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Thailand

COTTON AND PRODUCTS ANNUAL

Annual 2009

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Report Highlights:

MY2009/10 cotton production is forecast to decline due to acreage reduction as returns from the current cotton crop declined significantly. MY2009/10 cotton consumption is forecast to increase slightly in anticipation of slow economic recovery. MY 2008/09 cotton consumption will likely decline significantly due to the economic downturn, fueled by global trade contraction. Thai economy is forecast to shrink by 2.7 percent as the economy will likely be adversely affected by anticipated global trade contraction of 6.1 percent. Despite reduced production capacity of spinning industries by 30-40 percent following the economic downturn, MY 2008/09 cotton imports are forecast to decline only by 5-10 percent. Spinning industries reportedly are shifting to more coarse-count yarn production to maintain the business. In MY2009/10, cotton imports are forecast to increase slightly in anticipation of slow economic recovery.

Executive Summary:

MY2009/10 cotton production is forecast to decline in anticipation of acreage reduction as current farm-gate prices dropped nearly 10 percent from the previous year. Farmers will likely continue to shift to alternative crops, particularly corn and tapioca, as returns from current cotton crop declined by approximately more than 20 percent.

MY2009/10 cotton consumption is forecast to increase slightly in anticipation of slow economic recovery. MY 2008/09 cotton consumption will decline significantly from the previous year due to the economic downturn. The Thai economy is forecast to shrink by 2.7 percent reflecting an anticipated global trade contraction of 6.1 percent. In the worse case scenario, the Thai economic growth is expected to decline by 4.9 percent, fueled by political uncertainties. The manufacturing production index (MPI) of textiles declined by 2.1 percent in CY2008. In the first two months of CY2009, the MPI of textiles continued to decline by 2.6 percent. Presently, the textile industries have reduced their production capacity by 20-30 percent, particularly in the spinning and garment industries.

Despite reduced spinning industries production capacity by 30-40 percent following the economic downturn, MY 2008/09 cotton imports are forecast to decline by 5-10 percent. The spinning industries will likely operate at their minimum production level but shift to more production of coarse-count yarn. The market share of U.S. cotton import will likely decline slightly, as the spinners still rely on U.S. cotton to ensure yarn quality despite the coarse-count yarn production. However, in MY2009/10, cotton imports are forecast to increase slightly in anticipation of slow economic recovery. Anticipate global trade recovery in 2010 will boost Thai textile exports, particularly for garment exports to the U.S. and the European.

Commodities:

Cotton

Production: MY2009/10 cotton production is forecast to decline in anticipation of acreage reduction. Current farm-gate prices dropped significantly by nearly 10 percent from the previous year. Farmers are expected to shift to alternative crops, particularly corn and tapioca, as returns from current cotton crop declined by approximately more than 20 percent. MY2007 and MY2008 cotton production is revised down significantly because acreage dropped more than expected.

Consumption: MY2009/10 cotton consumption is forecast to increase slightly in anticipation of slow economic recovery. MY 2008/09 cotton consumption will likely decline significantly from the previous year due to the economic downturn. The Thai economic outlook in CY 2009 has been revised down significantly. The Bank of Thailand expected the Thai economy will likely shrink for the first time over the past 11 years after the economic slowdown in CY2008 due to deep global economic recession. In addition, the World Bank recently revised down CY 2009 global economic forecast to contract by 1.7 percent with the downturn of the high income economies by 2.9 percent (-2.4% for the U.S., -2.7% for the European, and -5.3% for Japan).

Despite the slowdown of 2.1 percent of developing countries in East Asia and Pacific, and China, the Thai economy is forecast to shrink by 2.7 percent as the economy will likely be adversely affected by anticipated global trade contraction of 6.1 percent. In the worse case scenario, the Thai economic growth is expected to decline by 4.9 percent, fueled by political uncertainties. However, the World Bank expects the global economic recovery in CY2010 with economic growth of 2.3 percent (2.0% for the U.S., 0.9 percent for the European, and 1.5 percent for Japan). The Thai economy will then gradually recover, particularly in the export sector, in line with anticipated global trade recovery of 4.2 percent.

Trade:

MY2009/10 cotton imports are forecast to increase slightly in anticipation of slow economic recovery. Anticipated global trade recovery in 2010 will boost Thai textile exports, particularly for garment exports to the U.S. and the European. The spinning and weaving industries will then be back on track to increase use of raw cotton, especially for premium raw cotton for medium-fine count yarn production.

Despite current reduction in production capacity of spinning industries by 30-40 percent following the economic downturn, MY 2008/09 cotton imports are forecast to decline by 5-10 percent. The spinning industries will likely operate at minimum production but shift to more production of coarse-count yarn which will utilize more raw cotton than the production of medium-fine count yarn. However, the market share of U.S. cotton import will likely decline slightly as the spinners still rely on U.S. cotton to ensure yarn quality despite the coarse-count yarn production. Despite an anticipated increase in raw cotton demand resulting from the shift to more production of coarse-count yarn, most spinners are reportedly buying just enough to cover orders in hand. Also, despite current cotton prices falling significantly, spinners are reluctant to build up stocks due to liquidity concerns. Spinners' stocks are dominated by SJV (San Joaquin Valley) grown cotton (SM 1 1/8"), the most popular U.S. cotton used for superior medium-count yarn production in Thailand. In addition, Thai commercial banks' credit policy will be more stringent under the economic downturn, despite downward pressure in domestic interest rates following monetary policy changes to stimulate the economy. However, GSM102 and other Export Credit program for U.S. cotton will likely be unattractive as domestic interest rates are more competitive without exchange rate risk under current exchange rate volatility.

In CY 2008, despite the economic slowdown, cotton imports increased by 11.0 percent from the previous year as the industries built up the stocks during the first half of the year when economic recovery remained on track. Also, the upward pressure on cotton prices was offset by the strengthening Thai baht in the first half of the year. Thai textile manufacturers, particularly those who moved toward the high-end of the market, invested conservatively amid economic uncertainty. Meanwhile, world cotton prices continued to increase as major suppliers were adversely affected by drought, particularly in Australia. As a result, the value of cotton imports increased by 25 percent. The U.S. cotton imports continued to increase significantly in CY 2008. The US is the largest supplier of cotton to Thailand. The market share increased to 42 percent in 2008 due to limited exportable supplies of major competitors like Australia following drought.

Stocks: MY 2008/09 and MY2009/10 raw cotton stock is will likely be at low levels. Most spinners will likely run down their large carry-over stocks of yarn and raw cotton built up in MY 2007/08. They are buying to meet immediate needs during the economic downturn in CY2009,

despite current sharp reduction in cotton prices since late CY2008. Anticipated low carry-over stocks will likely bring more import demand for raw cotton, particularly from the U.S., in MY2010/2011 if global economic recovery in CY2010 is stabilized.

Policy:

The Government did not implement intervention program to help farmers and does not allow the commercialization of transgenic plants.

Marketing:The manufacturing production index (MPI) of textiles declined by 2.1 percent in CY2008. In the first two months of CY2009, the MPI of textiles continued to decline by 2.6 percent. Presently, the textile industries reportedly reduced their production capacity by 20-30 percent, particularly in the spinning and garment industries, following the contraction in textile exports which accounted for approximately 30-40 percent of total textile production. Thai garment production is expected to decline significantly in the second half of CY2009, particularly for mass-product production. New orders from the U.S., the European countries, and Japan reportedly dropped significantly. These markets represented approximately 80 percent of total Thai garment exports, and half of which is for the U.S. market. Thai garment exports account for around half of total textile exports. Meanwhile, spinning industries are reducing their production capacity by 30-40 percent and running at minimum production to maintain their business. Also, spinning industries are temporarily restructuring their yarn production by producing more coarse-count yarn (#20) due to the sharp contraction in higher end of the market. They are leaving their stocks of premium imported raw cotton for medium count yarn (#30's - #40's) production unused. Moreover, spinners are looking to bring down large medium-count yarn stocks that may take quarters to sell off, particularly during the economic down turn in CY2009. They are facing strong competition from imported cotton yarn and fabric, particularly from China which accounted for around 50-80 percent of total cotton yarn and fabric imports

Production, Supply and Demand Data Statistics:

Cotton Thailand	2007 2007/2008			2008 2008/2009			2009 2009/2010	
	Market Year Begin: Aug 2007		New Post Data	Market Year Begin: Aug 2008		New Post Data	Market Year Begin: Aug 2009	
	Annual Data Displayed			Annual Data Displayed			Annual Data Displayed	Jan 2009 Data
Area Planted	0	5	3	0	5	3		3
Area Harvested	8	5	3	8	4	3		3
Beginning Stocks	352	341	352	316	262	252		225
Production	15	10	5	15	9	5		5
Imports	1,928	1,943	1,929	1,900	1,700	1,800		1,900
MY Imports from U.S.	0	834	834	0	710	750		760
Total Supply	2,295	2,294	2,286	2,231	1,971	2,057		2,130
Exports	4	2	4	2	0	2		2
Use	1,950	2,000	2,000	1,875	1,750	1,800		1,900
Loss	25	30	30	25	30	30		30
Total Dom. Cons.	1,975	2,030	2,030	1,900	1,780	1,830		1,930
Ending Stocks	316	262	252	329	191	225		198
Total Distribution	2,295	2,294	2,286	2,231	1,971	2,057		2,130
Stock to Use %	16	13	13	18	11	12		10
Yield	408.	0.	363.	408.	0.	363.		363.

