

The world cotton market

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Since we contributed to The Australian Cottongrower early in January, a mood of stagnation has characterised the international raw cotton market. Although prices have more or less been maintained at the levels to which they had recovered from the low point last November, the market generally has been singularly lacking in momentum.

The lacklustre nature of trading was little surprise, in the absence of any change in the fundamental supply and demand position — production in 2001–02 is 1,400,000 tonnes or so greater than consumption, according to Cotton Outlook's latest estimates.

With the long-awaited confirmation by the Chinese National Bureau of Statistics of its 2001–02 crop estimate of 5,320,000 tonnes, we can expect few significant changes to our Northern Hemisphere current crop estimates between now and the end of the season.

SOUTHERN HEMISPHERE CROPS

On the other hand, many Southern Hemisphere crops are now entering a crucial stage in their maturation or are currently being harvested.

Whereas conditions in Australia have been considered almost ideal for the maturation of cotton plants, the outlook has deteriorated for want of rain in Zimbabwe. Yields remain somewhat in doubt in Argentina and Paraguay, as well as Brazil, whose major growing area has experienced unusually wet weather during and since the planting period.

But barring a disaster in either Brazil or Australia, changes in the Southern Hemisphere are likely to make little impression on the world statistical position, so great is the current season's imbalance between supply and demand.

Against this depressing background, the Cotlook A Index slowly drifted lower during the period, as



merchants have moved to dispose of long positions, in the face of a disappointing level of mill demand from most major import markets. At the time of writing, the Index hovers around the 42 cents level. New York futures have remained essentially range-bound — the May contract fluctuating between 35 and 40 cents per pound, during the period.

Despite the de-triggering of the Step 2 export subsidy in December, futures have remained at a level that has allowed US cotton to offer intense, often unassailable competition on export markets. By March, the pace of both export sales and shipments against existing contracts was sufficiently strong to convince the US Department of Agriculture to raise its export forecast for the season to 10,300,000 bales (of 480 lbs) — a modern record by some margin. Yet, despite this impressive achievement, the consequent reduction in the projection of US ending stocks still left the latter sufficient for more than 12 months of domestic consumption.

Moreover, 2001–02 crop surpluses remain unsold at several Northern Hemisphere origins, most notably in West Africa and parts of Central Asia, as well as in the hands of merchants. Despite the preoccupation of the international trade with China as a potential import market, export offers from that quarter have lately been more prominent than import enquiries.

NORTHERN HEMISPHERE PLANTING

With the approach of the sowing period in many parts of the Northern Hemisphere, attention has focused increasingly on farmers' likely planting intentions, as participants in the market have sought to gauge the possible timing and strength of a recovery in the market. In February, the National Cotton Council revealed the results of its survey of farmers' planting intentions, which suggested a decline of 6.7 per cent from last season.

But the usually accurate survey may be more than usually prone to revision this season. It is understood that NCC asked farmers to assume the legislative status quo would prevail for the new season.

There is, in fact, a possibility that new legislation will be passed in time for the 2002–03 season, though at the time of writing the situation remains unclear. If a new Farm Bill is passed in

time for the season ahead, much will depend on the fate of the so-called Grassley amendment, incorporated in the Senate version of the bill, in an endeavour to place more stringent limits on the payments received by individual farmers.

If passed in its original form, the measure would, analysts maintain, provide a significant disincentive to plant cotton.

CHINESE HOPES

Outside the US, China would appear to represent the best hope of a sharp reduction in output. Cotton Outlook's initial forecast suggests a lint outturn of 4,500,000 tonnes — a fall of over 800,000 tonnes, or over 15 per cent from the current season. Coincidentally, the forecast shortfall is of similar proportions to the tariff-rate quota, which came into being following China's entry into the World Trade Organisation, and which awaits allocation among potential importers.

Elsewhere in the world, Cotton Outlook's early, and necessarily tentative forecasts of new crop production, typically show much more modest decreases — in particular where cotton has an overriding social or strategic significance. As a result, the extent to which global production will fall short of consumption in 2002–03 is currently placed at less than 400,000 tonnes, a figure which represents only a partial step towards re-establishing the market's equilibrium.