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# Trade War Causes Price Instability in Cotton and Down the Supply Chain

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Chaotic trade policies and tight markets are resulting in global uncertainty for the cotton sector, according to a new report from the International Cotton Advisory Council (ICAC).

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The organization's "Cotton This Month" digest for July said cotton demand is up, especially in Asia and South Asia, but drought conditions in the West Texas region of the U.S., plus the potential of new tariffs on cotton from trading partners like China are "serious concerns" and one of the reasons prices have dropped from a season-high of \$1.02 per pound.

According to the U.S. Department of Agriculture, spot prices averaged 81.98 cents per pound for the week ended June 28. The weekly average was down from 83.34 cents last week, but up from 66.85 cents a year earlier.

ICAC noted that trade relations between the world's largest cotton exporter, the U.S., and the world's largest consumer, China, have been tense. China's 25 percent tariff on U.S. uncombed was scheduled to go into effect on Friday, but it appears to have so far been omitted from the list of targeted tariff lines. Its tariffs came as an immediate response to U.S. tariffs on \$34 billion of Chinese goods that took effect Friday.

"With tariffs against China taking effect, American consumers are one step closer to feeling the full effects of a trade war," National Retail Federation president Matthew Shay said in a statement. "These tariffs will do nothing to protect U.S. jobs, but they will undermine the benefits of tax reform and drive up prices for a wide range of products."

The ICAC price forecast for cotton in 2017-18 is 86 cents per pound. For 2018-19, it is projecting the average price to end between 66 cents and \$1.07 per pound.

While production and consumption are projected to increase in current crop year, higher production will result in world stocks increasing 3 percent to 19.3 million tons, after two years of decreases in global stocks, according to ICAC. Consumption in 2018-19 is projected to grow 5 percent to 27.4 million tons, with production projected to increase to 25.9 million tons.

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