

THE LATEST TRENDS IN MARKETING U.S. PIMA AND GLOBAL ELS COTTONS

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Abstract

Extra-long staple (ELS) cotton marketing has moved into the mainstream over the past 10 years as more textile mills have transitioned into higher count, better quality yarns and fabrics in order to differentiate themselves.

Introduction

Entering the new century, the United States and Egypt solidified themselves as the leading suppliers of this special type of cotton. As U.S. Pima production continued its shift to California, which consistently accounts for more than 90% of the country's output, Egypt continued efforts to open up its market to a more free trade practice. Much like its counterparts in America, Egyptian cotton exporters began to negotiate prices with buyers and mills as opposed to the long-standing practice of setting a fixed price. Official prices are still set, but can be changed on a weekly basis. Additionally, those 'set' prices are subject to negotiation as well. The Egyptian government continues its role in subsidizing some production costs for cotton growers and has assisted in bolstering promotional efforts of Egyptian cotton and Egyptian cotton-made products around the world.

Aiding the U.S. Pima industry is a Step 2 program authorized by Congress in 1999 and reinstated in the spring of 2002 with the passage of a new Farm Bill. The ELS Competitiveness Payment Program was designed to keep U.S. Pima exporters and ELS-consuming domestic mills competitive during times of perceived unfair competition. Its emerging role in global marketing of ELS cotton took center stage in the 2002/03 season as total ELS cotton exports reached their highest level in decades.

As Egypt continued to cut prices to unprecedented levels during the 2002/03 marketing year, the Pima Step 2 payment rate rose proportionately, peaking in late-December (2002) at just less than 18 cents per pound. This enabled Pima shippers to reduce their export offering prices and stay competitive with their Egyptian counterparts. Egypt found itself in a difficult situation as the Pima Step 2 payment rate increased each time it cut its official overseas price. The longest cycle of U.S. Pima Step 2 payments finally ended May 30, 2003 after 68 consecutive weeks and an estimated payout of more than \$25 million. The end result was a record-high season total of U.S. Pima exports and total offtake.

Discussion

Step 2 Program Changes Dynamics

The 2002/03 marketing season served as an example of what can happen when everything falls into place for Pima and ELS cotton marketing. The U.S. & Egypt entered the season with extremely high beginning stocks, added to the supply with large production and watched as prices fell to all-time lows. The result was the two exporting countries combined to sell the most ELS cotton they have ever sold in a single season; about 1.4 million (480-lb.) bales. What looked to be a supply large enough to take as long as two seasons to sell off, quickly disappeared in a period of about 12 months.

Marketing conditions quickly swung from one extreme to the other as declining inventory was met with greatly reduced production in 2003 as both the U.S. and Egypt got off to poor starts at planting time. By the time harvest came in, production of both Egyptian and American Pima were down by about 35% in 2003. And as it became clear by spring that production would be sharply reduced, coupled with declining inventory, prices began to move up. However, because step Pima payments were continuing into May of 2003 for a 16th consecutive month, overseas textile mills did not want to get anxious about contracting too far in advance. The previous practice of forward purchasing at least some percentage of new crop needs became less appealing to many mills from a number of countries. With that in mind, less than 90,000 bales of American Pima export sales were on the books as of August 1, 2003, compared to more than 150,000 bales a year earlier, 195,000 bales a year before that, and 250,000 bales the previous year at that time. No longer do buyers feel it worth the risk to get too far out ahead in purchasing of American Pima cotton if there is a chance that step 2 payments are triggered during harvest time. The Pima step 2 program has been paying out during each of the last two harvest seasons, from October 3 through December 18 last month, and from February 2002 through the end of May 2003 during the previous cycle. Other than covering minimal early season requirements, most mills likely will be inclined to sit tight through much of the spring and perhaps summer if they feel there is a chance in the fall for lower prices because of Step 2 payments.

World Producers React to Supply Swings

Mills, however, will have to keep an eye on supply as global ELS cotton producers are expected to enter the new 2004/05 marketing season with the tightest inventory in recent history. World ELS cotton production fell in 2003 to 2.6 million (480-

lb.) bales, the lowest output in five years, and 19% less than the 2002 crop. And though prices rose considerably in 2003/04 compared to the previous marketing year, total ELS cotton exports are expected to finish the 2003/04 season as the second highest total in more than 10 years, and just 8% less than the record-high total established in 2002/03. Ending stocks this summer are projected by the International Cotton Advisory Committee to be less than 900,000 (480-lb.) bales, the lowest level in 10 years. Egypt and the U.S. could have less than 300,000 (480-lb.) bales remaining between the two of them.

Production of ELS cotton will undoubtedly be higher in 2004, but most private estimates do not show the increase to be equal to the production decrease seen in 2003. Consequently, it is very likely that total ELS cotton supply in 2004/05 will come in below the total available supply from 2003/04. Growers in the U.S., particularly in California, are expected to increase Pima acreage by as much as 50%. Such an increase would likely produce a total U.S. Pima crop of about 625,000 (480-lb.) bales, which, combined with expected beginning stocks, would again provide a total Pima supply that is less than the previous season total. Prospective Pima plantings are purely speculation this early, as many factors will ultimately determine final planted Pima acres this spring. We saw acres reduced last year as a result of poor weather at planting time, so that component will play a key role again this year, as will the price spread between Pima and Acala in California.

Summary

Record-low prices in 2002/03 led to sharply increased consumption and market share for ELS cotton that season. But surprisingly, a year later both consumption and market share held up well, despite a sharp increase in prices paid by spinning mills. China has emerged as a strong customer for American Pima cotton, but South Asia is expected to continue to increase its lead role in importing Pima and other ELS cottons. A year ago we never would have expected to follow a record-high export total of 2 million bales globally with a total of just less than 1.9 million bales, but it has happened. World consumption of ELS cotton has legs, and suppliers will continue to respond to that demand. What remains to be seen is how mills' resistance to early season purchasing impacts grower decisions, especially in the U.S., to plant Pima.

Conclusions

- The United States & Egypt will remain the leading exporters of ELS cotton.
- The Pima Step 2 Program will continue to play an integral part in marketing U.S. Pima and Egyptian cotton, impacting the strategies of both the exporters as well as the purchasing textile mills.
- U.S. Pima producers may find it more difficult to forward contract as much as they'd like to ahead of harvest.
- U.S. Pima marketing expectations remain high for 2004/05 because of relatively tight supply.

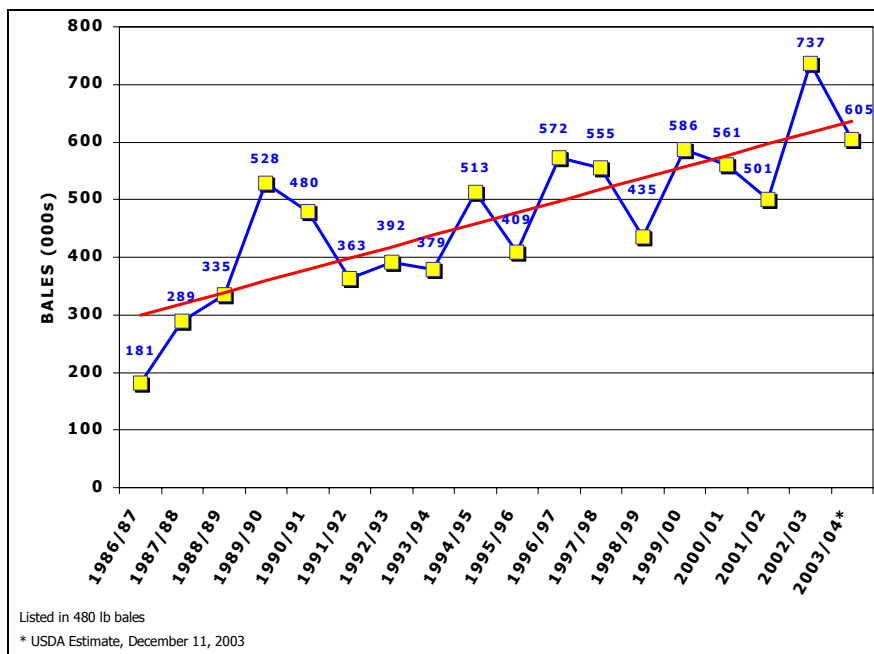


Figure 1. US Pima Total Offtake.

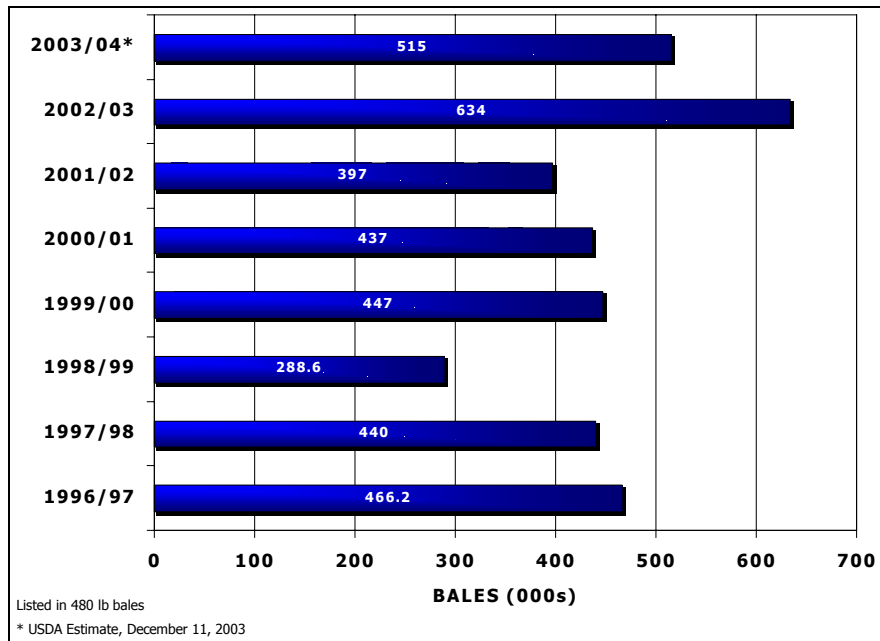


Figure 2. US Pima Exports.

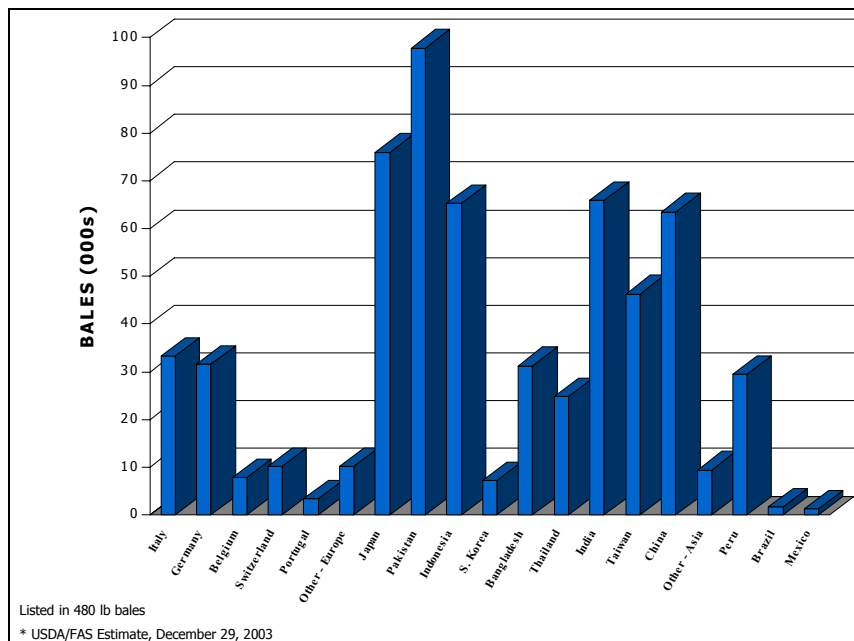


Figure 3. 2002/03 US Pima Importers.

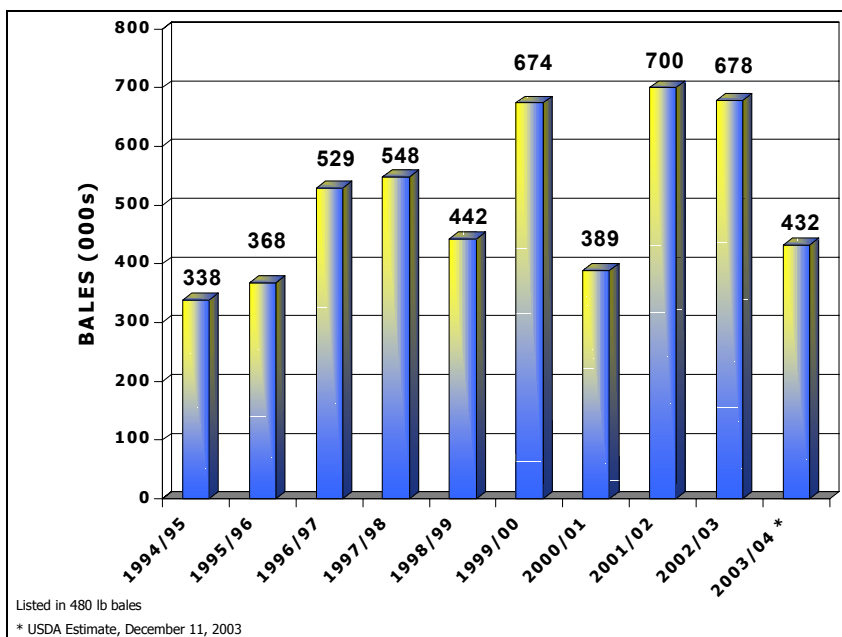


Figure 4. US Pima Production.

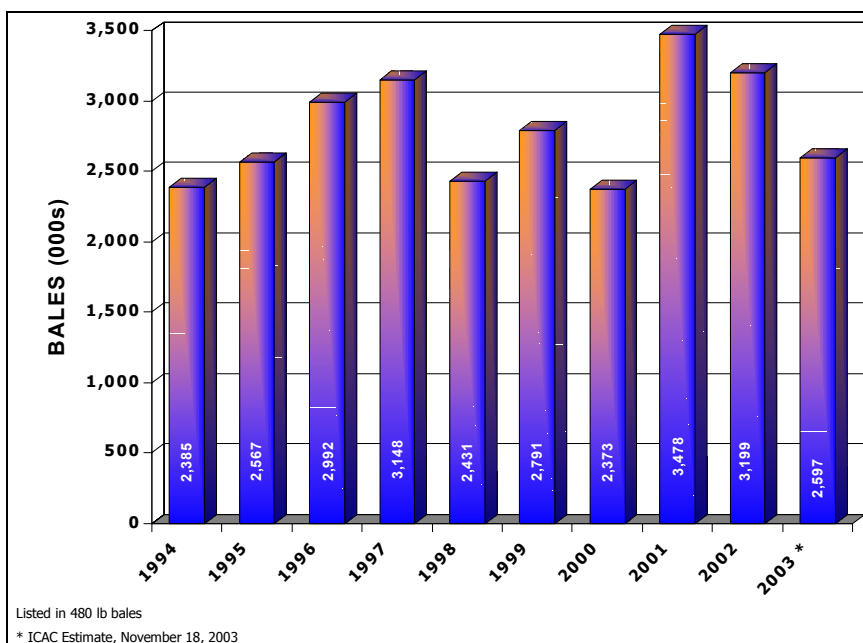


Figure 5. World ELS Production.

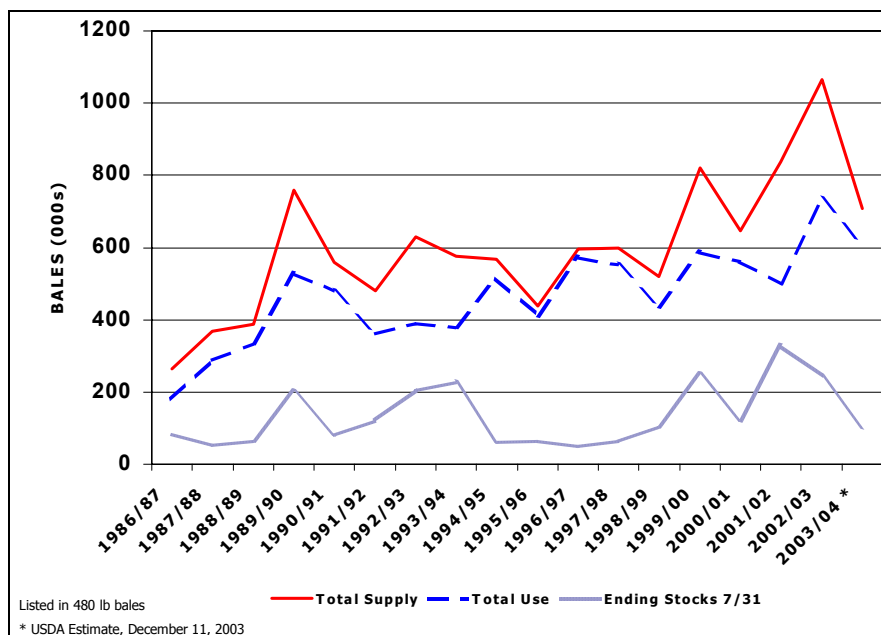


Figure 6. US Pima Ending Stocks vs. Supply and Use.

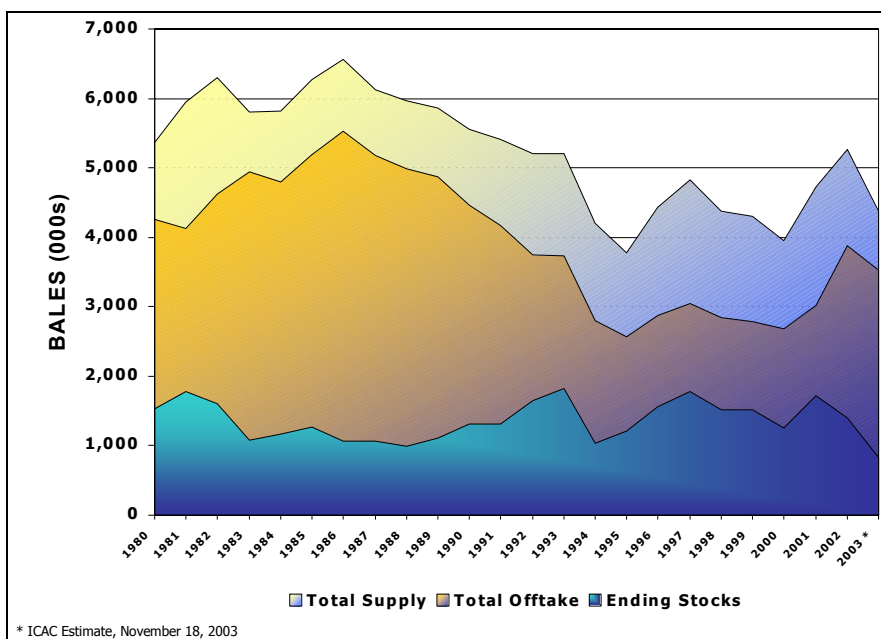


Figure 7. World ELS Supply, Use, and Stocks.

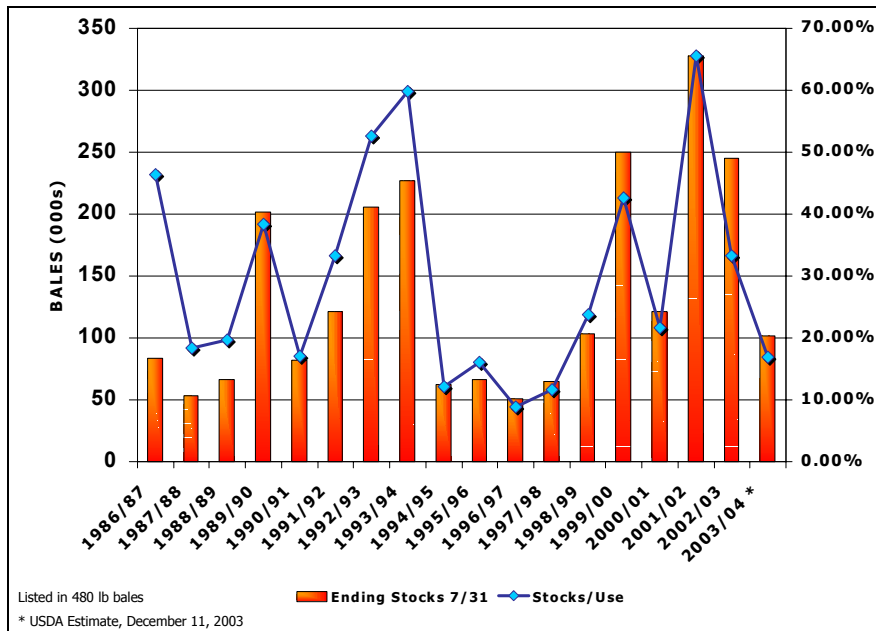


Figure 8. US Pima Ending Stocks vs. Stocks/Use Ratio.

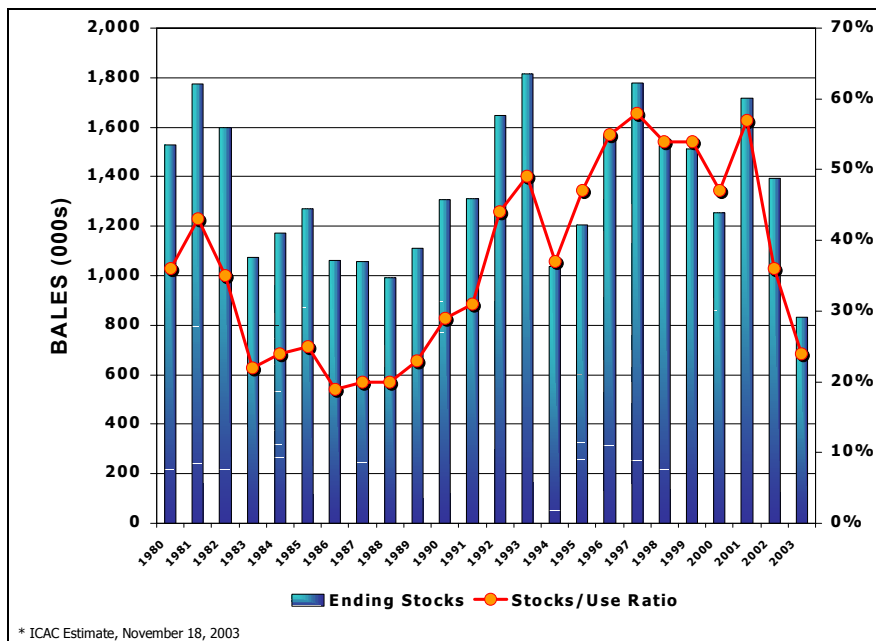


Figure 9. World ELS Ending Stocks vs. Stocks/Use Ratio.