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Demand and Tight Stocks Driving Prices Higher

World cotton production and consumption are forecast to roughly balance at 25.1 million tons in 2010/11, as a result of a 15% rebound in production and a 2% increase in mill use. World ending stocks are expected to remain at 9.1 million tons, while the ratio of ending stocks to mill use could decrease from 37% to 36%, the lowest since 1989/90. The tightening of stocks available for mill use has pushed cotton prices higher.

The United States is driving the forecast rebound in global production in 2010/11, with an expected crop of 4.0 million tons, 52% larger than last season. China and India are expected to account for most of the increase in global cotton mill use in 2010/11.

Imports are expected to continue to recover in 2010/11, growing by 9% to 8.5 million tons. This increase will be driven by Chinese imports, forecast 29% larger at 3.1 million tons. U.S. exports are projected up by 27% to 3.3 million tons in 2010/11, fueled by the expected larger crop, and the U.S. share of global exports could rebound from 34% to 39%.

The ICAC Price Model forecasts a 2010/11 season-average Cotlook A Index of 89 cents per pound. The 95% confidence interval extends from 76 to 106 cents per pound. This forecast implies a 15% increase with respect to the 2009/10 season-average Cotlook A Index. However, caution must be exercised since all commodity markets are subject to great uncertainty.

Beginning stocks will account for only 27% of world supply in 2010/11, down from 35% in the previous season. The decline in stocks as a percent of supply suggests that cotton prices in 2010/11 will remain unusually susceptible to changes in crop prospects.

WORLD COTTON SUPPLY AND DISTRIBUTION

	2008/09 Million Tons	2009/10	2010/11	2008/09 Million Bales	2009/10	2010/11
Production	23.34	21.8	25.1	107.2	100	115
Consumption	23.50	24.6	25.1	108.0	113	115
Exports	6.62	7.7	8.5	30.4	35	39
Ending Stocks	11.89	9.1	9.1	54.6	42	42
Cotlook A Index*	61.20	77.54	89**	61.20	77.54	89**

* Season-average Cotlook A Index (U.S. cents per pound).

** The price projection for 2010/11 is based on the ending stocks/consumption ratio in the world-less-China in 2008/09 (estimate), in 2009/10 (estimate) and in 2010/11 (projection), and on the ratio of Chinese net imports to world imports in 2009/10 (estimate) and 2010/11 (projection). 95% confidence interval: 76 to 106 cents per pound.

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