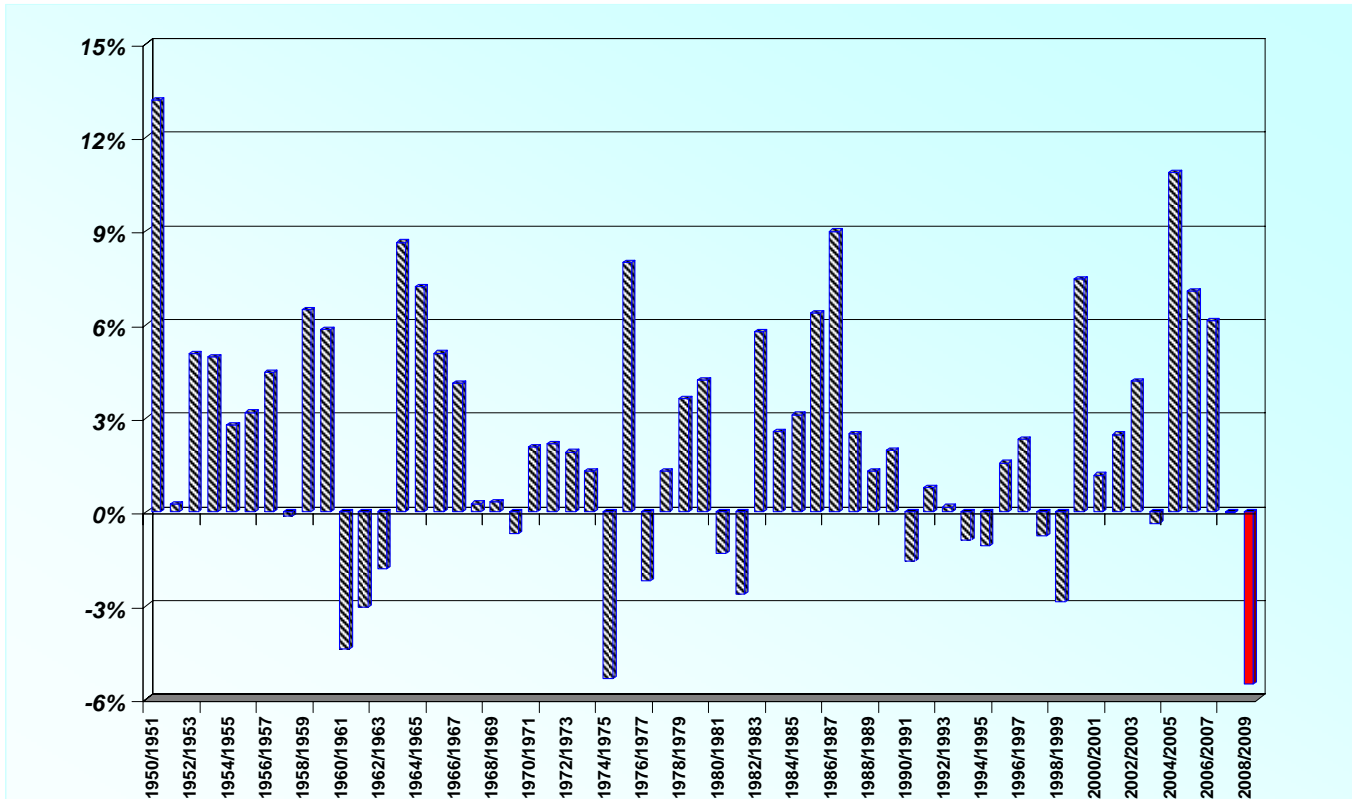




Cotton: World Markets and Trade

Worst Global Consumption Contraction in 65 Years



The weakening global economic situation is reducing world mill use as consumer demand fades and surplus yarn and fabric inventory weigh on the market. This weakening demand has depressed prices, with the A-Index down 40 percent from the peak in April.

In response, India and China have taken measures to support domestic prices in order to maintain farm income. These measures combined with China's existing state reserve, could put over 20 percent of global production in state-controlled stocks by early spring. China has announced its intention to purchase over 12.5 million bales for the state reserve and to date has already purchased a third. India has implemented a program under which the state controlled Cotton Corporation of India will buy and hold cotton. Industry estimates that up to 7 million bales (480 lbs) could be acquired. Government support of domestic farm prices could help sustain cotton planted area in 2009.

Until these state-controlled stocks are drawn down, they inject a certain note of uncertainty into the world market which could potentially limit increases in world prices.

