

WORLD AND AUSTRALIAN COTTON PRODUCTION VS CONSUMPTION

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(Key:m bales = million bales)

WORLD AND AUSTRALIAN COTTON PRODUCTION:

Latest figures place the world 1985/86 season's production at 79.126m bales down some 6.7m bales on the previous season's all time record of 85.837m bales. Nevertheless although consumption increased to 72.255m bales, world stocks at 1st August are estimated to have reached 46.845m bales, an increase of 6.871m bales over the previous season's level.

China's decrease of 9.6m bales was offset to some extent by increases in Pakistan 1.1m bales and India 0.8m bales and other general increases throughout the world.

For the 1986/87 season, world production is expected to fall by around 5m bales to 73.938m bales but world stocks are only expected to fall some 0.7m bales to 46.133m bales.

In addition to the anticipated reduction in production of 2.5m bales in the US under the provisions of the Farm Bill, reductions in production for most producing countries are expected as a result of low prices.

The following is some idea of the situation in the countries that produce medium count yarn styles of cotton middling 1 1/16 - 3/32 and are Australia's main competitors.

UNITED STATES:

	Bales	
California SJU		
1985/86 crop unsold	400,000	
1986/87 crop	<u>2,400,000</u>	2,800,000
Domestic use	1,200,000	
Export demand	<u>2,000,000</u>	<u>3,200,000</u>
Possible Shortfall		<u>400,000</u>

California/Arizona:

1985/86 all middling & better fully committed	-
1986/87 crop 800,000 bales 40% middling	320,000
Export Demand	<u>500,000</u>
Possible Shortfall	<u>180,000</u>

Memphis Territory:

Mostly used domestically.

WORLD AND AUSTRALIAN COTTON PRODUCTION: cont.MEXICO:

Crop 700,000 bales domestic requirement 650,000 bales.

GUATEMALA/SALVADOR:

Both will need to import.

NICARAGUA:

Crop 200/220,000 bales. Exportable 170,000 bales.

PARAGUAY/COLOMBIA:

Some exports but mainly to neighbouring countries especially Brazil and Argentina.

AFRICA - FRENCH ZONE:

Virtually no unsold stocks 1985/86 crop. 1986/87 production could be reduced dramatically because of lack of rain.

TURKEY:

Domestic use 2m bales. Only 2/300,000 bales for export mainly to Europe.

ISRAEL:

Production expected to be down dramatically because of price and water shortage. No unsold stocks.

U.S.S.R.:

Now only offering No.3 grade and below from 85/86 crop. Unsold balance good grades considered negligible. Availability No.1 grade (Peruvi) 1986/87 crop expected to be tight but foreign exchange considerations might change the picture.

CHINA:

Planning to export 1.6-1.8m bales of which no more than 40% middling and better but problems delivery and grade in later shipments making buyers wary to buy beyond 2nd quarter. Unsold stocks believed to be unsuitable for production medium count yarns.

AUSTRALIA:

1985/86 crop all sold. More than 85% of production middling 1 1/16 and better.

SHORT STAPLE COTTON AND COTTONS ONLY SUITABLE COURSE COUNT YARNS.

Here the situation is quite different and there is no doubt that the world statistically, is aflood with these styles cotton.

However, the majority of these stocks are held in four countries: China, U.S.A., Brazil and Pakistan.

It is interesting to note that all these countries heavily subsidise the production of cotton without any real regard for world requirements.

WORLD AND AUSTRALIAN COTTON PRODUCTION: cont.

As at 1st August world stocks were estimated as follows:

41.0%	China	19.2m bales	Mainly lower grades.
20.0%	U.S.A.	9.4m bales	Unsold stock mainly short staples and below middling grades.
1.9%	Brazil	0.9m bales	All low grades.
3.0%	Pakistan	1.4m bales	Short staple lower grades but unsold balance small.
<u>2.6%</u>	<u>U.S.S.R.</u>	<u>1.2m bales</u>	<u>Unsold stocks mainly lower grades.</u>
68.5%		32.1m bales	
<u>31.5%</u>	<u>Other</u>	<u>14.7m bales</u>	<u>Unsold stocks mainly lower grades.</u>
<u>100.0%</u>		<u>46.8m bales</u>	

"So called" educated guesses put the percentage of unsold cotton - middling grade and better - at substantially less than 1m bales - or below 2% of world stocks as at 1/8/86.

WORLD AND AUSTRALIAN COTTON CONSUMPTION:

World raw cotton consumption during the 1985/86 season rose to an estimated 72.255m bales. This is over 3m bales more than earlier estimates for the same period. Good gains have been recorded in cotton consumption levels in the Americas, notably the USA and on a lesser scale Brazil and also in several countries in Asia.

For 1986/87 consumption is expected to further increase to an all time record of around 75m bales. However, there are several uncertain factors that could greatly influence consumption trends during the next twelve months.

The declining replacement cost of raw cotton is one obvious uncertainty. In the past there has been speculation on whether cheaper cotton will take a larger share of total mill use at the expense of man-made fibres or whether producers of the latter will be disposed to compete on price in order to maintain output rates. The evidence to date is inconclusive.

The man-made fibres share of world fibre production increased during 1985. Some western polyester capacity has since closed but expansion in the Far East continues. Selling prices for polyester have weakened but certainly not to the same degree as cotton.

The effect of currency movements is also highly significant in its bearing on international textile trade patterns and ultimately on consumption. It is already apparent that Western Europe consumers of cotton are feeling the chill of the weakening USDollar against their currencies and are readjusting their expectations accordingly.

WORLD AND AUSTRALIAN COTTON CONSUMPTION: cont.

Conversely the developing countries whose currencies are closely linked to the dollar have benefitted from increased competitiveness in Europe while losing little ground in the important US market. Of particular importance to Australia is that the excellent export trading conditions incurred by some Far Eastern exporters appear to be being fully maintained. In Hong Kong the recovery in export offtake especially for the heavier-weight cotton fabrics has been quite dramatic. South Korea and Taiwan also have shared in the better trade but perhaps with less immediate effect on consumption rates. However, all three countries, bearing in mind that all their currencies are closely aligned to the US dollar could consume considerably more cotton during 1986/87.

Unfortunately Japan because of the strength of the Yen has benefitted little from cheap cotton prices and is barely holding normal consumption levels.

Of the other major consuming countries forecasts for the USA are unchanged at 6.4m bales and 6.8m bales for 1985/86 and 1986/87 respectively. Both figures are remarkable in that only a few years ago American observers held the opinion that a return to consumption of significantly more than 6m bales was unlikely.

In China consumption is estimated to continue at around 17m bales.

For Russia forecasts for 1985/86 and 1986/87 have been increased to about 9.5m bales and 9.65m bales respectively. Whilst there is little factual evidence to support any further substantial increase, domestic Russian cotton availability is known to have improved and there appears to have been increased investment in machinery.

In addition it must be assumed that the Soviet Leader's demand for greater productivity and efficiency must apply equally to textiles as to other sectors.

In many other countries, such as Pakistan, India and Brazil, it is clear that adopted Government policies towards ensuring a competitively priced supply for their mills whilst satisfying the grower will have a big bearing on consumption patterns.

CONCLUSION:

Without doubt the world statistical stock situation would indicate that there is an enormous imbalance between the supply/demand situation for cotton, which on the face of it will last for some years yet.

Nevertheless whilst this may be the case for cottons suitable for course count yarns it certainly is not the position for cottons suitable for medium count yarns.

WORLD AND AUSTRALIAN COTTON PRODUCTION VS CONSUMPTION: Table Two

WORLD COTTON PRODUCTION VERSUS CONSUMPTION

(August year - '000 bales)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	
Beginning Stocks - 1st August	26051	22446	21648	20772	25392	24903	24414	39974	46845	46133	
Production	59636	65197	64778	70786	67559	67559	85837	79126	73938	70000	87/88
Consumption	63241	65995	65654	66166	68048	68048	70277	72255	74650	76000	87/88
July 31 Stocks	22446	21648	20772	25392	24903	24414	39974	46845	46133	40133	1/8/88



CONCLUSION: cont.

In the event that Australia and the other southern hemisphere producers of similar cotton cut back their production to the extent that some are suggesting there could well develop a very tight supply situation beginning in the second quarter of 1987.

Another interesting situation is that many believe that much of China's so called stocks will never find their way on to the world market. If this proves to be correct and we adjust the world stock position to the extent of China's stock figure of 19m bales by say 15m bales, the world supply situation is reduced to what in the past would have been regarded as a reasonable figure.

Also, if as a result of continued low prices and government enforced reductions in production in the highly government-controlled producing countries, the projections for the period beginning 1st August 1987 as set out on Table 2, and which are my own, may not prove so unbelievable.

WORLD AND AUSTRALIAN COTTON PRODUCTION VS CONSUMPTION:

Table One

COTTON PRODUCTION: WORLD, EXPORTING AND IMPORTING COUNTRIES, 000 480# BALES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
<u>EXPORTING COUNTRIES:</u>												
Argentina	641	735	1056	799	735	390	703	510	700	735	505	661
Brazil	1815	2526	2195	2664	2659	2857	2962	3008	2495	3860	3741	3123
Colombia	554	680	643	372	574	533	404	152	352	577	510	519
El Salvador	273	326	363	308	299	211	193	188	139	138	84	49
Guatemala	460	611	643	753	680	570	372	211	280	271	212	117
Mexico	902	1006	1612	1548	1502	1594	1424	831	1038	1240	970	796
Nicaragua	510	547	565	501	401	340	285	358	330	285	227	220
Paraguay	153	335	413	331	344	482	413	340	413	600	482	413
Peru	277	326	349	413	446	455	432	147	311	460	404	436
Other W.Hem.	118	147	179	156	110	115	110	70	21	20	41	32
WESTERN HEMISPHERE	5703	7239	8018	7845	7450	7547	7298	5815	6079	8186	7176	6366
United States	8302	10582	14390	10858	14628	11124	15648	11965	7771	12982	13425	10500
Egypt (UAR)	1755	1819	1832	2012	2223	2430	2292	2117	1934	1840	2000	1951
Sudan	500	739	905	638	524	446	712	946	1006	902	681	656
Tanzania	200	308	234	257	280	248	220	207	216	209	231	239
Zimbabwe	266	216	234	257	294	322	257	271	376	461	390	459
Other Africa	1184	1166	1125	1207	1197	1127	1084	1502	1500	1610	1888	2020
AFRICA	3905	4248	4330	4371	4518	4573	4565	5043	5032	5022	5190	5325
China	10900	9500	9400	9950	10100	12400	13600	16500	21300	28700	19098	19520
Australia	115	129	202	243	381	455	615	473	648	1116	1144	750
Iran	635	721	827	620	459	239	326	427	400	400	611	574
Pakistan	2360	1920	2540	2131	3417	3298	3495	3702	2188	4628	5512	5466
Syria	727	716	694	661	588	542	597	726	890	730	735	689
Turkey	2205	2186	2641	2182	2186	2296	2241	2246	2388	2664	2379	2251
USSR	11610	12010	12470	11905	12833	13499	13278	11937	12280	11700	12047	12263
Other Asia	525	565	579	648	583	524	588	569	590	567	499	476
ASIA & OCEAN.	29077	27747	29353	28340	30547	33253	34740	36580	40684	50505	42025	41989
TOTAL EXPORTERS:	46987	49816	56091	51414	57143	56497	62251	59403	59566	76695	67816	64180
<u>IMPORTING COUNTRIES:</u>												
WESTERN HEM.	135	119	156	101	110	64	51	96	108	120	116	142
Greece	595	542	703	703	491	533	551	436	597	666	749	837
Other	3	5	5	-	5	5	5	5	3	3	56	58
Spain	197	179	216	147	188	271	322	220	152	237	317	370
WESTERN EUROPE	795	726	924	850	684	809	878	661	752	906	1122	1265
EASTERN EUROPE	103	106	101	64	60	60	55	60	56	63	80	75
Nigeria	280	372	165	170	138	124	96	92	62	73	83	83
South Africa	83	161	234	253	299	266	175	119	158	205	210	271
Other Africa	278	285	262	271	331	303	280	294	279	276	300	300
AFRICA	641	818	661	694	768	693	551	505	499	554	593	654
India	5300	4951	5654	6214	6012	6090	6398	6324	5879	7000	8979	7222
Thailand	100	41	138	115	220	294	271	188	183	179	175	150
Other Asia	153	161	170	184	200	271	331	322	325	322	245	250
ASIA & OCEAN.	5553	5153	5962	6513	6432	6655	7000	6834	6387	7501	9399	7622
TOTAL IMPORTERS:	7227	6922	7804	8222	8054	8281	8535	8156	7802	9144	11310	9758
TOTAL WORLD:	54214	56738	63895	59636	65197	64778	70786	67559	67368	85839	79126	73938

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