The World Cotton Market: Challenges Ahead

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Who are we?

Cotton Council International
Cotton Council International’s (CCI) mission is to make U.S. cotton the preferred fiber for mills/manufacturers, brands/retailers and consumers, commanding a value-added premium that delivers profitability across the U.S. cotton industry and drives export growth of fiber, yarn and other cotton products.

Cotton Incorporated
Cotton Incorporated, funded by U.S. growers of upland cotton and importers of cotton and cotton textile products, is the research and marketing company representing upland cotton. The Program is designed and operated to improve the demand for and profitability of cotton.
COTTON COUNCIL INTERNATIONAL
• World Cotton Market Update
• Focus on cotton demand
• Synthetic competition
• What’s new in cotton?
**Cotton Prices**

- **CC Index**: China Cotton (CC) Index represents offers for Chinese-grown cotton delivered to Chinese mills.
- **A Index**: A Index is an average of global export prices, best representation of a world price.
- **NY Nearby**: NY futures are technically prices for U.S. cotton, but widely used by traders all over the world for hedging.

Sources: Cotlook, Reuters
Evolving Cotton Market

- Production falls with high corn & soybean prices, use drops with recession.
- Production responds to higher prices, Chinese policies support global market through high imports.
- Chinese reforms restrict imports, Chinese stocks drawn down.
- Consumption rises with China, production rises with seed tech, stocks high, prices low.
- Demand rebounds after recession, acreage not there and prices spike.

Source: USDA
Chinese Government Involvement

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- 2014 reforms eliminated government purchases to the international market
- China has a system of import quotas to restrict access
- Quotas have been restricted so stocks can be drawn down

Source: USDA
Chinese Imports Fall with High Stocks

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- Quotas have been restricted so stocks can be drawn down
- Government stocks sold at auction make up for supply that otherwise would come from imports
- Sales scheduled Mar-Aug/Sept for foreseeable future
- Over 2.5 million tons sold in current round
- Chinese stocks still double pre-spike levels

Source: USDA
Indian Supply to Rebuild

- Weather/pests/disease affected the 2015/16 crop in India & Pakistan
- India aggressively exported to Pakistan in 2015/16 and then did not have much supply last summer
- India was a net importer early in 2016/17
- India a cash-driven society, reforms eliminated India’s most commonly circulated currency notes in late 2016
  - reforms made slowed process of getting Indian cotton onto the global market
Indian Supply to Rebuild

2016/17 Indian Exports Lower
exports in million tons, monthly sums Aug-May (latest available data for 2016/17)

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Source: Indian Customs
U.S. Exports Surge in 2016/17

Strong sales early in the crop year to Pakistan and India

Stronger sales throughout the crop year to China, Vietnam, & Indonesia

U.S. share of global exports climbed to 40% in 2016/17, from 25% in 2015/16

Source: USDA
U.S. Exports Surge in 2016/17

2016/17 U.S. Exports Higher

Exports in million tons, monthly sums Aug-Jun (latest available data for 2016/17)

U.S. Had More Cotton to Sell in 2016/17

U.S. exports and U.S. supply in million tons (for entire crop year)

- Export sales
- Supply (beg. stocks + production)

Source: USDA
U.S. Supply to Build in 2017/18

U.S. planted acreage up 20% in 2017/18

Weather has been good so far, production forecast to be up 750,000 tons to highest level since 2006/07

Exports predicted to be slightly lower due to higher competition

2017/18 U.S. ending stocks forecast to be reach the highest level since 2008/09

Source: USDA
U.S. Weather Good

U.S. Cotton Acreage


U.S. Will Have Even More Cotton to Sell in 2017/18

U.S. exports and U.S supply in million tons (for entire crop year)

- production
- mill-use
- beg. stocks
- exports

3-Year Avg (2013/14 to 2015/16)

2015/16

2016/17

2017/18

COTTON USA™ - THE COTTON THE WORLD TRUSTS
Hurricane Impact on U.S. Cotton
West African Production Higher

- Burkina Faso acreage up 8% in 2017/18
- Malian acreage and production expected to reach 10 year high in 2017/18
- Cote d’Ivoire production up 6%
- Benin production stable
- Chad only country in the region expected to have a smaller crop
- West African region forecast to have production up about 5% relative to 2016/17 and up 22% versus 2015/16

Source: USDA
Production Up in Most Countries in 2017/18

- U.S. production up 20% in 2017/18
- Indian production up about 10%
- Chinese production up about 10%
- Pakistani production up about 20%
- Australian production up about 15%
- Turkish production up about 15%
- West African production up about 5%
- World production up about 10%
Evolving Cotton Market

A combination of stronger cotton prices & lower corn/soybean prices, leading to higher acreage around the world.

Source: USDA
Focus on Global Demand

stronger growth in mill-use forecast in 2017/18 even with growth, forecast indicates mill-use in 2017/18 will be down 6% relative to peak in 2006/07

Source: USDA
Focus on Demand

Traditional drivers of cotton demand

- Population growth
- GDP/income growth
Cotton Consumption Below Peak & Below Trend

Traditional drivers of fiber/cotton demand
- population growth
- GDP/income growth

Since the 2010/11 price spike global cotton consumption is below peak and below trend

During this time period, there was population growth and economic growth

Source: USDA
Vietnam has been the strongest source of growth for global mill-use in recent years:

- Investment alongside Trans-Pacific Partnership (TPP)
- Investment due to Chinese cotton policies following the 2010/11 price spike
- China has quantitative limits as part of quota system for fiber
- There are no quantitative limits for cotton yarn imports
- More than half of Vietnamese mill-use generates yarn exported to China

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Sources: USDA & China Customs

Note: 2017 figure assumes rate of growth Jan-Jun maintained Jul-Dec
Bangladesh has also experienced strong growth
- maintenance of cotton share
- apparel exports to Europe

Note: 2017 figure assumes rate of growth Jan-Jun maintained Jul-Dec
Sources: USDA & China Customs
Growth in Mill-Use - China

Despite declines versus late 2000s, Chinese mill-use expanding with incentives for Xinjiang mills

Sources: USDA & China Customs
Evolving Cotton Market

Production
Mill-Use

Source: USDA
Global Cotton Stocks Remain High

Global Ending Stocks

Source: USDA
Chinese Stocks Continue to Fall
Outside China Stocks Expected to Reach a Record High

stocks held in the world outside China expected to surpass previous record by 10%

Source: USDA
Since the 2010/11 price spike global cotton consumption is below peak and below trend.

During this time period, there was population growth and economic growth.

Growth in fiber demand was occurring, cotton was being left behind man-made fibers.

Sources: USDA, Fiber Organon, PCI Fibres
Since the 2010/11 price spike global cotton consumption is below peak and below trend.

During this time period, there was population growth and economic growth.

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Growth not uniform among man-made fibers, cellulosic fiber growth less than that for cotton, polyester dominates.
Growth in Global Man-Made Fiber Demand

Growth in Chinese Polyester Mill-Use 1990-2015

- Chinese poly use +2100% in 2017 vs 1990

Growth in Global Man-Made Fiber Mill-Use 1990-2015

- 2017 non-poly mmf use 25% higher than in 1990
- 2017 man-made use 280% higher than in 1990
- 2017 polyester use 450% higher than in 1990

Source: ICAC
Chinese Polyester Mill-Use

Growth in Chinese Polyester Mill-Use 1990-2015

- 1990/91: 18%
- 2006/07: 57%
- 2017/18: 64%

Chinese poly use +2100% in 2017 vs 1990

China’s Share of Global Polyester Consumption

- China
- Rest of world

Source: PCI Fibres
Chinese Cotton Mill-Use

Chinese Cotton Mill-Use 1990-2015

Source: ICAC

China’s % of Global Cotton Consumption

- 1990/91: 23%
- 2006/07: 41%
- 2017/18: 29%

China’s % of Global Polyester Consumption

- 1990/91: 18%
- 2006/07: 57%
- 2017/18: 64%

Chinese cotton use -25% in 2017 versus 2007

Source: ICAC
Chinese Cotton Mill-Use

Chinese Cotton Mill-Use 1990-2015

-25% in 2017 versus 2007

Cotton and Polyester Staple Prices

Source: ICAC
Cotton Market Outlook

- Available supply for near-term shipment still limited, some potential for volatility ahead of 2017/18 harvest
- Higher cotton prices in 2016/17 motivated higher acreage everywhere, no major weather issues (yet) for 2017/18 crop
- World-outside-China to produce a large surplus, record world-outside-China stocks should pressure prices
- Watch the weather and rumors of China possibly increasing import quota
WHAT’S NEW IN COTTON?
WHAT’S NEW IN COTTON INITIATIVE

INTRODUCING ……. COTTON USA COMFORT PERFORMANCE FABRICS

- A collection of U.S. cotton rich products that demonstrates both the strengths of US cotton (comfort, softness, durability) with new performance characteristics not usually associated with cotton.
- The intent is to inspire ideas and inspiration with brands so that they will want to invent new fabrics with US cotton and ultimately to use our brand as a license.
- A good analogy is “concept cars” like you see in automobile shows.
We can all get minor muscular aches and pains by exerting ourselves while working out. Now we can help relieve those pains just by putting on our clothes. Introducing new Recovery Wear from COTTON USA. Recovery Wear soft cotton blend apparel helps us to recover faster from the minor muscular stress and strains of any type of workout. It uses a new patented fiber and technology designed and proven to use our own body heat to increase oxygenation and boost blood flow back into our muscles. This in turn, reduces aches and pains and helps us to recover faster.

Recovery Wear blends U.S. grown cotton with patented Celliant fiber for a unique product that has been proven effective in independent clinical trials. As good looking and comfortable as your yoga pants and other active wear because they are made with U.S. Cotton for softness and comfort along with just the right amount of stretch we all need. Available for women in leggings and long sleeve tops. Our products are pre-washed to prevent shrinking and fading.
We all can get minor muscular aches and pains that can interfere with our ability to sleep and get a good night’s rest. Now we can relieve our soreness as we sleep to awaken feeling our best.

Introducing new Recovery Wear from COTTON USA. Recovery Wear soft cotton blend sheets are designed to increase oxygen and circulation through infrared-active mineral technology, which can provide a more restful, healing sleep, enhance muscle recovery, help balance body temperature, and refresh the body for better performance during the day.

Recovery Wear blends U.S. grown cotton with patented Celliant fiber and has been proven effective in independent clinical trials.

Available for bed linens, all sizes. Our products are pre-washed to prevent shrinking and fading.
When it gets too hot, either due to temperature or stress, we can start to perspire. Besides being uncomfortable, showing sweat on our clothes isn’t our best look. Now, we can stay appearing and feeling cool, even when conditions are not.

Introducing new No Sweat T-Shirts from Cotton USA. They’re soft and comfortable as you’d expect from U.S. Cotton fabrics, specially blended with patented, treated fibers designed to evaporate moisture and keep you cool without ever showing signs of sweat…even on underarms.

Available in ladies’ t-shirts. Our products are pre-washed to prevent shrinking and fading.
There are few things more frustrating than staining the clothes we’re wearing. Whether it’s a cup of black coffee, a glass of red wine, or oily salad dressing, once it stains our clothes, that item is essentially ruined. Introducing new No Stain Cotton from Cotton USA. Our exquisite, classic cotton fabrics are treated with patented Dropel polymers that create an invisible protective layer that repels stains and prevents them from setting, while keeping them feeling soft and breathable. Now you can say goodbye to stains with No Stain Cotton.

Available in ladies’ shirts, slacks and jackets. Our products are pre-washed to prevent shrinking and fading.
Dust mites left untreated can be a major contributor to a variety of skin and breathing sensitivities. Treatments typically involve use of chemical pesticides which are potentially dangerous to humans and household pets. Now, there’s an effective, proven, all natural solution.

Introducing Natural No Mite from COTTON USA. Natural No Mite luxuriously soft and comfortable bed sheets and linens are made of 100% U.S. Cotton and treated with Proneem’s European Commission certified and authorized natural extract. Natural No Mite is proven 100% effective on dust mites to keep them from causing sensitivities.

Available in bed linens, all sizes. Our products are pre-washed to prevent shrinking and fading.
Cotton fabric is popular with consumers for many reasons, including breathability, comfort, and durability. Now, it’s also an excellent choice for people who wish to track their wellbeing without needing to wear a separate device. Our patented sensor technology, developed by Cambridge University scientists, is literally woven into our cotton blend fabrics.

Our sensors are highly conductive and automatically transmit wearer’s pulse, blood pressure, and more to their smartphones as they go through their day. Flex Smart apparel can be washed and re-used many times without losing sensitivity or functionality.

And because Flex Smart is made with a high performance U.S. Cotton blend, it’s soft, comfortable, cool and durable.

Flex Smart is available in t-shirts, as well as golf and polo style shirts. Our products are pre-washed to prevent shrinking and fading.
Wouldn’t it be nice to stay cool and comfortable in natural U.S. Cotton while you are playing golf no matter what the heat and humidity brings? And, not have a smelly golf shirt when you’ve finished playing? Before the invention of our new technology, cotton had a well-deserved reputation for absorbing moisture, which could also leave you wearing a sweat filled shirt.

Well, now you can have all the softness and comfort of natural U.S. Cotton blended with a new patented fiber technology that helps control your body temperature BETTER than any other moisture wicking or quick drying technology—guaranteed or your money back. With our new No Sweat Clean Green Golf Shirts, you will look and smell good after every golf round.

Our No Sweat Clean Green golf shirts come in a full collection of sizes and designs for men and women. Our products are pre-washed to prevent shrinking and fading.
It is becoming more and more difficult to find clothing and bed linens that are not irritating to my skin. With all of the synthetic fibers and the use of chemicals to treat fabrics, it seems like everything I buy irritates my skin.

Introducing SenSafe from COTTON USA, a new collection of products that are made with a patented blend of fibers that virtually eliminates skin irritation. SenSafe products are as soft and comfortable as can be found because they are made with the best of U.S. grown cotton and Tencel, an environmentally friendly fiber made from cellulose. With SenSafe, we can solve our skin problems as we look and feel great in our clothes.

SenSafe is pre-washed three times so it is hypo-allergenic and will not shrink or fade.

Available in bed linens, sleep wear, denim jeans for both men and women and short and long sleeve t-shirts.
If you want to protect yourself and your family from excess sun exposure, your choices until now have been limited primarily to applying chemical sunscreens all over yourselves, or to wear apparel made mostly from synthetic materials. Now there’s a better choice.

Introducing Sun Screen Apparel from Cotton USA. Unlike ordinary fabrics that may screen as little as 5% of the sun’s rays, our fabrics have a 50 UPF rating which means that they automatically screen 98% of the sun’s rays.

Sun Screen Apparel is made from a 95% blend of natural U.S. Cotton and bamboo with 5% spandex included for stretch. Our apparel provides lightweight, breathable comfort any time of year.

Available in a full range of women’s, men’s, children’s and infant’s shirts (long and short sleeve). Our products are pre-washed to prevent shrinking and fading.
Denim looks great, but it may not feel cool when it’s hot and humid. Now, introducing Stay Cool denim wear from Cotton USA.

Stay Cool denim is made with a patented combination of U.S. Cotton and Solucell that creates a hollow channel inside the cotton fabric. Our denim is 25% lighter weight than ordinary denim and also regulates temperature more efficiently to keep you feeling comfortable, even when the temperature climbs.

Avail pre-washed to prevent shrinking and fading.
You want to buy clothing that looks good on you and lasts, but you wish that you could be sure your clothing was produced in a responsible, sustainable way.

Now, with COTTON USA CARES apparel you can be 100% positive that your clothing was produced with sustainable farming practices and in factories with environmentally responsible manufacturing processes and where workers are treated fairly. How can we guarantee this? Because, for the first time ever, COTTON USA CARES products carry an invisible DNA marker that enables you to trace our clothing all the way back to the farmer who grew the cotton and through the supply chain to the final end product. Just scan the QR code or enter the code on the special website and you can see and hear the farmer who grew the cotton talk about his sustainability practices and the company owner that turned that cotton into a beautiful piece of clothing while treating workers fairly and not polluting the environment.

The first outfits from COTTON USA CARES collection consist of knits. Now, you can not only look great but also feel great about your clothes! Our products are pre-washed to prevent shrinking and fading.
It is well known that scent is an integral aspect of seduction. Now, experience the softness and comfort that only U.S. Cotton can provide combined with a subtle, yet captivating fragrance. The Aphrodisiak scented microcrystals delight your emotions and spark your romantic nature.

Available in women’s sleepwear tops and bottoms and bed linens. Our products are pre-washed to prevent shrinking and fading.
THANK YOU!

www.cottonusa.org