

Cotton

US Demand and Supply

The 2016/17 U.S. cotton supply and demand forecasts show slightly higher exports and lower ending stocks relative to last month. Production and domestic mill use are unchanged. The export forecast is raised 200,000 bales to 12.7 million based on strong export sales during January. Ending stocks are now estimated at 4.8 million bales, equivalent to 30 percent of total disappearance. The marketing year average price received by producers is projected to average between 67 and 71 cents per pound, an increase of 2 cents on both ends of the range, as recent market prices have exceeded previous expectations.

World Demand and Supply

The 2016/17 world cotton forecasts include slightly higher consumption and lower ending stocks. World production is virtually unchanged from last month, as a higher estimate for China is mostly offset by lower expectations for Pakistan, Uzbekistan, and Turkmenistan. Global consumption is forecast higher, due mainly to increases for India, Bangladesh, and Vietnam. World ending stocks are now projected at 89.9 million bales.

Outlook:

Between last WASDE and this, the ICE cotton prices have rallied by over 3%, and the underlying bullishness still remains despite well supplied demand and supply scenario. The firmness is seen as a result of robust imports by China, March futures expiry and the uncovered purchases by the mills. The latest WASDE report was mostly in line with the market expectations and hence did not have much impact on it. The prices from here will be guided by the March contract expiry (bullish) and clarity on Chinese auctions (bearish). At higher prices volatility is expected to increase.

Key observations are that due to the change in demand and supply numbers the Stock To Use Ratio has increased in China and tightened in world excluding China, over the Jan estimates. While Chinese SUR reflects the same in 2012-13 the rest of the world SUR is similar to one seen in 2013-14. Global SUR is tightest since 2011-12. 2011-12 is also the year when the ICE cotton touched the record of 227 cents per pound! All the seasons mentioned here saw ICE high price touched the upper 90s cents per pound. The only difference between then and now is the crude oil prices that have halved and an immediate sharp upside in it looks to be a difficult proposition. This, along with technological innovation has shrunk the share of cotton in the world fibre market. Share of cotton fibre is expected to come down to 25.5% by 2020 from 39.2% in 1998. EAR expects volatility to increase at higher levels. Prices could come down as the clarity on the Chinese auctions for current season emerges.

10 February 2017

Cotton World Supply, Use, and Trade (Season Beginning August 1) (1000 MT)							
		2014/15	2015/16	Jan 2016-17	Feb 2016-17	M/m Change 2016/17	Y/y change 2016/17
Production	India	6,423	5,748	5,879	5,879	0	2.3%
	China	6,532	4,790	4,790	4,899	109	2.3%
	United States	3,553	2,806	3,692	3,692	0	31.6%
	Pakistan	2,308	1,524	1,720	1,676	-44	10.0%
	Other	7,134	6,137	6,855	6,807	-48	10.9%
	Total	25,950	21,005	22,935	22,953	18	9.3%
USE Dom. Consumption	China	7,403	7,620	7,893	7,893	0	3.6%
	India	5,334	5,280	5,062	5,171	109	-2.1%
	Pakistan	2,308	2,243	2,221	2,221	0	-1.0%
	Bangladesh	1,263	1,328	1,415	1,459	44	9.9%
	Other	7,949	7,752	7,742	7,755	13	0.0%
	Total	24,257	24,223	24,333	24,499	166	1.1%
Imports	Bangladesh	1,252	1,350	1,404	1,437	33	6.4%
	Vietnam	931	980	1,089	1,132	43	15.5%
	China	1,804	959	980	980	0	2.2%
	Turkey	800	918	806	784	-22	-14.6%
	Other	3,066	3,456	3,482	3,450	-32	-0.2%
	Total	7,852	7,665	7,761	7,783	22	1.5%
Exports	United States	2,449	1,993	2,722	2,765	43	38.7%
	India	914	1,255	958	958	0	-23.7%
	Australia	523	621	871	893	22	43.8%
	Brazil	851	939	631	631	0	-32.8%
	Other	2,952	2,874	2,576	2,534	-42	-11.8%
	Total	7,690	7,682	7,759	7,781	22	1.3%
Ending Stocks	China	14,570	12,671	10,527	10,636	109	-16.1%
	India	2,936	2,383	2,633	2,524	-109	5.9%
	Brazil	1,640	1,341	1,483	1,483	0	10.6%
	United States	795	827	1,089	1,045	-44	26.4%
	Other	4,385	3,858	4,005	3,887	-118	0.8%
	Total	24,325	21,082	19,737	19,574	-163	-7.2%
Stock To Use Ratio	China	196.8%	166.3%	133.4%	134.8%		
	India	47.0%	36.5%	43.7%	41.2%		
	USA	19.5%	20.7%	16.4%	15.7%		
	World Excl China	57.9%	50.7%	56.0%	53.8%		
	World Total	100.3%	87.0%	81.1%	79.9%		

Indian Cotton Outlook:

Contrary to feedback at home USDA has increased the consumption estimates of raw cotton in India from January 2017 update. The consumption remains down Y/y though. Rest of the estimates are kept unchanged and hence the balance sheet is tightening compared to Jan estimates but remains loose year on year, mainly due to lower demand both consumption as well as exports.

Monthly update of tightening balance sheet is potentially factored into the prices. Hence year on year loose balance sheet is expected to limit the upside to the prices.

India in Lakh bales of 170 kg	2016-17				2016-17	2015-16	Change Y/y
	current month	Prev month	chnage M/m	% change	CY	LY	
Production	345.8	345.8	-	0.0%	345.8	338.1	2.3%
USE Dom. Consum	304.2	297.8	6.4	2.2%	304.2	310.6	-2.1%
Exports	56.4	56.4	-	0.0%	56.4	73.8	-23.7%
Ending Stocks	148	155	-6.4	-4.1%	148.5	140.2	5.9%
Stock To Use Ratio	41.2%	43.7%			41.2%	36.5%	

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