Vol 23, No 1, page 56 January-February, 2002 The Australian Cottongrower

New York Futures outlook

By Hibbie Barrier, Jernigan Group/Fimat USA, Inc.

In our previous update we were speculating on the possibility that the market could finally be registering a sustainable bottom. So far, so good. Since that time New York rose to 39.80 as the funds moved from over 26 per cent net short to over 28 per cent net long.

At the same time trade buying has continued to support the market on any dips as merchants and mills worked to cover short basis positions. Despite this good support, grower selling in the US, as well as abroad, provided a lid on prices just below the 40 cent level.

This has resulted in a fairly well defined 35 to 40 cent trading range. In fact, since November 13, March futures have traded between 39.80 and 34.91 in what has been a fairly volatile fashion. Daily price moves of 150–250 points have been common.

The recent trading range suggests to me we have found a sort of price equilibrium. Low prices have generated buying interest while sellers refused to discount any further. As for who is right, ‘bull or bear’, the answer most likely rests with new crop.

Already, production cuts in southern hemisphere crops — where Australia is projected to be down 10–12 per cent and the Latin American counties as much as 17 per cent or more — have the bull chomping at the bit to push prices higher. Preliminary indications in China suggest the government’s decision to let prices float more freely could negatively impact cotton plantings there as well.

Early estimates suggest as much as a 3.5 million bale reduction could occur. In the US, growers are still awaiting word from Washington on a proposed new farm bill. At the Beltwide Cotton Conference I got the impression the US will lower area but probably not by more than 10–13 per cent. The cuts appear something like this:

- Midsouth, down 17–20 per cent;
- Southeast, up 0–10 per cent;
- Texas, unchanged;
- Arizona down 15 per cent; and,
- California down five per cent.

While these numbers were pushed around, keep in mind that talk is cheap. Actual area is far from certain.

FARM BILL UNCERTAINTY

Opinions vary greatly on what the outcome would be of a new farm bill. It is safe to say if current law remains in force for another year, area cuts will be minimal. The reason is there are not many alternatives that offer as good or better returns to the grower. Talk has begun to centre around the ability to finance next year's crop.

With loan, plus this year's scheduled AMPTA payment, some lenders are not convinced the numbers work. If the House version should prevail with its counter cyclical provisions, cotton area would seem certain to remain or even expand. But if the Harkin proposal is followed, the higher decoupled fixed (AMPTA) payment could encourage switching to less capital intensive crops while banking the larger government payment.

The debate on the US Farm Bill is going to continue. Congress is set to return at the end of January and the farm legislation is reportedly a high priority on their agenda. If sentiment should change and sweeping legislation is passed that discourages overproduction, prices will react in kind.

At the Beltwide conference a report was given by Carol Skelly, chair of the USDA's inter-agency group on fibre and a member of the Agricultural Outlook Board, which estimated new crop supply and demand figures. US production was forecast at plantings of 5.6 to 5.8 million hectares with a resulting 17.5 to 18.0 million bale crop. US mill use was placed at 7.5 to 8.0 million while exports are projected to soar to 10 to 11 million bales.

Her most optimistic view placed next year's ending stocks at 6.9 million bales and stated they could rise to as high as 8.9 if some projections were off. World production was forecast to fall to 88.5 million bales. This was primarily the result of production cuts in China (–3.5) and US (–2.0). World consumption is estimated at 93.5 million bales, up slightly from 91.8 million this year. Ending stocks were set to fall from 44.1 million bales to 39.0 million. Furthermore, Ms Skelly went on to estimate that China would become an importer of two million bales.

Given this outlook we could suppose that New York is probably still on firm footing. But having said this, I am a little nervous that New York will still act as an attractant for West Texas better grades along with Memphis cotton, which has typically found a home at US domestic mills.

This could cause heavy deliveries in March, May or July depending on the outlook for new crop. Despite this I'll go out on a limb and say 28.20 is a low we are not likely to break any time soon.