

US government estimates lower cotton supply

November 11, 2010 (USA)



The United States Department of Agriculture (USDA) on Tuesday, November 9th projected lower global cotton production, consumption and ending stocks for 2010/11. The supply constraint was greeted by the market with a 500 point upward rally in the New York ICE Futures for December shipment. The New York ICE Future settled at \$1.512/pound with an increase of 5 cents since last settlement.

USDA's November 9th report projects the global production of all cotton to be 115.25 million bales of 480 pounds each. This is 1.43 million bales less than the

October estimate of 116.68 million bales of 480 pounds each. Production losses are estimated in two big guns, i.e., USA and China. The United States' production of all cottons is estimated at 18.42 million bales as against the October estimate of 18.87 million bales. There is a reduction of 450,000 bales from the last month's projection. Year ending stock in the U.S. will be reduced by half million bales from the October data resulting in a stock of 2.2 million bales. This is the lowest year ending stock in the U.S. since 1925.

World's number 2 cotton producer, India is estimated to produce 26 million bales of 480 pounds each. Interestingly, this number remains unchanged from the previous estimate in October. China which is a serious player in the cotton trade is estimated to lose 1.5 million bales and is now projected to produce 30 million bales.

In the United States, the State of Texas, which is the number one cotton producer will have its production reduced and is now projected to output 8.3 million bales of upland cotton. In 2009, total Texas production was 4.62 million bales. Within Texas, the High Plains area which represents 41 counties will have its crop output reduced by 5.9% from the previous estimate of 6.1 million bales. Now, the High Plains area which represents 4% of global output is expected to produce 5.74 million bales of upland cotton.

As predicted by the staff of Lubbock, Texas based Plains Cotton Growers, Inc., this estimated output is higher than the 2005 record crop of 5.6 million bales from this area. The bad weather in October in High Plains would have contributed to the loss. However, the new estimate for High Plains production is far higher than the 2009 production of 3.5 million bales.

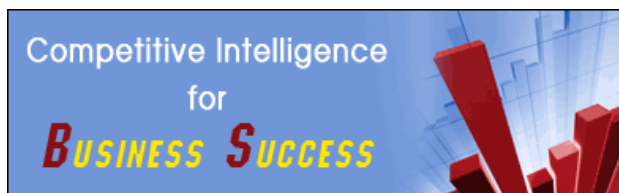
Supply squeeze due to lowered beginning stock and production will be a serious concern for the global textile industry, which will ride the cotton price over the roof. With Cotlook A Index at \$1.66 per pound on Tuesday, November 9th, market fundamentals are strongly pushing the cotton price to new heights.

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