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USDA Forecasts for India, How to Interpret Them (Why Does Everyone Talk about USDA's Stock Estimate for India)

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Why Does USDA Publish Estimates for Other Countries.

- **USDA philosophy is that public access to the best quality information makes the market more efficient and fair.**
- **To understand the domestic U.S. market, must know about the global market.**



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Global Balance Sheet Affects All Country's Estimates

- **All country's balance sheets are on the same Marketing Year (Aug-Jul).**
- **World Total represents all cotton in the world.**

Therefore;

- **Total Imports must equal Total Exports.**
- **World Consumption must make sense.**
- **World Stock estimates are very important.**



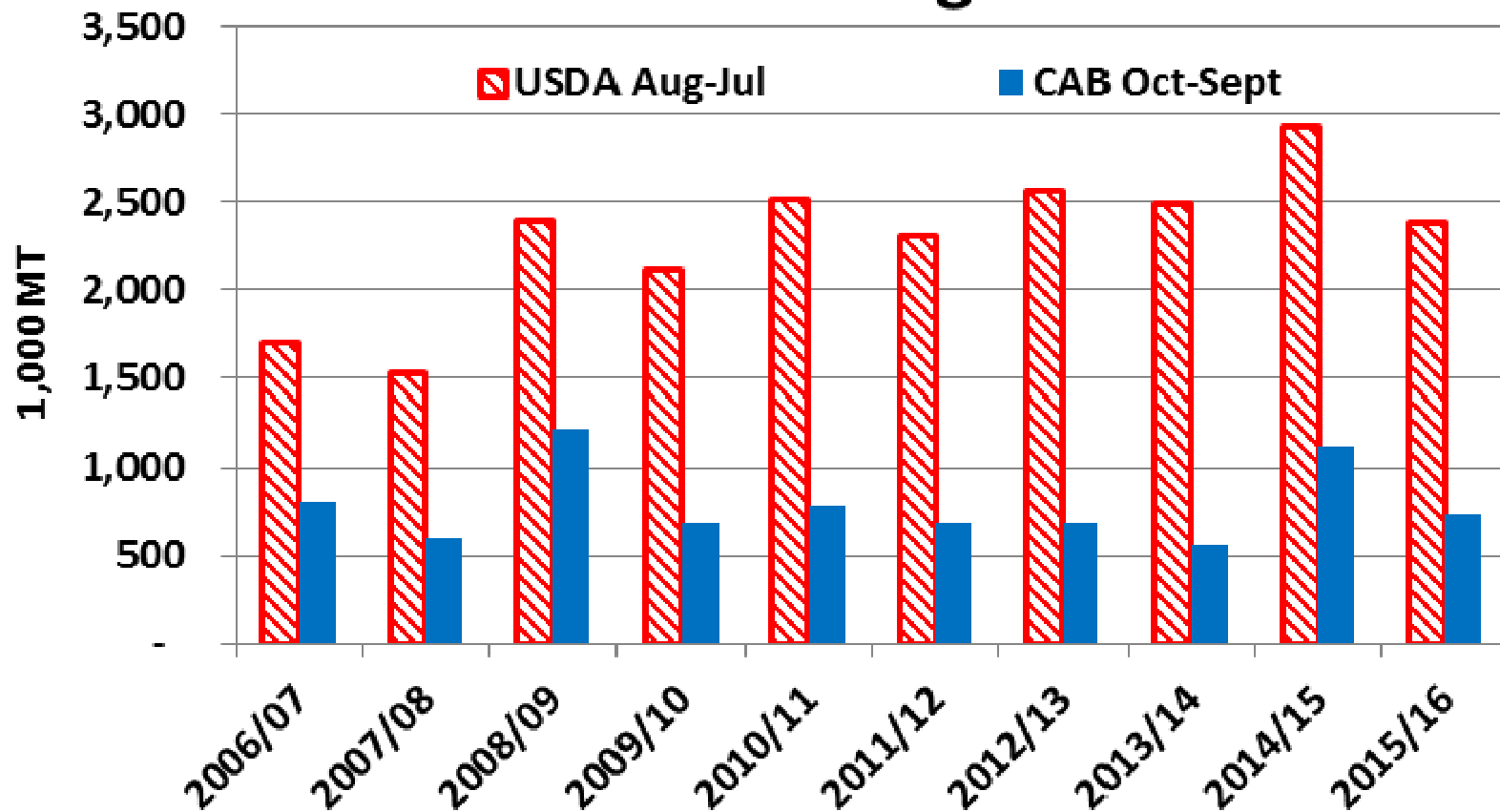
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Why Does Everyone Talk about USDA's Stock Estimate for India?

USDA vs CAB Ending Stocks





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Interpreting the USDA Estimates for India

- **Adjust for different marketing years.**
- **USDA uses August-July year, local year in India is October-September.**
- **India's stocks are drawn down between July 31 (USDA) and Sept. 30 (CAB).**

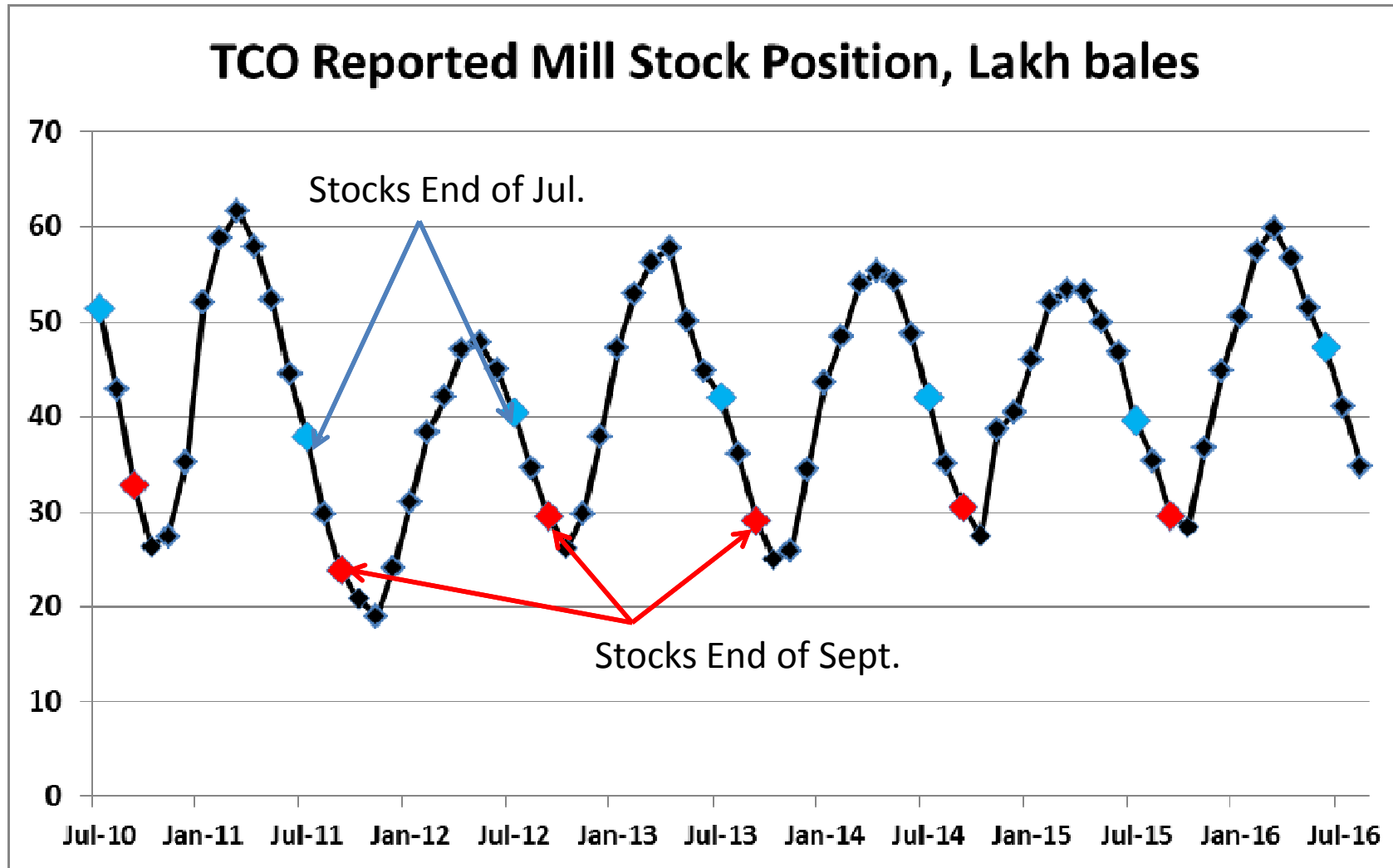


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Different MY Mean Different Stocks, Stocks Lower Seasonally at End of Sept.





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Comparing Forecasts of Different Marketing Years

- **Production: No harvesting during Aug-Sept, so no effect on stocks.**
- **Trade: Net exports in Aug-Sept will reduce stocks, while net imports will increase stocks.**
- **Consumption: Consumption during Aug-Sept will reduce stocks.**



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An Example

- **Ending Stocks: Big impact, especially for India balance sheet.**
- **To compare must make adjustments for what happens during Aug and September.**

Adjusting to Oct-Sept MY	
● Stocks 31 Jul.	3,000
● Minus Aug-Sept Consumption	-900
● Minus Exports	-100
● Plus Imports	+60
● Equals Stocks 30 Sept.	2,060

Stocks are 31% lower looking at Oct-Sept versus an Aug-Jul marketing year.



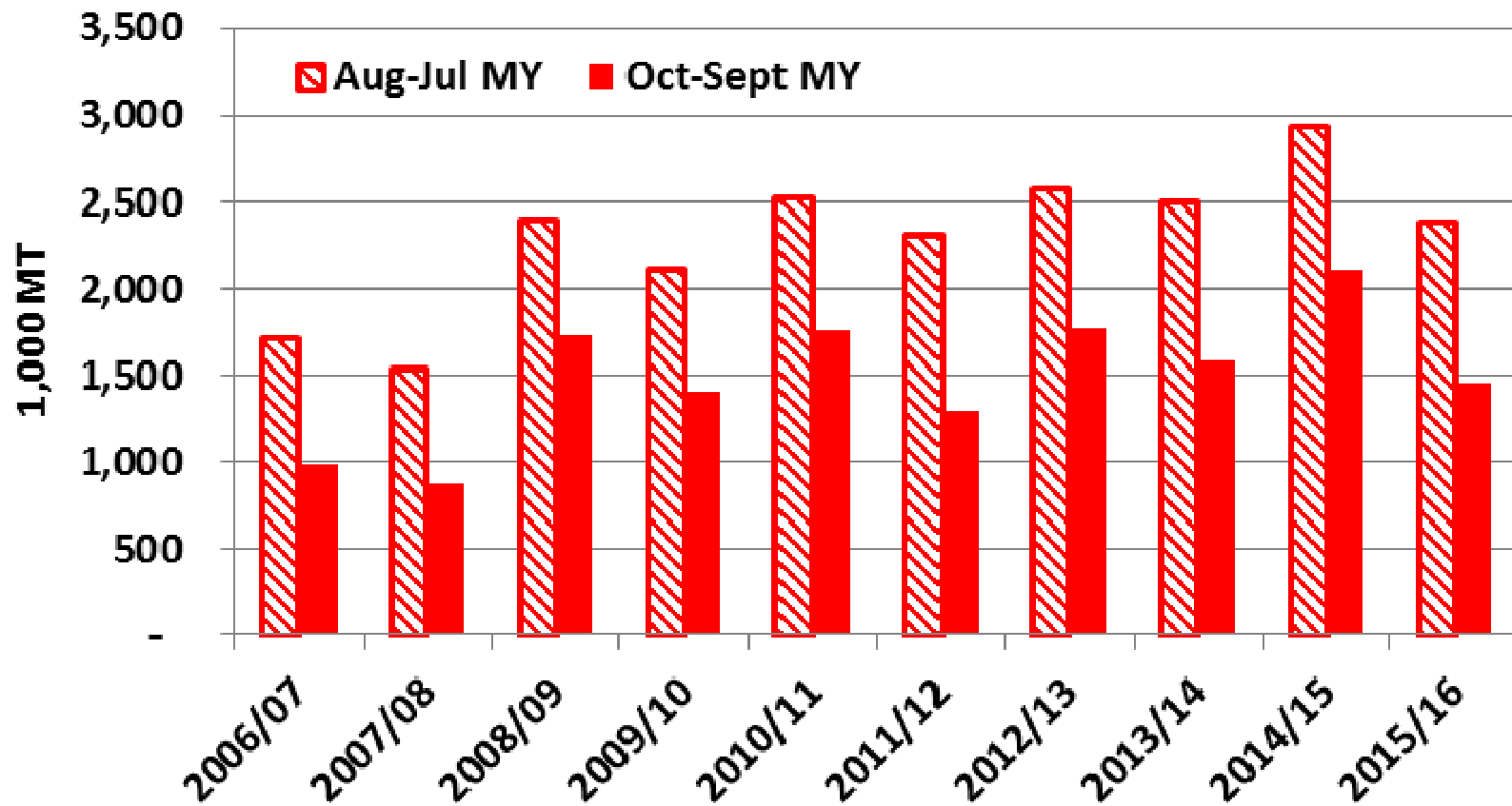
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On Local MY USDA Stocks Lower

USDA Ending Stocks, Aug-Jul vs Oct-Sept



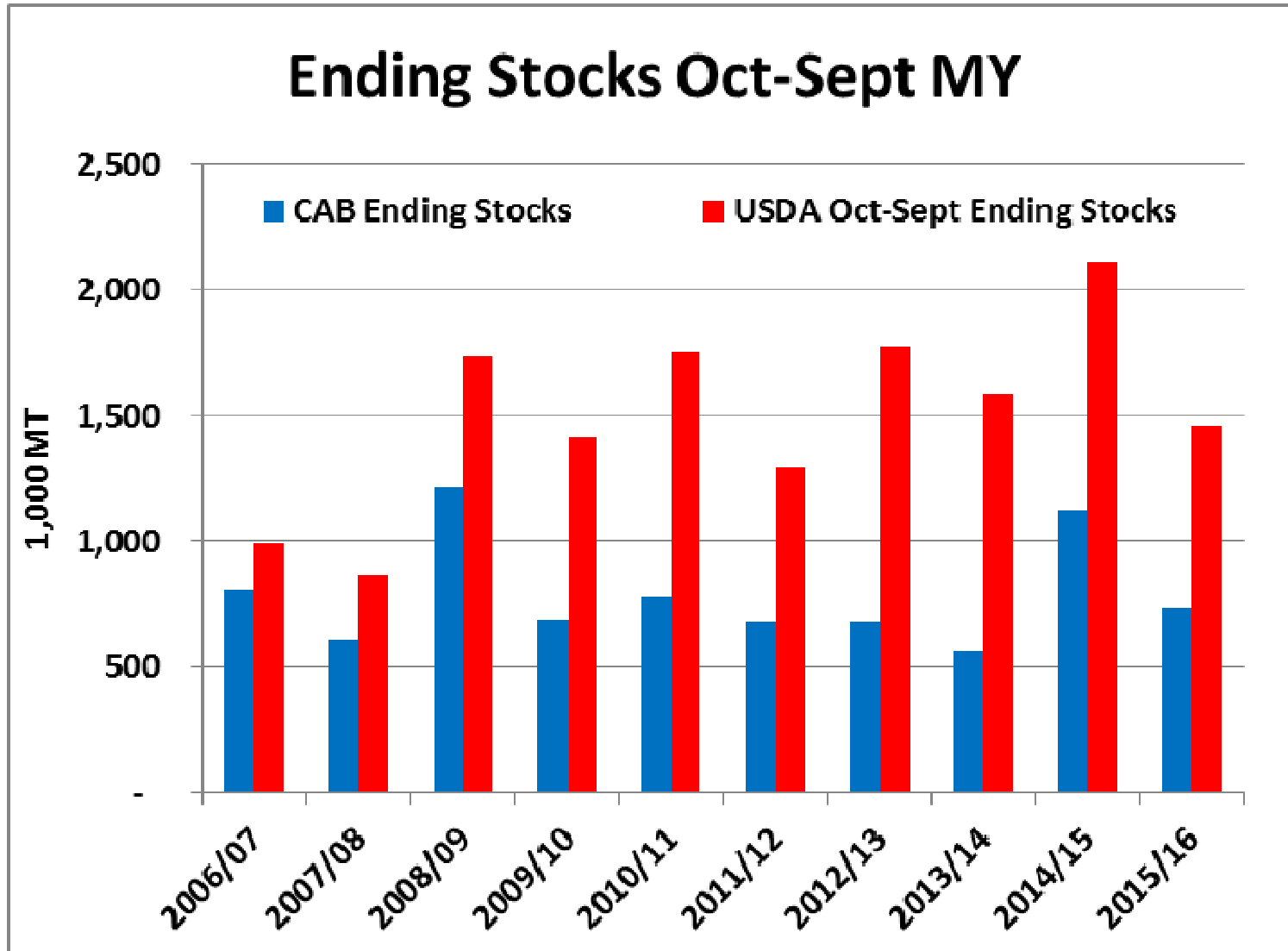


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USDA Stocks When Adjusted to Sept.30 are Still Higher than CAB





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Stocks not Residual, Must also be Evaluated

- **Stocks must cover documents market activities until the new crop is available.**
- **End of November is when India's stocks are tightest.**
- **Is possible to calculate the minimum stocks on Nov. 30 based on market flow activity.**
- **Indian data sources are used.**



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Look at Each Category of Stocks to Calculate Minimum.

- **Mill Stocks.**
- **Stocks held by exporters.**
- **Gin stocks.**
- **Stock in transit, MSP, or other places.**

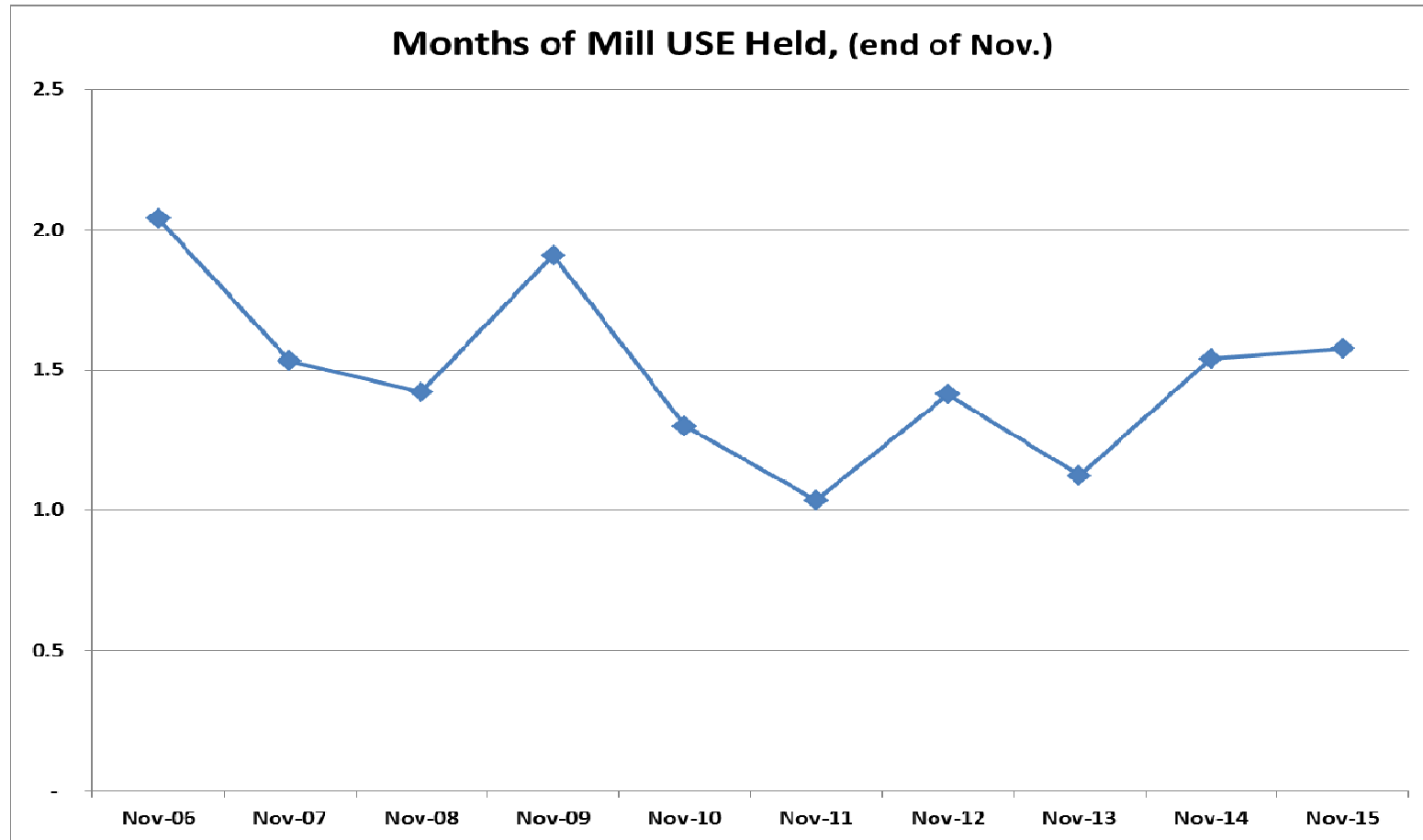


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Mill Stocks - TCO Data





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Exporter Stocks

- **Use assumption that on Nov. 30th exporters hold at least amount equal to shipments in December.**
- **Use DGFT data.**



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Gin Stocks

- **Most difficult part.**
- **Use assumption that gins hold stocks, not sold to exporters, at least equal to last two weeks of November arrivals.**
- **Use India's reported gin arrival data to estimate.**



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Stock in Transit, MSP, or Other Places

- **Data on MSP stocks, but not for transit or other places.**
- **Other than MSP, assume zero.**
- **Looking for minimum amount of stocks.**

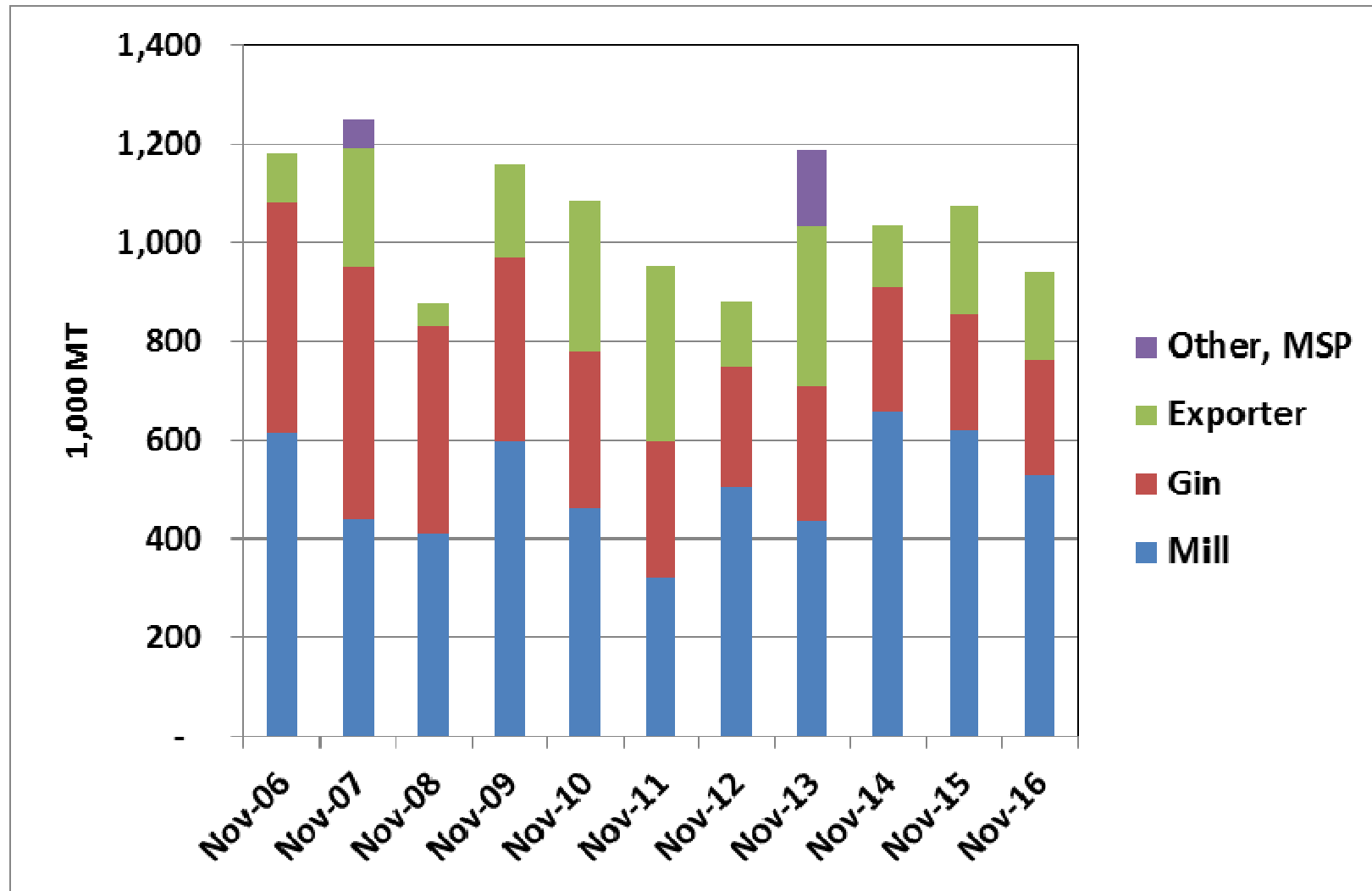


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Calculated minimum Stocks on November 30





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Comparing to Balance Sheet, Adjust to Oct-Sept MY

- **Start with minimum stocks end of November.**
- **Subtract arrivals thru mid-November.**
- **Subtract imports in Oct-Nov.**
- **Add consumption in Oct-Nov.**
- **Add exports in Oct-Nov.**

- **Equals minimum stock September 30.**

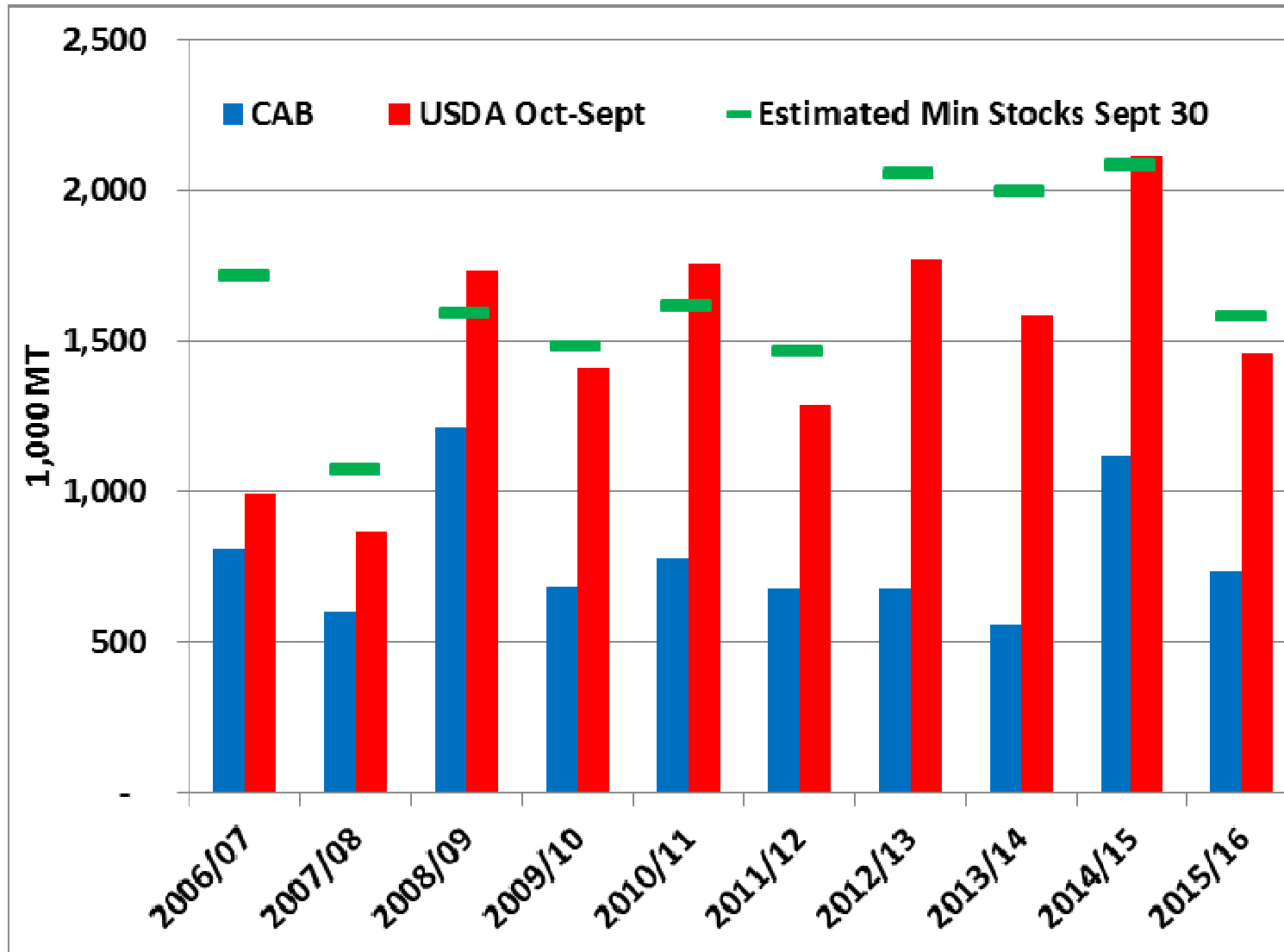


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Minimum Stock vs USDA vs CAB September 30



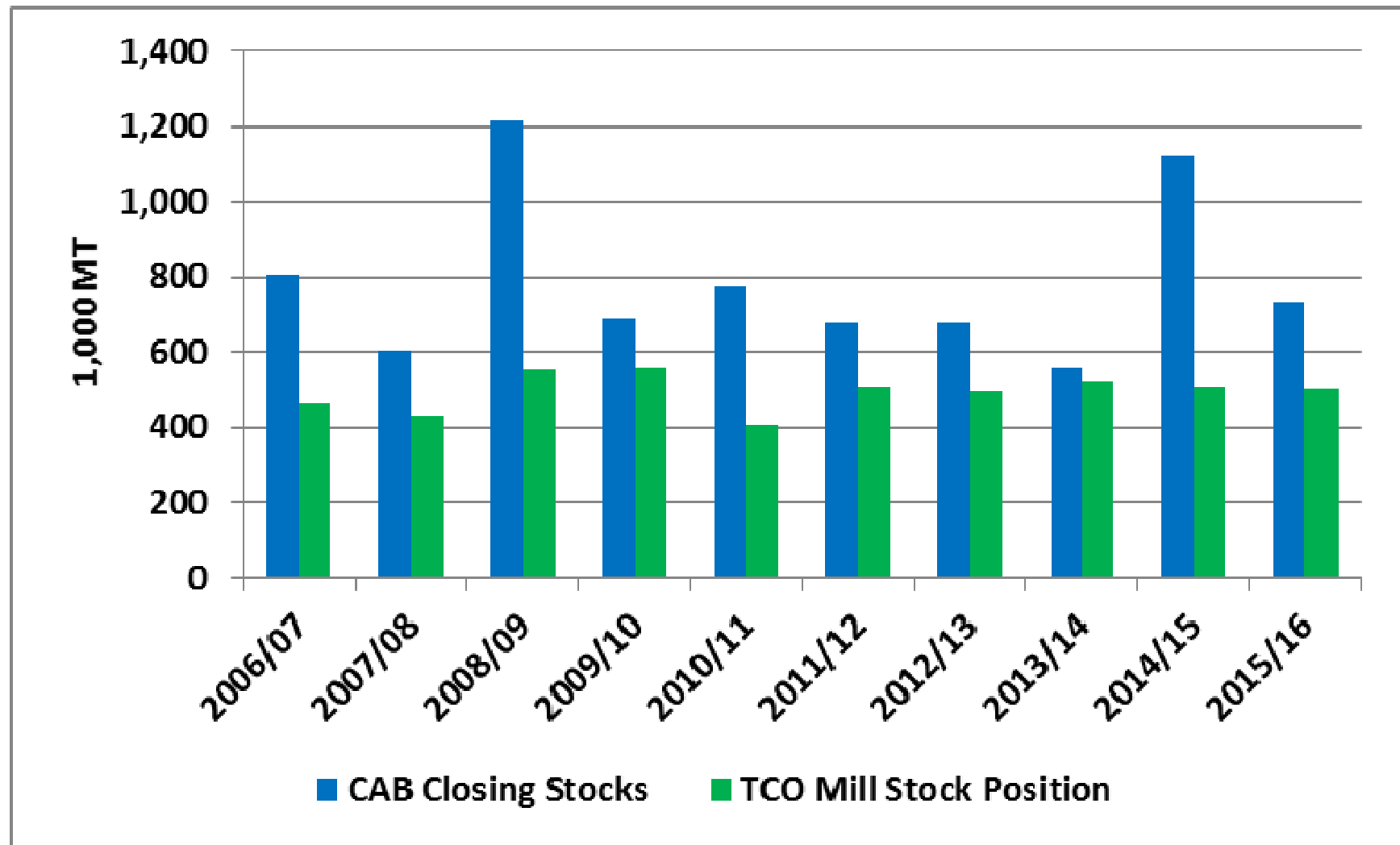


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CAB Stocks Low compared to Mill Stocks (September 30)





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Summary

- **India's stock levels can be tested for sufficiency by evaluating them at their lowest point seasonally on Nov. 30 of each year.**
- **Stocks on Nov. 30 must be adequate to cover known market activity in Nov and Dec.**
- **Using Nov as a starting point it is possible to work back in time, using market flow information, to calculate minimum stocks on either Sept. 30 or Jul 31.**



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Summary, continued

- **Using this methodology and data from Indian sources, CAB stock estimates often fall significantly below the necessary minimum.**
- **USDA stock estimates are generally at or above the estimated necessary minimum.**
- **Detailed calculation available and I am happy to discuss.**



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Thank You

Any Questions?