

# New York futures outlook

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So far so good. That is the way I feel about prices having found a sustainable bottom at last year's 28.2 low. Having said this though, 35–38 cent cotton is not much to celebrate either. The cotton industry is still facing difficult and uncertain times as the market tries to digest record ending stocks for the US as well as the rest of the world amid slumping demand prospects.

In addition, cotton producers around the world continue to turn a deaf ear toward the overproduction message the market is sending with its near 30 year low prices. For this reason, New York has remained burdened by excess stocks.

## END OF THE TUNNEL?

But there seems to be some light beginning to appear at the end of the tunnel. As we stated in our last update, southern hemisphere production should be down approximately 17–18 per cent from last year's levels.

In addition, the National Cotton Council estimated US acreage would fall 6.7 per cent to 14.735 million acres. The Council's estimate was based on US growers farming under the final year of the 1996 Farm Bill. Since then, the US Senate passed a new farm bill like the House had before the end of last year.

But the Senate's version greatly reduces government payments to farmers. In the case of cotton, most growers would max out at only a fraction of the acres now in production on their farms. Whether or not this part of the bill stands is of great interest — not only to growers, but the entire agricultural industry. Speculating on the outcome of the US farm legislation is risky business. Special interest and public opinion could sway law right up to the last minute. For now growers are faced with the prospect of an entirely different set of economic circumstances.



Private research has estimated that if the Senate's version of the farm bill stays intact, acreage should slip over eight per cent from last season or 1.25 million acres. Furthermore, it has been estimated that 50 per cent of all cotton farmers would exceed the payment limitations.

If the latter is true, I would expect an even greater reduction in acreage.

But for now, we are speculating about something that may or may not be of any relevance. Critics of the Senate version of the bill say the stringent payment limitations do not have a chance to make it through conference. But as I said before betting on what these guys will do is extremely difficult.

In the latest USDA supply and demand estimates, world ending stocks were forecast at 43.97 million bales — up 40,000 bales from last month.

The most significant changes came from a 90,000 bale increase in beginning stocks, a 290,000 bale increase in production and a 280,000 bale increase in consumption.

In the US, ending stocks fell 300,000 bales to 8.5 million. This was primarily the result of a 300,000 bale increase in US exports. As we look at these numbers, it appears ending stocks have stabilised and could be on the verge of declining.

## INCREASING CONSUMPTION

World consumption has increased since the November estimate of 91.64 to 91.98 million bales.

Increasing demand could help lead us out of depressed prices if production cuts continue to follow the trend of the southern hemisphere producers. But this continues to be a big if.

West African and Central Asian producers continue to eye the strong US dollar as a reason to grow while Chinese producers are expected to cut production between five and 10 per cent. Either way, world production should slip next year while demand remains steady. This should give prices an opportunity to rise back to the 50 cent level basis December at some point this season.

As for old crop, there is a strong possibility that the May or July contract will struggle to get



much above the 40 cent level if new crop expectations do not change drastically. Given the current surplus of cotton around the world it could take prices a while to work down these stocks.

Also the US has basically sold its low grade crop for export. This leaves an abundance of tenderable cotton without a US domestic market. The best place to merchandise this cotton may be the New York Board of Trade. If so, the July delivery period could be weak. This would also coincide with cotton maturing in the US loan.

But there is another point of view worth noting. To date US export sales registrations have exceeded 10,500,000 million bales and are expected to climb further. This could put pressure on the board as end of year shipping needs create a tightness because five or six million bales are stuck in the government loan.

This situation would be magnified by a smaller US crop area or pending crop problems. So this year is shaping up to have plenty of excitement as we transition from old crop oversupply to the unknowns of new crop. Put/call fences would seem in order for unpriced production.

This strategy would afford growers protection against additional weakness while still participating if higher prices appear. Also selling July calls and buying December calls is a worthwhile strategy as well.