Southern Cotton Growers, Inc.
REPRESENTING COTTON PRODUCERS THROUGHOUT ALABAMA, FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA AND VIRGINIA
COTTON MARKETING NEWS

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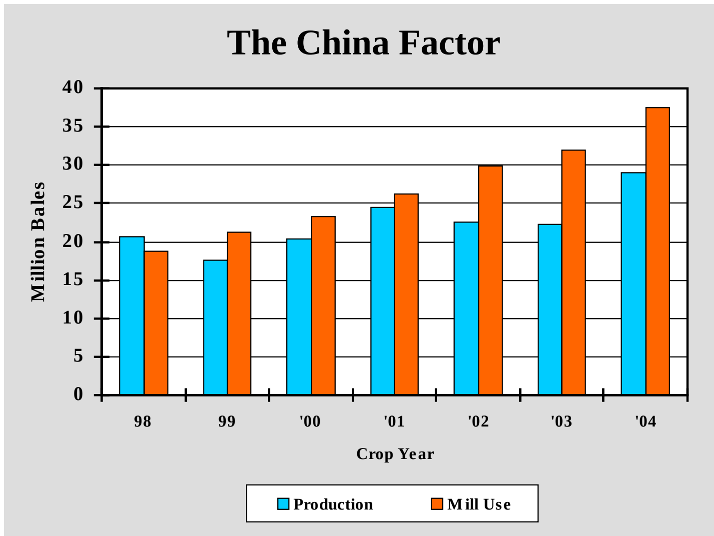
A Bull in The "China Shop"… The Need To Feed The Beast

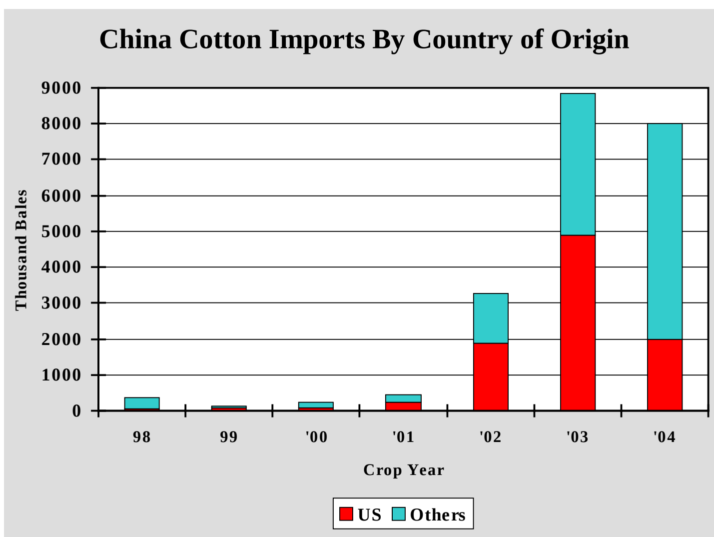
The key to continued demand growth for the US cotton producer is the ability to export. It is estimated that 13.2 million bales of the 23-million bale 2004 crop will be exported. Total off-take (demand) for the 2004 crop is expected to be 19.5 million bales-- 68% of which is headed overseas to foreign mills. The largest buyers to-date have been China, Mexico, Turkey, and Indonesia.



The growth of the textile industry in China has been dramatic. Since the lows of the late 1990's, China's cotton use has increased from roughly 20 million bales annually to now over 37 million bales expected for the 2004 crop marketing year which ends July 31. So dramatic is this growth that, even with a very large crop of 29 million bales in 2004, China will still be 8.5 million bales short of use.

As the US textile mill industry has declined, foreign mill demand has expanded and resulted in increased demand for US exports (in part because cotton that was once purchased/needed by US mills is now being used in foreign mills). Total off-take of US cotton has actually increased. For the past 3 years (2002-2004), off-take has averaged 19.6 million bales compared to 17.1 million for the previous 3-years (1999-2001).

China is expected to import 8 million bales of cotton for the 2004 crop marketing year. Thus far, 2 million bales of US cotton make up this expected total. This pace will have to pick up considerably if the US is to maintain the market share enjoyed for the 2003 crop. As the gap between China production and use began to widen (in 2002) Chinese imports began to increase. In 2002, US cotton comprised 60% of China's imports. In 2003, US cotton comprised 55% of China's imports.



These data are for "raw" cotton-- bales. I know of no proof, but likely some of the US cotton being exported to China may be coming back to the US in the form of finished textile products. In fact, textile imports from China into the US have increased dramatically in recent years. So dramatic has been the increase, that US textile manufacturers have sought government intervention against the flood of imports.

The cotton producer has a stake in this.

Number one, “total off-take” (US mill use plus exports) needs to be preserved. If the US is to continue planting and producing 19-20 million bale crops, we will need to 19-20 million bales off-take. US import sanctions against China could reduce total off-take unless US mill demand increases to compensate or purchases by other countries increased.

An increased/improved US textile industry would reduce the dependence on foreign demand and therefore likely reduce market uncertainties often associated with foreign production, trade policy, exchange rates, etc. But unless the US textile industry can grow significantly (50% or more), the US cotton producer is going to continue to be heavily dependent on foreign purchases.

Anyway you look at it, China is a major player. Clearly, the well-being of the US cotton producer at least for now, is largely dependent on China’s production and need for imports. But let me be very quick to point out and end with this note-- we also need to be concerned for US mills. Some US mills are producing high-end yarns and fabrics that are not produced overseas. Every bale of cotton that they can use is potentially a bale that does not have to be shipped overseas and total off-take is maintained or increased by doing so.

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