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The Global (Cotton) Textile Industry Challenging Present and Promising Future

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Dr. Schindler was appointed Economist of the International Textile Manufacturers Federation on October 1, 2004 and was promoted to the position of Director in 2006. At the Federation's Annual Conference in Dubai, UAE, in September 2006 he was nominated and elected Director General as of January 1, 2007.

GUEST COLUMN

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Structural changes

The global textile industry is undergoing a very challenging period since the beginning of this century. Several structural changes have led to a new business environment that the global textile industry needed to adapt to and still does. In 2001 China joined the World Trade Organization (WTO) and thus a country with approx. 1.3 billion people was suddenly having easier access to markets around the world and was thus becoming an important player in the global trade arena. In 2004 the traditional quota system for textiles and clothing finally phased out. This provided new opportunities to countries that were so far restricted by the quota system and posed challenges to those countries that had benefitted from the quota system. Of course the global financial and economic crisis in 2008/2009 (also referred to as the Great Recession), the worst since the Great Depression in the 1930s, had a negative effect on the global economy in general and the global textile industry in particular. In 2010 cotton prices started rising and reached historic record levels of around USD 2.40/lb in March 2011 before falling back again to around USD 0.80/lb in April 2013.

Divided cotton markets

This surge in cotton prices was a result of relative low cotton supply (approx. 22.3 million tons in 2009/10) after weak demand following the Great Recession and a strong increase of demand (approx. 25.5 million tons) due to an upswing of global growth stimulated by expansionary fiscal and monetary policy measures around the world. This lack of supply contributed to the introduction of a cotton policy in China with relative high minimum prices that were soon 50% above the international cotton prices which were hovering around USD 0.90. This resulted in an enormous built up of cotton stocks in China. According to the ICAC world cotton stocks are estimated to reach approx. 19.9 million tons at the end of the current 2013/14 season of

which approx. 11.6 million tons are stored in China (as compared to global stocks of 8.6 million tons in 2009/10 of which 2.7 million tons were in China). A result of very high cotton prices and extreme price volatility was that cotton consumption declined in absolute terms and also in relative terms compared to man-made fibres. With other words the cotton price volatility led also to demand destruction in the downstream industries.

World economy

All of the above-mentioned structural changes are still felt today and many textile producing countries and companies are still struggling with their direct and indirect repercussions. The global economy has still not recovered fully from the Global Recession. Several risk factors remain that are still preventing a more stable and stronger recovery – tapering of the expansionary US monetary policy and related capital flow reversals, disinflation and deflation risks in several advanced economies, sovereign debt crisis in many advanced economies (USA, Europe, Japan, etc.), relative high oil price, currency "wars", etc.

According to the latest report by the International Monetary Fund (IMF) on the world economic outlook (January 2014) the global economic growth rate for 2013 reached 3.0%, slightly lower than the 3.1% in 2012. While the combined growth rate of the advanced economies was only around 1.3% in 2013, the emerging markets and developing economies grew considerably stronger at 4.7%. The euro area was the only region that recorded negative growth in 2013 (-0.4%), while the US (+1.9%), Japan (+1.7%), Canada (+1.7%) and the UK (+1.7%) all contributed positively to global growth.

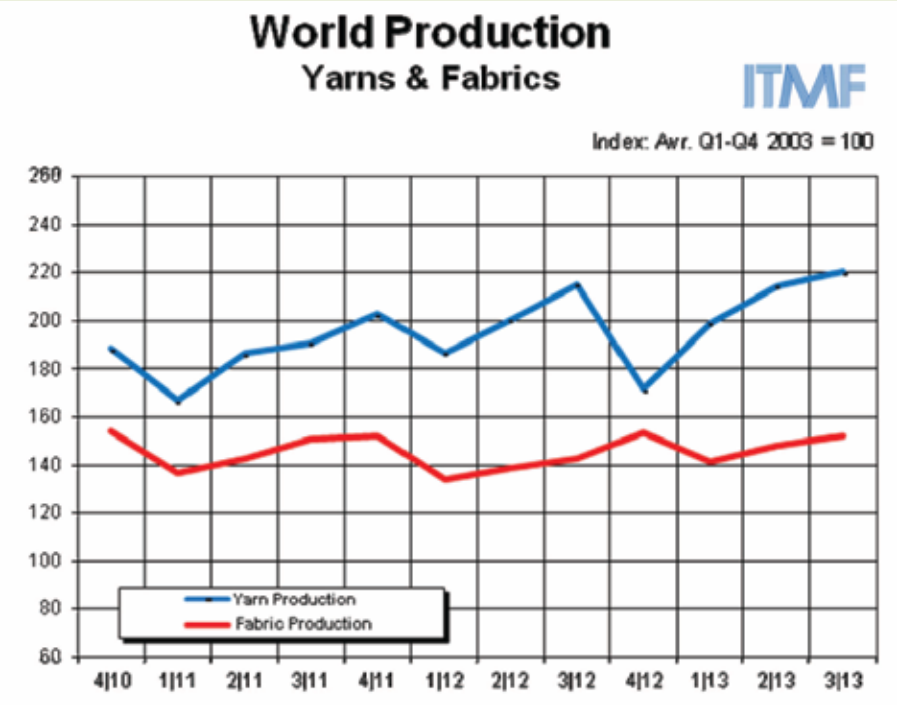
The IMF is expecting that in 2014 the global economic recovery will accelerate to 3.7% with all regions contributing positive growth rates that are expected to be higher than in 2013. Emerging market and developing economies are expected to accelerate their growth in 2014 with China leading the way (+7.5%) followed by India (+5.4%), ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam) (+5.1%), Mexico (+3.0%), Brazil (+2.8%) and Russia (+2.0%). The growth rates of the advanced economies are projected to increase across the board, especially in the US (+2.8%), but also in euro area (+1.0%), Canada (+2.2%) and the UK (+2.4%).

Global yarn production

What does this gradual global economic recovery mean for the global textile industry? According to ITMF's State of Trade (STR) data, global cotton yarn production (on the cotton system) fell in 2008 in comparison to 2007 but then rose again until the third quarter of 2013. This increase of global cotton yarn production is closely linked to China's expansion of its installed spinning capacities up to 2012. The drop in the 4th quarter of 2012 signaled that China's spinning industry is struggling with its high domestic cotton prices that are approx. 50% higher than the international ones. On the hand other cotton yarn producing countries – especially India, Vietnam, Bangladesh, Pakistan or Indonesia – have benefitted from this situation by increasing their exports to China and other countries significantly. Global fabric production fell in 2008 in comparison to 2007. Thereafter, global fabric production expanded slightly and then stagnated in the past two years.

Surge in shipments of new spinning machines

When looking at ITMF's International Textile Machinery Shipment Statistics over a longer period

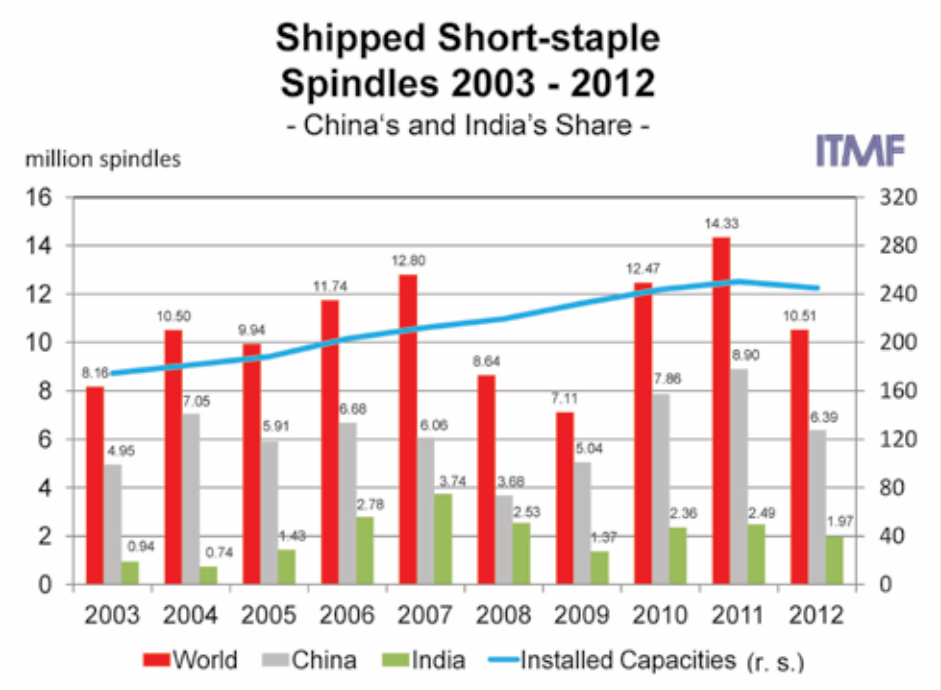


it becomes clear how the significant increase in yarn production – described above in ITMF's State of Trade Report – was possible that could be observed since the end of the quota system. Investments in new short-staple spindles around the world since the beginning of the new millennium surged from approx. 3.5 million to 12.8 million in 2007. This development was only interrupted by the Great Recession in 2008/2009 when shipments fell to 8.3 million and 7.1 million respectively. In 2010 and 2011 shipments of new short-staple spindles rose to 12.5 and 14.3 million spindles, respectively. In 2012 investment is short-staple spindles dropped considerably by approx. -30% to 10.5 million. Nevertheless, this is still three times above the level in 2002.

The dominant investor during this period was China that on average was responsible for approx. 60% (= 6 million per year) of all new short-staple spindles shipped. In comparison and on average, India invested in approx. 2 million per annum. In the other major spinning technology – rotor spinning – the development and relation are similar.

Surge in fibre consumption

It has to be noted here that a large number of these new spindles were increasing the capacity. According to ITMF's International Cotton Industry Statistics the number of short-staple spindles went up from approx. 160 million in 2002 to more than 250 million in 2011. They fell for the first time in many years in 2012 to around 245 million. The driving forces behind this development are multifold – increasing world population and global economic growth resulting in higher per capita income and higher per capita consumption. Especially emerging markets and developing economies like China, India, Brazil, Turkey, Indonesia, Vietnam, Pakistan, Mexico or Vietnam with large populations and above-average economic growth rates will be responsible for additional future demand for fibres and thus for textiles. PCI Fibers is estimating that global fibre consumption will increase from approx. 80 million tons in 2012 to approx. 120 million tons in 2030 of which the share of cotton is estimated to be approx. 33 million tons.



Summary and outlook

While the global textile industry is still adapting to the structural (long-term) changes as outlined above (end of quota system, China's accession to the WTO, etc.), which led to a surge in investments in new textile machinery due to rising demand fuelled by new trade opportunities, new consumers and higher disposable income that translated into higher fibre consumption, it also needed to digest the immediate and mid-term effects of the Great Recession in 2008/2009. All these short-, mid- and long-term effects are posing a real challenge that requires textile companies around the world to be flexible, efficient and innovative. There are no blue print solutions for companies how best to weather these challenging times and how to benefit from the promising long-term outlook as the business environment in the countries around the world differ requiring different approaches and solutions. Nevertheless, it would certainly be very beneficial to the global (cotton) textile industry if some of the unnecessary insecurities were to disappear. Certainly the enormous cotton stocks in China are one major source of insecurity for the entire cotton textile value chain. It remains to be seen what will happen with these stocks in China when the cotton policy for the next season will be announced at the end of March. It is in the interest of all stakeholders of the cotton textile markets that the cotton markets are not disrupted by ad hoc and not predictable cotton policies thus avoiding extreme volatility. Declining cotton consumption in the past few years is not only a result of subdued demand but also of the extreme volatility seen in 2011.

Cotton Price Forecasts Under Alternative Scenarios

This article reviews the methodology used by the ICAC Secretariat to forecast cotton prices. The first section summarizes the price model implemented between 2007 and 2011. The second section explains the current price model and presents forecasts for 2013/14 and 2014/15. The third section presents forecasts under alternative scenarios, namely a fast release of the Chinese reserve, a slow release of the Chinese reserve, and a slowdown in cotton demand.

The 2007 Price Model

The ICAC Secretariat has been forecasting season-average cotton prices since 1988. In 2007, after two seasons of unsatisfactory forecasting results, the Secretariat adopted a new econometric model, based on fundamental factors of the world cotton economy, which is explained in detail at <http://www.icac.org/econ/Price-Model>. The model uses four explanatory variables, which are themselves combinations 1) In Tanzania, cotton is planted between mid-November and mid-December, and harvested in May-June of the following year. The Secretariat considers that cotton planted between mid-November and mid-December 2013 belongs to the 2013/14 season January-February 2014 of estimates and projections of stocks and mill use, trade, and judgment on whether Chinese trade is dominated by government actions or by private activity:

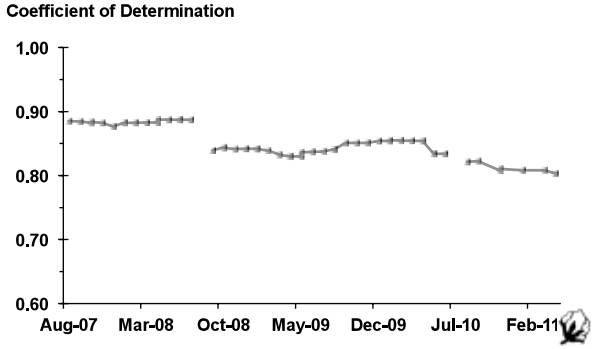
$$\ln(A_t/A_{t-1})=a*\ln(X_t/X_{t-1})+b*\ln(X_{t-1}/X_{t-2}) +m_t*c*\ln(Y_{t-1}/Y_{t-2}) + (1-m_t)*d*\ln(Z_t/Z_{t-1}) \quad (1)$$

where A_t is the average value of the Cotlook A Index in season t; X t represents ending stocks as a percentage of mill use in season t for the world minus China; Y_{t-1} represents ending stocks as a percentage of mill use in season t-1 for China; Z_t equals 100 * (1- net imports into China/world imports); m t is a dummy variable equal to 0 for 1991/92 through 2002/03, 2008/09 through 2009/10, and 2011/12 through 2013/14 and 1 for all other seasons; and a, b, c, and d are the parameters to be estimated. The dummy variable indicates whether changes in Chinese stocks are mainly motivated by policy decisions ($m_t = 0$) or changes in market conditions ($m_t = 1$).

The model assumes all explanatory variables are given (even though some are projections) and finds the price that would need to exist in order to support the levels of the explanatory variables. This single equation model does not retro-fit the impact of prices on the other variables, neither does it directly account for the impact of variables outside the model (such as the price for polyester or other competing fibers, economic growth, or inflation).

The goodness of fit of the model, i.e., how well the model "explains" prices, is measured by the coefficient of determination (R^2). If the goodness of fit is 1.0, the model "explains" all changes in prices, while if the goodness of fit is 0.0, the model cannot "explain" changes in prices at all. The goodness of fit of the model declined from 0.885 in August 2007 to 0.803 in April 2011 (figure 1), when model results became highly unsatisfactory within an environment of record-high-volatility.

Figure 1. Goodness of Fit of the Model, by Date of Publication



The Expanded Model

The Secretariat conducted a series of statistical tests on how to improve the explanatory power of the model. No variable was found to add explanatory power to the model by correlating with cotton prices in 2007/08, 2009/10 and 2010/11 and not correlating with the other explanatory variables. By adding dummy variables for 2007/08 (D07), 2009/10 (D09) and 2010/11 (D10) to the ICAC Price Model, the explanatory power of the "expanded model" increases substantially. However, this tweak of the model does not improve its predicting power, and virtually the same forecast of the season-average Cotlook A Index is obtained with or without the dummy variables. Formally, the expanded model is:

$$\ln(A_t/A_{t-1})=a*\ln(X_t/X_{t-1})+b*\ln(X_{t-1}/X_{t-2})+m_t*c*\ln(Y_{t-1}/Y_{t-2}) +(1-m_t)*d*\ln(Z_t/Z_{t-1})+e*D07+f*D09+g*D10 \quad (2)$$

Similarly to the previous model, the expanded model can be used to produce same-season forecasts and one-season ahead forecasts.

In February 2012, the expanded model forecasted a 2011/12 season-average A Index ranging from US$1.15 to US$1.43 with a midpoint of US$1.28, while the actual 2011/12 season average A Index amounted to US$1.00 per pound. The main drivers of the error were the differences between the projected and the realized 2011/12 levels of Chinese imports (3.3 million tons vs. 5.3 million tons), mill use in the world minus China (14.5 million tons vs. 13.5 million tons), and ending stocks in the world minus China (8.6 million tons vs. 9.1 million tons).

The forecast presented to the 521st Meeting of the ICAC Standing Committee on December 13, 2012 for 2012/13 was 84 cents per pound, with a 95% confidence interval ranging from 70 cents to 103 cents. The 2012/13 season concluded with the actual season-average A Index at 88 cents per pound. The main drivers of the error were the differences between the projected and the realized 2012/13 levels of Chinese imports (2.57 million tons vs. 4.4 million tons) and ending stocks in the world minus China (9.6 million tons vs. 8.2 million tons).

2013/14 Season Forecast

As of January 2, 2014, the expanded model forecasts the A Index to average 91 cents per pound in 2013/14, with a 95% confidence interval ranging from 81 cents to 103 cents. It assumes that the ending stocks-to-mill use ratio in the world minus China will fall slightly from 54% in 2012/13 to 53% in 2013/14, and that Chinese imports will fall by 30% from 4.4 million tons in 2012/13 to 3.1 million tons in 2013/14. Furthermore, the forecast of 91 cents is a weighted average of the raw forecast from the model and the average A Index observed since the beginning of the season. The confidence interval is also adjusted periodically to reflect the additional information about the realized values of the A Index since the previous forecast. Figure 2 illustrates the evolution of the A Index and the same-season forecasts since then.

The fitted parameters of the expanded model to data from 1975/76 to 2013/14 are reported in Table 1. The coefficient of determination, i.e., the goodness of fit of the model, is 0.860. The statistical fit is good as shown in Figure 3.

Figure 2. A Index in 2013/14: Forecast versus Actual, Ordered by Publication Date

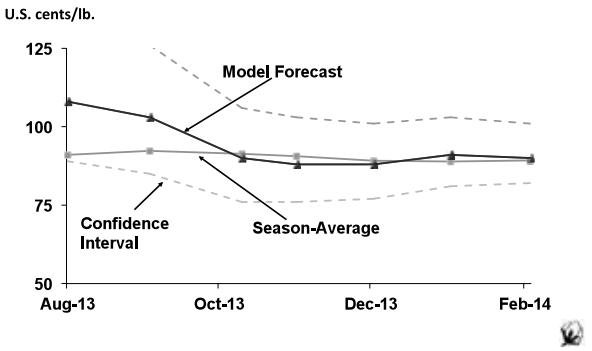
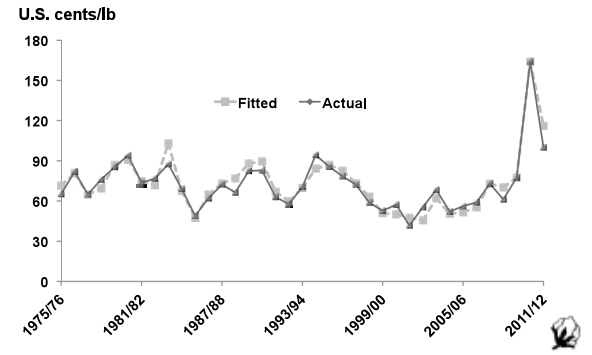


Figure 3. Fitted and Actual Values of the Cotlook A Index, 1975/76 – 2012/13



According to Table 1 below, the change in the stocks-to-mill use ratio for the world less China in season t, $\ln(X_t/X_{t-1})$, is the most important explanatory variable. With an elasticity coefficient of -1.2, a 5% increase in the stocks-to-mill use ratio in the world less China induces a 6% price decline in the same season. The second most important explanatory variable is the change in the stocks-to-mill use ratio for the world less China in season t-1, $\ln(X_{t-1}/X_{t-2})$: with an elasticity coefficient of -0.46, a 5% increase in the stocks-to-mill use ratio in the world less China in the preceding season induces a 2.3% price decline in the current season. Consequently, if the stocks-to-mill use ratio in the world less China increases by 5% in season t-1 and again by 5% in season t, the Cotlook A Index will fall, on average, by 8.3% in season t.

Table 1. Estimated Coefficients of the Extended Model, 1975/76-2011/12

Explanatory Variable	ln(Xt/Xt-1)	ln(Xt-1/Xt-2)	mt*ln(Yt-1/Yt-2)	(1-mt)*ln(Zt/Zt-1)	D07	D09	D10
Fitted Parameter	-1.202	-0.462	-0.045	-0.332	0.203	-0.25	0.858
t-statistic	-10.87	-4.66	-1.02	-1.54	2.22	-2.39	8.39

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The dummy variables D07, D09 and D10 are all significant at the 5% level and account for most of the changes in the A Index in 2007/08, 2009/10, and 2010/11. The variables that attempt to capture changes in the market fundamentals and government decisions in China, mt*ln(Y t-1/Y t-2) and (1-mt)*ln(Z t/Z t-1), are not significant at the 10% level, but are kept in the model because the fit of the model to the data is better with them than without them: the Akaike Information Criteria is greater (in absolute value) with the variables than without them (1.787 vs 1.779). A 5% increase in the Chinese stocks-to-mill use ratio would only induce a 0.2% decline in world prices in the following season. Finally, during seasons when changes in Chinese stocks were mainly driven by government decisions instead of market forces, increases in net imports into China resulted in increases in cotton prices during the same season; for example, if net imports into China increased from zero to 5% of world gross imports, the value of the explanatory variable Z would fall from 100 to 95 and the A Index would increase by 1.7%.

2014/15 Season Forecast (Base Scenario)

In the scenarios discussed below, we are forecasting the season-average Cotlook A Index for the 2014/15 season. However, the 2013/14 forecast serves as the basis to forecast the 2014/15 season average. The fitted parameters of the expanded model to data from 1975/76 to 2013/14, assuming the true A Index in 2013/14 is 89 cents per pound, are reported in Table 2. The coefficient of determination, i.e., the goodness of fit of the model, is 0.860. The fitted value for the A Index in 2013/14 is 91 cents, or 2 cents higher than the reference value.

Fitted parameters in table 2 are very similar to those in table 1. However, the variable capturing the effect of net imports into China due to government decisions, $\ln(Z_t/Z_{t-1})$, becomes significant at the 5% level.

Assuming that in 2014/15 (a) world cotton mill use will increase by 807,000 tons to 24.6 million tons despite a 241,000 tons decline in Chinese mill use, (b) ending stocks will increase by 553,000 tons in the world and by 86,000 tons in China, (c) international trade will decline by 686,000 tons where a 1.2 million tons reduction in Chinese imports is offset primarily by imports in the rest of Asia, then the forecast of the season-average A Index for 2014/15 ranges from 74 cents to 111 cents, with a midpoint at 90 cents per pound.

At that level, international cotton prices would be competitive with domestic cotton prices in China if the import duty is low. Adding 18% to 90 cents to account for taxes and fees applied to imported cotton into China, the resulting 106 cents are 28 cents below the average Chinese reserve selling price of 18,000 yuan per ton (or 134.1 cents per pound assuming an exchange rate of 6.089 yuan per US dollar). However, if a 40% tariff is applied, the resulting price would be 142 cents, which is 8 cents higher and not competitive with domestic cotton prices in China. Therefore, out of quota imports would not be competitive with domestic prices with a 40% tariff.

Forecasts Under Alternative Scenarios

Given the structure of the expanded model, the following forecasts are based on different assumptions about the explanatory variables. The ICAC Secretariat first chooses reasonable estimates (for past seasons) and forecasts (for the current and the following season) of ending stocks, mill use, imports and exports; then makes a judgment about the impact of government policy on Chinese stocks; and finally runs the price model to obtain the price forecast. The price forecast is not retro-fitted into the model to analyze its impact on the explanatory variables.

Given that most of the variability of price forecasts through time stem from the variability inherent in the estimates and forecasts of the explanatory variables (since coefficient estimates change very little through time) (Plastina 2012), it seems reasonable to analyze alternative scenarios by changing the levels of the explanatory variables and comparing the resulting price forecast with the Base Scenario described in the previous section. As China is expected to change its cotton policy in the next season, the focus of the analysis is 2014/15.

Scenario 1: Fast Release of Chinese Reserve and China Remains Net Importer

In this scenario, the Chinese government is

Table 2. Estimated Coefficients of the Extended Model, 1975/76-2013/14

Explanatory Variable	ln(Xt/Xt-1)	ln(Xt-1/Xt-2)	mt*ln(Yt-1/Yt-2)	(1-mt)*ln(Zt/Zt-1)	D07	D09	D10
Fitted Parameter	-1.204	-0.514	-0.045	-0.218	0.205	-0.239	0.91
t-statistic	-9.87	-5	-0.95	-1.05	2.08	-2.14	8.16

assumed to liquidate reserves at prices lower than those at which the cotton was purchased, until reaching a target 5.5 million tons in stock. This would result in considerable losses for the Chinese government, but in substantial support for Chinese textile mills.

Ending stocks in the Chinese private sector are assumed at 1 million tons. Therefore, total ending stocks in China in 2014/15 are assumed at 6.5 million tons, or 5 million tons lower than in the base scenario. It is assumed that liquidated cotton from the reserve would displace 1.5 million tons of imported cotton and create an additional 3.5 million tons of mill use in China.

Mill use would amount to 11.3 million tons in China, and 17.3 million tons in the world less China (500,000 tons higher than in the base scenario because the 1 million tons of additional stocks outside China would put downward pressure on prices and stimulate additional cotton consumption). World mill use would reach 28.5 million tons. Imports by China would amount to 444,000 tons, and world imports would reach 6.3 million tons. World ending stocks would amount to 16.9 million tons, or 4 million tons lower than in the base scenario. Table 3 compares the assumed levels of mill use, ending stocks and trade in Scenario 1 with those from the Base Scenario.

Under Scenario 1, the forecast of the 2014/15 season-average A Index ranges from 68 cents to 102 cents, with a midpoint at 83 cents per pound. Therefore, under this scenario, there is a 62% chance that prices will decline in 2014/15.

Scenario 2: Fast Release of Chinese Reserve and China Becomes a Net Exporter

This scenario is similar to Scenario 1 in that the Chinese government is assumed to liquidate reserves at lower prices until reaching a target 5.5 million tons in stock. The main difference stems from the assumption about how liquidated cotton affects Chinese mill use and trade. In Scenario 2, liquidated cotton is assumed to create an additional 1.5 million tons of mill use in China (instead of 3.5 million tons assumed in Scenario 1), generate 2 million tons of exports by China, and displace 1.5 million tons of imported cotton into China.

Ending stocks in the Chinese private sector are assumed at 1 million tons and total ending stocks in China are assumed at 6.5 million tons in 2014/15. Mill use would amount to 9.3 million tons in China, and 17.3 million tons in the world less China (500,000 tons higher than in the base scenario because the 3 million additional stocks outside China and the 2 million tons exported by China would put downward pressure on prices and stimulate additional cotton consumption). World mill use would reach 26.5 million tons. Imports by China would amount to 444,000 tons, China would become a net exporter, and world imports would reach 8.3 million tons. World ending stocks would amount to 18.9 million tons, or 2 million tons lower than in the base scenario. Table 4 compares the assumed levels of mill use, ending stocks and trade in Scenario 2 with those from the Base Scenario.

Under Scenario 2, the forecast of the 2014/15 season-average A Index ranges from 54 cents to 80 cents, with a midpoint at 66 cents per pound. Therefore, under this scenario, prices would decline with certainty in 2014/15.

Scenario 3: Slow Release of Chinese Reserve

In this scenario, the Chinese government is assumed to liquidate reserves at prices that would result in an annual stock reduction of 1 million tons. Furthermore, it is assumed that the Chinese government would allow textile mills to import one bale out-of-quota for every three bales of cotton bought from the reserve.

It is assumed that the extra 1 million tons of cotton available from

Table 3. Fundamentals in 2014/15 Under Scenario 1 and Base Scenario

Region	Variable	Base Scenario (in thousand tons)	Scenario 1 (in thousand tons)	Difference (in thousand tons)
China	Imports	1,944	444	-1,500
	Mill Use	7,800	11,269	3,469
	Exports	7	7	0
	Ending Stocks	11,469	6,500	-4,969
World	Imports	5,806	5,806	0
Minus China	Mill Use	16,774	17,274	500
	Exports	7,759	6,259	-1,500
	Ending Stocks	9,400	10,400	1,000
World Total	Imports	7,749	6,249	-1,500
	Mill Use	24,573	28,542	3,969
	Exports	7,766	6,266	-1,500
	Ending Stocks	20,869	16,900	-3,969

Table 4. Fundamentals in 2013/14 Under Scenario 2 and Base Scenario

Region	Variable	Base Scenario (in thousand tons)	Scenario 2 (in thousand tons)	Difference (in thousand tons)
China	Imports	1,944	444	-1,500
	Mill Use	7,800	9,269	1,469
	Exports	7	2,007	2,000
	Ending Stocks	11,469	6,500	-4,969
World	Imports	5,806	7,806	2,000
Minus China	Mill Use	16,774	17,274	500
	Exports	7,759	6,259	-1,500
	Ending Stocks	9,400	12,400	3,000
World Total	Imports	7,749	8,249	500
	Mill Use	24,573	26,542	1,969
	Exports	7,766	8,266	500
	Ending Stocks	20,869	18,900	-1,969

Table 5. Fundamentals in 2013/14 Under Scenario 3 and Base Scenario

Region	Variable	Base Scenario (in thousand tons)	Scenario 3 (in thousand tons)	Difference (in thousand tons)
China	Imports	1,944	1,000	-944
	Mill Use	7,800	7,800	0
	Exports	7	7	0
	Ending Stocks	11,469	10,525	-944
World	Imports	5,806	5,806	0
Minus China	Mill Use	16,774	16,774	0
	Exports	7,759	6,815	-944
	Ending Stocks	9,400	10,344	944
World Total	Imports	7,749	6,805	-944
	Mill Use	24,573	24,573	0
	Exports	7,766	6,822	-944
	Ending Stocks	20,869	20,869	0

the liquidated reserves is absorbed by domestic mills, displacing 1 million tons of imported inquota cotton. However, Chinese imports of out-of-quota cotton would increase by 56,000 tons, resulting in a net decline in Chinese imports of 944,000 tons.

Since mill use is assumed unchanged from the base scenario, the 944,000 tons not exported to China would add to ending stocks in the rest of the world. Table 5 compares the assumed levels of mill use, ending stocks and trade in Scenario 3 with those in the Base Scenario.

Under Scenario 3, the forecast of the 2014/15 season-average A Index ranges from 66 cents to 99 cents, with a midpoint at 81 cents per pound. Therefore, under this scenario, there is a 70% chance that prices will decline in 2014/15.

Concluding Remarks

As with all models, the model used by the ICAC Secretariat is limited by construction to reflect the impact of a few explanatory variables on some dependent variable. The variability of forecasts from the ICAC price model is mainly explained by the variability of its explanatory variables, in particular the projected changes in stocks and mill use outside China. Therefore, price forecasts ultimately depend on the Secretariat's forecasts of those variables.

As an attempt to better inform readers about the consequences of changes in policies or the economic environment on price forecasts, three scenarios are presented in this article: a fast release of the Chinese reserve with China remaining a net importer or becoming a net exporter, and a slow release of the Chinese reserve. Across scenarios, the role of China's cotton policy, particularly the release of its reserves, as the main driver of prices is significant. Even when China chooses a slower release of reserves, as outlined in the third scenario, the surplus of cotton on the market has a dampening effect on prices.

(Source: ICAC Coton Review of World Situation - Jan-Feb.2014)

Cotton Consumption - Cotton Year-wise

(In Lakh Bales)

Month	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-12	2012-13 (P)	2013-14 (P)
October	17.33	18.32	16.54	18.13	22.09	17.77	21.84	23.36
November	17.81	16.94	16.94	18.47	21.09	18.34	21.09	22.34
December	18.49	18.86	17.98	19.49	22.57	20.13	22.63	24.19
January	18.22	18.54	16.93	19.54	22.10	20.33	23.30	
February	17.11	18.14	16.23	18.81	20.23	20.31	22.24	
March	18.39	18.45	17.51	20.01	21.77	20.38	23.61	
0April	18.06	17.98	17.12	20.53	20.17	20.31	23.22	
May	17.89	18.95	17.83	20.93	18.64	21.27	22.85	
June	17.85	18.55	18.01	20.71	18.23	21.17	22.51	
July	18.42	18.50	18.98	22.11	19.00	22.14	24.11	
August	18.58	17.62	18.59	21.73	18.64	22.08	24.23	
September	18.03	16.90	18.29	21.42	21.71	21.46	23.70	
Total	**216.18**	**217.75**	**210.96**	**241.88**	**246.23**	**245.47**	**275.33**	**69.89**

(Source: Office of the Textile Commissioner)

UPCOUNTRY SPOT RATES

(Rs./Qtl)

Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	Spot Rate (Upcountry) 2013-14 Crop FEBRUARY 2014 17th	18th	19th	20th	21st	22nd
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]												
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	15	10967 (39000)	10967 (39000)	10967 (39000)	10967 (39000)	10967 (39000)	10967 (39000)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0 – 7.0	15	11107 (39500)	11107 (39500)	11107 (39500)	11107 (39500)	11107 (39500)	11107 (39500)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	20	8717 (31000)	8577 (30500)	8436 (30000)	8436 (30000)	8295 (29500)	8295 (29500)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	21	9420 (33500)	9420 (33500)	9420 (33500)	9420 (33500)	9420 (33500)	9420 (33500)
5	M/M	ICS-104	Fine	24mm	4.0 – 5.5	23	10686 (38000)	10686 (38000)	10686 (38000)	10686 (38000)	10686 (38000)	10686 (38000)
6	P/H/R	ICS-202	Fine	26mm	3.5 – 4.9	26	11895 (42300)	11923 (42400)	11923 (42400)	11923 (42400)	11923 (42400)	11923 (42400)
7	M/M/A	ICS-105	Fine	26mm	3.0 – 3.4	25	11051 (39300)	11051 (39300)	11051 (39300)	11023 (39200)	10995 (39100)	10995 (39100)
8	M/M/A	ICS-105	Fine	26mm	3.5 – 4.9	25	11276 (40100)	11276 (40100)	11276 (40100)	11248 (40000)	11220 (39900)	11220 (39900)
9	P/H/R	ICS-105	Fine	27mm	3.5 – 4.9	26	12007 (42700)	12007 (42700)	12007 (42700)	12007 (42700)	11979 (42600)	11979 (42600)
10	M/M/A	ICS-105	Fine	27mm	3.0 – 3.4	26	11473 (40800)	11473 (40800)	11473 (40800)	11445 (40700)	11417 (40600)	11417 (40600)
11	M/M/A	ICS-105	Fine	27mm	3.5 – 4.9	26	11585 (41200)	11585 (41200)	11585 (41200)	11557 (41100)	11529 (41000)	11529 (41000)
12	P/H/R	ICS-105	Fine	28mm	3.5 – 4.9	27	12260 (43600)	12288 (43700)	12288 (43700)	12288 (43700)	12260 (43600)	12260 (43600)
13	M/M/A	ICS-105	Fine	28mm	3.5 – 4.9	27	11670 (41500)	11670 (41500)	11670 (41500)	11642 (41400)	11614 (41300)	11614 (41300)
14	GUJ	ICS-105	Fine	28mm	3.5 – 4.9	27	11867 (42200)	11867 (42200)	11867 (42200)	11867 (42200)	11838 (42100)	11838 (42100)
15	M/M/A/K	ICS-105	Fine	29mm	3.5 – 4.9	28	11810 (42000)	11810 (42000)	11810 (42000)	11810 (42000)	11782 (41900)	11782 (41900)
16	GUJ	ICS-105	Fine	29mm	3.5 – 4.9	28	11979 (42600)	11979 (42600)	11979 (42600)	11979 (42600)	11951 (42500)	11951 (42500)
17	M/M/A/K	ICS-105	Fine	30mm	3.5 – 4.9	29	11867 (42200)	11867 (42200)	11867 (42200)	11867 (42200)	11867 (42200)	11867 (42200)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5 – 4.9	30	12092 (43000)	12092 (43000)	12092 (43000)	12035 (42800)	12035 (42800)	12035 (42800)
19	K/A/T/O	ICS-106	Fine	32mm	3.5 – 4.9	31	12373 (44000)	12232 (43500)	12232 (43500)	12232 (43500)	12232 (43500)	12232 (43500)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0 - 3.8	33	17997 (64000)	17856 (63500)	17716 (63000)	17716 (63000)	17575 (62500)	17575 (62500)

(Note: Figures in bracket indicate prices in Rs./Candy)