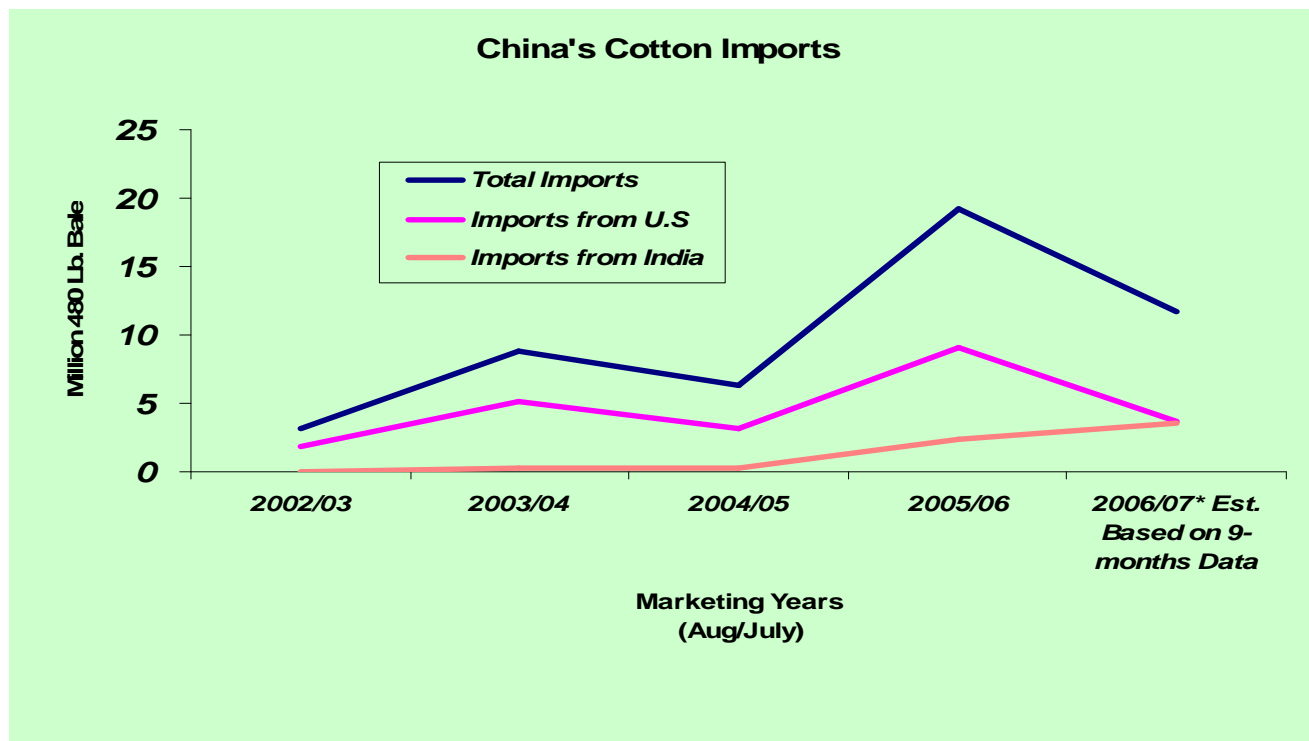


WORLD MARKETS AND TRADE

June 2007

U.S. Cotton Exports To Drop by 28 Percent in 2006/07

Less Import Demand by China and Intensified Competition from India have caused U.S. Exports to Drop and Stocks to Climb to nearly Record Highs. For 2007/08, however, lower U.S. prices and changing foreign market dynamics improve U.S. competitiveness.



Less Chinese Import Demand

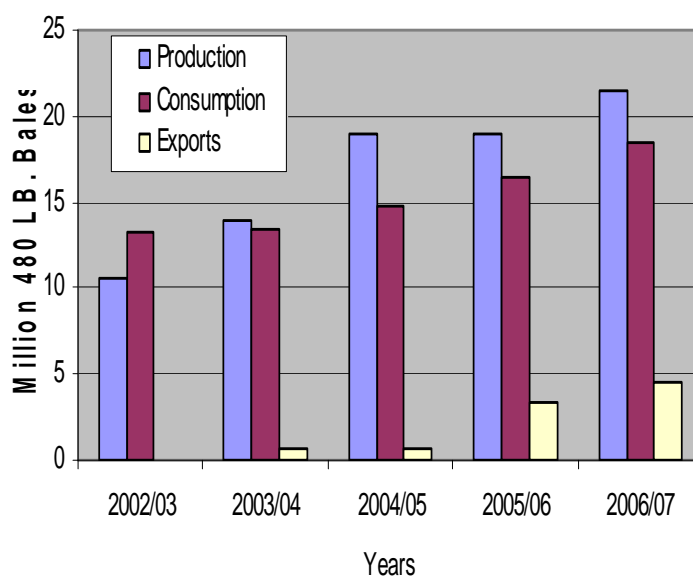
Chinese import demand has been highly erratic over the past 5 years. At the current pace, imports will only reach an estimated 11.75 million bales, down almost 40 percent (7.5 million bales) from last year. A primary reason for this sharp decline is the unusual confluence of expanded area and record yields resulting in record production. Although a number of regions have reportedly planted higher yielding Bt varieties, consumption is still expected to expand

faster than rising production. Consumption grew by 10 percent this year, driven by the growth of domestic textile consumption and the continued export growth of textile products resulting from the removal of quotas in 2005. With an estimated use of 50 million bales, 40 percent of global consumption, changes in this market have ripple effects on markets around the world.

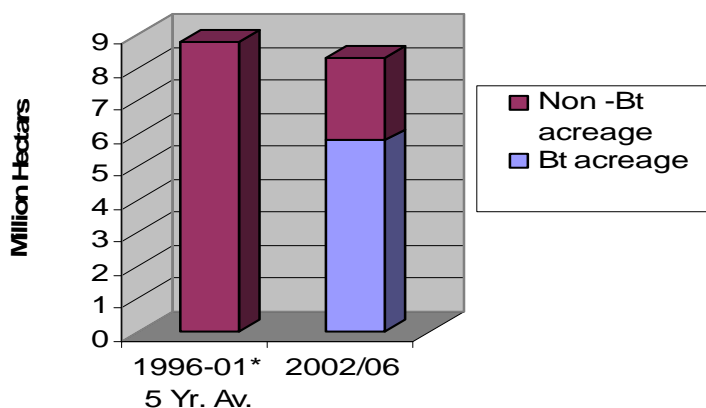
And More Indian Competition

Large exportable surpluses and low prices have turned India into a major exporter. Production has almost doubled in the last five years. A monsoon-crop, cotton is planted from the end of April through September, and harvested in the fall and winter. Planting intentions are largely influenced by the relative price and profitability of cotton compared to competing crops, rice, coarse grains, sugarcane, and tobacco. Most of the production expansion has been attributed to the rapid adoption of Bt hybrids, which has helped yields expand by nearly 70 percent over the past 5 years. Bt area has jumped to 5.8 million hectares, since it was first approved in 2002. Despite the rising trend in domestic use, exports have risen sharply in the past few years, and have jumped nearly 25 percent in 2006/07, with an estimated 62 percent going to China.

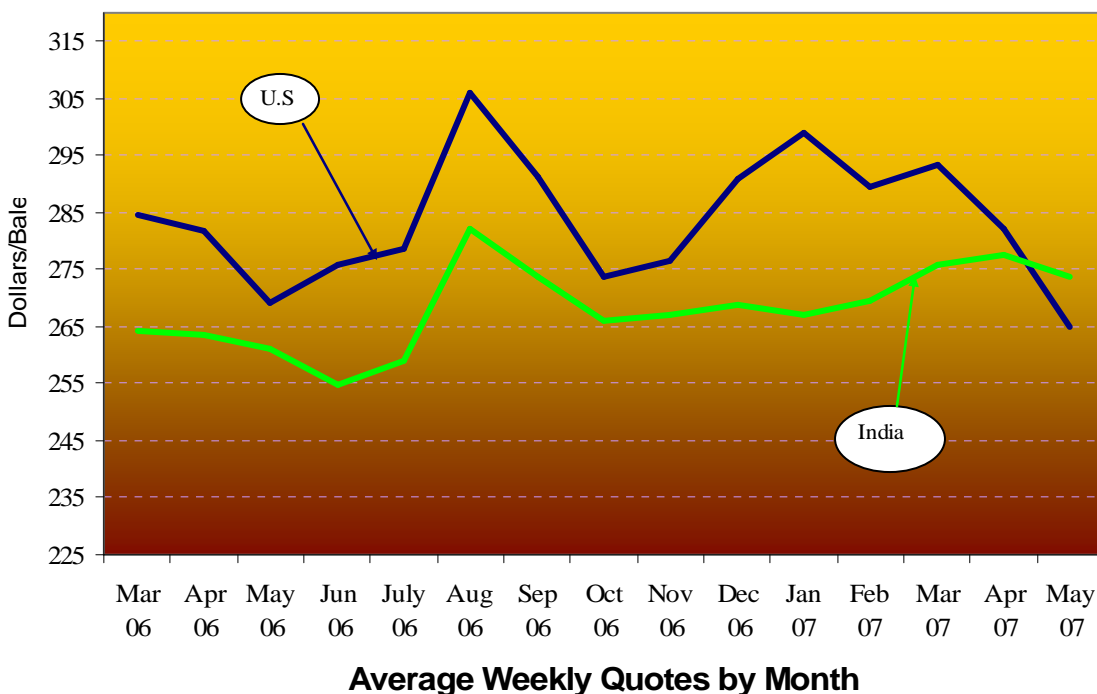
India's Production and Exports Continue to Grow



Adoption of Bt Acreage in India

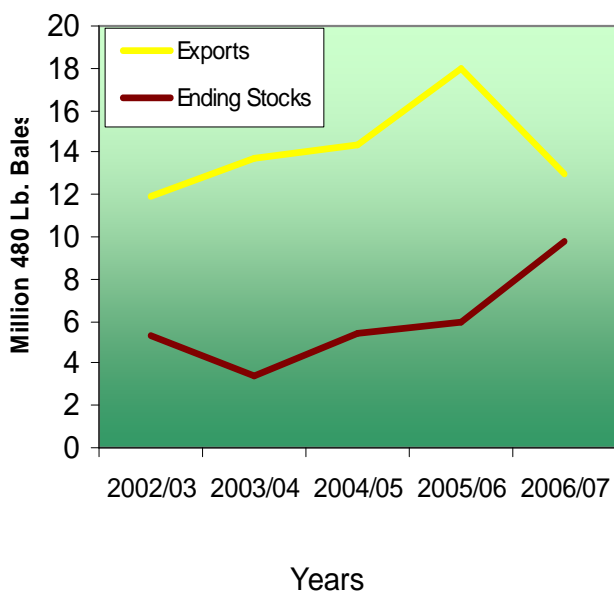


Comparable Quality Cotton Prices—CIF Far East Ports



Since becoming a significant exporter last year, with cheaper freight rates and lower cost of production, India has consistently under-priced U.S. cotton to Far East ports like China. That price differential swelled to a high of \$32 per bale in January 2007.

U.S. Ending Stocks Grow as Exports Drop



Adversely Impacts the U.S. Market

With less foreign demand, U.S. exports are estimated to drop 28 percent from 18 million to 13 million bales, while stocks are forecast to jump nearly 62 percent to 9.8 million bales. Consequently prices have dropped by \$35 per bale (11 percent) in recent months, which puts them below India's price to China CIF for the first time in more than a year. Continuation of that price relationship could make the United States more competitive in world markets, vis-a vis India, in the future.

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