

TEXAS TECH
Dept of Ag Eco
Ref. Room

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
COTTON DIVISION
4841 SUMMER AVENUE, MEMPHIS, TENNESSEE 38122
Telephone 901-521-2934



Weekly Cotton Market Review

Vol. 66, No. 37

April 18, 1985

Trading on spot cotton markets was slow, according to the Cotton Division, Agricultural Marketing Service, USDA. Available supplies of cotton were limited and growers were reluctant to offer at prevailing prices. Merchant demand weakened. Domestic mill purchases were mostly of 1985-crop cotton. Export trading remained slow. Growers forward contracted a very light volume of 1985 crop. Planting made rapid progress in California and Arizona and was nearing completion in some localities. Planting was under way in New Mexico and beginning on the Texas Plains and in Oklahoma. The young crop made good to excellent progress in the Harlingen, Texas, area where beneficial rains were received. Rains hampered planting and damaged some early plantings in portions of the Corpus Christi and Waco areas. Planting was beginning in the southern states. World cotton stocks are expected to remain large at the end of the current season and the U.S. share of trade may slip further.

Spot cotton prices for grade 41 staple 34, mike 35-49, in the designated markets averaged 61.94 cents per pound during the week ended Thursday, April 18. Prices ranged from a low of 61.56 cents on Friday to a high of 62.15 cents on Wednesday and ended the week at 62.01 cents. A week earlier, prices averaged 62.92 cents per pound and ranged from 62.47 to 63.50 cents. In the corresponding week a year ago, the average price was 74.05 cents. The New York May 1985 futures settlement price ended the week on Thursday at 68.17 cents per pound compared with 68.84 cents a week earlier. The October settlement price was 65.23 cents against 65.85 cents last Thursday and the December price was 65.40 cents compared with 65.79 cents a week ago.

Trading was slow on spot cotton markets. Grower-held supplies were limited in many markets and offerings were light at prevailing prices. Most merchants had immediate needs fairly well covered and were not actively seeking cotton. Domestic mill purchases of new-crop cotton increased and a light volume was bought for prompt or nearby delivery. Foreign mill buying was light with most purchases made by Far Eastern mills. Purchases reported by cotton exchanges in the designated markets totaled 98,200 bales in the week ended Thursday, April 18. This compares with 54,600 bales reported a week earlier and 29,600 bales in the corresponding week last season.

Textile mill report. Mill purchases remained light and consisted of fill-ins and a moderate amount for deferred shipment. Most mills were fairly well covered with cotton and delayed buying until closer to the time of need. A few mills inquired for and bought 1985-crop cotton, Eastern, Memphis and California growths, for fourth quarter and later delivery. Mill sales of finished goods varied widely. Knits for underwear and sportswear, sheeting and some medium weight apparels sold at a moderate pace. Sales of a number of apparel constructions remained light. Some yarn mills reported flurries of sales for immediate delivery but generally the sales-yarn business remained depressed. Mills continued to report sagging profits on product sales as a buyers' market prevailed. Work schedules varied from three to six days.

High participation in cotton program, but supplies to remain large. According to the "Cotton and Wool Outlook and Situation Summary," U.S. cotton farmers have enrolled 83 percent of their base acreage in the 1985 cotton program, up from 71 percent in 1984. Higher participation reflects increased supplies and lower prices this year, along

with the outlook for continuing large supplies in relation to demand.

The heavy signup also suggests that producer plans have changed in recent weeks, and planted acreage may not reach the 11 million indicated as of February 1. Still, with average yields, cotton supplies in 1985-86 should be more than adequate for mill use and exports.

U.S. mill use is likely to remain at a reduced level next season because of a slowdown in the economy and continued intense competition from cotton textile imports. Retail sales at apparel and accessory stores, a proxy for consumer purchases of all cotton products, have not grown since August 1984. During the first 18 months of the current recovery, retail sales expanded at an annual rate of 13 percent, but real sales may increase only 2 to 3 percent in 1985-86, which would not be sufficient to push up use.

Cotton textile imports rose at an annual average rate of 6.3 percent during 1960 to 1984, but there were three distinct periods of very rapid growth. Following the tax cuts of 1964, cotton textile imports rose 70 percent through 1966. During the economic recovery of 1975 to 1978, imports rose 69 percent. Finally, imports rose 61 percent from 1982 to 1984.

Following the first two periods of rapid expansion, imports actually fell in 1966 and 1979. Because of the slowing in retail sales since fall 1984, there is a chance that imports could continue the pattern and decline again in 1985. However, with the stronger dollar offsetting the effects of slower growth in retail sales, textile imports are more likely to rise.

World cotton stocks of about 38 million 480 pound net weight bales, 55 percent of consumption, are expected when the current season ends. The large expected carryover has depressed prices, but world consumption is rising to almost 70 million bales, and world exports will be the largest since 1979-80. Unless there is a crop failure in a major competing exporting country in 1985-86, world supplies will remain large and the U.S. share of trade may slip further.

Despite lower cotton prices, mill use of cotton is forecast at 5.3 million bales in 1984-85, down 600,000 from last season. Competition from textile imports and slow growth in retail sales are responsible. At seasonally adjusted annual rates, mill use fell to 5 million bales in December 1984, but rebounded to 5.2 million in January and February.

While mill use lags, cotton exports will finish 1984-85 near 6.5 million bales. Short crops in the Soviet Union in 1983 and 1984, low ocean freight rates between West Coast ports and the Far East, the high quality of U.S. cotton, and China's inability to deliver all its surplus to export destinations, explain the good U.S. export performance this season. At seasonally adjusted rates, U.S. cotton exports averaged 7.1 million bales during the first eight months of the season. However, exports are expected to decline sharply during April-July, as cotton becomes available from Pakistan and the Southern Hemisphere. With U.S. ending stocks for 1984-85 estimated at 4 million bales, the use-to-supply ratio for 1984-85 will fall from 0.81 to 0.75. The ratio could decline further next season.

Manmade fiber production, at 9.5 billion pounds, was up 1 percent last year, while factory shipments declined 1 percent. Plants operated at an average capacity of 76 percent in second-half 1984, down from 81 percent in the first half.

Foreign crop report. The Cotton Outlook of Liverpool reports that harvesting of the later-maturing Northern Hemisphere 1984-85 crops has made satisfactory progress over the past month. In Pakistan, where last year's crop was a failure, all records have been broken this year, and assessments of final output have been raised a little further, to over 4.45 million bales. Picking will continue for some time in southern areas of India, but a lint outturn of over 7.1 million bales looks increasingly probable. A second export quota, again of 100,000 local bales (of 375 pounds), for longer staple styles appears already to be nearing exhaustion. Mills are pressing for an import quota for the relatively scarce shorter staples, upon which government intentions are far from certain. Pakistan, a country that has made excellent recent progress in marketing its exportable surplus, would expect to be prominent among sources of supply. In the Southern Hemisphere, rain has depressed the quality, but

probably not the volume, of the South Brazilian and Argentine crops, respectively now estimated at around 3 million and 800,000 bales. Recent Russian purchasing of Colombian and Paraguayan styles has relieved pressure upon Latin American supplies. However, as Brazilian interior values are well above competitive international rates, the authorities will begin this week to "auction" export subsidy funds to facilitate sales of Southern styles.

At this very early stage, indications still point to a world 1985-86 output of around 78 million bales, compared with some 85 million expected to be harvested in the current season. The introduction of a maximum level for government procurement in China may curtail plantings quite significantly in that country, thereby accounting for much of the 5.5 million bales fall which may occur outside the United States. Russia appears increasingly to be acknowledging the extent of the production difficulties with which she is confronted in her principal producing area, Uzbekistan. The Republic should have set a production target of about 5.9 million tons of seed cotton for the 1985-86 season under the Five-Year Plan, but appears in fact to have established one of only about 5.7 million. If Western ideas on Russian ginning out-turns are realistic, it therefore now seems unreasonable to suppose that the national crop could be much larger than 12.2 million bales. It failed to reach even that level in the current season, occasioning Russia's active purchasing from the U.S and elsewhere. Among the other producing countries, Pakistan, India and most in Africa will aim to maintain output. The Middle East is more sensitive to lower prices and foresees some decline in both Turkey and Greece. Latin America may be similarly affected: Mexico, for example, is already certain that the fall in sowings will reduce output to below 900,000 bales, compared with the 1,250,000 grown this season. Australia, now a major competitor for the United States in the Far Eastern markets, is unlikely to reduce sowings significantly, but will be fortunate to enjoy weather conditions as favourable as those which should enable her to harvest over 1 million bales in the current season.

Yugoslavia's growing cotton industry spurs U.S. cotton exports. Yugoslavia's imports of cotton have grown steadily over the last several years, reaching a record 583,000 bales in 1984, according to the Foreign Agricultural Service, USDA. In 1985, imports of cotton are expected to exceed 600,000 bales, making Yugoslavia the second largest importer of cotton in Eastern Europe. Moreover, U.S. cotton has been gaining a larger portion of this Eastern European market, accounting for nearly 25 percent in 1984. This share may increase even further in 1985 given the Soviet Union's reduced export potential. U.S. shipments from August 1 to April 4 were more than 20 percent above the same period last year.

Seven months and older certificated stock, May 1, 1985 ^{1/}

| Delivery point | 7-12 months | 13-18 months | 19-24 months | Over 24 months | Total |
|----------------|-------------|--------------|--------------|----------------|-------|
| | Bales | Bales | Bales | Bales | Bales |
| Charleston | - | - | - | - | - |
| Galveston | 1,143 | 524 | 31 | 27 | 1,725 |
| Greenville | - | - | - | - | - |
| Houston | - | - | - | - | - |
| Memphis | 1,037 | 205 | 301 | 835 | 2,378 |
| Mobile | - | - | - | - | - |
| New Orleans | 196 | - | 1 | - | 197 |
| Total | 2,376 | 729 | 333 | 862 | 4,300 |

^{1/} Based on Cotton Division records as of April 15, 1985.

New York futures contract settlement, designated spot market average for grade 41 staple 34 and 'A' Index cotton prices in cents per pound

| Date | Grade 41 Staple 34 | | | | | | | Grade 31 Staple 35 'A' Index 1/ |
|---------|--------------------|---------|---------|---------|---------|---------|------------------------|---------------------------------------|
| | Futures Settlement | | | | | | Desig. 8- Mkt. Avg. | |
| | May '85 | Jul '85 | Oct '85 | Dec '85 | Mar '86 | May '86 | | |
| Apr. 11 | 68.84 | 67.35 | 65.85 | 65.79 | 66.99 | 67.62 | 62.47 | 65.95 |
| 12 | 67.50 | 66.69 | 65.65 | 65.53 | 66.63 | 67.45 | 61.56 | 65.95 |
| 15 | 68.37 | 66.80 | 65.45 | 65.33 | 66.51 | 67.07 | 62.12 | 65.85 |
| 16 | 68.05 | 66.54 | 65.05 | 65.10 | 66.36 | 67.05 | 61.88 | 65.85 |
| 17 | 68.43 | 67.08 | 65.05 | 65.25 | 66.38 | 67.03 | 62.15 | 66.05 |
| 18 | 68.17 | 66.98 | 65.23 | 65.40 | 66.58 | 67.20 | 62.01 | 66.10 |

1/ C.I.F. Northern Europe price furnished by Cotton Outlook of Liverpool.

Chicago futures contract settlement and designated spot market average for grade 42 staple 31 in cents per pound

| Date | Grade 42 Staple 31 | | | | | | Desig. 5-Mkt. Average 1/ |
|---------|--------------------|---------|---------|---------|---------|---------|-----------------------------|
| | Futures Settlement | | | | | Mar '86 | |
| | May '85 | Jul '85 | Oct '85 | Dec '85 | Mar '86 | | |
| Apr. 11 | 58.05 | 57.55 | - | 57.66 | - | - | 51.02 |
| 12 | 57.80 | 57.20 | - | 57.65 | - | - | 50.37 |
| 15 | 57.65 | 57.35 | - | 57.40 | - | - | 50.54 |
| 16 | 57.60 | 57.13 | - | 57.25 | - | - | 50.55 |
| 17 | 57.55 | 57.00 | - | 57.00 | - | - | 50.77 |
| 18 | 57.55 | 57.35 | - | 57.41 | - | - | 50.71 |

1/ Greenville, Montgomery, Memphis, Dallas and Lubbock.

U. S. upland cotton export sales and exports, in running bales, for week and year, marketing years 1983-84 and 1984-85

| Description | Marketing Year | | | |
|-----------------------------|------------------|----------------|------------------|----------------|
| | 1983-84 | | 1984-85 | |
| | Through April 12 | | Through April 11 | |
| | Week | Marketing Year | Week | Marketing Year |
| Outstanding sales | - | 2,070,200 | - | 1,662,500 |
| Exports | 222,500 | 4,708,000 | 128,400 | 4,571,900 |
| Total export commitments | - | 6,778,200 | - | 6,234,400 |
| New sales | 143,500 | - | 31,300 | - |
| Buy-backs and cancellations | 24,300 | - | 16,700 | - |
| Net sales | 119,200 | - | 14,600 | - |
| Sales next marketing year | 84,700 | 963,900 | 25,000 | 417,100 |

Source: Export Sales Reporting Division, Foreign Agricultural Service, USDA

Upland cotton export sales for the current marketing year totaled 14,600 running bales during the week ended April 11, according to the Foreign Agricultural Service, USDA. Major sales to Japan of 9,100 bales, South Korea 5,800, Italy 3,700 and Thailand 2,900 bales were partially offset by reductions by Pakistan of 5,500 bales and unknown destinations of 8,500 bales. Sales of 25,000 bales for the 1985-86 marketing year were primarily to South Korea of 12,300 bales. Exports for the week totaled 128,400 bales. Asian destinations accounted for 63 percent of the week's shipments, Western Europe 23 percent and the USSR 10 percent.