price premium over upland is enough to entice Tandou into Pima again next season,

despite the yield penalty. But the decision is not cut and dried.

"We make our decision on Pima plantings every year based on the price indications and the company's risk strategy. Part of the problem is that we don't have the same forward selling options we have with upland and there is always a chance that bad weather can produce major problems with Pima. We had a wet season in 2010-11 which produced continuous flushes of weeds which had to be controlled, a problem we don't get with our Roundup Ready upland varieties."

According to CSIRO plant breeder, Dr Greg Constable, Roundup Ready Pima may be a possibility over the next few years, but Bt-resistance is unlikely. The current Australian Pima variety, SiPima 280, was bred by the CSIRO team.

"We still have an active Pima breeding program," says Dr Constable, "but we take a long term view of it because we know there is unlikely to be much expansion in the Pima crop under the current conditions. While upland prices are healthy, the incentive to grow Pima is not great. Our program aims to have varieties available if that situation changes. We have a number of new candidate lines to replace SiPima 280 and there is the possibility of incorporating herbicide resistance in the next few years."

In the short term, though, Australia is unlikely to see a major expansion in Pima production, or achieve the production levels reached less than 10 years ago.

Our Objective: To Regain Export Markets for Peruvian Pima

By Federico León y León, President of ANPAL (National Cotton Producers Association)

The heyday of cotton in Peru is already long past, and the country still suffers the consequences of the aggressive economic and trade policies implemented by larger nations, but today we have a good opportunity to regain the ground lost in the international cotton market.

We can expect nothing from the Doha Round. Rather, it is the exceptional circumstances of the world market and the international crisis that provide our motivation to act.

Major crises generate opportunities. In order to take advantage of them we must use science, technology and innovation in an efficient way, as the drivers of productivity via concerted private sector efforts and competitiveness, in order to reach our main objective: EXPORTS. These are the elements on which are hopes are pinned, considering what has already been achieved and our readiness to confront the various challenges: unfair competition, subsidies, internal support, undervalued currencies, smuggling, falsified declarations of origin, the crisis of the international financial system, exchange rates, fraudulent use of brand names, free trade agreements without compensation - not to mention climatic phenomena, political crises on all continents, energy crisis, earthquakes, tsunamis and the danger of nuclear contamination.

Certainly, we have in our favour the quality and prestige of our cottons that have allowed our textile and clothing industry to conquer high quality garment markets in the United States, European Union and neighbouring countries. A good level of understanding between the actors in the cotton-textile-clothing chain has recently been reached, which encourages us in the pursuit of our objectives. The Chairman of the Textile Committee of the National Industrial Society, Sr. Enrique Falcone, has issued a communiqué which, in essence, says: "We must save Peruvian cotton. Its fibre is a differential factor of strength in the international market."

In addition, the National Government has constituted the National Council of the cotton-textile-clothing supply chain, under the auspices of the Ministry of Agriculture, and has also created a Permanent Fund, administered by Agrobanco for the promotion of production, internal and export marketing of cotton. Regional Governments can contribute financially as co-participants. Steps are being taken to reincorporate Peru into the International Cotton Advisory Committee, of which the country was a founder member.

The Foundation for Cotton Development (FUNDEAL) of which I have the honour to be Chairman, in a recent field day, launched onto the market four new cotton varieties, of the Pima type, which have a better genetic base than the current seeds. The new strains show advantages in terms of earliness, productivity, quality, vigour and ginning outturn.

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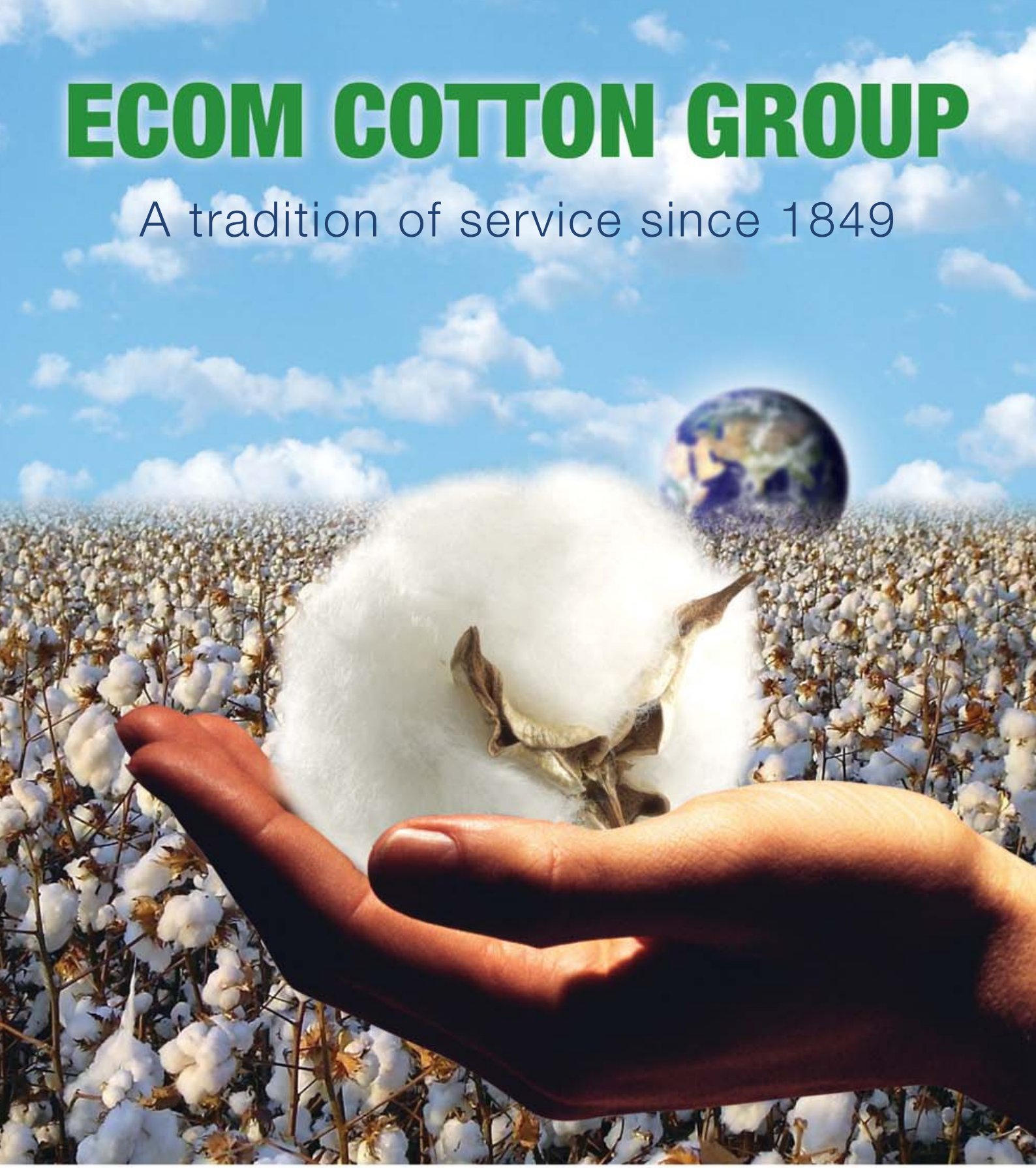

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Other private organisations such as the Peruvian Cotton Institute carry out research, and produce seeds that widen the choice of varieties available to the producer.

Finally, the major new irrigation schemes in Peru's coastal region include cotton in their programmes, on the basis of its suitability to the environment, and its profitability.

It pleases us greatly to advise that, in this cotton season, the small and medium-sized producers of lower Piura, duly organised within the Communal-Cooperative company COSTACH, have resumed exports of Peruvian Pima cotton fibre, under the forward contracts entered into with foreign buyers, FOB Puerto Paita or Callao. This reality will permit us as well to have access to international market price information. The economics of sowing the next crops will be assured by forward export sales contracts, as will programmes to ensure the adequate availability of certified seed.

The cotton season began this year with a little delay, owing to the water supply situation and ambient conditions. The first deliveries show good quality, owing to favourable weather and the relatively healthy conditions prevailing this year, with a low incidence of pest infestation. Current estimates suggest that an average of 55 quintals (2,530 kilos) of seed cotton per hectare can be achieved. Good ginning yields are also anticipated.

The National Cotton Producers Association (ANPAL) and the Foundation for Cotton Development (FUNDEAL) send warm greetings to the cotton world and, especially, with our highest regard, to the representatives of those 155 textile and clothing groups in 48 countries, which, in our heyday, we supplied with Peruvian cotton.

Our appreciation is expressed to Cotton Outlook for its generous invitation to contribute this Special Feature. We give our assurance that we will spare no effort to bring about the inclusion once again of Peruvian cotton in its international price quotations.

A note on Sudan

Following the successful meeting of the African Cotton Association in Khartoum this year, cotton appears to be poised to bounce back as a strategic economic crop. A plan has been formulated, in consultation with farmers and the Sudan Cotton Company Limited, to promote and expand cotton cultivation. The government has given its backing to the plan, which is seen as a stepping stone to re-energising the domestic textile sector. The current growing season is seen as a first test of the plan.

Friendship Hall, Khartoum, venue for the 9th ACA Congress, in March 2011

Reviving Long Staple Cotton Production in the South of Spain's Alicante Province

By Santiago García-Martinez[1], Joaquín Vizdómine[2], Isaac Galindo[1], Guillermo Parra[2], Joaquín Parra[2], Felui Marsal[3], Juan José Ruiz[1].

Introduction

The districts of Vega Baja and Bajo Vinalopó in the south of the province of Alicante have, in the past, been the most important cotton-growing areas in Valencia. The crop was introduced in the 1940's, when long-staple, Egyptian cotton was planted, which was maintained until the 1960's, when American upland varieties were introduced, which had greater productivity but shorter staple. Cotton was a habitual element in crop rotation.

With the crisis in the textile sector, external competition and low international prices, the area cultivated declined progressively, until at the end of the 1990's, the crop disappeared from this zone.

Owing to the economic situation and the need to seek alternatives, the local authorities charged Orihuela's Escuela Politécnica Superior, part of the Miguel Hernandez University, with the task of studying which varieties are most suitable for the reintroduction of this crop, with the following objectives: a minimum yield of 3,000 kilos of seed cotton per hectare; output that would cover the costs of production; an alternative rotation crop; respect for the environment, within an integrated system, with low water consumption, and reutilization of saline water; production of a high quality fibre.

Trials

The trial was conducted on a plot of 10,400 m^2 situated in the locality of Daya Nueva (Alicante), with traditional flood irrigation.

Ten commercial varieties were studied. These are detailed in Table 1.

Table 1: Commercial Varieties Studied

Type	Origin	Varieties
Shorter staple of UPLAND	Gossypium hirsutum	Lider, Campo ESA 01, ESA 02, ESA 03 and ESA 04
Long staple PIMA	Gossypium barbarense	PIMA E1 and GW PIMA 73G
Long Staple Hybrid1	G. hirsutum x G. barbarense	Intercott 195 and Intercott 211

Sowing was carried out manually, accompanied by a black plastic mulch. Each variety was sown 20 cms apart, in two rows of 145 metres, separated by 95 cms. This was repeated three times.

Phytosanitary treatments were applied every 10 to 15 days, using products not harmful to beneficial fauna, such as the toxin Bacillus thuringiensis.

Picking was done by hand, in a band of 20 m^2. On the basis of the area harvested, production per hectare was calculated by extrapolation.

Each time a sample of one kilogramme of seed cotton was taken, which was ginned using traditional machinery, in order to determine the ginning outturn. The fibre was sent to the Centro de Innovación Técnica of the Universidad Politécnica of Cataluña for analysis of quality parameters, including Micronaire, staple length, uniformity, strength and elongation.

An analysis of variability (ANOVA) was carried out in order to identify significant differences between the varieties studied, as well as the Newman-Keuls test for the determination of averages, using the Statgraphics Plus computer programme.

Results

Productivity varied from 1,738.5 to 3,485.5 kilos per hectare, obtained from the Lider variety and the Intercott 211 hybrid, respectively. This was lower than anticipated, owing to the hail that fell on the crop a few weeks before picking, which damaged part of the bolls. The values are similar to those obtained in other trials carried out in 2007 in Seville by Algosur and IFAPA from the Junta de Andalucía, who studied varieties of different types, both UPLAND and PIMA, as well as hybrids, and obtained between 1,000 and 4,000 kilos per hectare.

Table 2:
Production and yields obtained

Type	Variety	Yield (kg/Ha)	Ginning outturn	
			Fibre (%)	Seed (%)
Shorter staple or UPLAND	Líder	1,738.50	37.5	59.4
	Campo	2,355.50	35.4	61.8
	Esa 01	2,542.50	35.6	59.9
	Esa 02	2,210.75	37	56.4
	Esa 03	2,599.00	39	58.7
	Esa 04	2,222.75	35	60.3
Long staple PIMA	PIMA E1	2,439.75	34.9	58.6
	PIMA GW 73 G	3,095.25	34.4	58.9
Long staple hybrid	Intercott 211	3,166.50	33.6	61.8
	Intercott 195	3,485.50	36.5	59.7

Table 3:

Fibre Characteristics

Type	Variety	Micronaire	Staple (mm)	Uniformity (%)	Strength (gr/tex)	Elongation (%)
Shorter staple or UPLAND	Líder	Base (4.7)	Long (30.7)	High (86.6)	Strong (30.3)	Medium (6.3)
	Campo	Base (4.6)	Long (31.4)	High (84.7)	Strong (27.9)	Medium (6.4)
	Esa 01	Base (4.5)	Long (30.7)	High (84.9)	Very strong (33.1)	Medium (6.5)
	Esa 02	Base (4.6)	Medium (29.2)	High (84)	Strong (28.2)	Low (5.7)
	Esa 03	Discount (5)	Medium (29.4)	High (85.1)	Strong (30.9)	Medium (5.8)
	Esa 04	Base (4.4)	Long (32)	High (83.3)	Strong (28.3)	Medium (6.1)
Long Staple PIMA	PIMA E1	Base (4.3)	Very Long (37)	Discount (77.3)	Very strong (48.1)	High (6.5)
	PIMA GW73G	Optimal (4)	Very long (35.9)	High (84)	Very strong (34.2)	Very high (7.8)
Long staple hybrid	Intercott 211	Optimal (3.7)	Very long (36.6)	Intermediate (81.6)	Very strong (34.0)	Very high (6.8)
	Intercott 195	Optimal (4)	Very long (35.8)	High (84.2)	Very strong (35.3)	Very high (6.7)

The two hybrids and the PIMA variety GW73G were the only varieties to exceed 3,000 kilos per hectare, which may be considered an acceptable level of productivity. These varieties, together with Pima E1, are those which have better quality fibre, which will command a higher price in the market, hence their pre-selection for the possible revival of the crop.

No significant differences were encountered in the ginning yield. The percentages of fibre obtained were similar to those recorded in the other trials, carried out in 2007 in Seville.

The quality results obtained from the various varieties were as expected. The shorter staple or UPLAND varieties were those that yielded the poorest results, notably as regards fineness and elongation. Those varieties produced a fibre of medium to lower quality. However, the hybrid varieties, and PIMA GW73G gave the best results across the range of parameters studied, but in particular as regards fineness, staple length and strength. These three varieties produce a better quality fibre that can be used in the manufacture of high quality products, and that commands a higher price on the international market. The other long staple variety, PIMA E1, has poorer characteristics than the others of the same type, especially in relation to fineness and uniformity, and is not therefore best suited to cultivation in this zone, pending new trials.

Conclusions

The cultivation of cotton in the southern Alicante area is possible, as demonstrated in the trial.

The hybrids Intercott 211 and Intercott 195, as well as the variety PIMA GW73G were those from which the best productivity was obtained, in excess of 3,000 kilos per hectare. These same varieties produced the best fibre characteristics, in terms of fineness, staple length, strength and elongation, and are thus the best suited to the recovery of cotton production in the South of Alicante.

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Acknowledgements

This study was carried out thanks to the cooperation of Alicante's Diputación Provincial, COITAPA, ASAJA-Jóvenes Agricultores, the Cooperativa Agrícola of Orihuela and the Ayuntamientos of Almoradí, Callosa de Segura, Daya Nueva, Dolores and Orihuela.

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2011 Xinjiang Aksu ELS Cotton Production Outlook

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

I. Review of 2010/11 Xinjiang ELS market

In late August and early September 2010, low temperatures delayed the normal boll-opening period in Xinjiang. Subsequently, persistent rainy weather in mid-October prevented bolls from opening and caused a decrease in both yield and quality. Farmers were unable to dry the seed cotton and the labour for cotton picking was also insufficient. The price of seed cotton rose continuously, owing to the tight supply in the international market. ELS seed cotton rose in price from 12.5 yuan per kilo in early October to 14.5 yuan per kilo in early December. In January 2011, the seed cotton price reached 16 yuan per kilo. The lint price rose from 38,500 yuan to 45,000 yuan per tonne. In 2010/11, Xinjiang's ELS output was around 130,000 tonnes.

Prices generally started to slide in April 2011, though the sales price of ELS remained for a time at around 48,000 yuan per tonne, showing much more stability than prices for upland cotton. However, the ELS price has been declining sharply since June 2011, falling to 35,000 yuan per tonne and below, in face of difficult trading conditions. Currently, a stock of ELS remains of more than 40,000 tonnes, of which over 10,000 tonnes are held in Xinjiang and the balance in Shandong and Jiangsu.

II. The planting area of ELS in 2011

The planting area of Xinjiang ELS, limited mainly by climate, environment and field management, was very concentrated this year, mainly in the Aksu area in South Xinjiang, in fields belonging to the Military Group and in Awati county. The original ELS areas in Kashi and Bazhou have been withdrawn, mainly as the varieties cultivated need to be planted in regions with temperatures that remain above 10 Celsius degree.

In 2011, the No. 1 Division of the Military Group planned to sow ELS on 170,000 to 180,000 mu (15 mu = one hectare), but the area actual planted exceeded 200,000 mu. Planting took place mainly in the farms operated by the No 1, No 2 and No 3 Groups, while farms in No 9 and No 12 Group have gradually withdrawn from ELS planting.

The ELS planting area in Awati county was around 900,000 mu in 2011, up by 100,000 compared with 2010. In Shaya county, another major ELS planting region in Aksu, the planted area was maintained at about 10,000 mu, similar to the previous season.

The total ELS cotton area in Aksu this year is placed at around 1.13 million mu.

In Xinjiang, the ELS planting region was adjusted on the basis of the market situation and the planting income. The Military Group adjusted the traditional ELS planting area from Alaer to Shajingzi, mainly because of the necessity of the planting rotation.

III. Planting time and the climate

ELS planting was mainly started in the first week of April, one week later than upland cotton and around 10 days later compared with last year. Fortunately, low temperatures were avoided during the planting period and the work was finished in early May. Severe sandstorms were also absent in south Xinjiang, and occurrences of hail storms during May affected only limited areas, and thus had little impact on final output prospects.

IV. Crop progress

Currently, temperatures in south Xinjiang remain above 30 degrees Celsius during the daytime and above 20 degrees at night. Moisture and hours of sunshine have been better than in the same period last season. In addition, farmers have strengthened field management. Crop progress is better, therefore, than last year.

ELS varieties are fewer than those of upland cotton. The major variety is "Xinhai No 28", certificated by Tahe Seed Company, and the traditional Xinhai No 21". The average weight of each boll of "Xinhai No 28" was 350 kilo per mu, the average strength is 41.14 tex, but the length is a little short at 35-37mm. Micronaire value is around 4.6.

V. Predicated output

The harvest is expected to commence in early October. If the weather is normal, average yield could reach 300 kilo per mu. Total ELS lint output in Aksu would thus be around 130,000-140,000 tonnes in 2011, against 130,000 last season.

VI. Ginning facilities

In recent years, ELS cotton has been processed mainly with the hob roller gin and knife-type roller gin. Although the latter has a lower output capacity per hour, it gives a better quality fibre, and is therefore preferred. Cotton is typically packed in big bales (227 kg per bale).

VII. ELS price output and supply & demand situation in 2011/12

ELS output in 2011/12 seems unlikely to exceed 150,000 tonnes. Although the current ELS price is depressed, the market is expected to turn warm in early 2012. With increased cotton planting costs and the influence of the temporary state reserve support policy, ELS seed cotton in the new season is expected to command around 12 yuan per kilo and ELS lint around 36,000 yuan per tonne.

Analysis of China's Long Staple Cotton Market

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

The 2010/11 cotton season has witnessed a "crazy movement" in the market. China's ELS cotton production, imports and consumption rank first in the world. Each movement of China's market affects the world ELS market.

I. China's long staple cotton supply and demand situation

China's long staple cotton balance sheet

	tons				
	07-Aug	08-Sep	09-Oct	10-Nov	11-Dec
Beginning stock	70,000	115,000	45,000	15,000	30,000
Production	190,000	120,000	90,000	120,000	150,000
Imports	50,000	25,000	80,000	60,000	35,000
Exports	25,000	10,000	Negligible	Negligible	Negligible
Consumption	170,000	205,000	200,000	165,000	180,000
Ending stock	1150,00	45,000	15,000	30,000	35,000

Source: Chang Zhou World Cotton Co., Ltd

Note:

1. China's cotton season is from September through August next year.

2. Stocks volume includes industrial stock, commercial stock and social stock.

3. Data in the above table exclude middle staple cotton (32-35mm), since the medium staple cotton production is quite variable. In addition, the definition of 'medium staple' and 'long staple' varies from country to country, which results in divergence of statistical data. According to China's Long Staple Cotton Standard (GB19635-2005) and Upland Cotton Standard (GB1103-2007), cotton stapling 33mm is classified as long staple cotton. There is no definition of Extra Long Staple cotton, or of medium staple cotton.

But in trading practice, cotton between 33mm and 35mm in length is normally called medium staple cotton, and only fibre of 35mm or more is called long staple cotton. China's long staple cotton normally fits into the latter category. In some countries, however, cotton of 32-35mm length is called long staple cotton and anything longer is termed 'extra-long' staple.

II. Market analysis for the current season

During 2010/11, China's long staple cotton price moved to a high level, similar to the upland cotton market: a 'crazy' rally has been followed by a 'crazy' slide. The price of LS moved from 29,000 yuan per tonne in the early months of this season to 49,000 yuan per tonne, and then slid to 33,000 yuan per tonne at the time of writing.

The volatility reflected long staple fundamental factors, as well as the influence of currency movements and excessive speculation. At the beginning of the 2010/11 season, Xinjiang's long staple region suffered from too much moisture and low temperatures. A delayed harvest, lower yields and poorer quality, plus the 'crazy' rally on international markets, caused domestic long staple prices to advance sharply. Investment in a limited supply of commodities also contributed to the price movement. Prices for both long staples and upland cottons successively set new records before slipping backward.

The rapid decline of cotton prices was caused by a basic law of the market economy: excessively high prices curbed demand. When long staple cotton prices were at their peak, actual transaction volume was quite light. Consumption of long staple cotton declined sharply in the later stages of the season and the market shifted, in consequence, from one of "excess demand" to "over supply". Transactions were effectively suspended and some spinners even started to re-sell their cotton inventory. Under this situation, the price of long staple had to decline sharply.

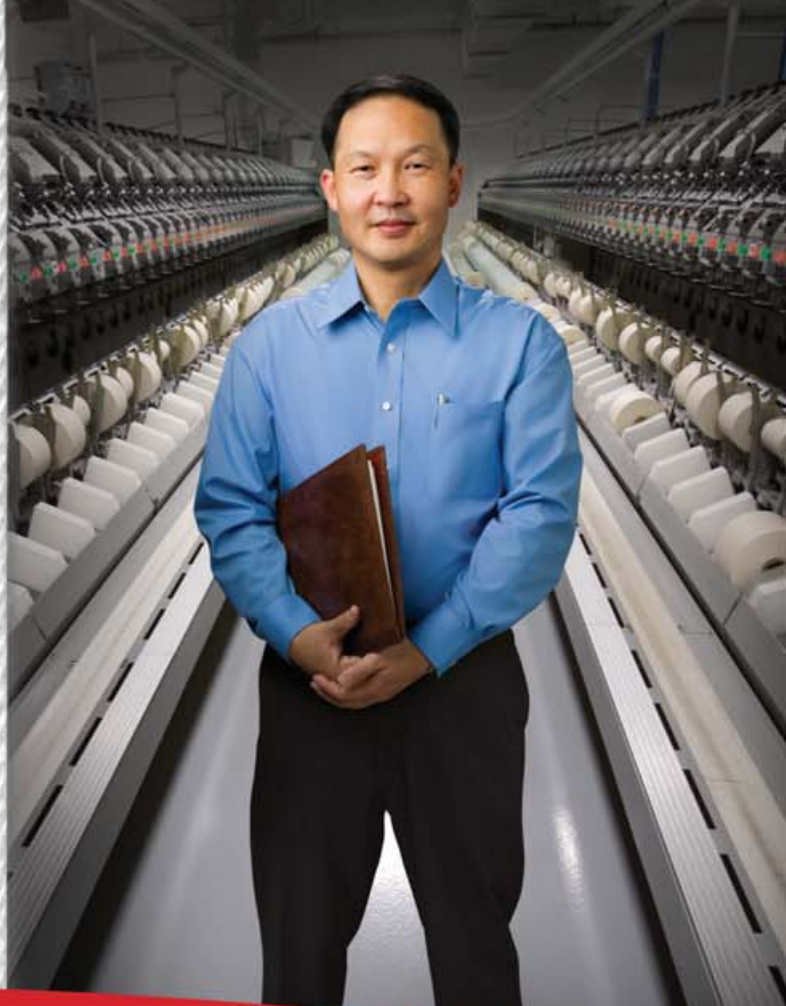
While the excessive price restricted consumption, the demand of high end apparel in Europe, US and Japan market not only failed to recover in line with the global economy, but actually shrank. Persisting inflation in China raised the cost of living, which acted to curb the consumption of high-end apparel. Sluggish textile export demand and declining domestic consumption therefore restricted long staple consumption. At the policy level, successive rounds of financial tightening restricting market liquidity were not helpful. Some speculative funds subsequently withdrew from the market, which contributed further to the rapid price retreat.

A higher ending stock has thus resulted this season, compared with last season.

III. Outlook for new season

This season's increased ending stock portends a difficult start to marketing of the new crop. Increased plantings in China and elsewhere should bring an increase in world long staple cotton supply. The increased supply may sustain bearish market sentiment. Currently, import offers from some international shippers remain quite high, though transaction volumes are limited. The price of imported long staple cotton will also drop sharply, sooner or later.

(Written on July 17, 2011)



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