

Cotton Goods Pricing

As a result of raw material cost increases, the price of cotton products continues to rise. For imports from China, additional factors such as the continued decline of the US dollar against the Chinese Yuan, discontinued subsidies to manufacturers by the Chinese government, inflation, higher wages for Chinese workers, certain raw materials being held captive by speculative investors for higher prices, and increased overseas freight rates have further pressured prices upwards. We've seen the impact on everything we import from China, but particularly cotton, whose prices have risen sharply since 2009.

Supply and demand is the chief dynamic at work for the price rise. Due to the droughts in China, floods in Pakistan and decreased exports from India, there is currently a worldwide shortage of cotton. This has caused both diminished inventories and higher prices for finished goods, and this trend will continue as we move forward. China is the worldwide leader in growing cotton, but there simply isn't enough to adequately supply its own factories due to the lower crop yield. With short supply from its own crops, China manufacturers have to pay a higher price to import cotton from other countries. While US cotton growers are certain to gain from the price increases, the higher prices will also be passed downstream through manufacturers to end users. Cotton prices have already reached their highest level in 140 years, and are predicted to remain high.

According to the National Cotton Council, cotton pricing went up 152% in the 14 months from October 2009 to December 2010. Selling in the \$0.60's just over a year ago, future contracts for cotton were selling for close to \$1.70/pound in December, with prices continuing to rise in January 2011.

Although the raw cotton price is just one component of the cost of finished goods, this has and will continue to result in increases in the factory cost of cotton goods, such as gloves. The more commoditized the item is, the greater percent increase that will be seen in the product's price. Moreover, we expect that cotton goods prices are likely to rise even more sharply as a result of the cotton shortage and panic buying. Speculators have also bought up supplies of cotton and other raw materials in an effort to take advantage of the situation. We've already seen production delays from China factories relative to lower priced cotton goods as they've focused most of the cotton yarn they can get towards the production of cotton products with a higher value / mark-up.

Moving forward, it may be difficult to find available stock of certain items, and the stock which is available will cost much more. Hoarding at all levels of the supply chain is already taking place, in anticipation of price spikes. Although ValCrest will strive to keep our prices for cotton gloves as competitive as possible, we want our customers to be aware of the market situation, and plan your purchases and price quotes to your customers accordingly.

The table below is from the National Cotton Council website.

"A" Index	(cents/pound)												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Avg
2009	57.69	55.21	51.50	56.78	61.95	61.39	64.80	64.26	64.07	66.82	71.78	76.78	62.75
2010	77.39	80.05	85.80	88.08	90.07	93.04		90.35	104.7	126.5	155.4	168.2	105.4

"A" Index-is a proxy for the world price of cotton. It is an average of the cheapest five quotations from a selection of the principal upland cottons (currently 19) traded internationally.

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