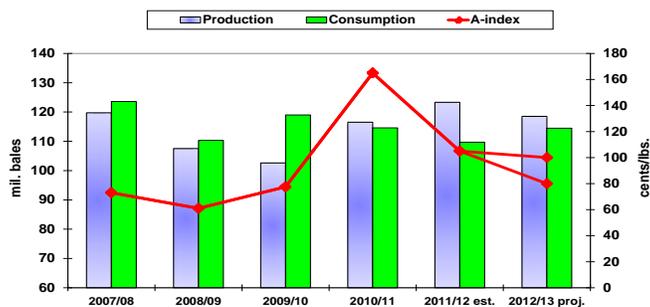


## THE WORLD AND UNITED STATES COTTON OUTLOOK

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### Introduction

#### World Production, Consumption, and Prices 2007/08 through 2012/13 projection



USDA's world cotton outlook shows stocks rising in 2012/13 for the third consecutive season, largely as a result of continuing market and policy repercussions from the record cotton prices of early 2011. World production for 2011/12 has reached a record 123 million bales, as output expanded in nearly all cotton-producing countries except the United States. At the same time, world consumption has fallen sharply—by 4 percent for the second consecutive season—due not only to macroeconomic uncertainties, but also to substantial shifts from cotton to polyester in textiles. And perhaps most problematic for the 2012/13 projections, China's government has responded by supporting domestic prices well above world market-clearing levels, in an effort to create buffer stocks for protection from future price volatility. The China government-owned reserve is expected to hold about one-fourth of world stocks on July 31, 2012.

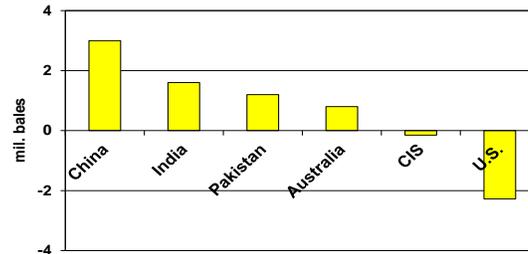
World production is projected to fall and consumption to rise in 2012/13, but supply is still expected to exceed demand, raising stocks further and pressuring prices. Early season projections are inherently uncertain due to the difficulty of predicting market and weather developments. However, for 2012/13, these uncertainties are exacerbated by the unknowns associated with the further accumulation and/or release of reserve stocks by China. Since China's policies affecting the 2012/13 season have not been announced, this paper assumes a continuation of the current floor price, with reserve release as needed to rotate stocks and provide adequate supplies to mills in the pre-harvest periods of 2012 and 2013.

U.S. producers are projected to reduce planted area by about 10 percent in 2012 in response to lower cotton prices relative to alternative crops. However, a partial easing of the drought in the Southwest is assumed, reducing abandonment and raising production above 2011/12.

## World Cotton Situation, 2011/12

### World Cotton Production, 2011/12

**Estimated Changes in World Production,  
2011/12 compared with 2010/11**



World 2011/12 cotton production is estimated at a record 123.3 million bales, an increase of 6 percent from the preceding year and the second consecutive rise in output since the recession-induced low of 103 million bales in 2009/10. The record global production was driven by record cotton prices in early 2011 combined with favorable weather in most producing countries. Global 2011/12 harvested area is estimated at a record 35.7 million hectares, 7 percent above the previous year. Global cotton yield in 2011/12 is estimated at 752 kg/hectare, about unchanged from 2010/11.

China, the world's leading cotton producer, is estimated to grow 33.5 million bales in 2011/12, a 10-percent rebound from last season, ending the downward trend that began in 2008/09. A combination of higher producer prices for the 2010 crop and favorable weather conditions is expected to result in China's production recovery. Nonetheless, the rising cost of labor and China's subsidies for grain production remain significant constraints on China's output potential. China's 2011/12 harvested area is estimated at 5.5 million hectares, up 7 percent from the previous year. China's 2011/12 cotton yield is estimated at 1,326 kg/hectare in 2011/12, up 3 percent from the previous year.

India's 2011/12 production is estimated at 27.0 million bales, on record planted area combined with reduced yields owing to an early end to the monsoon in Maharashtra and Andhra Pradesh. If realized, the 2011 crop will be an all-time high for India, accounting for 22 percent of global output. Nearly three-quarters of India's cotton production is rainfed and thus vulnerable to variations in the annual monsoon. India's area harvested is estimated at a record 12.2 million hectares, up 10 percent from the preceding year due to attractive prices.

Pakistan, the world's fourth largest cotton grower, is expected to produce 10.4 million bales in 2011/12, an increase of 18 percent from the flood-damaged 2010 crop and the largest production in seven years. This will raise Pakistan's share of world production to 8 percent. Production occurs in the nation's Punjab and Sindh provinces, which account for 80 percent and 20 percent,

respectively, of the total crop. Pakistan's 2011/12 area harvested is estimated at 3.2 million hectares, representing a 14-percent increase from the preceding year.

Brazil is estimated to produce 9.0 million bales in 2011/12, unchanged from last season's record crop. Rising cotton prices in recent years have spurred investment in production, area expansion, and forward sales. As a southern hemisphere country, Brazil benefits from market intelligence about northern hemisphere supplies due to an almost six-month differential in the cultivation and trading calendar. The largest cotton producer in South America is expected to cultivate 1.4 million hectares in 2011/12, the same as the preceding year. Mato Grosso and Bahia, the largest cotton growing states, are estimated to account for more than 80 percent of the crop.

Central Asia's 2011/12 crop is estimated at 6.8 million bales, about even with last year. Harvested area in the region is estimated at 2.3 million hectares, unchanged from the last season. Uzbekistan, the largest cotton producer in the region, is expected to grow 4.2 million bales, an increase of 2 percent from the previous year. Turkmenistan is the only country in the region whose production is expected to decline (20 percent), resulting in an estimated 2011/12 crop of 1.4 million bales.

Australia's 2011/12 crop is forecast at a record 5.0 million bales, up 19 percent from the preceding year, as favorable market prices and much-improved water supplies have encouraged producers to expand area. Australia's harvested area in 2011/12 is estimated at 600,000 hectares, up 2 percent from the previous year. Yield is estimated to rise 17 percent to 1,814 kg/hectare, due to a larger proportion of irrigated area relative to dryland.

#### World Cotton Consumption and Prices, 2011/12

##### **World Cotton Supply and Demand 2010/11 and 2011/12 est.**

	<b>Unit</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Change</b>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>45.3</b>	<b>47.0</b>	<b>3.8</b>
<b>Production</b>	<b>"</b>	<b>116.5</b>	<b>123.3</b>	<b>5.8</b>
<b>Imports</b>	<b>"</b>	<b>35.7</b>	<b>37.4</b>	<b>4.8</b>
<b>Total supply</b>	<b>"</b>	<b>197.4</b>	<b>207.8</b>	<b>5.3</b>
<b>Consumption</b>	<b>"</b>	<b>114.6</b>	<b>109.7</b>	<b>-4.3</b>
<b>Exports</b>	<b>"</b>	<b>35.7</b>	<b>37.4</b>	<b>4.8</b>
<b>Total use</b>	<b>"</b>	<b>150.4</b>	<b>147.1</b>	<b>-2.2</b>
<b>Ending stocks</b>	<b>"</b>	<b>47.0</b>	<b>60.8</b>	<b>29.4</b>
<b>Stocks-to-consumption</b>	<b>%</b>	<b>41.0</b>	<b>55.4</b>	<b>35.1</b>

World cotton consumption is expected to decline by about 4 percent in 2011/12 for the second consecutive year. Consumption is constrained by a slowing world economy, the lagged effects

of 2011's virtually unprecedented increase in cotton prices, and by an extraordinary volume of cotton purchases by China's government as it rebuilds its official reserves.

World economic growth in calendar 2012 is forecast by the International Monetary Fund at 3.3 percent, down slightly from 2011. By comparison, in 2010, the world economy expanded by 5.2 percent as it rebounded from the initial shock of the global financial crisis and world cotton consumption grew strongly. Median annual growth during the first decade of this century was 4.1 percent, so the world economy is relatively weak for the 2011/12 marketing year. Economic growth in both China and India, the world's largest cotton spinners, is expected to slow slightly in calendar 2012. However, Europe is the locus of greatest concern and, after a 1.6-percent expansion in 2011, a 0.5-percent contraction is foreseen for the Eurozone in 2012.

### Cotton Prices High Relative to Polyester in 2010/11

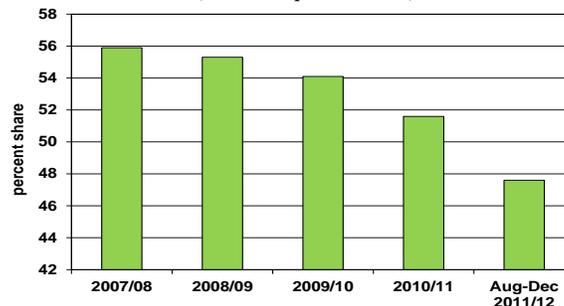


Sources: cncotton.com (polyester), chinacotton.org (cotton, CC328)

Cotton prices in 2010/11 reached extraordinary levels, and the resulting adjustments downstream along the supply chain for clothing and other textiles continue to affect mill use in 2011/12. The A-Index (adjusted for trade volumes and inflation) rose at least 75 percent from the year before in 2010/11, compared with the next largest increase of 57 percent in 1973/74. This followed a 27-percent increase in 2009/10. Polyester prices rose as well, but not to the same extent, and cotton has lost share in the competition between fibers. U.S. textile import data for the first 5 months of the marketing year confirms this, with cotton's share of U.S. textile imports down 4 percentage points from the 2010/11 average, to just under 48 percent.

### Cotton's Share of U.S. Textile Imports, 2007/08 to Aug-Dec 2011/12

(raw fiber equivalent basis)



Amid concerns about extreme price volatility and the depletion of government-held reserve stocks in the fall of 2010, China's government announced a program to support farm prices and production in April 2011. The program consists of an open-ended commitment to purchase cotton for the state reserve through March 2012 whenever prices fall below the established floor of 19,800 renminbi/ton, about \$1.42/pound at current exchange rates. With world prices well below the reserve purchase price, nearly 2.5 million metric tons (11.4 million bales) of domestic cotton were purchased for the reserve before the Chinese New Year began in late January, accounting for more than one-third of China's production; in addition, an estimated 3-5 million bales of foreign cotton have been purchased for the reserve. Total acquisitions by the China reserve equal nearly 15 percent of the world's expected consumption of cotton for 2011/12; thus, competition from China's reserve purchases is raising world prices and hindering the capacity of the global textile industry to acquire cotton for spinning.

Early-season indicators of global mill use have been weaker to date than the 3.8-percent consumption decline expected for the year overall. Apparent final consumption (end-use) in the United States during the first 5 months of the marketing year (Aug.-Dec.) is down 20 percent from the year before. India's cotton consumption to date (Aug.-Nov.) reported by the Textile Commissioner's Office is down 13 percent. China's net cotton textile exports through December are estimated by USDA to be 6 percent lower.

Year-to-year comparisons for the first part of 2011/12 are to some extent distorted by the unusual strength of demand that prevailed early in the 2010/11 marketing year, when the world economy was rebounding from the previous year's economic crisis. In the case of U.S. end-use and China's textile trade, a negligible increase in average activity rates during the remainder of the marketing year (0.6 to 3.0 percent) would suffice to result in a 4-percent decline for the year overall. With the likely completion of China's stocks acquisition, the need to replenish yarn inventories, and continued economic growth for the remainder of the year, such an improvement is the most likely outcome. Continued economic deterioration is a downside risk, but this is offset by upside risks to the forecasts likely in the response to other factors, such as the decline in cotton's price. The A-Index, which averaged \$1.65 per pound in 2010/11, fell sharply during the period of March-December 2011 and has recently stabilized at just above \$1.00.

2011/12 China Supply and Demand**China Cotton Supply and Demand  
2010/11 and 2011/12 est.**

	<b>Unit</b>	<b>2010/11</b>	<b>2011/12</b>	<b>Change</b>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>15.2</b>	<b>11.6</b>	<b>-23.7</b>
<b>Production</b>	<b>"</b>	<b>30.5</b>	<b>33.5</b>	<b>9.8</b>
<b>Imports</b>	<b>"</b>	<b>12.0</b>	<b>17.0</b>	<b>41.7</b>
<b>Total supply</b>	<b>"</b>	<b>57.7</b>	<b>62.1</b>	<b>7.6</b>
<b>Consumption</b>	<b>"</b>	<b>46.0</b>	<b>44.0</b>	<b>-4.3</b>
<b>Exports</b>	<b>"</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
<b>Total use</b>	<b>"</b>	<b>46.1</b>	<b>44.1</b>	<b>-4.3</b>
<b>Ending stocks</b>	<b>"</b>	<b>11.6</b>	<b>18.1</b>	<b>56.0</b>
<b>Stocks-to-use</b>	<b>%</b>	<b>25.2</b>	<b>41.0</b>	<b>62.7</b>

China's higher 2011-crop production is insufficient to offset the sharp decline in beginning stocks, with the result that 2011/12 domestic supplies are tightening. Perhaps more significant, the government's reserve stocks policy is placing constraints on supplies available to mills and boosting demand for imports.

China's total 2011/12 imports are forecast to rise 5 million bales to 17.0 million bales, the second-highest on record. China's stocks on July 31, 2012 are currently projected to rise more than 50 percent to 18.1 million bales. To date the government has not announced a policy for release of stocks from the reserve, so the disposition is currently unknown. While some reserve stocks are likely to be released as free stocks tighten ahead of the 2012 harvest, most of China's stocks on July 31, 2012 are likely to be held in the China national reserve.

2011/12 World Trade and Ending Stocks

China's higher import demand is expected to outweigh an estimated 14-percent decrease in world imports outside of China, which is largely the result of declining mill demand. World ending stocks in 2011/12 are forecast to increase about 14 million bales to nearly 61 million, the largest single year increase in over 25 years. China will capture nearly half of the total increase because of the government's decision to rebuild reserves, and about one-fourth of global stocks may be held in the China reserve on July 31, 2012.

Most of the increase in world stocks outside of China will be held by exporters, as importers other than China are seeking to minimize stocks in light of sluggish demand and little perceived risk of higher prices. Southern hemisphere producers Australia, Argentina, and Brazil are expecting second consecutive record or near record crops in 2011/12, and thus their stocks are

forecast to rise by 2.3 million bales from the beginning level. India and the United States are forecast to increase stocks by 1.7 million and 1.2 million bales, respectively.

### **U.S. Cotton Situation, 2011/12**

#### **Area and Production**

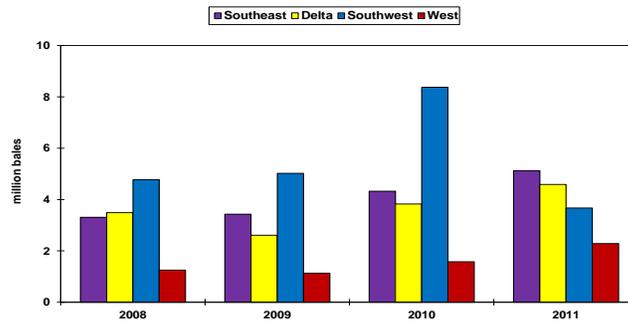
U.S. all-cotton production in 2011/12 is estimated at 15.7 million bales, 13 percent smaller than last season's 18.1 million bales, due to drought conditions that dramatically reduced harvested area—particularly in the Southwest. Cotton planted area was at its highest in 5 years as prices reached record levels in the spring of 2011. However, drought conditions increased abandonment to 34 percent, a historic high, and reduced yields. In 2011, the U.S. yield averaged 772 pounds per harvested acre, the lowest since 2003.

Upland production is currently estimated at 14.8 million bales, nearly 16 percent below 2010, with an average yield of only 754 pounds per harvested acre. The ELS crop, on the other hand, is estimated near a record at 846,000 bales, as area reached a 5-year high.

<b>U.S. Cotton Area, Abandonment, Yield, and Production</b>						
		<b><u>2007/08</u></b>	<b><u>2008/09</u></b>	<b><u>2009/10</u></b>	<b><u>2010/11</u></b>	<b><u>2011/12</u></b>
<b>Planted acres</b>	<b>mil. acres</b>	<b>10.8</b>	<b>9.5</b>	<b>9.2</b>	<b>11.0</b>	<b>14.7</b>
<b>Harvested acres</b>	<b>mil. acres</b>	<b>10.5</b>	<b>7.6</b>	<b>7.5</b>	<b>10.7</b>	<b>9.8</b>
<b>Abandonment rate</b>	<b>%</b>	<b>3.1</b>	<b>20.1</b>	<b>17.7</b>	<b>2.5</b>	<b>33.8</b>
<b>Yield/harvested acre</b>	<b>lbs./acre</b>	<b>879</b>	<b>813</b>	<b>777</b>	<b>812</b>	<b>772</b>
<b>Production</b>	<b>mil. bales</b>	<b>19.2</b>	<b>12.8</b>	<b>12.2</b>	<b>18.1</b>	<b>15.7</b>

Compared with last season, 2011/12 upland cotton production was higher in three of the four Cotton Belt regions. Production was lower only in the Southwest as a historic drought reduced harvested area and yields. Southwest cotton area has accounted for at least 55 percent of U.S. plantings the last four seasons, with area surpassing 8 million acres in 2011/12 for the first time in 30 years. The rise in the Southwest area was attributable to record high cotton prices last spring which provided higher net return expectations for cotton versus many competing crops, including high insurance revenue if the cotton crop failed. Abandonment was significant as the drought caused 60 percent of the region's crop area to fail, with only 3.2 million acres harvested, a 125-year low. As a result, the Southwest upland crop reached only 3.6 million bales in 2011/12, the smallest since 1992/93, and accounted for about 25 percent of the U.S. upland cotton crop, compared with a recent average of 40 percent.

### U.S. Cotton Regional Production 2008/09 to 2011/12



In the Southeast and Delta, cotton planted area rose for a second consecutive season in 2011/12. For the Southeast, acreage reached 3.4 million acres in 2011/12, the highest in nearly a decade. Despite an above average abandonment and a lower than average yield, the 2011 crop surpassed 5.1 million bales, the highest in 6 years. For the Delta, planted area increased to 2.5 million acres, the highest since 2007/08. With average abandonment and yields, the Delta crop approached 4.6 million bales in 2011/12, similar to the average of the previous 5 years.

In the West, 2011/12 upland area increased for the second year in a row to 500,000 acres, the highest in 5 years. With an above average yield of 1,447 pounds per harvested acre, upland production in the West increased to 1.5 million bales, slightly above the 5-year average. The ELS crop remains concentrated in the West. With area surpassing 300,000 acres for only the fourth time, combined with above average yields, ELS production achieved a near-record 846,000 bales, bringing total cotton production in the region to nearly 2.4 million bales.

### U.S. Cotton Supply and Demand 2010/11 and 2011/12 est.

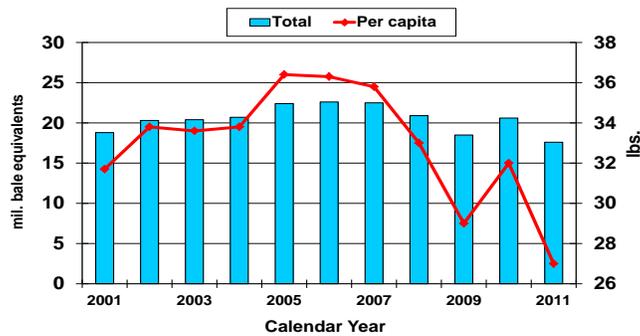
	<u>Unit</u>	<u>2010/11</u>	<u>2011/12</u>	<u>Change</u>
<b>Beg. Stocks</b>	mil bales	2.9	2.6	-10.3
<b>Production</b>	"	18.1	15.7	-13.3
<b>Imports</b>	"	0.0	0.0	0.0
<b>Total supply</b>	"	21.1	18.3	-13.3
<b>Mill use</b>	"	3.9	3.5	-10.3
<b>Exports</b>	"	14.4	11.0	-23.6
<b>Total use</b>	"	18.3	14.5	-20.8
<b>Ending stocks</b>	"	2.6	3.8	46.2
<b>Stocks-to-use</b>	%	14.2	26.2	84.5
<b>Farm price</b>	cents/lb.	81.5	90.0	10.4

## Domestic Mill Use

Domestic cotton mill use is forecast at 3.5 million bales for 2011/12, 10 percent below the 2010/11 estimate. While U.S. mill use has been trending lower since 1997/98, the estimate is less than half that used by U.S. mills as recently as 2002/03, and the 2011/12 estimate is the lowest in over a century.

With the U.S. Census Bureau's elimination of its monthly cotton mill use (MP313) reports in August 2011, the 2011/12 mill use estimate is based solely on data collected by USDA's Farm Service Agency to make mandated payments to domestic mills. Based on this data for August through December 2011, U.S. cotton mill use has been comparable to the corresponding period of 2009, a year when mill use was similar to this season's estimate. While cotton prices have decreased from a year ago, fiber competition continues to favor manmade fibers. And, with the U.S. economy forecast to grow slowly in 2012, growth in cotton use by U.S. textile mills will likely remain weak during much of the second half of 2011/12.

### **U.S. Domestic Cotton Consumption: Total and Per Capita**



U.S. consumer demand for cotton textile and apparel products remains lackluster due both to slow growth in incomes and a loss of fiber share from cotton to other fibers. In calendar year 2010, cotton textile and apparel imports reached 20.5 million bale-equivalents, the highest in three years. 2011 imports reflect a decline of approximately 13 percent to their lowest level since the early 2000s. In comparison, cotton product exports have risen in recent years, mostly to preferential trading partners nearby. Anecdotal information suggests that countries in the western hemisphere are benefiting from smaller and quick-turnaround orders for the U.S. retail market. In 2011, the data indicate that cotton textile and apparel exports rose 3 percent from the 3.7 million bale-equivalents in 2010.

Estimated U.S. household consumption of cotton, as measured by U.S. mill use plus net textile trade, declined to its lowest in 15 years. In calendar 2011, U.S. domestic cotton consumption decreased to 17.6 million bale-equivalents, compared with 20.6 million in 2010. Similarly, U.S.

per capita cotton consumption declined to 27 pounds in calendar 2011, nearly 5 pounds below a year earlier.

### 2011/12 Exports, Ending Stocks, and Prices

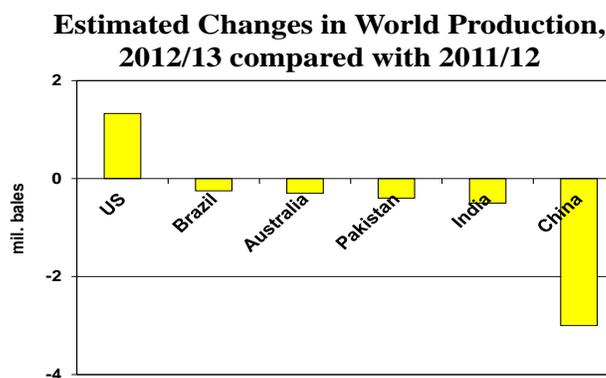
U.S. exports for 2011/12 are forecast at 11 million bales, down nearly one-fourth from the previous year and the lowest level in a decade for both volume and the U.S. share of total world trade. Record or near record crops for other major exporters, a devastating drought in Texas, and the lowest U.S. beginning stocks in 15 years have reduced U.S. export capacity.

Record U.S. export sales commitments at the start of the season reflected sales made at relatively high prices, resulting in difficulty in contract completion and unprecedented levels of cancellations. In addition, the high level of early sales and concerns about weather problems affecting the quantity and quality of the U.S. crop have constrained new sales since July 2011. Other than a few large sales believed to be to the China reserve, total net sales have been relatively modest, as cancellations have partially offset new sales.

Despite the dramatic reduction in the U.S. crop, U.S. stocks are forecast to increase by nearly 50 percent to 3.8 million bales by July 31, 2012; however, the resulting 26-percent stock-to-use ratio is still below both the 5- and 10- year averages. The average price received by U.S. producers is expected to rise about 10 percent from last year's record level to 90 cents per pound, despite lower world prices, as U.S. producers benefited from contracting early at high prices in the spring and summer of 2011.

### World Cotton Outlook, 2012/13

#### World Cotton Production, 2012/13



Global 2012/13 cotton production is projected to decline 4 percent from a year ago to 118.5 million bales. In 2011, record cotton prices encouraged global area and production to rise while, at the same time, a decline in consumer demand for cotton apparel products reduced global demand for the fiber. With stock levels replenished in 2011/12 and uncertainty about the strength of the global economy, prices and cotton area will likely be lower in 2012. Reduced

plantings are anticipated in China, India, Pakistan, Brazil, Central Asia, and Australia, which together account for about 70 percent of the world cotton crop. Plantings are also expected to increase in the United States. Global 2012/13 harvested area for cotton is projected at just over 34 million hectares, down 4 percent from a year ago, when favorable market conditions encouraged farmers to expand area under cultivation. Global yields are expected to rise slightly.

China, the world's leading cotton producer, is projected to produce 30.5 million bales in 2012/13, a 9-percent decline from a year earlier, due to a combination of relatively lower cotton prices and the rising cost of inputs, especially labor. Despite the government's minimum purchase price policy, prices to farmers declined for the 2011 harvest relative to 2010, and are likely to induce a shift to less costly and more highly subsidized alternatives such as grains. If realized, the 2012/13 projection will reduce China's share of global cotton production to 26 percent, below the average of recent years. China's harvested cotton area is projected at 5.0 million hectares in 2012/13, down 500,000 hectares (9 percent) from the previous year.

India's 2012/13 cotton production is projected at 26.5 million bales, down 2 percent from a year earlier, for the first year-to-year crop decline in five years. Harvested area in the world's second largest cotton producing country is projected to decline 4 percent from the preceding year to 11.8 million hectares. India's 2012/13 yield is projected at about 490 kg/hectare, a 2-percent increase from the previous year.

Pakistan is projected to grow 10.0 million bales in 2012/13, down 4 percent from the previous year, as less favorable market conditions reduce farmers' incentives to expand area. Pakistan's 2012/13 harvested area is projected at 3.1 million hectares, a 3-percent decline from a year earlier. Yield is projected to decline 1 percent based on normal weather conditions.

Brazil's 2012/13 cotton crop is projected to decline 6 percent from a year earlier, to 8.5 million bales, ending the country's two consecutive years of record production. Moderate shifts to soybeans and corn are expected, due to lower relative prices for cotton. Brazil's harvested area is projected at just over 1.3 million hectares in 2012/13, down 5 percent from a year ago.

Australia is projected to produce 4.7 million bales in 2012/13, down 6 percent from the 2011/12 record crop. The projected decline is expected to be mainly market driven, since irrigation water supplies have improved significantly in the last few years and are likely to remain favorable. Nonetheless, the country's share of global production is expected to remain unchanged at 4 percent. Australia's 2012/13 harvested cotton area is projected at 550,000 hectares, a decline of 8 percent from the previous year.

World Cotton Consumption, 2012/13

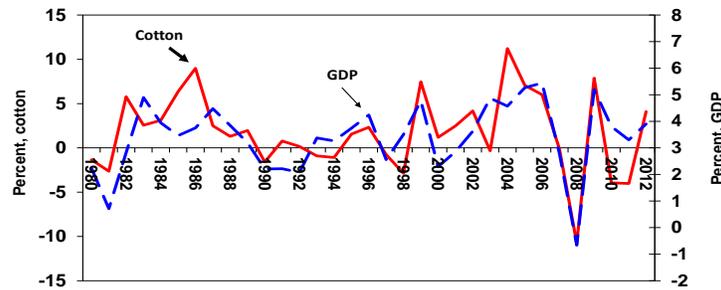
**World Cotton Supply and Demand  
2011/12 est. and 2012/13 proj.**

	Unit	2011/12	2012/13	Change
<b>Beg. Stocks</b>	mil bales	47.0	60.8	29.4
<b>Production</b>	"	123.3	118.5	-3.9
<b>Imports</b>	"	37.4	39.0	4.3
<b>Total supply</b>	"	207.8	218.3	5.1
<b>Consumption</b>	"	109.7	114.5	4.4
<b>Exports</b>	"	37.4	39.0	4.3
<b>Total use</b>	"	147.1	153.5	4.4
<b>Ending stocks</b>	"	60.8	64.8	6.6
<b>Stocks-to-consumption</b>	%	55.4	56.6	2.2

In marketing year 2012/13, world cotton consumption is expected to increase for the first time in 3 years, and mark only the second increase in the last 5 years. World consumption is expected to increase 4 percent from the year before, reaching 114.5 million bales, as world economic growth rebounds to its highest in 3 years and cotton prices continue to decline.

At 3.9 percent, the International Monetary Fund forecasts world GDP growth in 2013 to be its fastest since 2010's 5.2 percent. GDP growth in both advanced and emerging economies is expected to accelerate in 2013. China and India are expected to expand by 8.8 and 7.3 percent, respectively. After a contraction in 2012, Eurozone growth is expected to reach 0.8 percent.

**World Cotton Consumption and  
Economic Growth**



Declining world cotton prices will enable cotton to regain competitive ground with respect to other fibers in 2012/13. A significant portion of the decline in cotton consumption in recent

years has been a shift to competing fibers, mainly polyester. With rising global stocks, cotton prices are falling relative to polyester, resulting in some recovery of fiber share.

China's price and reserve stock policies for 2012/13 will be significant factors affecting world supply, demand, and stocks, but are currently unknown. China has indicated that it will continue to support farm prices through reserve buying, but has not announced any details regarding a floor price or potential sales from the reserve. This analysis assumes a continuation of the current price floor of 19,800 renminbi/ton (\$1.42/lb.). With world prices expected to remain well below this level, it is likely that significant quantities of cotton would be acquired by the state reserve again in 2012/13. In this scenario, if the government does not release cotton from the reserve, total stocks in China would rise significantly. The USDA outlook for 2012/13 assumes some sales from the reserve and shows moderate growth in China's stocks. Continued support of China's domestic prices is likely to constrain consumption growth and support demand for imported raw cotton and yarn, as well as the use of synthetic fibers.

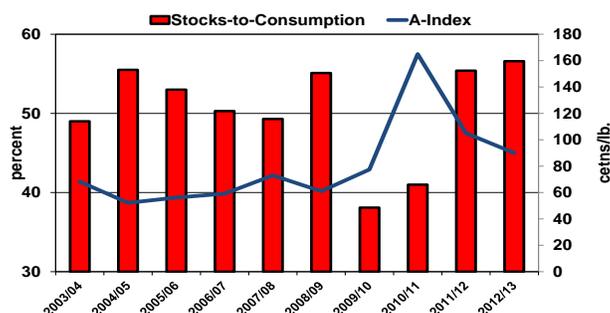
**China Cotton Supply and Demand**  
**2011/12 est. and 2012/13 proj.**

	<b>Unit</b>	<b>2011/12</b>	<b>2012/13</b>	<b>Change</b>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>11.6</b>	<b>18.1</b>	<b>56.0</b>
<b>Production</b>	"	<b>33.5</b>	<b>30.5</b>	<b>-9.0</b>
<b>Imports</b>	"	<b>17.0</b>	<b>16.0</b>	<b>-5.9</b>
<b>Total supply</b>	"	<b>62.1</b>	<b>64.6</b>	<b>4.0</b>
<b>Consumption</b>	"	<b>44.0</b>	<b>45.0</b>	<b>2.3</b>
<b>Exports</b>	"	<b>0.1</b>	<b>0.0</b>	<b>-100.0</b>
<b>Total use</b>	"	<b>44.1</b>	<b>45.0</b>	<b>2.0</b>
<b>Ending stocks</b>	"	<b>18.1</b>	<b>19.5</b>	<b>7.7</b>
<b>Stocks-to-use</b>	<b>%</b>	<b>41.0</b>	<b>43.3</b>	<b>5.6</b>

World Trade and Ending Stocks

Despite lower world production and higher consumption relative to last season, the 2012/13 world supply is projected to exceed demand, boosting stocks for the third consecutive season. Global trade is likely to rise slightly to 39 million bales as importing countries rebuild stocks to support higher demand. Ending stocks are projected at nearly 65 million bales, including an increase in China's stocks. The projected world stocks-to-consumption ratio will rise to 57 percent, above the most recent 10-year average of about 50 percent.

**World Stocks-to-Consumption Ratios & Prices,  
2003/04 through 2012/13 proj.**



### A-Index Projection

World cotton prices (A-Index) are expected to average between \$.80-\$1.00/pound in 2012/13, declining from the 2011/12 level. Factors that might sustain cotton prices include competition for resources with alternative crops whose prices remain relatively strong, high production costs driven by world crude oil prices that remain around \$100 per barrel, and a recovering world economy. However, despite these influences, prices will fall if, as projected, world production significantly exceeds world consumption. China's policies vis-à-vis its support price and reserve level will be crucial factors affecting the 2012/13 price outlook. Actions by the government of China to hold domestic support prices above market clearing levels and add to its reserves will support world prices. Alternatively, if China significantly cuts its support price and/or releases reserve holdings, world prices are more likely to fall. Thus, in addition to the uncertainties of weather and macroeconomic developments, actions by the government of China – to either acquire or release reserves – will materially affect the world supply, demand, and price outlook.

### U.S. Outlook for 2012/13

#### Area, Production, and Supply

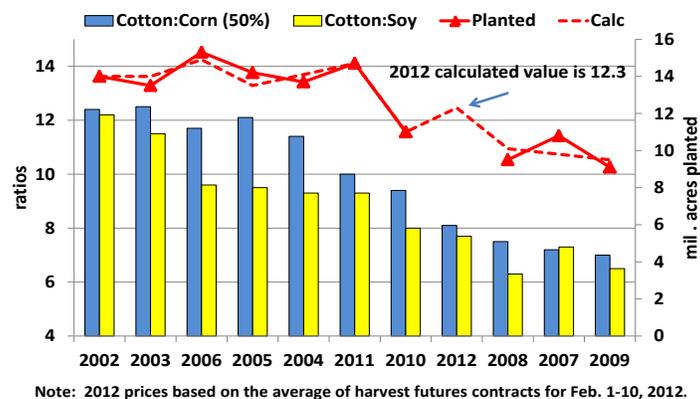
#### **U.S. Cotton Area, Yield, and Production: 2011/12 and 2012/13 proj.**

	<b>Unit</b>	<b>2011/12</b>	<b>2012/13</b>	<b>Change(%)</b>
<b>Planted area</b>	<b>mil. Acres</b>	<b>14.7</b>	<b>13.2</b>	<b>-10.2</b>
<b>Harvested area</b>	<b>"</b>	<b>9.7</b>	<b>10.5</b>	<b>8.2</b>
<b>Abandonment rate</b>	<b>%</b>	<b>33.8</b>	<b>20.0</b>	<b>-40.8</b>
<b>Yield/harvested acre</b>	<b>lbs./acre</b>	<b>772</b>	<b>777</b>	<b>0.6</b>
<b>Production</b>	<b>mil. Bales</b>	<b>15.7</b>	<b>17.0</b>	<b>8.3</b>

The early USDA projection for 2012 U.S. cotton planted acreage is 13.2 million acres, a decrease of about 10 percent from last year, due mainly to lower cotton prices and relative net

returns that favor shifts to alternative crops. The projection is above the level of 12.3 million acres indicated by statistical analysis, but below the results of the recent National Cotton Council survey. The analysis quantifies the effects of relative crop prices and soil moisture conditions in the Southwest (where drought conditions generally favor cotton), based on U.S. area response for the 2002-2011 period. The main variables are ratios of cotton to corn and soybean prices (using averages of fall futures prices for the February-March period preceding planting each year) and an index of soil moisture on the Texas High Plains as of June 1. For 2012, soil moisture is projected to be below average but improved from the extreme drought of 2011.

### Cotton Planted Acres Based on Relative Crop Prices and Southwest Soil Moisture 2002-2012



The National Cotton Council's (NCC's) survey forecast of 13.6 million acres was released on February 11, reflecting responses received from mid-December through mid-January. Respondents to the NCC survey reported that the decreased cotton acreage in the Southeast will be replaced with corn, soybeans, and peanuts. In the Delta, corn is overwhelmingly expected to replace the acres moving out of cotton. The survey indicated that wheat acreage—along with other crops, like sorghum—is replacing cotton in the Southwest, while wheat and specialty crops increase at cotton's expense in the West. USDA's first survey of producer planting intentions—*Prospective Plantings*—will be conducted in early March and published on March 30, 2012.

Cotton plantings of 13.2 million acres are estimated to result in harvested acreage of about 10.5 million acres. National abandonment rates have been highly variable recently—ranging from 2.5 percent for the 2010 crop to a record of nearly 34 percent in 2011. With the Southwest accounting for over half of U.S. cotton area, crop conditions in this region have a considerable impact on the U.S. crop. The NOAA mid-February forecast of the seasonal drought outlook indicates that the persistent drought in the Southwest will continue through the end of May. As a result, the projected U.S. harvested area is based on above-average abandonment of 20 percent.

USDA is forecasting a national average yield of 777 pounds per harvested acre, based on the most recent 3-year regional averages. U.S. 2012 crop production is projected at 17 million bales,

about 8 percent above 2011. With carry-in stocks at 3.8 million bales, total supply for 2012/13—20.8 million bales—would increase 14 percent from 2011/12.

U.S. Disappearance, Ending Stocks, and Farm Price

**U.S. Cotton Supply and Demand**  
**2011/12 est. and 2012/13 proj.**

	<b>Unit</b>	<b>2011/12</b>	<b>2012/13</b>	<b>Change</b>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>2.6</b>	<b>3.8</b>	<b>46.2</b>
<b>Production</b>	<b>"</b>	<b>15.7</b>	<b>17.0</b>	<b>8.3</b>
<b>Imports</b>	<b>"</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total supply</b>	<b>"</b>	<b>18.3</b>	<b>20.8</b>	<b>13.7</b>
<b>Mill use</b>	<b>"</b>	<b>3.5</b>	<b>3.5</b>	<b>0.0</b>
<b>Exports</b>	<b>"</b>	<b>11.0</b>	<b>12.0</b>	<b>9.1</b>
<b>Total use</b>	<b>"</b>	<b>14.5</b>	<b>15.5</b>	<b>6.9</b>
<b>Ending stocks</b>	<b>"</b>	<b>3.8</b>	<b>5.3</b>	<b>39.5</b>
<b>Stocks-to-use</b>	<b>%</b>	<b>26.2</b>	<b>34.4</b>	<b>31.3</b>
<b>Farm price</b>	<b>cents/lb.</b>	<b>90.0</b>	<b>80.0</b>	<b>-11.1</b>

U.S. domestic mill use is projected at 3.5 million bales, unchanged from 2011/12. In recent years, U.S. cotton mill use has been sustained mostly by semi-processed textile and apparel exports—mainly to Mexico and the CBI countries—that are finished and shipped back to the U.S. market. High cotton prices, relative to manmade fiber prices, during the past year have resulted in fiber substitution at the mill. The return of “normal” fiber shares will take some time to achieve and may constrain cotton use in 2012/13.

U.S. cotton exports are projected at 12 million bales in 2012/13, an increase of 9 percent, as additional supplies are available. While foreign import demand is expected to rise to its highest level in 5 seasons, the United States will also face increased competition. These projections show the U.S. share of global trade increasing to about 31 percent, still the second-lowest since 2000/01. Projected ending stocks of 5.3 million bales would rise 1.5 million from the beginning level, constituting about 34 percent of total disappearance, 4 percentage points above the 5-year average.

With plentiful U.S. and world stocks, U.S. producer prices are likely to decline from those of last season. The 2012/13 marketing year average price received by cotton producers is projected at 80 cents per pound, about 11 percent below the 2011/12 estimate. As noted previously, the estimated 2011/12 farm price of 90 cents per pound includes higher-priced cotton contracted in the spring and summer of 2011. With early February prices for December 2012 futures above 90 cents per pound, U.S. producers may have a similar pricing advantage for 2012/13, partially mitigating a potentially larger season decline in the A-index.