

# World Cotton Market

By Ray Butler, Editor, Cotton Outlook

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After falling to a low point of 34.95 cents per pound in early November, world prices showed some recovery. The Cotlook A Index moved upwards as the trade sought to cover short positions and as the realisation grew that some origins were unlikely to resume pressing for new business in the short term.

Syria was a beneficiary in the first context, selling to the trade both a substantial carryover from the preceding season and a large proportion of its new crop in the matter of a few weeks. Subsequently, the market has taken on a mostly flat appearance, with the A Index hovering for several weeks at around the 43 cents per lb level.

## MILL DOMINATION

Mill business in many countries has in fact been dominated for some weeks by US cottons. Prior to mid December, when Step 2 (the US subsidy mechanism) was de-triggered, the US experienced successive weeks of high volume export sales, which led the US Department of Agriculture once more to raise its forecast of the current (August–July) season's exports to 9.8 million bales, the highest level recorded for 75 years.

Despite that prospect, the US carryover is still expected to be 40 per cent greater than the quantity brought into the season last August, owing to a record 2001–02 crop output and declining domestic cotton consumption. The downturn in the US textile industry during the past year has resulted in a number of prominent mill closures and a fall in expected consumption to its lowest level since the late 1980s, to a figure of 7.6 million bales or lower. This quantity



is almost a third less than the volume used just four seasons earlier.

Meanwhile, the progress of new legislative proposals for agriculture has foundered in the Senate, and enactment of a new farm law may come too late to impact the forthcoming season's production prospects. If that proves to be the case, farmers will plant cotton under the 'Freedom to Farm' Act of 1996, which might, once again, result in a bumper US crop.

One of the tenets of US policy is to be able to compete with foreign producers at any level of price. One result is to encourage farmers elsewhere to curtail output in times of world surplus. So the planting intentions of farmers in the Northern Hemisphere during the next few months will merit close attention.

Nowhere will this be truer than in China. The state statistical body has reported a provisional 2001–02 lint output figure of 5.320 million tonnes, which would be a new record and surpasses most previous expectations and China's estimated consumption.

Since the start of the recent harvest period, China's internal prices have dropped by 20 per cent or more, bringing them to a level at which imports would not generally be remunerative and so dissipating any remaining hope of China swiftly returning to the import market under the strictures of WTO membership.

The government, it is believed, has meanwhile ceded to demands that it intervene and alleviate the pressure on the market by taking a large volume into stock, particularly from Xinjiang. Nevertheless, farmers' enthusiasm for cultivating cotton next time around has by all accounts been severely dented. Potential cutbacks in area of up to 20 per cent in the approaching spring planting period have been mentioned in several major cotton producing provinces.

But in the Xinjiang region — the largest producer — the official intention is that any diversion of area will be offset by better yields, so that it remains difficult to gauge the overall potential effect.

Likewise, Uzbekistan has established a smaller planting target for this year but has redirected the emphasis by allocating more land to medium-term (rather than fast ripening), higher yielding varieties, with the intention of roughly maintaining the volume of output.

Other countries may have considerations in addition to price to take into account when determining the area to be planted. In parts of Central Asia and the Middle East (including Syria), water will be a critical issue and may restrict cotton output.

## LOOKING AHEAD

Cotton Outlook's first estimate of 2002–03 world production and consumption will be published in February. Consumption in that season will need to surpass output by a substantial margin, if it is to rectify even partially the supply imbalance that has arisen this season. According to our forecasts, 2001–02 output will exceed consumption by more than 1.4 million tonnes, and so the die would seem already to be cast as to the potential for prices to rule strongly firmer in the short term.

Whether such a surplus is actually readily available to the market is questionable. Some of it consists of cotton that will remain in the US government loan (where it can stay for up to 10 months) until market conditions are more favourable.

Some is held at origins which have already sold a fair proportion of their crops — easing the pressure from national exchequers to sell additional quantities. The trade, if it sees a chance of longer term price improvement, might also seek to become a carrier of stock.

The main outstanding source of unsold supply (other than the US) would appear to be West Africa, whose cottons compete in some instances with Australian and which, in general, cannot afford to hold supplies too long from the market.

## SCOPE FOR DECLINE LIMITED

For the time being, many observers agree that

the scope for fresh price decline is limited. But at the same time, confidence is lacking about a sharp upswing in the short to medium term while the supply/demand imbalance persists.

An extended period of comparatively restrained price movement might therefore be in prospect. But unpredictable developments are a natural feature of the cotton market, and only the foolhardy would entirely rule out a more dramatic price scenario.