

COTTON SUPPLY BY TYPE
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Abstract

World cotton production is expected to rise by almost 9% to exceed 21 million tons for the first time in 2001/02, while world exports are forecast to increase by 6% to reach 6.1 million tons. However, evolution of the supply and of the exports of the different types of cottons varies considerably from one category to the other.

Introduction

Statistics on world cotton supply can be organized into six categories based on commonly perceived competitive relationships between cottons of differing quality, variety and geographic origins. The reason to disaggregate the total supply into subcategories, or types, is that the outlook for the supply and demand of a particular type of cotton can be different from the situation facing the cotton industry as a whole. Cotton is traded according to its type, meaning that the prices of cottons of similar fiber properties tend to be equivalent at a particular location and time. Cottons within a given type are presumably close substitutes for each other as raw material for the textile industry. The region of origin, variety, staple length and grade are used in classifying cottons according to their types, and a general nomenclature used in classifying the world's cottons has been developed over a period of years. This nomenclature appears frequently in cotton industry publications, and Cotlook Ltd. pioneered the basic concepts, in conjunction with others in the cotton industry.

The categories of cotton by type include waste/padding, coarse count, medium, high medium, fine and extra-fine. The categories are roughly parallel to staple length categories, but are designed to incorporate more than just staple length information because two cottons of equal length might actually have significantly different spinning characteristics. The six types are designed to account for the full breadth of world cotton production and to correspond to the major types of yarn produced. Spinners blend different types of cotton to produce yarns of given specifications at the lowest cost. Consequently, small amounts of any type of cotton can appear in almost any yarn count. However, there are central tendencies or uses for particular types of cotton, which are more common than others. The six types listed here are intended to capture the major uses.

The waste/padding category accounts for cotton of such short staple length or low quality that it would rarely be used in the production of yarn. Alternative uses include padding, paper, medical uses and the production of cellulosic yarn. Some cotton is destroyed each year. The waste/padding category typically accounts for less than 5% of the world supply and less than 1% of exports.

Production and Stocks of Extra-fine Cotton Rising Sharply in 2001/02

The supply of extra-fine cotton, also called extra-long staple and long staple cottons has fallen from 5% of the world total in the early 1990s to around 3% currently because of reduced production in Central Asia and Egypt. World consumption of extra-fine cotton was higher in the 1980s and early 1990s. The largest producers and exporters of extra-fine cotton are Egypt and the USA. Extra-fine cotton is also produced in India, Xinjiang, Sudan, Central Asia, Israel, Peru, Australia, Morocco, Yemen and the Caribbean. The extra-fine market is a niche, accounting for 3% of the world total, largely independent from the other segments of the cotton market.

World production of extra-fine cotton is expected to increase by almost 200,000 tons, or 39%, to surpass 700,000 tons in 2001/02. Extra-fine cotton production represents 3.4% of total estimated world production, up from 2.6% last season. Production in Egypt is rising to 300,000 tons in 2001/02, up 48% from last season, the lowest crop since 1943/44. Production of U.S. Pima will reach 137,000 tons, up 61% from 2000/01.

Exports of extra-fine cotton in 2001/02 are expected to increase by 45,000 tons (18%) to 280,000 tons, or 39% of the production. Shipments of Egyptian extra-fine cotton are expected to rise to 110,000 tons in 2001/02, while U.S. Pima exports are forecast down from 95,000 to 87,000 tons.

Consumption of extra-fine cotton in producing countries is projected to increase to 387,000 tons in 2001/02, up 16,000 tons, or 4%, from last season. Nevertheless, ending stocks in producing countries are estimated to reach 390,000 tons, up from 262,000 tons at the beginning of this season.

The increase in production this season is a result of the increase in prices of extra-fine cotton relative to the Cotlook A Index due to an unusual tight market situation in 2000/01. Premiums for extra-fine cotton over the Cotlook A Index rose during 2000/01, as prices for upland cotton fell much faster. The extra-fine premium, which averaged 85% in 1998/99 and 1999/00, reached 100% last season. The expectation of increased production and higher ending stocks is putting a downward pressure on extra-fine prices. Nevertheless, the ratio between the U.S. Pima price and the Cotlook A Index reached a record high of 183% by the end of October.

Fine Cotton Supply Stable in 2001/02

The fine cotton proportion of the world total increased in the 1990s and is now about 10% because of expanded irrigated production in West China. World fine cotton production averaged 1.8 million tons per year between 1996/97 and 2000/01, and exports averaged 700,000 tons, or about two-fifths of production. China (Mainland), USA, India, and Australia are the largest fine cotton producers, while the USA is also the largest exporter. In recent years, Acala production in the San Joaquin Valley of California (SJV) has accounted for about one-third of world exports in the fine category.

World production of fine cotton is estimated to remain at 2 million tons in 2001/02, slightly under 10% of the overall production. Increases in production in China (Mainland), to more than 500,000 tons, will be offset by an estimated 80,000-ton reduction in the output of California SJV, down to 385,000 tons.

Exports of fine cotton are forecast to decline by almost 150,000 tons in 2001/02 to an estimated 800,000 tons, 40% of production. Fine cotton will account for 13% of total exports. Shipments from Australia are expected to decline from a record of 340,000 tons in 2000/01 to 250,000 tons in 2001/02. Exports from the USA are estimated at about 315,000 tons, down from 365,000 tons in 2000/01.

Consumption and stocks of fine cotton in the producing countries are expected to remain stable in 2001/02.

Fine cotton prices, as represented by U.S. SJV quotes in *Cotton Outlook*, declined by 34 cents per pound from 78 cents per pound in December 2000 to 44 cents at the end of October 2001, a 44%-decline. The premium for fine cotton over the Cotlook A Index declined from 12 cents per pound to 9 cents per pound during the period. However, relative premiums for fine cotton over the Cotlook A Index rose from 15% during the first half of 2001 to 28% in November 2001, reflecting a tighter supply and demand situation in this category than in the medium category.

High-Medium Supply Soaring

High-medium cotton production averaged 2.8 million tons between 1996/97 and 2000/01, with the largest producers being China (Mainland), India, Francophone Africa and Uzbekistan. Exports of high-medium cotton averaged 1.7 million tons per year, or about 60% of world production of high-medium cotton during the last five seasons. India, China (Mainland) and Turkey are the largest consumers of high-medium cottons.

Production of high-medium cotton is estimated at 3.35 million tons in 2001/02, about 250,000 tons, or 8%, more than last season and 16% of the overall world production. Production is expected to increase by 100,000 tons in China (Mainland) to 600,000 tons, and in Francophone Africa close to 500,000 tons, while output is forecast to decline in Australia.

Exports of high-medium cotton are estimated to decline by 75,000 tons in 2001/02 to 1.5 million tons, 45% of the production. Medium cotton will account for 25% of the world exports. Exports from Francophone Africa are estimated to increase to 410,000 tons, up 50,000 tons, while shipments from Uzbekistan and Australia are forecast to decline to 280,000 tons and 250,000 tons, respectively. U.S. exports of high-medium cotton will decrease slightly to 175,000 tons.

Stocks of high-medium cotton in the producing countries are expected to increase by some 200,000 tons.

Between December 2000 and the end of October 2001, high-medium prices, as represented by *Cotton Outlook* quotes for U.S. California/Arizona, Australian Middling and Francophone Africa Strict Middling cottons declined by 31 cents per pound, from 71 cents per pound to 40 cents per pound. The premium for high-medium cotton over the Cotlook A Index remained at 5 cents per pound. Thus, the relative premium increased from 8% to 14%.

Supply of Medium Cotton at Record-Level

The medium category includes the 16 growths used to calculate the Cotlook A Index. Medium cotton production amounts to approximately six million tons per year, with exports typically accounting for less than two million tons. The largest medium

cotton producer is the USA, and the largest exports are from the USA, Uzbekistan, Francophone Africa and Greece. China (Mainland), the USA and India are the largest consumers of medium cotton.

World production of medium cotton is expected to rise sharply, by 15% or 900,000 tons, climbing to a record of almost 7.6 million tons in 2001/02, 36% of the overall production. Most of the increase, 600,000 tons, will occur in the Memphis and Southeast regions of the USA, where production is forecast to reach 2.7 millions tons. Production is also expected to rise in China (Mainland), India and in Francophone Africa.

Exports of medium cotton are forecast to rise by 550,000 tons (29%) to 2.45 million tons, 32% of the production. Medium cotton will account for 40% of the world exports. Exports from the United States are expected to more than double to close to 1,000,000 tons, 40% of total medium exports. Shipments from Francophone Africa are forecast to increase by 50,000 tons to over 300,000 tons, surpassing those from Uzbekistan, which are expected to decline below 300,000 tons.

As consumption of medium cotton is not expected to increase in the producing countries, ending stocks are forecast to increase by some 600,000 tons.

The Cotlook A Index dropped 31 cents, a 47%-decline, from 66 cents per pound at the end of last year to 35 cents per pound at the end of October, the lowest since early November 1972. In real terms, when adjusted for inflation, international cotton prices were actually at a record low, since 35 cents in 1972 is equivalent to \$1.23 today. The outlook for supply and demand in the medium category is likely to continue to put downward pressure on the Cotlook A Index.

Coarse Count Cotton Supply Rising Slightly

World production of coarse-count cotton fell as a percentage of the world total during the 1990s and now represents about one-third. Coarse-count cotton production averaged six million tons per year in recent years, while exports accounted for an average of one million tons, or one-sixth of production. The largest producers and consumers of coarse count cottons are China (Mainland) and Pakistan and the USA is by far the largest exporter.

World production of coarse count cotton is expected to rise by 3%, up 175,000 tons from last season to about 6.6 million tons in 2001/02, 31.5% of the overall production. Most of the increase will take place in China (Mainland) where production will climb well over 2 million tons.

World exports of coarse count cotton are expected to increase by some 25,000 tons (3%), to 875,000 tons, 13% of the production. Coarse count cotton will account for 14% of the world exports. U.S. exports of coarse cotton are expected to rise by 23% to 50% of the total.

Consumption of coarse count cotton in the producing countries is not expected to increase. As a result, stocks of coarse count cotton in the producing countries are forecast to increase by some 300,000 tons.

The Cotlook B Index averaged 53.70 cents per pound in 2000/01, compared with 49.55 cents per pound in 1999/00. The difference between the average Cotlook A and B Indices was 3.5 cents per pound in 2000/01. Prices for coarse count cotton, as represented by the Cotlook B Index, declined with those of finer cottons, losing 30 cents, or 48%, from 62 cents per pound by the end of December 2000 to 32 cents per pound by the end of October 2001. However, the Cotlook B Index is more indicative of spot prices and less stable than the A index because it is the average of only three cheapest quotes of eight styles.

Summary and Conclusions

World cotton production is expected to increase by 9% in 2001/02 while exports are forecast to rise by 6%. However, the outlook for the supply and demand of the major types of cotton is very different from the situation facing the cotton industry as a whole. Production of extra-fine cotton is expected to rise by 39% while no increase is anticipated in the production of fine cotton. Increases of 15% and 8% are expected in the production of high-medium and medium cottons, respectively. Together, the high-medium and medium categories will account for 52% of the world's cotton production. A 3%-increase is forecast in the coarse cotton category.

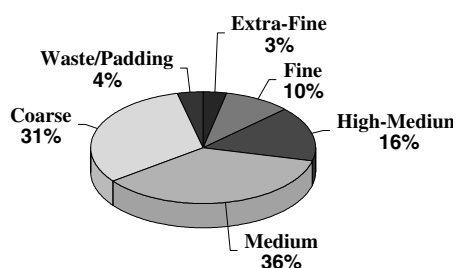
The changes in exports range between an 18%-decline in the fine category to a 27%-increase in the medium category. Exports of high-medium cottons are expected to decline by 5%, while those of coarse and extra-fine cottons would increase by 3% and 12%, respectively.

Those differences in the outlook for the supply and demand are not exactly reflected in the fluctuations in the prices for the various types, as cotton prices tend to move in parallel with relatively little changes in their basis to the benchmark Cotlook A Index.

Table 1. World cotton production and exports by type

| | Extra-fine | Fine | High-med | Medium | Coarse | Waste | Total |
|------------------------|------------|-------|----------|--------|--------|-------|--------|
| (thousand metric tons) | | | | | | | |
| 2000/01 | | | | | | | |
| Production | 510 | 2,025 | 3,100 | 6,600 | 6,450 | 693 | 19,378 |
| % of total | 3% | 10% | 16% | 34% | 33% | 4% | 100% |
| Exports | 235 | 975 | 1,625 | 1,975 | 875 | 52 | 5,737 |
| % of total | 4% | 17% | 28% | 34% | 15% | 1% | 100% |
| % of prod. | 46% | 48% | 52% | 30% | 14% | 8% | 30% |
| 2001/02 | | | | | | | |
| (thousand metric tons) | | | | | | | |
| Production | 710 | 2,015 | 3,350 | 7,575 | 6,625 | 781 | 21,056 |
| % of total | 3% | 10% | 16% | 36% | 31% | 4% | 100% |
| % change | 39% | 0% | 8% | 15% | 3% | 13% | 9% |
| Exports | 280 | 800 | 1,550 | 2,500 | 900 | 58 | 6,088 |
| % of total | 5% | 13% | 25% | 41% | 15% | 1% | 100% |
| % of prod. | 39% | 40% | 46% | 33% | 14% | 7% | 29% |
| % change | 19% | -18% | -5% | 27% | 3% | 12% | 6% |

**WORLD COTTON PRODUCTION
BY TYPE - 2001/02**



**WORLD COTTON EXPORTS
BY TYPE - 2001/02**

