

**United States**

Turmoil has been prominent in the US during 2008, and has in turn impacted financial and commodity markets globally. The US credit crunch, housing crisis and fuel mandates resulted in investment money pouring into commodities. Once the realisation of the dwindling state of the US economy became clearer, risk aversion, unwinding of positions, federal bailouts, bankruptcy and fears over world consumption and economic slowdown have sharply reversed commodity prices.

**ICE Futures**

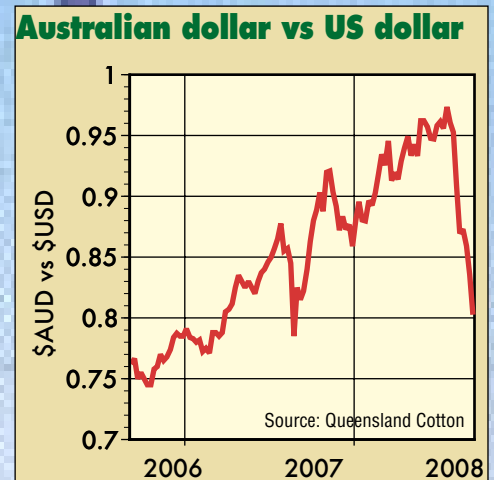
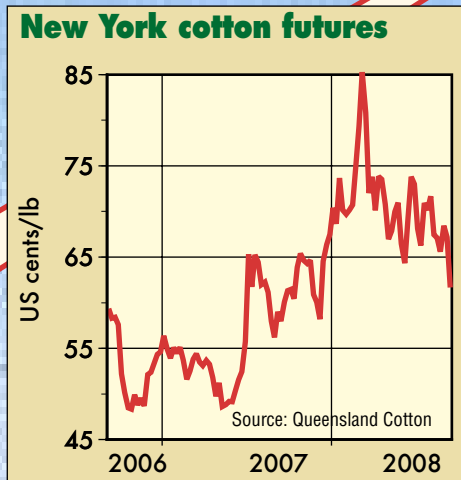
Since January 08 ICE futures have traded in a range of 62.15 USc/lb to a synthetic high of 110 USc/lb, with aggregate open interest reaching a high of 302,683 and a low of 212,810. The implied volatility has also been extreme over this period peaking at 62% on the 4th of March 2008. During this time the USD/AUD exchange rate has fluctuated between a high of 0.9787 on the 14th July and a low of 0.7895. AUD bale returns for 2008 crop have ranged from \$355 to \$450/bale. ICE continues to trade at the discretion of outside influences irrespective of cotton fundamentals, and it remains to be seen just how long cotton fundamentals are ignored.

**Brazil**

Harvest of Brazil's 2008 crop is drawing to a close and ginning should be completed by early November. 2008 production estimates remain around 1.55 mmt as yields have been consistent with last year, while quality continues to improve. 2009 crop projections indicate a ten per cent drop to 1.40 mmt as soybean gross margins and ease of production in the major producing areas continues to sway some growers away from cotton.

**Africa Franc Zone**

In a region made up of multiple countries, production is influenced by political issues, exchange rate volatility and climatic variability. 07-08 production was estimated at 640,000 mt, 200,000 mt less than 06-07, and 08-09 is expected to reach 730,000 mt. In turn exports are expected to reach around 640,000 mmt. Increased production in 08-09 has been largely due to improved rainfall and high cotton prices witnessed earlier in the year during the planting window.



**From the field to the market**  
**Queensland Cotton**

Queensland Cotton has the longest supply chain in the world

### Long Staple Market

07-08 can only be described as a volatile year for the long staple market as record crops in the US and China resulted in a global production of around 775,000 mt. Early season production pressure and a higher Competitiveness Payment resulted in quoted prices falling to around 105.00 c/lb landed Far East where sizeable exports were witnessed. As upland prices increased in February, the spread between upland and long staple prices narrowed, and long staple prices began to move higher. At the same time the realisation of a smaller 08-09 crop of around 485,000 mt was becoming evident due to water issues in California and Central Asia, along with acres moving to grain and alternative crops. It remains to be seen the impact current long staple prices will have on global consumption.

### China – stock levels

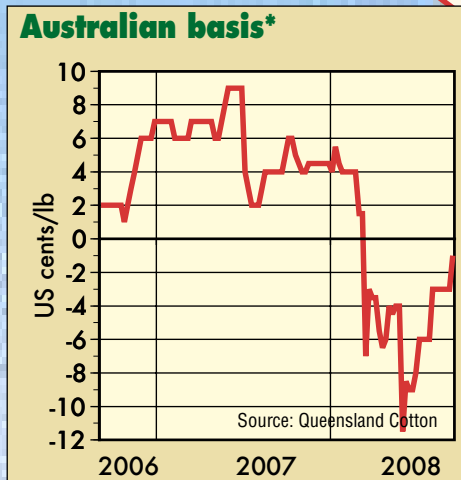
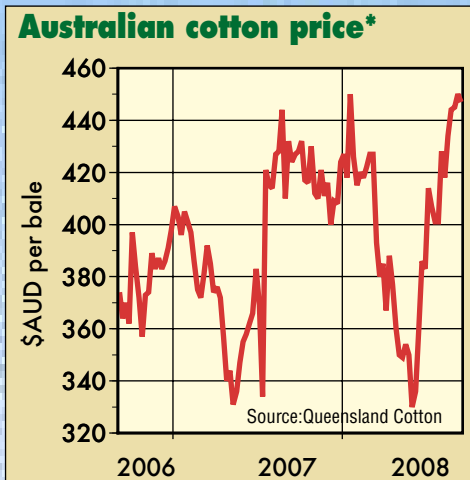
07-08 final output is estimated at around 7.8-8.0 mmt with carryover stocks estimated at around 3.5 mmt, including around 1.4 mmt being held in the National Reserve. With 08-09 production currently projected at slightly lower levels, and with the availability of old crop stocks, domestic prices continue to trend lower, which in turn has slowed demand for imported cotton. However, import demand is still estimated at 2.5 mmt in 08-09, even though China remains one of the few countries with sizeable carryover of 07-08 stocks.

### China – demand

Chinese mills have enjoyed healthy margins and a booming textile industry over the previous five years on the back of relatively cheaper labour and credit, a fixed exchange rate, and government support. However, recent government policies regarding labour reform, a surplus balance of trade, credit risks and RMB appreciation has prompted consolidation within the textile industry. As investment in the textile industry appears to have peaked, attention is now being paid to what impact this will have on total consumption.

### India

Production in India was estimated at 5.35 mmt for 07-08, with similar levels anticipated for 08-09. Consumption is expected to be maintained at around 4.0 mmt while exports could struggle to reach 07-08 levels of around 1.5 mmt. China has emerged recently as a significant buyer of Indian exports. In 06-07 imports from India were 23% or 523,000 mt, but in 07-08 imports reached 826,000 mt, 33% import share. While Indian Shankar 6 remains at a considerable discount to SM from other origins landed into China, India's market share is expected to remain sizeable.



\* Ex-gin price bids and basis for middling 1 3/32 inch cotton

The shirt you wear,  
Cotton is at every step.

... chain in the Australian cotton industry.

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