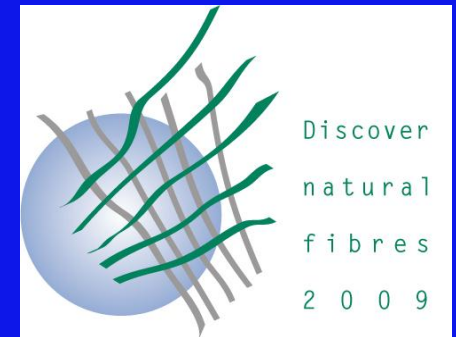
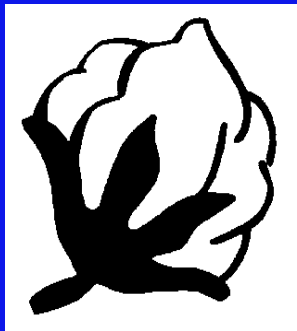


Price Volatility in the World Cotton Market: Causes, Impacts, and Mitigation

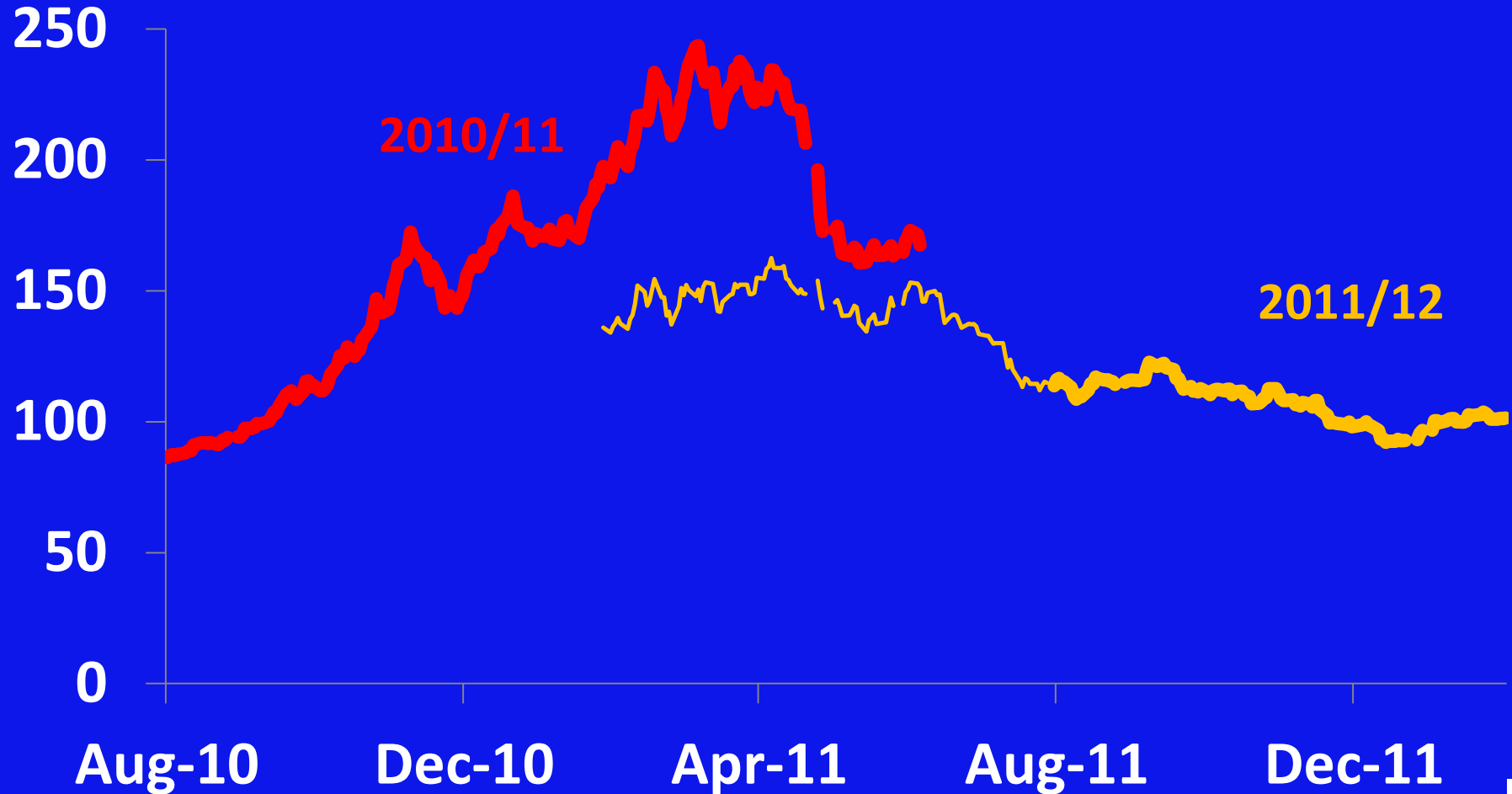


Plastina, A. and T. Townsend
International Cotton Advisory Committee (ICAC)
USDA Outlook Forum
February 24, 2012

Cotlook A Index

August 2010 - February 2012

A Index, US cents/lb



Factors Affecting Cotton Prices in 2010/11

A Index, US cents/lb



Price Volatility by Season: Cotlook A Index

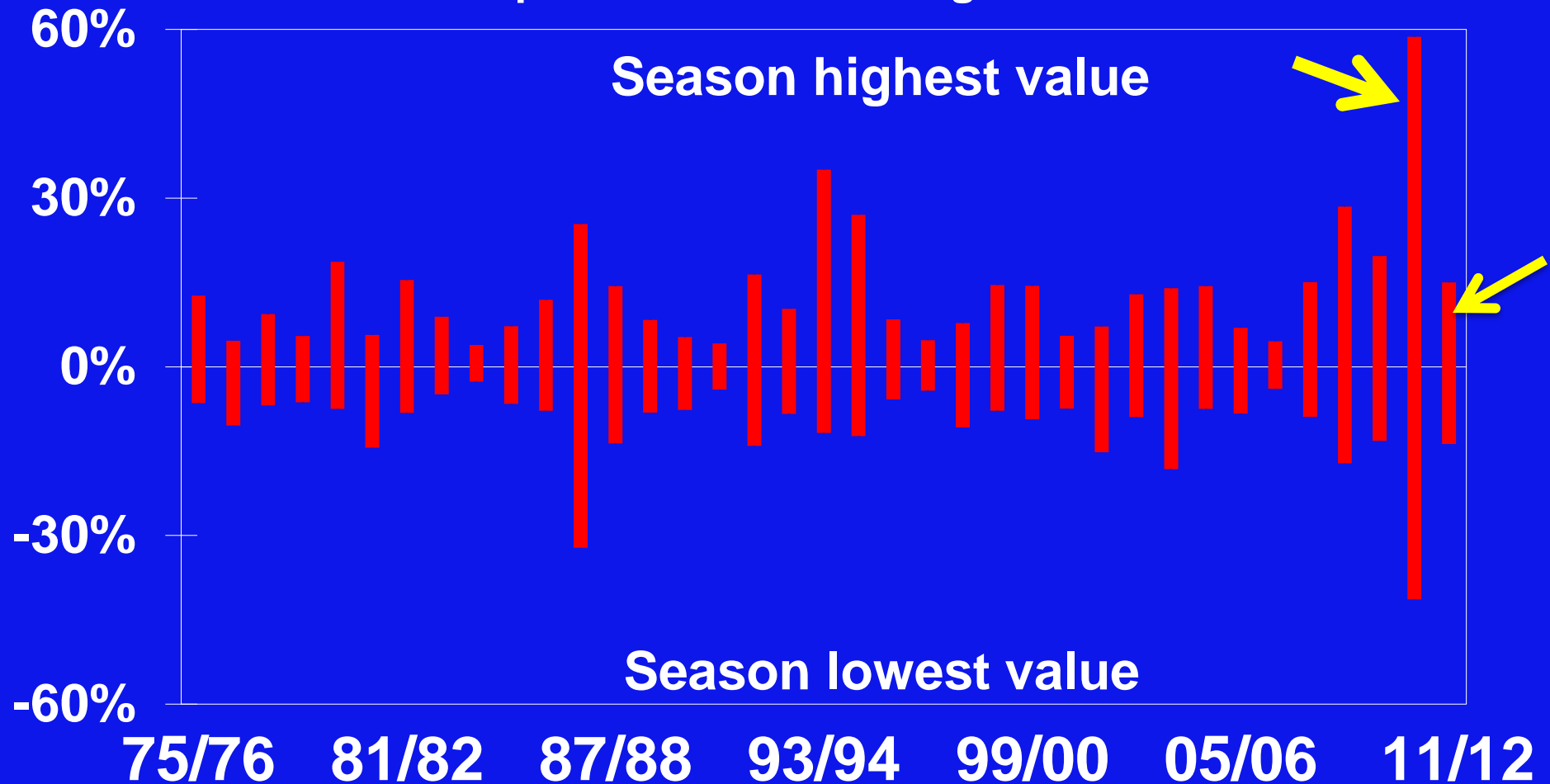
Difference with respect to season average



Price Volatility: Cotlook A Index

First 7 months of each season

Difference with respect to season average

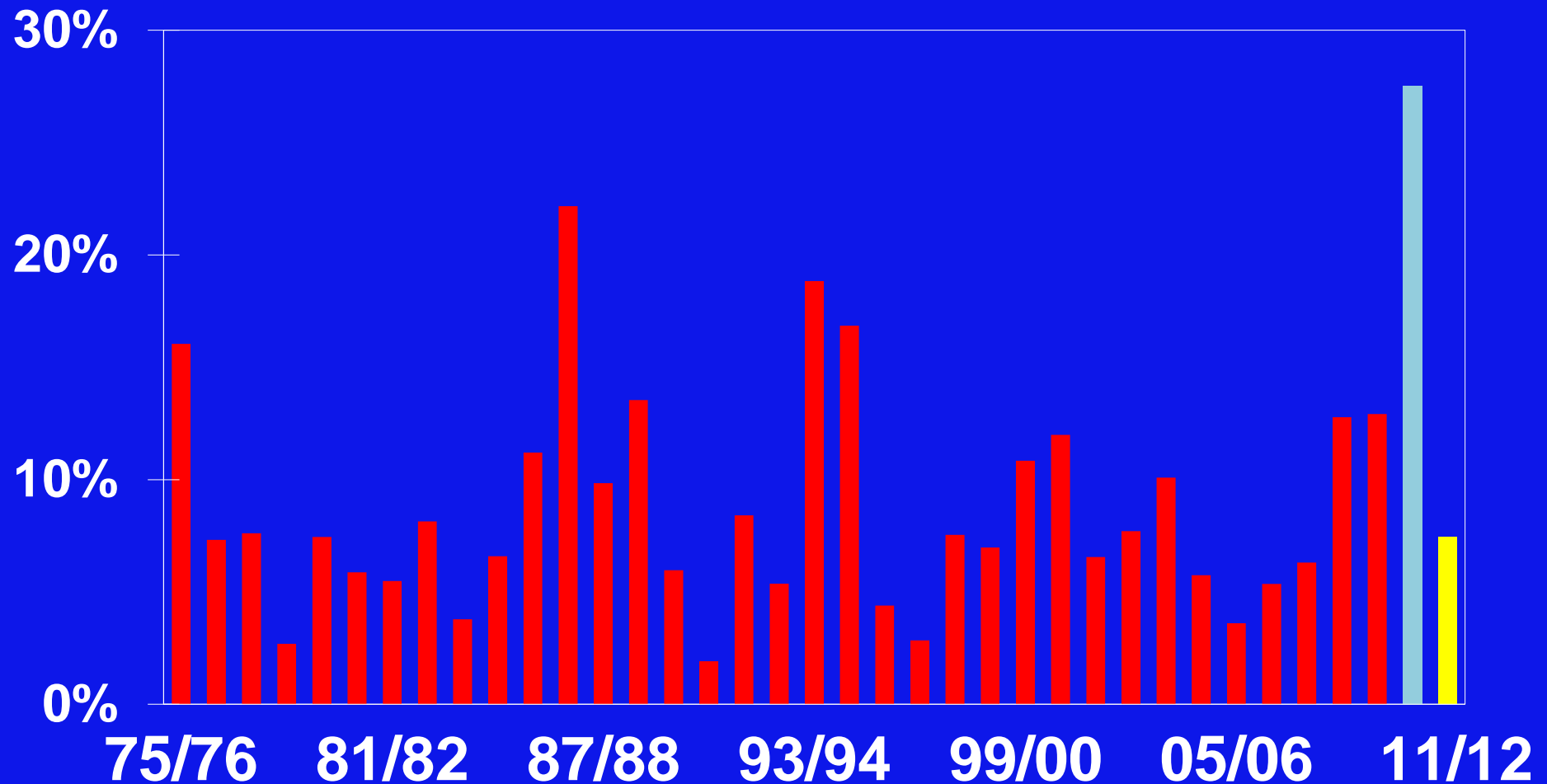


August – February



Price Volatility by Season: Cotlook A Index

Coefficient of Variation

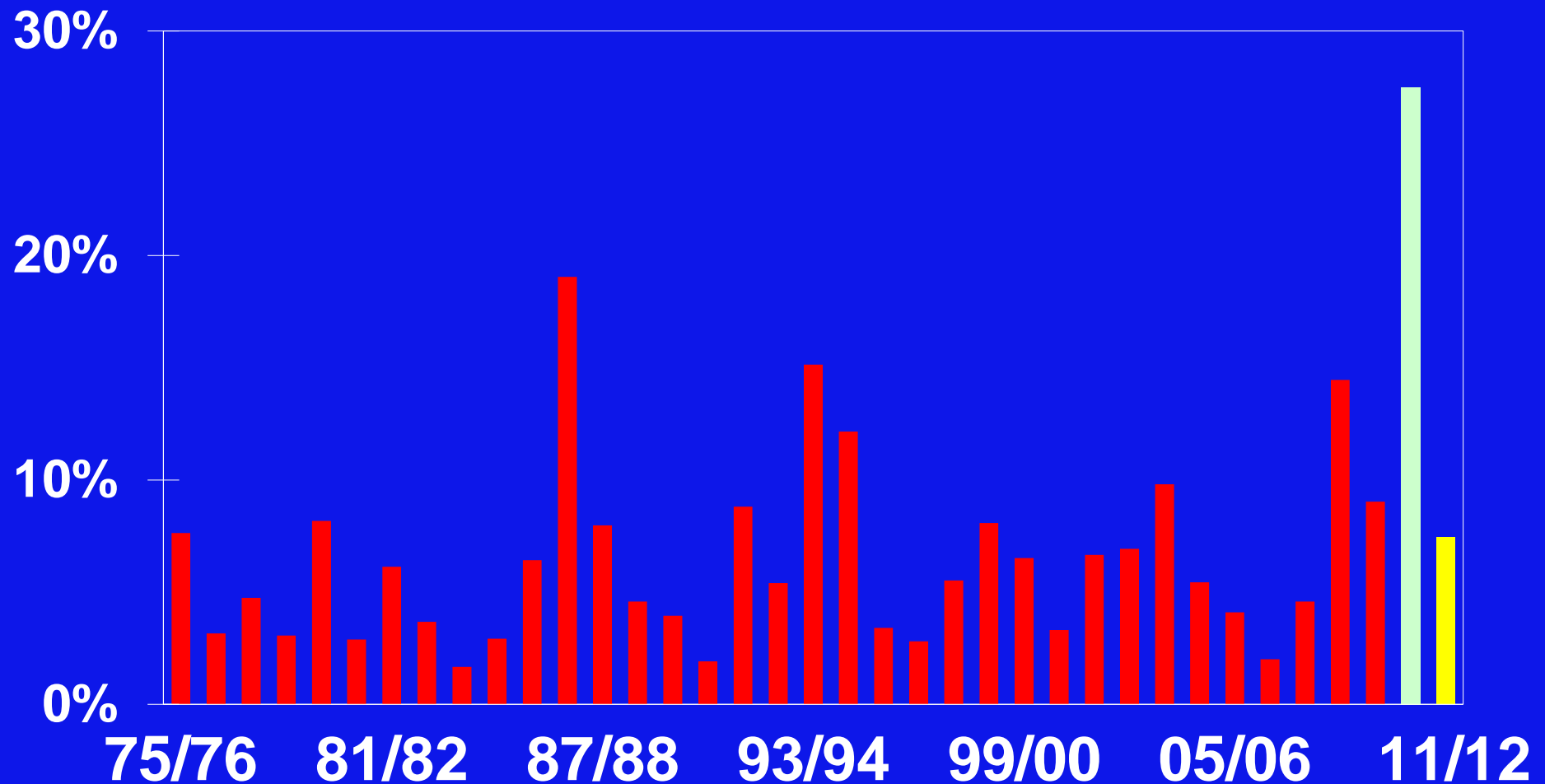


2011/12: 1 August – 21 February



Price Volatility: Cotlook A Index First 7 months of each season

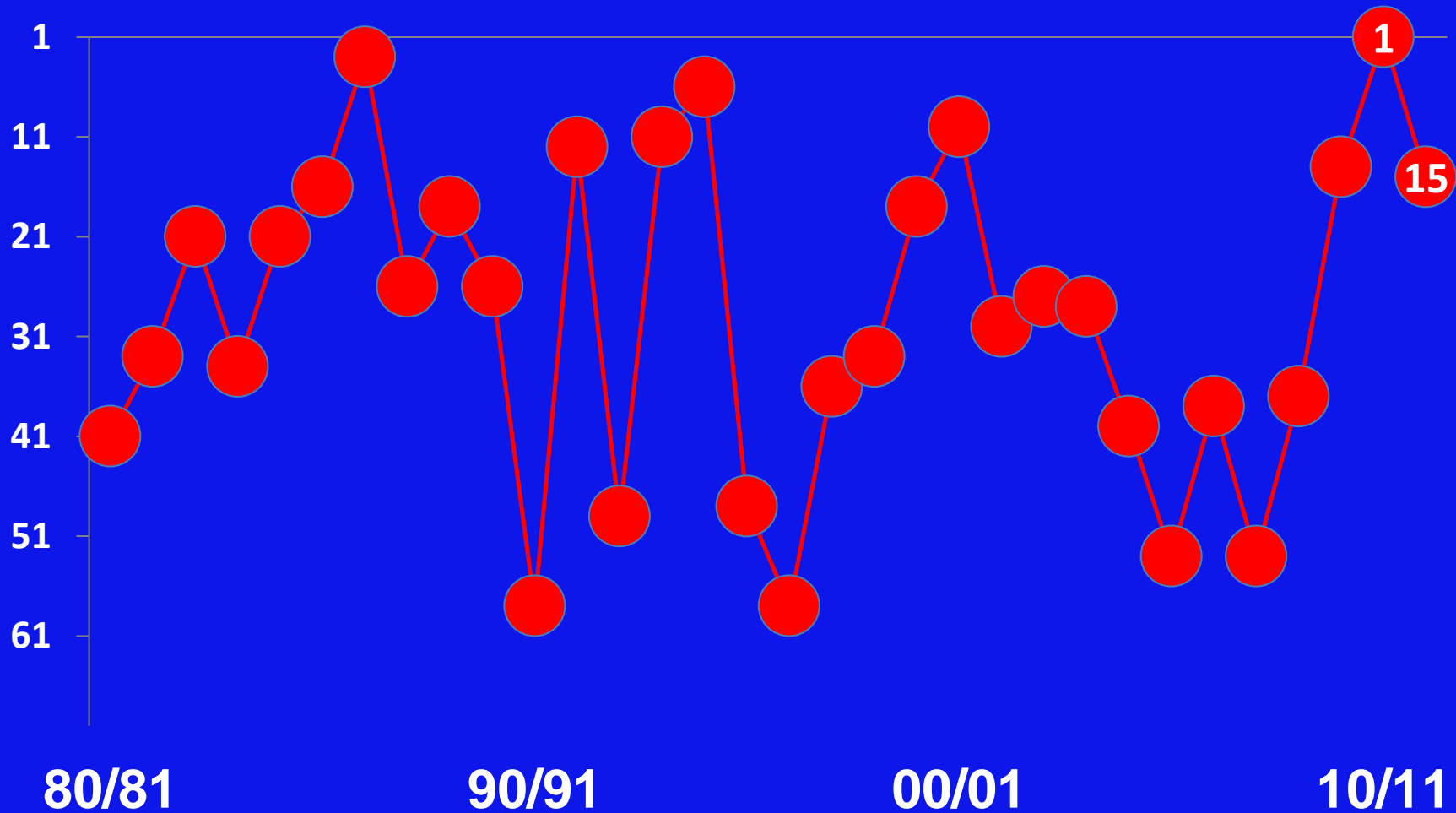
Coefficient of Variation



August - February



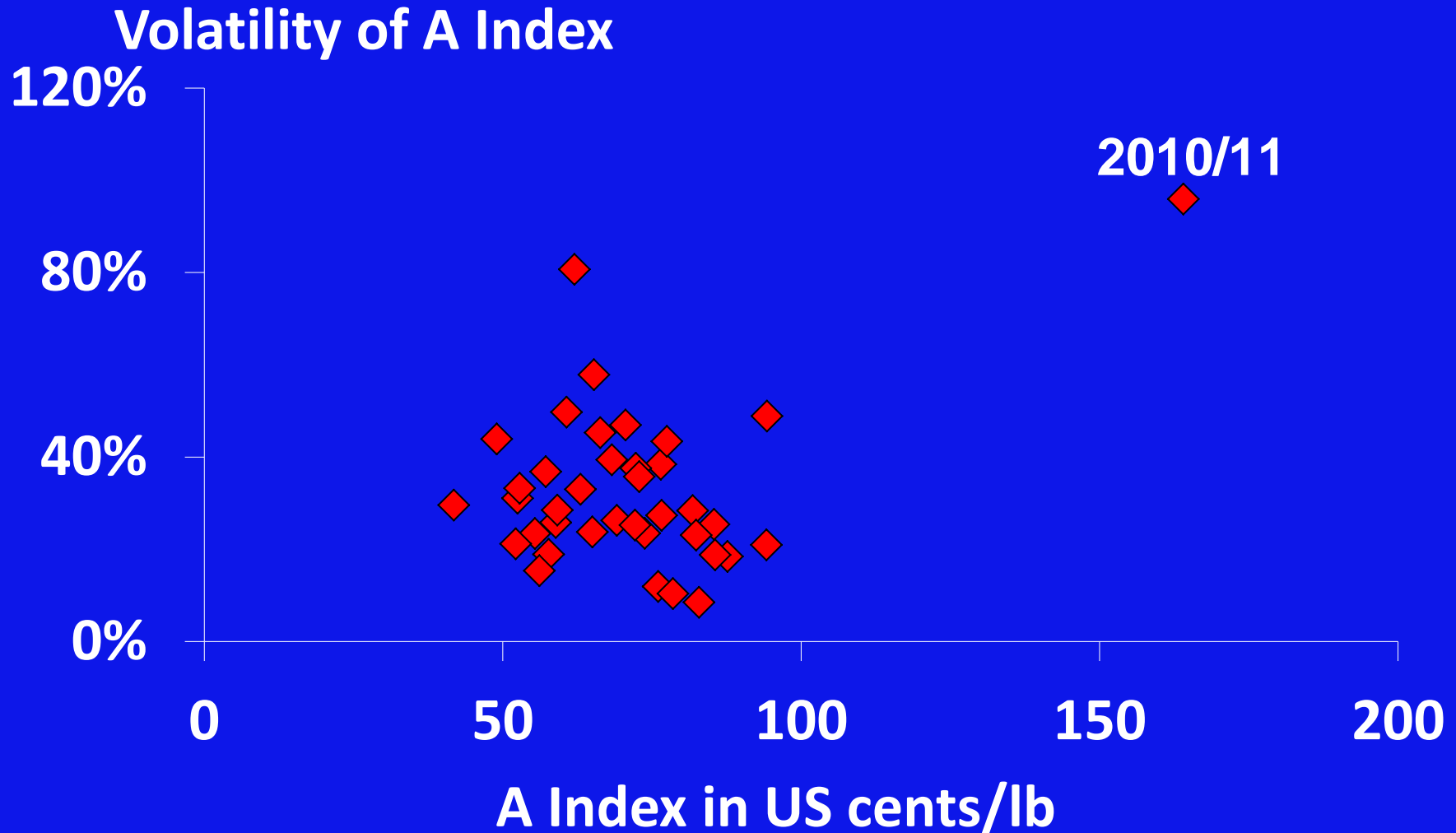
Ranking of Cotton Price Volatility among 64 Commodity Prices (RS)



2011/12: August - February



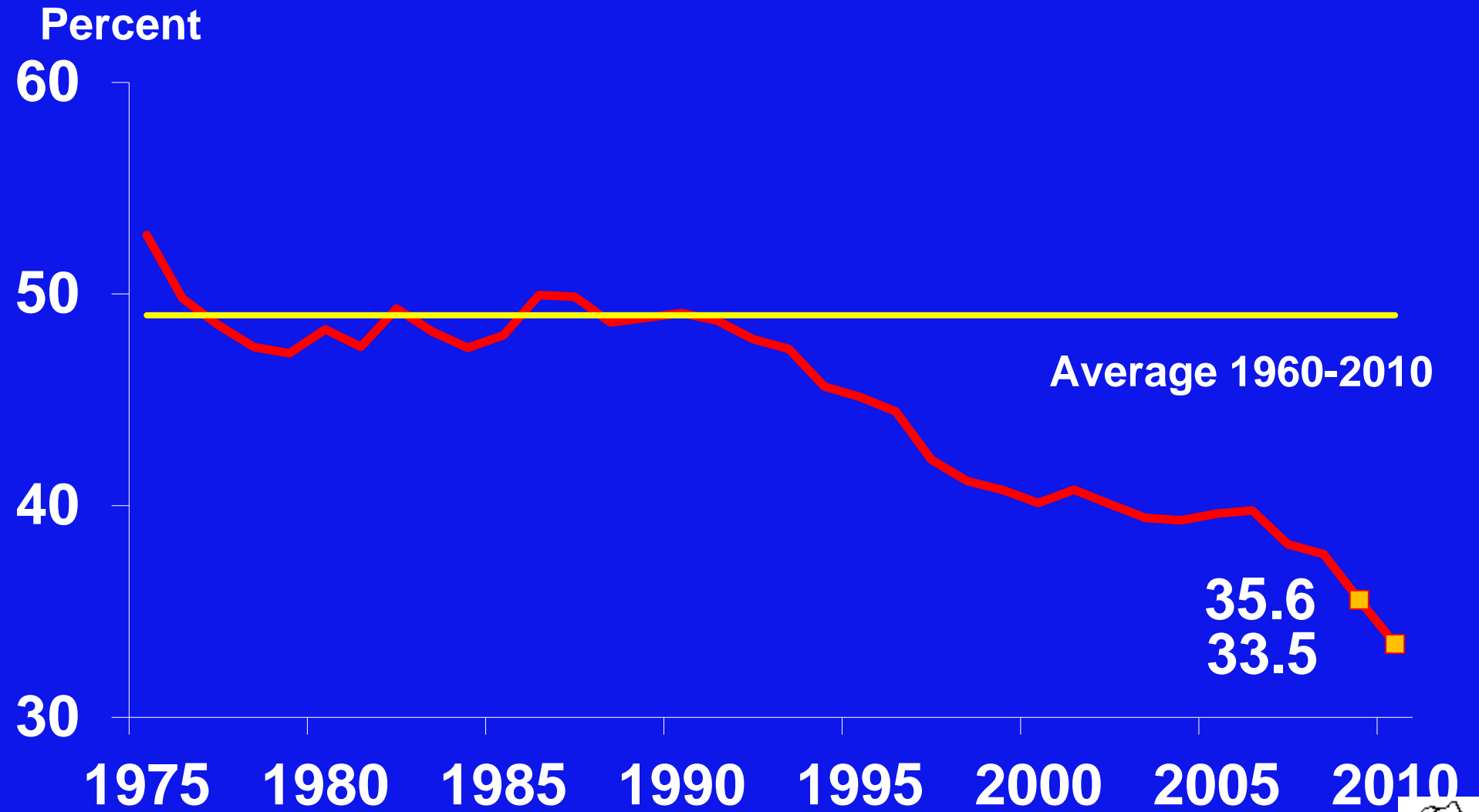
Price Level vs. Price Volatility: 1973/74 – 2010/11



Impacts of Volatility

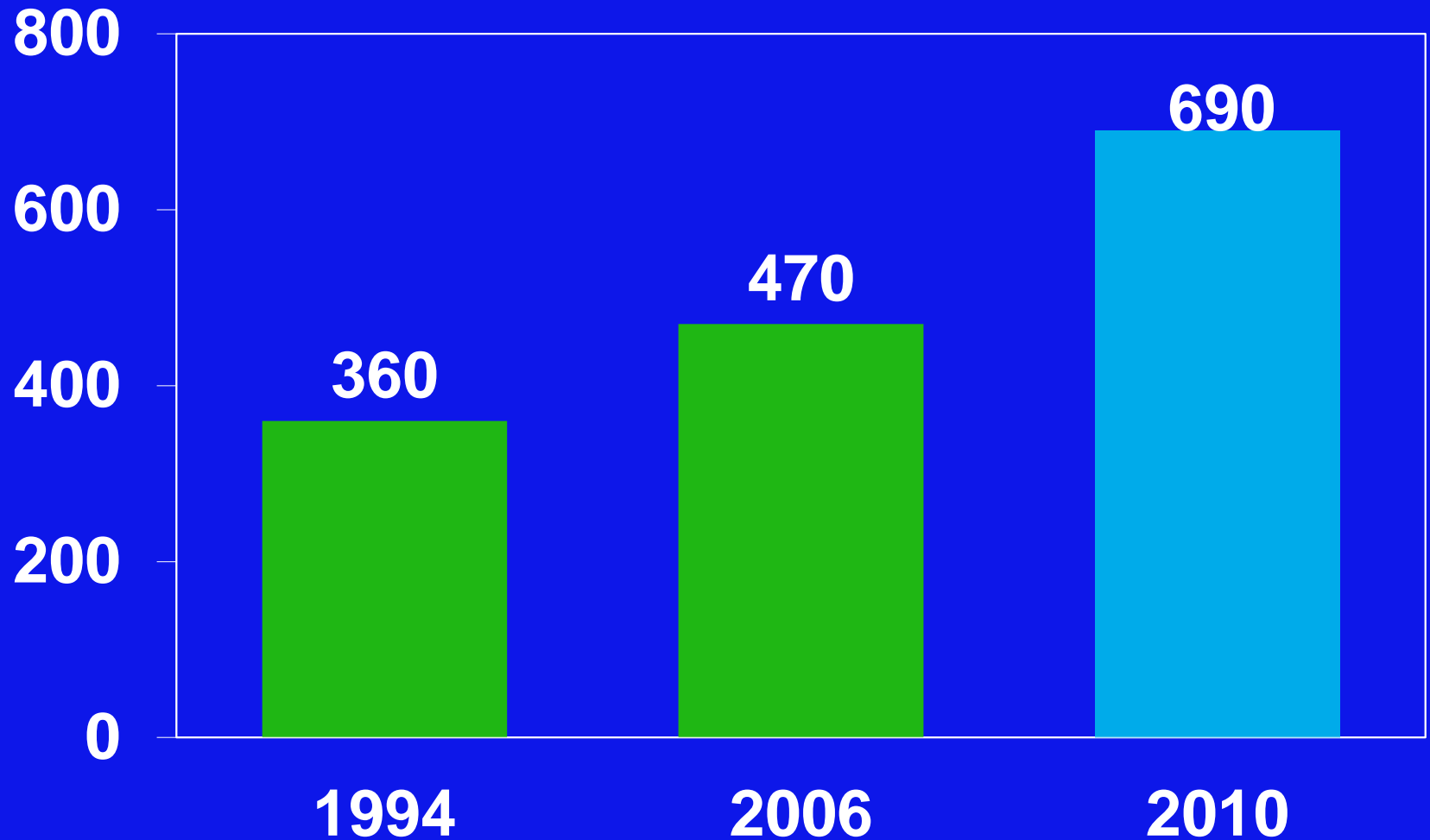
- **Drop in Market Share**
 - **Industry Exit**
 - **Defaults**
- **Increased Cost of Hedging**

Market Share of Cotton in World Textile Fiber Consumption



LARGEST MERCHANTS

Avg. Trading Volume, Thousand Tons

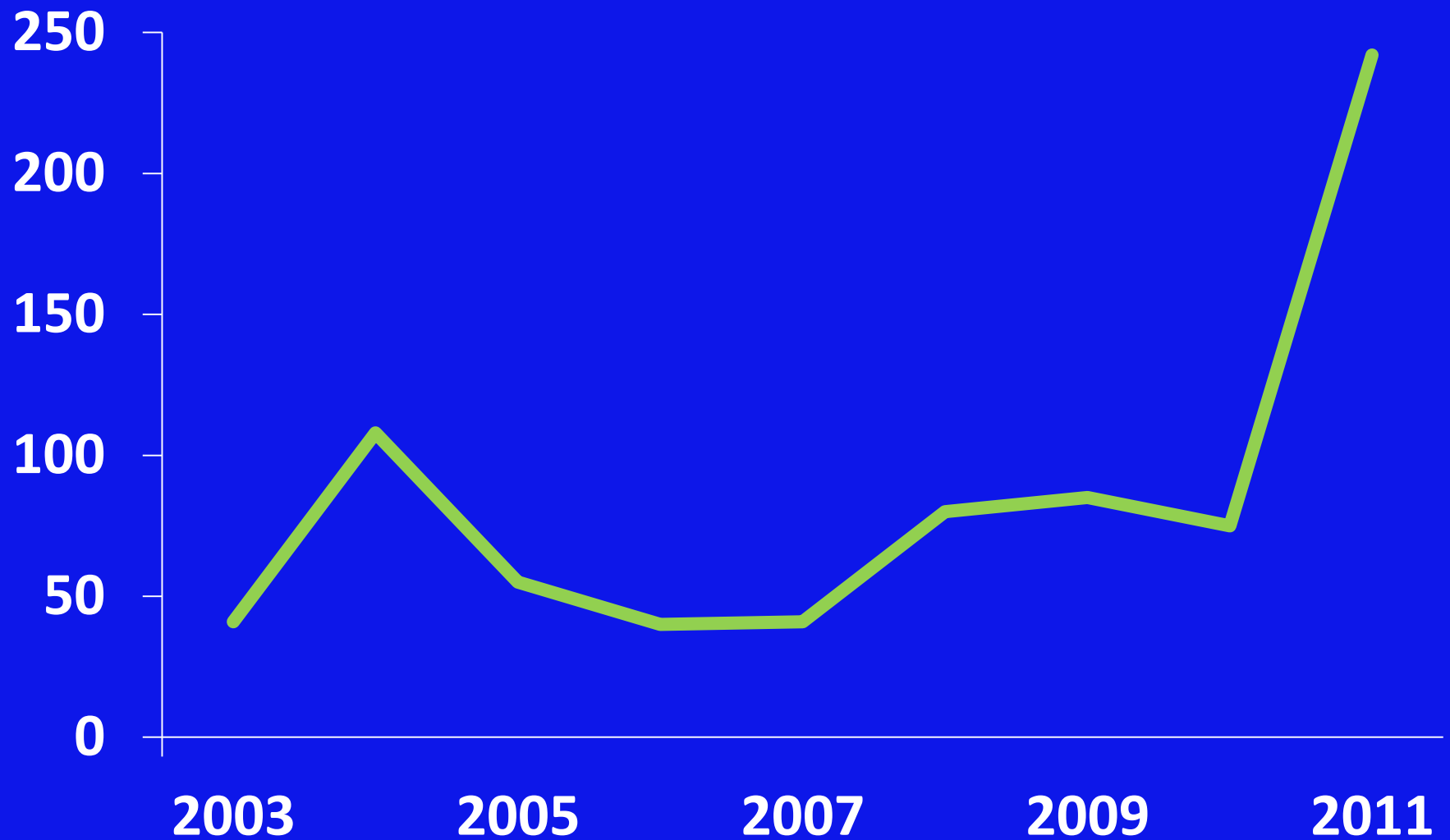


Capital Requirements

2007: \$6 in Credit per \$1 in Equity

2010 & 2012: \$3 in Credit per \$1 in Equity

ICA Arbitrations



**2 cent Option Premiums
December Contracts
February each year**

2007: 4.6 cents out of money

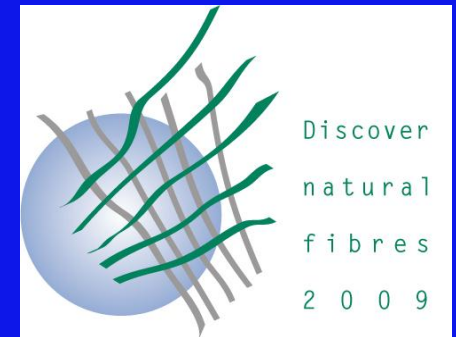
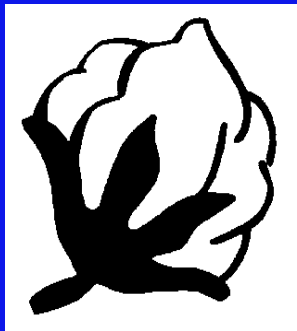
2010: 14 cents out of money

2012: 19 cents out of money

Tools of Mitigation

- **Price suppression will not work**
 - **Hedging Instruments**
 - **Transparent Policies**
- **Enforcement of Contracts**
 - **Timely Statistics, Metric Measures**

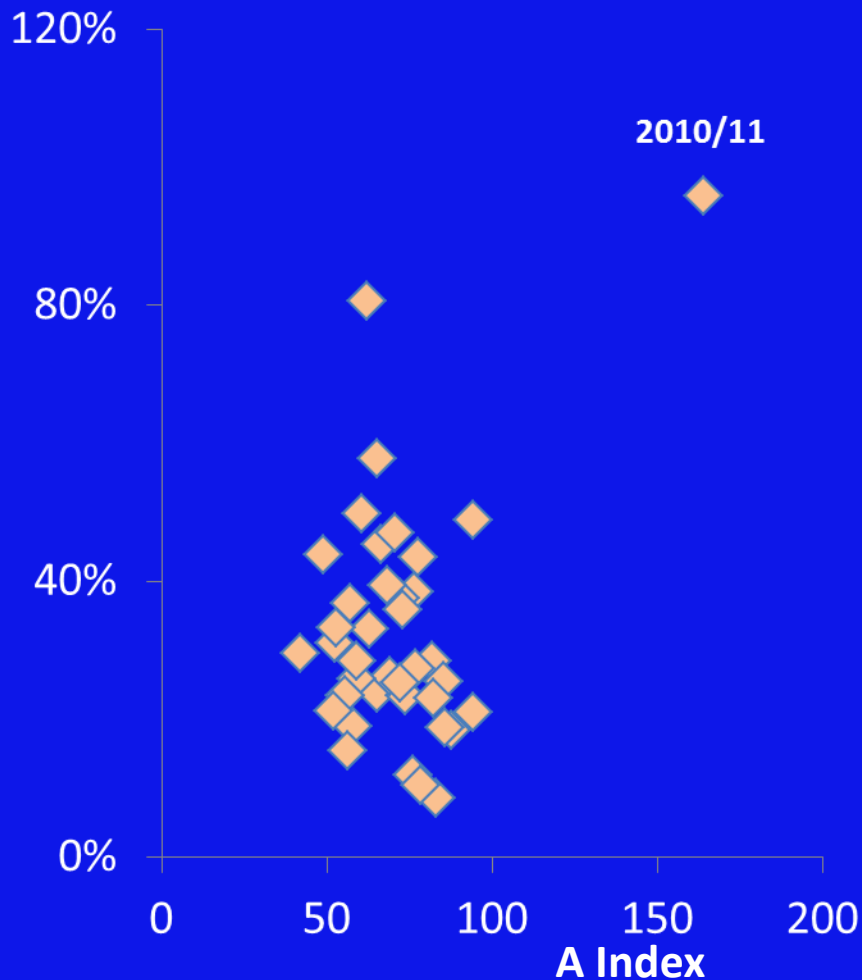
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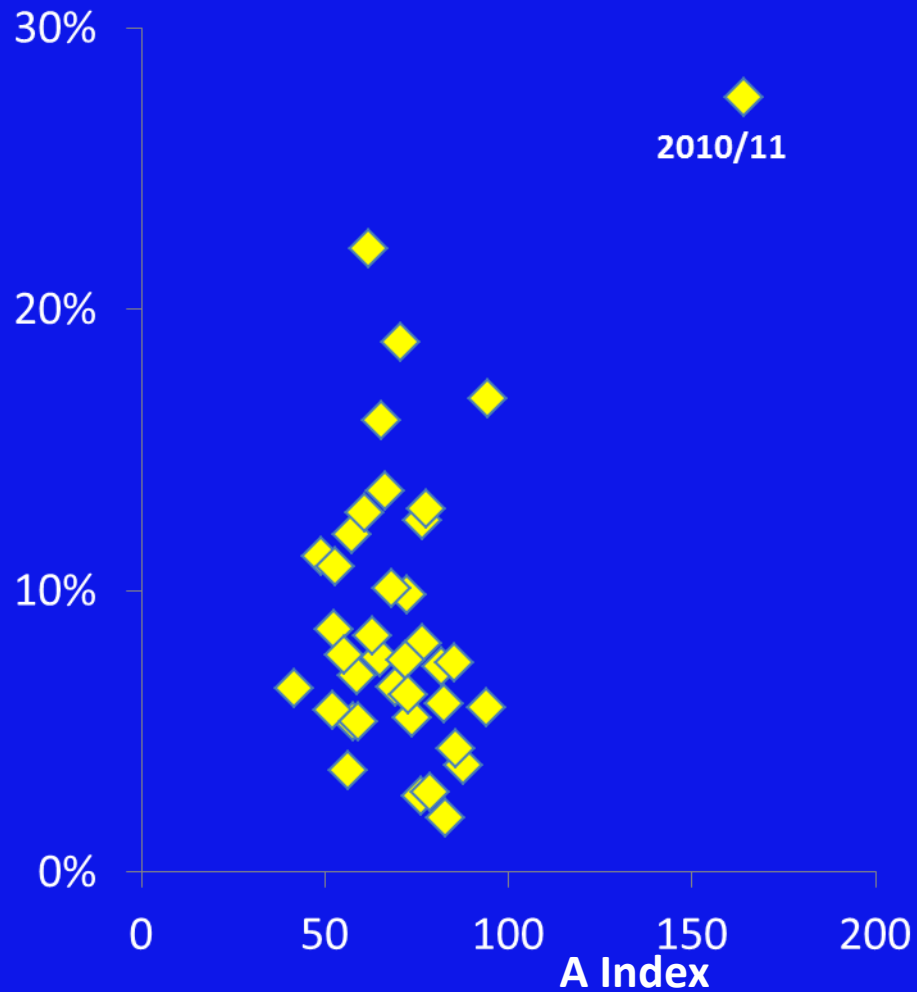
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Average A Index vs. Volatility Measures by Seasons

Relative Spread

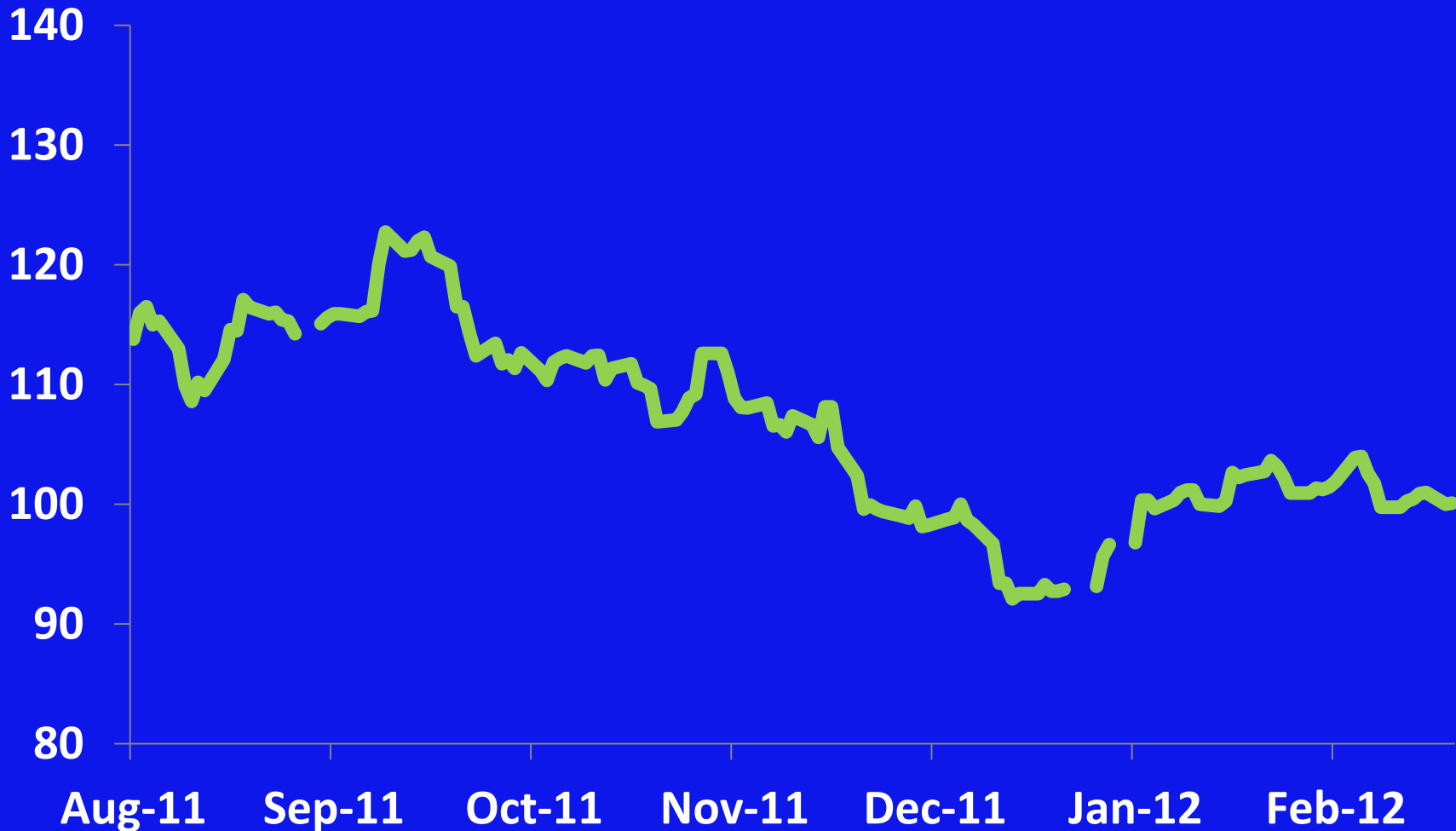


Coefficient of Variation



Cotlook A Index 2011/12

A index, US cents/lb



Changes in Industry Structure

**Firms exited in 2008
Jobs were lost in 2011**

**Multi-commodity firms
replacing traditional family-
owned cotton businesses**