MINUTES

Participants

Brazil  Rui ALTENBURG (Altenburg Industria Textil)
        Josué C. GOMES da Silva (Coteminas)
        Mauricio WAMSER (Karsten)

Egypt  Magdi Mourad Taha EL AREF (Textile Consolidation Fund "TCF")
       Mohsen Abd Elwahab EL GILANI (Cotton & Textile Industries Holding)
       Ahmed El Sawi SOLIMAN (Cotton & Textile Industries Holding)
       Bassem SULTAN (Egyptian International Company for Knitting & Dying (Dyetex)

France  Hubert DU POTET (Fédération Française de l'Industrie Lainière et Cotonnière)
        Benoît HACOT (HACOT et Colombier)
        Christophe LAMBERT (T.D.V. Industries)

Germany  Henning HAMMER (Otto Stadtlander GmbH)
         Klaus-Jürgen KRAATZ (Industrieverband Garne - Gewebe - Technische Textilien)

India  Adusumilli RAMACHANDRA (Vijayeswari Textiles Limited)

Italy  Romano BONADEI (Fondazione Industrie Cotone e Lino)

Pakistan  Bashir H. ALI MOHAMMAD (Gul Ahmed Textile Mills Ltd.)

Switzerland  Gregory FLEMING (Credit Suisse Global Research)

Taiwan, China  Steven S.C. CHEN (Tah Tong Textile Co.)

Turkey  Erhan ÖZKAN (ER-FUN Tekstil San ve Tic)

USA  Jeffrey Scott ELDER (J.G. Boswell Company)
      Allen A. TERHAAR (Cotton Council International)

ITMF  Christian SCHINDLER
1. **Opening Remarks**

Mr. Benoît Hacot, Vice Chairman of the Committee and General Manager of HACOT et Colombier (France), opened the meeting with a few introductory remarks and comments on the present state of and outlook for the international home textile industry especially with regard to rising cotton prices.

2. **Discussion on the Current Situation and Challenges of the Home Textile Industry in Context of Rising Raw Cotton Prices**

Mr. Henning Hammer, Managing Director, Otto Stadtlander/Germany, a cotton trading company based in Bremen/Germany, gave a very informative and detailed overview of the current situation and possible reasons for soaring cotton prices in the international cotton markets (see attached document no. 1).

Following the presentation of Mr. Hammer the meeting continued discussing the reasons and consequences of the enormous surge in cotton prices. In general the opinion was expressed that both supply and demand factors are responsible for this strong increase in cotton prices. In addition the view was shared that the Indian policy to restrict and ban cotton exports temporarily aggravated the situation.

Rising cotton prices are threatening the existence home textile producers as the risk of continued higher cotton prices which have to be financed and absorbed at the expense of profit margins cannot be borne by the producers alone. It was suggested in this context that retailers should assist home textile producers securing the cotton supply for the manufacturers by opening letter of credits to cotton merchants.

Furthermore, it was proposed that home textile manufacturers should try selling their products to the retail industry not more than 90 days in advance in order to be able to adapt their selling prices to changes in the volatile raw material costs. Otherwise even more textile mills would risk going bankrupt due to rising raw material costs.

The meeting agreed that home textile producers cannot afford continuing to sell products at decreasing prices. It was pointed out in this context that prices for textile products decreased during the past 20 years by 50%.

The meeting agreed that retailers have to be informed about the consequences of surging cotton prices for the entire textile value chain and that before this backdrop the retail industry cannot continue the price policy of the past. The retail industry has to pay prices that allow the textile industry to survive what means that it has to pass on price increases to the end-consumer.

For that purpose the meeting suggested that the ITMF should invite the retail industry to discuss this important issue in the near future.

It was suggested in the meeting to invite representatives of the cotton industry to provide relevant information on the international cotton markets explaining the difficult situation the cotton trade and the textile producers are facing due to soaring cotton prices.

The meeting agreed that a statement should be formulated and presented for approval to the Committee of Management. Based on the discussion the following statement had been prepared which was approved by the Committee of Management on October 19, 2010:
“The Home Textile Producers Committee recommends to the ITMF to express its concern about the future of the global textile industry in view of soaring cotton prices during the past months which are affecting negatively the entire cotton value chain from fibre to retail.

The Committee is of the opinion that the textile industry all over the world cannot absorb any longer cotton price increases of the dimensions seen recently without risking its own existence.

It calls upon the retail industry to change/adapt its business model to this new business environment of higher commodity price.

The Committee recommends that the ITMF invites the global retail industry to discuss the fundamental changes taking place in the global textile value chain in order to better understand the risks and threats involved for all partners and to develop strategies that allow a healthy and viable textile value chain.”

3. Size, Composition, Objective as well as Future Activities of the Committee

The meeting confirmed that the ITMF Committee of Home Textile Producers should be a Committee for ITMF members only. While home textile producers not affiliated with the ITMF yet can be granted an observer status at a meeting of the Federation, it was agreed that in principle only ITMF members should have access to ITMF meetings/events.

4. Next Meeting

It was agreed that the Committee of Home Textile Producers should meet again on January 14, 2011 at 16.30 hrs during Heimtextil 2011 in Frankfurt/Germany (January 12-15, 2011).

November 2010
Physical cotton has never been as expensive for the spinner as it is at this moment. And never has it been so difficult to buy cotton or receive timely delivery as at present.

What are the reasons? Speculation? Fundamentally justified? And then... how much higher can prices go? When will we see a break in this unprecedented advance of cotton values and scarcity of ready supplies?

First of all we want to be on record that we at Otto Stadtlander did not foresee the magnitude of this extraordinary price development which took place during the recent past. Granted, there was no good reason to be overly bearish at least not for the last quarter of 2010 and into the first half of 2011.

However, looking at the “A” Index of yesterday (15.10.) which was published at an all time high of 128.60 cts/lb, it is difficult to imagine that anyone in the industry had consciously anticipated this. To make matter worse (but something which brought the message home) each and every quote in the Index was marked “nominal” on this 15th of October, 2010. American Pima was raised on this one day by nothing less than 10.00 cts/lb and was also designated “nominal”.

Futures during the past two days went limit up followed by limit down in the front months (through to JLY-2011). Under these circumstances it would be pretentious of us to talk about prices in a strictly objective manner. One can only make assumptions.

Now to the question above:

Speculation is part of the make up of our trade. Needless to state the obvious namely that speculative money provides liquidity to all futures markets. We all know and accept this.

But while speculation tends to always anticipate and at many occasions compounds what variably is a bearish or a bullish fundamental background, it is quite remarkable to witness that this time cash prices have been leading the advance while New York Futures trailed behind.

Witness a rising Futures Market and at the same time a strengthening of the basis. The text book tells us that it should be the other way around. You may have someone say “NY Futures are cheap”. This does not sound right but why then is the Dec-10 trading almost 600 pts premium to Mch-11? And this in the face of a large crop in the USA and equally as important, an early maturing crop. In other words there should be sufficient time and sufficient volume to tender cotton to the board and take advantage of the 600 pts premium over Mch-11.
The problem is that if it costs say 700 pts to tender, the trade has sold cotton for export at a basis better than these 700 pts and what compounds the problem, has sold the cotton for loading as quickly as they can process the cotton from field to an ocean vessel. The USDA sale numbers confirm the commercial attraction of exporting. There is no magic in assuming this given the fact that we have seen now five weeks in a row that the export numbers were each time in excess of half a million bales.

In our opinion therefore the market is driven on purely fundamental considerations.

**Stocks to use ratios have deteriorated for some considerable time now.**

In the USA with the extraordinary movement of cotton into export markets, the ratio is 14.14%, historically low. In China it is 29.42% which is also historically low. And the world stock to use ratio is below 40%, likewise low – possibly not the lowest we have ever seen but nevertheless very low. But, some will argue, there are still worldwide over 44 million bales as a carry-out. So why panic?

Yes, sure – these bales do exist “statistically”. I repeat statistically. But statistics cannot be bought; they are no more than in indication. And how accurate and reliable are they anyway? Moreover statistics lack a timeline as to when and how such carry-out is physically available.

The problem lies in the real world, i.e. we have a demand-driven market which is faced with an acute scarcity of available cotton to satisfy this demand.

**Examples:**

1. China just now reduced its crop forecast from close to 7 million tons of lint to 6.65 million tons. Chinese numbers are not always reliable but China has no good reason to want to boost prices for cotton – quite the contrary, China likes stability in everything. Our reading therefore is that the cotton crop in China suffered a serious set-back.

2. India has for some time now pursued an erratic policy with regard to exports. India has turned into a major participant in the world’s cotton trade and it is most disturbing to see that internal politics have played havoc with what the market considers the “reliability factor” in the sense that India has become provider for cotton to non-Indian spinning mills as well as to their domestic industry.

3. Instead India continues to cause great uncertainty because it remains in limbo and has yet to announce a clear policy for the immediate future as far as exports of cotton are concerned. This has led mills to try and find other supply sources but supply sources have become very scarce. Witness the Outlook’s decision to place each and every cotton quote under “nominal”.

4. Furthermore we have seen production problems not only in China but certainly the tragic floods in Pakistan took their toll.

5. As we speak we face heavy rains in Greece at a time when the cotton is ready to be picked. And so on and so forth…

These are just a few examples of the unprecedented immediate tightness of supplies. This tightness is real. Granted, common wisdom has always been that once Northern hemisphere crops come on stream, any supply tightness will be corrected.
This is not the case this year. A reduced crop in China and the authorities in India trying to balance demands from their domestic industry to stop export, at least momentarily, versus those in India who have committed cotton for export plus climatical problems like those in Pakistan and now in Greece.

Here in Brazil the spinning industry has to resort to imports, mainly from the USA, something unheard of in the last five to six years, at least on this scale – up to 250,000 tons.

And speaking of the USA, the country has already committed over 10 million bales out of a target of 15.5 million bales.

**How much higher can prices go?**

It is impossible to say whether prices will still move higher. Surely, at one point cotton will detach itself from being a commercially viable raw material. This point will certainly have been reached when demand for cotton starts to retreat. The reason may be a much greater usage of synthetic fibres or, and this is something we do not wish to happen, the world slips once again into recession and all the negative implications this implies.

It is our opinion that in the short term, into early next year at the very least prices will stay firm and may even advance somewhat further. Volatility is significant and ups and downs will occur but the basic tenor will remain firm. In other words we see no significant break in prices for this timeframe.

**When will we see a break…?**

The markets’ first objective must be to bring stability back not only with regard to prices but also a trading environment in which panic will be replaced again by rational planning.

As to the question of price it is our opinion now (we though somewhat differently some weeks ago) that if demand for cotton stays at the level as presently estimated, and the conference will provide some orientation in this, that the value of raw cotton will remain relatively firm well into 2012.

The reason is simply that production increases will only be achievable gradually and it is by no means a given conclusion that because of the currently high prices, cotton will be planted worldwide fence to fence.

The impediment must be seen in three distinct fields:

1. Productivity (yield) has, at least given the present state of scientific research, reached a level which will only be marginally improved over time. The extraordinary productivity improvement over the past decade has reached a top.

2. Available land, as it stands today, will compete with other crops, all of which have also risen significantly in price and hence in an improved return to the farmer. Corn and soybeans are two crops which compete directly with cotton for land.

3. To bring new land under cultivation will take time and as the “Economist” wrote some weeks ago, the only country where arable land is still expandable on a significant scale is Brazil.
The conclusion must therefore be that cotton, as well as other commodities, in a world where the purchasing power of large populations of the so-called "emerging" nations is rapidly improving, the demand factor, especially for food items, can only be met with prices which offer the farmer the optimum cost/reward ration.

Cotton has to compete with this.

Our conclusion therefore is that yes, we will see prices moving lower again. At one point in time, possibly with the onset of the 2011 Northern hemisphere crops but we are beginning to resign ourselves to the inevitable namely that for reasons stated above, the decline of values will be gradual and when everything is said and done, will remain in a generally higher range, say anywhere between 70.00 cents and one dollar a pound. This is a bit like shooting from the hip but this is our opinion at this point in time.