

Cotton Extends Slump as Expanding Supply Cuts Costs for Gap Inc.  
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May 11 (Bloomberg) -- Cotton plunged to a 21-month low, trimming costs for clothing retailers including Gap Inc., after the U.S. forecast rising inventories and as industrial output slowed in Asia.

World stockpiles will climb 10 percent to 73.75 million bales in the season that starts Aug. 1, the U.S. Department of Agriculture said yesterday. Industrial output slowed in China and shrank in India, adding to concern that the global economy will weaken as the European debt crisis worsens. Rains are improving prospects for crops in Texas that were hurt by drought last year.

Cotton futures have plunged 64 percent from a record in March 2011 as higher prices encouraged farmers to plant more and demand fell in China. The commodity was down today by more than any of the 24 raw materials tracked by the Standard & Poor's GSCI Spot Index, which fell for an eighth straight session, the longest slump since December 2008.

"If China's slowing more than expected, then it drives the risk-off attitude in commodity markets," said Michael Creed, an agribusiness economist at National Australia Bank Ltd. "The market is still trying to come to grips with the weakening global economy and a market that's looking increasingly comfortable in terms of how well it's supplied."

Cotton for July delivery fell 2.2 percent to 79.98 cents a pound at 10:14 a.m. on ICE Futures U.S. in New York, after reaching 77.16 cents, the lowest for a most-active contract since July 2010. Futures declined for an eighth day, the longest losing streak since June 4, 2010.

#### Texas Rains

Rains last week in Texas, plus the expected precipitation over the next five days of 0.5 inch to 2 inches, "will favor germination and early growth" of the crop, Kyle Tapley, a meteorologist with MDA Information Systems Inc., located in Gaithersburg, Maryland, said today in an e-mail.

"The ongoing rain event across much of the southern half of western Texas added to the bearish tone of the USDA numbers," Sharon Johnson, a senior analyst at Penson Futures in Atlanta, said in an e-mail. "Any modest rallies should be used as selling opportunities."

Commodities as tracked by the GSCI index wiped out gains for the year today as copper, crude oil and grains fell after the Asian industrial reports and JPMorgan Chase & Co. disclosed a \$2 billion trading loss.

China's industrial output rose 9.3 percent in April from a year earlier, according to data today, compared with the 12.2 percent median estimate in a Bloomberg survey of 32 economists and 11.9 percent in March. Production in India unexpectedly contracted 3.5 percent in March.

#### China Imports

Cotton imports into China may tumble 35 percent from the current season to 14 million bales, the USDA said yesterday.

U.S. production will climb to 17 million bales, topping analysts' forecasts for a crop of 16.67 million bales, the agency's data showed. One bale weighs 480 pounds, or 218 kilograms.

"The increase in world stockpiles was a surprise," said Han Sung Min, a broker at Korea Exchange Bank Futures Co. in Seoul. "Given China's slowing imports, the USDA report has fueled cotton's bearish sentiment, and prices may test the 75-cent level in the short term."

Gap, the largest U.S. apparel chain, said in February it expected lower costs in the second half. Abercrombie & Fitch Co., the operator of its namesake and Hollister teen-clothing stores, told analysts on March 7 it will benefit from declining prices.

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