



**Cotton This Month**

**14 December 2018**

### **Global Stocks Forecast to Decrease with Lowest Levels of Chinese Stocks Since 2011/12**

Following two seasons of growth (7% growth in 2016/17 and 16% growth in 2017/18) the Secretariat is currently projecting that world cotton production is expected to decrease slightly by 2% to 26.1 million tonnes for the 2018/19 season. Despite attractive prices for farmers during the second half of the 2017/18 season when most producers in the northern hemisphere were making planting decisions, world cotton area is expected to remain at 33 million hectares. While global area expansion is not expected to change from the previous season, area increases are being projected in certain regions and countries notably Africa, Brazil and Turkey. Where area is projected to decline this season, this is being attributed to weather issues, policy changes and water availability.

Production increases are expected to be seen from China with a 0.8% increase to 5.9 million tonnes, Brazil with a 15% increase to 2.3 million tonnes, West Africa with a 6.5% increase to 1.3 million tonnes, Turkey with a 18.7% increase to 940,000 tonnes and Uzbekistan with a 0.1% increase to 800,000 tonnes. Forecasts have been lowered for India with production down 4.7% to 6 million tonnes due to rain related issues. Production in the United States is forecast down by 12% due to drought and weather difficulties encountered this season. Pakistan production is expected to decrease by 2.5% due to a lack of water during sowing. Production in Australia is reduced by 44% from lack of water availability and reduced planted area.

Following a 9% increase in consumption to 26.8 million tonnes in 2017/18, this season the Secretariat is expecting consumption growth to slow with a projection of 26.7 million tonnes. Cotton mill-use may be affected by high cotton prices and global trade tensions. Tariffs on cotton between the United States and China are not expected to influence mill-use directly due to processing and import quota exceptions but may contribute to slowing economic growth which would affect consumer demand of goods and textile demand. The largest consuming countries may see limited growth or reductions in mill-use this season. China will continue to lead the world with consumption at 8.45 million tonnes, although this would be an 8.2% decrease from the previous season. Mill-use in India and Pakistan are expected to remain stable with limited increases currently forecasted. Larger increases in mill-use are expected in Bangladesh, Vietnam, Turkey and Indonesia as spinning and textile manufacturing are expanding in these countries. Consumption is expected to increase to 1.8 million tonnes in Bangladesh, 1.6 million tonnes in Vietnam, 1.7 million tonnes in Turkey and 830,000 tonnes in Indonesia.

Global imports of cotton lint are expected to continue to grow this season by 5% to 9.4 million tonnes driven by increased spinning in non-cotton producing countries and the turnover of the Chinese government reserve. Imports by China are projected to increase 27.6% to 1.6 million tonnes under processing and import tariff quotas. Imports by Bangladesh, Vietnam and Indonesia are expected to increase as spinning and manufacturing expand in these countries with limited domestic production. Imports by Turkey and Mexico will decrease as these countries have seen increased production and are able to supply more domestic cotton to mills. Manufacturing continues to slow in Korea where imports are expected to decrease 6.1% to 184,000 tonnes.

The United States will continue to lead global exports, although at a 5.3% decrease from the previous season to 3.3 million tonnes due to a reduced crop. Exports from Brazil are expected to increase to 1.3 million tonnes based on increased planting. Exports from India are expected to decrease as the crop is expected to be less than the previous season and exportable surplus will decrease. Exports from Australia will decrease 10.5% as water availability was limited for the irrigated crop and planted area is expected to decrease. West African countries are expected to also benefit from global demand and shifting patterns of trade with export increases from Mali, Burkina Faso, Benin, Tanzania, Cote d'Ivoire and Cameroon.

As a result, consumption is projected to exceed production in 2018/19 and thus the global ending stock level is expected to decrease from 18.8 million tonnes to 18.2 million tonnes by the end of this season. However, as stocks in China decrease, stocks held outside of China are expected to increase. Chinese stocks levels have influenced the market from 2011/12 when the Chinese government began buying large amounts of imports as the country built-up the state reserve. Since peak levels in 2014/15, stocks in China have been decreasing and may reach 7.6 million tonnes by the end of the season. This would be the lowest level of Chinese stocks since 2011/12. As Chinese stocks have decreased, stocks held by the rest of the world have continued to increase and are expected to grow for the fourth consecutive season to 10.5 million tonnes. This would be the highest level historically and signals for the first time since 2011/12 that stocks held outside of China would be greater than those held by China.

The international reference price of cotton as measured by the Cotlook A Index has increased over the past three seasons to the season ending average of 88 cents per pound in 2017/18. A higher global stock level would put downward pressure on prices. Our current stock projections are for these to decrease slightly over the course of the season as current projections of mill-use demand slightly exceeding expected production levels may exert upward pressure on prices.

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