

## WORLD SUPPLY & USE OF ELS COTTON

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### Abstract

A sustained tight supply in the world ELS market led to the highest prices paid to U.S. Pima cotton producers in seven years. Disappointing yields among the world's leading ELS suppliers, combined with a low beginning inventory, contributed to the short supply. Favorable prices are expected to lead to increased Pima plantings in the U.S., and uncertainty among other countries' ability to increase ELS acreage should keep the U.S. atop global exporters.

### Introduction

World ELS stocks-to-use fell to 17% after the 1994/95 marketing year as the United States was able to liquidate its enormous inventory. Following the break-up of the former Soviet Union in 1991, Uzbekistan, Turkmenistan and Tajikistan resolved to unload its massive supply of ELS cotton in 1992. In the meantime, Egypt was building unprecedented ELS stocks, which it was able to liquidate during the 1993/94 marketing year after cutting prices for the fourth consecutive year. By then, only the United States had a reasonable supply of ELS cotton, which sold out during the 1994/95 MY. As a result, the major ELS exporters entered the 1995/96 MY with critically low inventories. Unfortunately, lower than expected production in 1995 led to another reduction in world ELS exports as the ending stocks-to-use ratio is expected to remain at 17%. Overall world ELS consumption paralleled production by falling for an unprecedented tenth consecutive year. Consumption has fallen from 5.5 million bales in 1986 to about 2.8 million bales this marketing year, a decrease of nearly 50% in ten years. Production, though projected a few months ago to finish the same as last year's total of 2.71 million bales, now appears to be coming in at just less than 2.7 million bales.

### U.S. Production Falls Short

Cool, wet conditions prevailed during planting time in the Far West United States where Pima cotton is grown. Still, harvested acreage was increased by 24% from 166,000 to 206,000 acres. Had production increased proportionately, we could have expected a 1995 U.S. Pima crop of about 415,000 bales. Instead, beltwide yields are down by more than 15%, which are expected to lead to a crop of about 352,000 bales, or just 4% more than produced the previous season. The problem, however, was the carryover total the U.S. brought into the 1995/96 marketing year. U.S. Pima stocks were listed at just 59,000 bales on August 1, 1995,

compared to 227,000 bales the previous August. Consequently, total supply fell by 26%, which led to a decrease in offtake of an identical 26%. The 1994/95 U.S. Pima stocks-to-use ratio of 11.2% was the lowest ever. Its record is expected to be broken at the end of the current marketing year, when the total is forecasted to be just 7.9%.

### U.S. Pima Offtake Remains Strong

As its competitors ran out of ELS cotton to sell in 1994, the U.S. reached its highest level of offtake in five years, narrowly missing the all-time high mark of 528,000 bales set in 1989. The U.S. regained its top spot among world exporters as purchases among Asian countries remained strong. Since replacing Egypt in 1989 as the top supplier of ELS cotton to Japan, the U.S. has delivered an average of 104,000 bales of American Pima cotton a year to Japan over those six years. During that same period, Japanese total imports of ELS cotton have fallen by nearly 50% while the U.S. has steadily increased its share of that market supply from 35% to about 65%.

One of the interesting developments of the 1994/95 marketing year was the arrival on the scene of India and Bangladesh. The two countries combined to import about 95,000 bales of American Pima cotton. Limited supply and rising prices have precluded the two from purchasing very much U.S. Pima this marketing year, but we fully expect these two countries to be consistent long-time customers of U.S. Pima cotton. India has been using its own significant supply of ELS supply for domestic consumption, while requiring ELS imports for a growing export business in fine count yarns, fabrics and finished goods. Bangladesh's ELS cotton needs have also been expanding as its export business in the fine count market, too, has been increasing.

But the biggest surprise of last year was the record-setting performance of U.S. textile mills that spin American Pima cotton. The U.S. consumed 102,000 bales during the 1994/95 marketing year, the most U.S. Pima cotton consumed domestically since it first began being grown in the United States in 1912. The total represents a 42% increase from the total consumed the previous season, which had been 20% more than was consumed in 1992/93. After averaging less than 65,000 bales consumed annually for the eight years between 1985 and 1992, the U.S. consumed an average of 87,000 bales of American Pima cotton the past two seasons, for a 34% boost. And they registered the big increase in usage in a year when prices for U.S. Pima cotton reached their highest level in seven years. However, the Pima price was relative as textile mills at the same time were paying some of the highest prices they *ever* paid for upland cotton.

The key markets for U.S. Pima domestically continue to be home furnishings, thread and apparel. Consumers are paying more for better quality towels, sheeting, blankets, bath mats and other home furnishings. Manufacturers such

as Springs Wamsutta, Fieldcrest and WestPoint Stevens have all added new 100% Supima or Pima blend products to their respective product lines over the past two years. Thread manufacturing continues to claim a big portion of domestic Pima consumption with more than 25% of total usage. Apparel also remains a major customer, mostly in the knitted sector. Still, a portion of the increase has to be attributed to new applications in which Pima is being used as a blend to add value to apparel and home textile products.

### **Outlook for 1995/96**

The U.S. will produce more Pima cotton in the coming season. That's a given, just as it was in 1995. Based on plantings, we expected about a 25% increase in production this season, but we produced just 4% more. What that tells us is that although we may know in spring how much more cotton we have planted, we won't know until harvest how much more we will produce. Our early season estimate shows an increase in plantings of 30% - 35%, most of which should come from California. Growers in the San Joaquin Valley have been averaging 90% of their upland yields with their Pima since first starting to grow Pima seven years ago. U.S. Pima production is expected to continue its shift toward California. And with beltwide yields returning back to "normal," production could increase by as much as 60% for a total of about 560,000 - 565,000 bales. Supply should still come in at less than 600,000, which would enable the U.S. to supply as much as it did in 1994/95, which was more than 525,000 bales. However, we expect competition to push for a larger share of exports, which could limit total U.S. Pima offtake in 1996/97 to 475,000 - 510,000 bales. Either way, U.S. Pima stocks-to-use should return to a more stable 18 - 26% following the 1996/97 marketing year, compared with less than 8% projected for this marketing year.

As was the case in 1995, actual planted acreage for the new crop will ultimately be determined by two factors: the price difference between upland and Pima cotton, and weather conditions in late-March and early-April. A year ago new crop prices were being driven up by booming sales and rising prices for 1994 crop Pima. The new crop market is expected to be more stable this go-round as old crop sales are much further along at this time in the marketing year. Should the forward contract price on Pima continue to be about 50% more than upland and buyers are willing to contract with growers early, our plantings forecast will remain firm. Actual planted acreage will be influenced up or down as that price differential fluctuates. And among the factors which will influence price levels will be planting intentions of competitors such as Egypt, Uzbekistan and Turkmenistan.

Adequate incentives needed in order to generate the kind of increased production the Egyptian government had hoped for from its ELS cotton producers were absent in 1995. To

complicate things, Egypt also sustained poor weather conditions at planting time in addition to dealing with poor quality planting seed. Production was expected to finish at about 1.08 million 480-lb.-sized bales, compared to its 1994 total of about 1.23 million. In light of Egypt's move towards a privatized free enterprise market, many industry observers don't give the country much chance of increasing acreage significantly in 1996. I still think Egypt may increase acreage enough to influence the world market. The countries from the former Soviet Union aren't expected to make any noise, but Sudan and China may check in with moderate production increases in order to take advantage of the short world market. However, you can expect the U.S. and Egypt to remain the primary suppliers of ELS cotton.

### **Conclusions**

Drawing a comparison between 1988 and 1995 might compel one to project an even higher increase in U.S. Pima plantings this year. But such comparisons are always tricky. The similarities, however, are worth considering. First, it must be noted that 1988 was the second year in which American Pima had become a trusted ELS export commodity, so customers had grown confident of the fiber as they are today. Second, the U.S. was entering the new marketing year with just 66,000 bales of stocks in a world ELS market that was carrying a 21% stocks-to-use ratio, similar to the 17% the world will have at the end of this marketing year. Third, grower prices for Pima were reaching new all-time highs, which are being matched this season. But that's where the similarities end. Pima prices in 1988/89 peaked at more than three times the level commanded for upland cotton, which moved more and more growers into Pima in the subsequent season. Pima prices this season have been extremely high, but so have upland prices. In fact, upland prices this season have been running about 50% higher than they were in 1988/89. Pima prices have been about the same this season as in 1988/89.

One might note that U.S. Pima domestic consumption is stronger now, but the difference is just 15,000 - 20,000 bales. The world ELS market, which is what the U.S. relies on for 80% of Pima offtake, was consuming about 2 million more bales in 1988/89. The same number of competitors are now fighting over slices of a pie that is 22% smaller than it was seven years ago. Still, we have growers who are producing a better quality Pima than they were seven years ago, and they are doing it at a higher productivity level than they were then.

The U.S. has proven it can be a reliable supplier, that its quality is consistently high, its prices are competitive and market responsive, and its shipping system is the most efficient, prompt and reliable in the world. Additionally, the U.S. has a support system unmatched by competitors. With industry organizations like Cotton Council

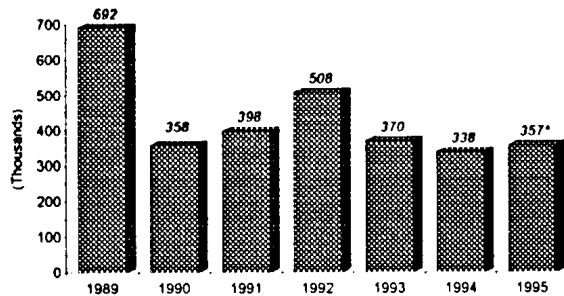
International, the American Cotton Shippers Association, AMCOT, Cotton Incorporated and the Supima Association, world ELS importers have many sources from which to draw information. And these are just a few reasons why the U.S. should continue to be the premier supplier of ELS cotton.

### 1995-96 U.S. PIMA CROP

	ACRES	YIELD	PRODUCTION
Arizona	48,000	760	76,000
Texas	33,000	800	55,000
New Mexico	15,000	672	21,000
California	<u>110,000</u>	<u>895</u>	<u>205,000</u>
	<b>206,000</b>	<b>832</b>	<b>357,000</b>

Source: USDA, 1995.

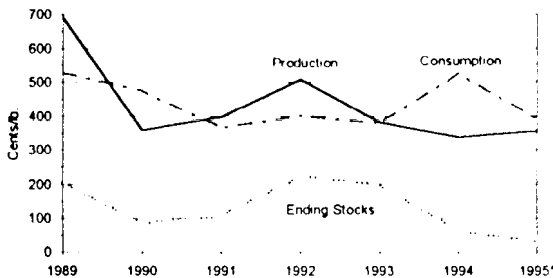
### AMERICAN PIMA PRODUCTION 1989-1995



Listed in 480 lb. bales.

\*USDA estimate.

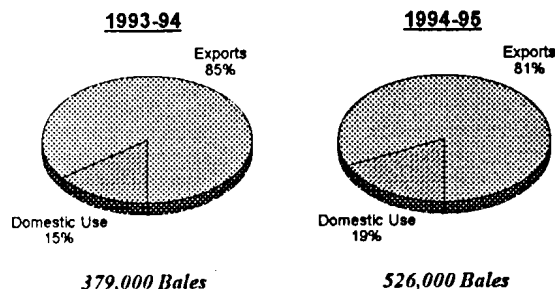
### U.S. PIMA PRODUCTION, CONSUMPTION & STOCKS 1989-1995



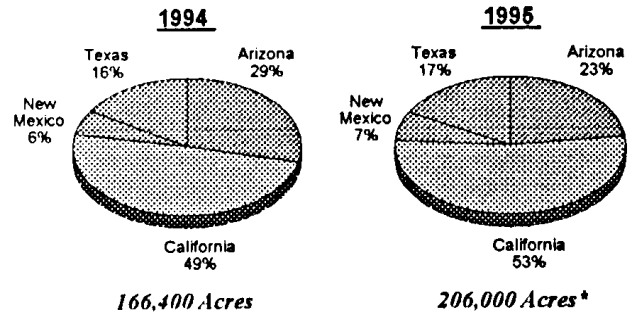
Listed in 480 lb. bales.

\*Source: USDA estimate Dec. 11, 1995.

### U.S. PIMA OFFTAKE

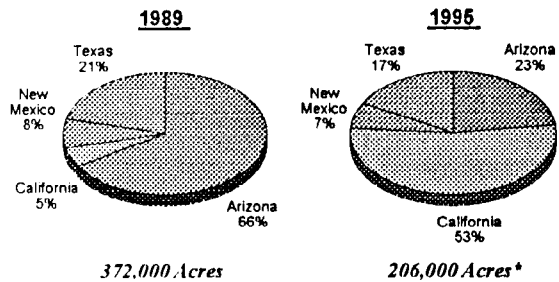


### U.S. PIMA ACREAGE



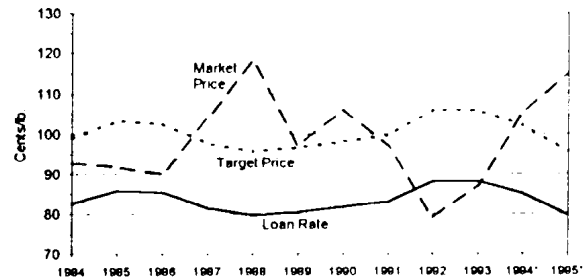
\*USDA estimate (harvested acres).

### U.S. PIMA ACREAGE



\*Supima estimate.

### U.S. PIMA LOAN & MARKET PRICES 1984-1995



### U.S. PIMA SUPPLY & USE

Year	Supply			Disappearance				Ending Stocks	Stocks/Use Ratio
	Beg Stocks	Prod	Total	Mill Cons	Exports	Total	Drf Unac		
1986	59	206	265	67	114	181	0	84	46%
1987	84	285	369	52	237	289	-27	53	18%
1988	53	334	387	70	265	335	14	66	20%
1989	66	692	758	76	452	528	-28	202	38%
1990	202	358	560	65	415	480	2	82	17%
1991	82	398	480	65	298	363	4	121	33%
1992	121	508	629	60	332	392	-31	206	52%
1993	206	370	576	72	307	379	30	227	60%
1994	227	338	567	102	424	526	18	59	11.2%
1995*	59	357	421	90	300	390	0	31	7.9%
1996*	31								

\*USDA estimate.

Listed in thousand 480 lb. bales.

\*Source: USDA Dec. 11, 1995.

1994 supply includes 2,000 bales of imports.

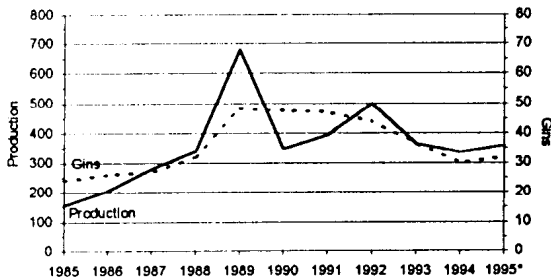
1995 supply includes 5,000 bales of imports.

### AMERICAN PIMA EXPORTS 1990/91 - 1995/96

	90/91	91/92	92/93	93/94	94/95*	95/96*
Italy	77.6	31.6	29.7	7.9	20.0	26.7
Germany	41.8	32.4	19.8	24.3	22.8	21.5
Switzerland	32.0	21.2	24.4	20.0	22.6	29.6
Romania	10.4	0.1	12.6	1.4	0	1.4
Turkey	2.8	3.5	5.9	3.6	1.7	2.6
Other	31.2	11.9	12.8	9.5	19.3	10.2
Europe Totals	195.8	100.7	105.2	66.7	86.4	92.0
Japan	118.5	118.5	81.3	105.7	102.2	96.6
South Korea	44.3	30.5	49.6	29.6	24.7	22.0
Other	46.3	40.9	80.8	75.0	162.5	57.0
Asia Totals	209.1	189.9	211.7	210.3	289.4	175.6
Rest of World	10.7	7.1	14.9	28.7	27.8	9.4
World Totals	415.6	297.7	331.8	305.7	403.6*	277.0*

Source: U.S. export sales Dec. 29, 1995  
Listed in thousand 480 lb. bales.  
\*Listed in running bales.

### U.S. PIMA GINS & PRODUCTION 1985-1995



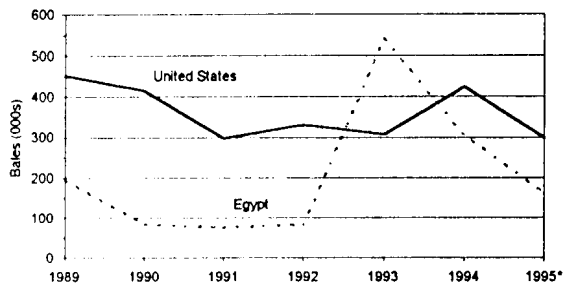
Production listed in thousand 480 lb. bales.  
\*Supima estimate.

### AMERICAN PIMA EXPORTS TO JAPAN & SOUTHEAST ASIA 1990/91 - 1995/96

	90/91	91/92	92/93	93/94	94/95*	95/96*
Japan	118.5	118.5	81.3	105.7	102.2	96.6
India	0	0	4.5	0	65.3	7.9
South Korea	44.3	30.5	49.6	29.6	24.7	22.0
Bangladesh	13.4	14.1	24.4	24.8	35.9	9.1
Indonesia	15.6	13.2	22.5	21.0	20.9	21.3
Thailand	7.4	2.8	9.5	5.6	6.3	2.1
Pakistan	1.3	1.8	6.6	1.6	20.1	11.3
Taiwan	8.4	5.5	7.9	19.3	18.5	3.1
Other	2	2.4	5.0	2.7	5.5	2.2
Asia Totals	209.1	189.9	211.7	210.3	289.4*	175.6*

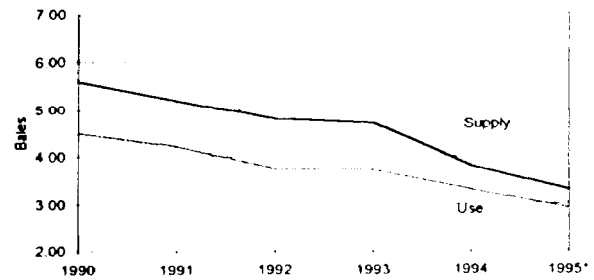
Source: U.S. export sales, Dec. 29, 1995.  
Listed in thousand 480 lb. bales for 1989-93.  
\*Listed in running bales.

### U.S. & EGYPTIAN ELS EXPORTS 1989-1995



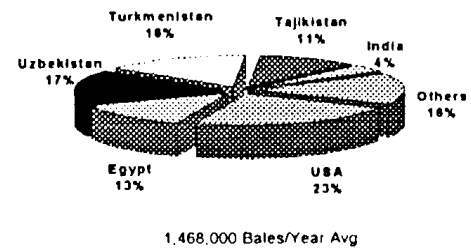
Source: ICAC, Nov. 12, 1995.  
Listed in 480 lb. bales.  
\*Supima estimate.

### WORLD ELS SUPPLY/USE 1990-1995

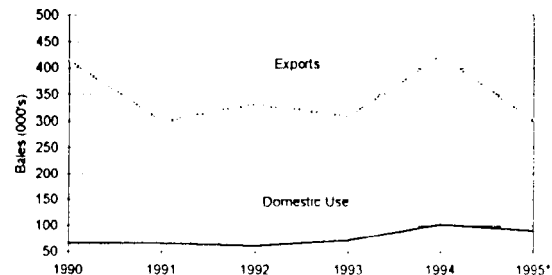


ICAC, Sept. 12, 1995.  
Listed in million (480 lb.) bales.  
\*Estimate.

### ELS COTTON AVERAGE EXPORTS 1990-1995



### U.S. PIMA OFFTAKE 1990-1995

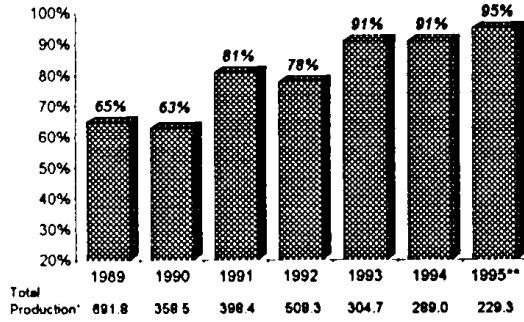


Listed in 480 lb. bales.  
\*Source: USDA estimate, Dec. 1995.  
ICAC, Sept. 12, 1995.  
Listed in million (480 lb.) bales.  
\*Estimate.

### WORLD ELS SUPPLY/USE 1989 - 1995

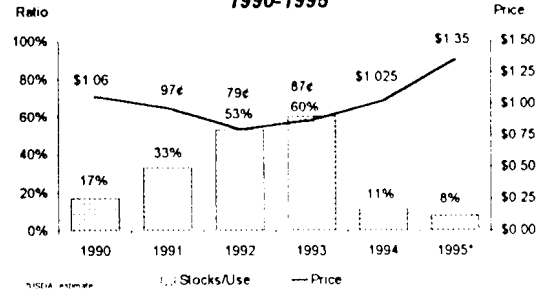
	Production	Total Use	Ending Stocks	Stocks/Use Ratio
1989	4.9	4.9	1.04	21%
1990	4.5	4.5	1.07	24%
1991	4.1	4.2	.96	23%
1992	3.8	3.7	.98	26%
1993	3.6	3.7	.99	26%
1994	2.7	3.2	.54	17%
1995*	2.7	2.9	.49	17%

### HIGH GRADE PERCENTAGE OF U.S. PIMA QUALITY 1989-1995

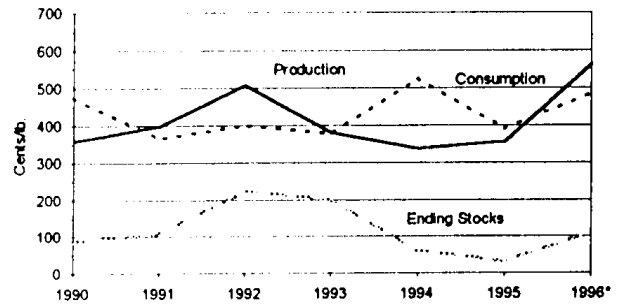


Production listed in thousand 480 lb. bales.  
 High grades equal to grade 3 & better.  
 Source: USDA/AMS.  
 \*Total bales classed.  
 \*\*Classed through Dec. 28, 1995.

### U.S. PIMA STOCKS-TO-USE AND AVERAGE FARM PRICES 1990-1995

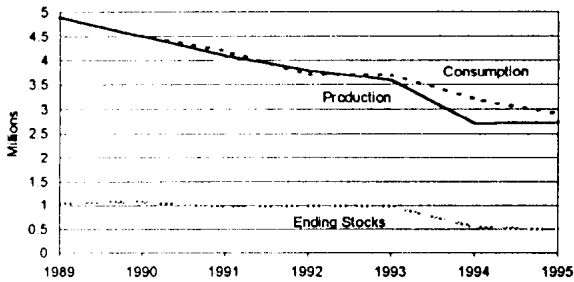


### U.S. PIMA PRODUCTION, CONSUMPTION & STOCKS 1990-1996



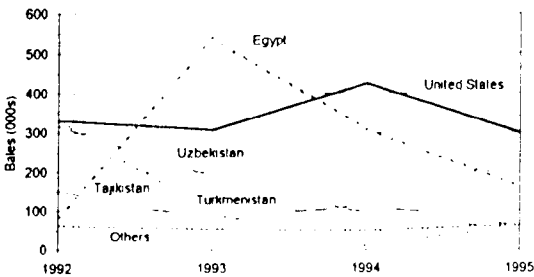
Listed in 480 lb. bales.  
 \*Supima estimate.

### WORLD ELS PRODUCTION, CONSUMPTION & STOCKS 1989-1995



Listed in 480 lb. bales (millions).  
 Source: ICAC, Nov. 1995.

### WORLD ELS EXPORTERS 1992-1995



Source: ICAC, Nov. 1995.  
 Listed in 480 lb. bales.