

# The World Cotton Market

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When we wrote for The Australian Cottongrower in March we referred to market stagnation and prices maintained in a depressed range. For much of the period since then, the market has lacked significant direction.

Prices at one point moved to lower ground on the bearish implications of the new US Farm Law, legislation which has raised predictable controversy both within the United States and overseas. Whatever the rights and wrongs of subsidies, the overriding view as to its implications is that the United States will continue to overproduce at a time of smaller US domestic consumption and that its only recourse will be to maintain high export volumes, to the detriment of other producers.

That the US has won market share this season is not in question. The USDA now predicts exports during 2001–02 will reach a record of 11,000,000 bales (of 480 lbs). Cotton Outlook and others had thought that a figure of such magnitude would be unattainable in a season in which China was not a significant net importer.

Despite WTO entry, China's buying has been fitful and modest, thus supporting the views of industry leaders in that country that 2002 would be a year of "continuing transition" rather than one in which the floodgates for imports would be opened.

In face of the US competition, traders long of other growths have found by necessity that severe price concessions have been required in order to win business and it remains true today that some sellers are facing the discomfort of accumulating carrying charges if they do not quickly liquidate their holdings.

## Brighter signs

It is encouraging to be able to report that, for the first occasion in some while, a few brighter signs have recently tended to colour price



sentiment. The Cotlook A Index on May 31 was 41.35 cents per lb, its highest level since mid-April.

The brighter signs may prove transient. But Cotton Outlook's projections of world supply and demand now suggest that over half of the addition to world stocks during the 2001–02 season may disappear in 2002–03, which is more than twice the size of the correction foreseen when we reported in March.

Why has this change occurred? The reader should bear in mind that 2001 was an exceptional year, in the sense that most crops around the world experienced very favourable conditions, which, in a season in which farmers had planted more cotton, added to the oversupply. This year, in the Northern Hemisphere, the spring has been too wet and too cold in many Central Asian/Middle Eastern/European areas and very variable across the cotton belt in the United States.

The less-than-favourable weather is deemed to have reduced production prospects in some countries. Even if cotton is put into the ground on something approaching the intended scale in many of the countries affected, it will be late and prospective yields may be diminished.

Whether this is quite true remains a matter of debate, particularly in Central Asia, where the customary difficulty in recent seasons has been a shortage of moisture rather than excess. The areas that have not been forced to replant may even experience a boost to yields. The weather will presumably continue to rule price sentiment over the coming weeks.

A further trend has been for some farmers in California and Central Asia to move to long staple cotton production on price grounds, effectively shifting some of the potential surplus away from the upland sector and adding to the potential (and significant) burden of supply of finer cottons.

### Strong textile outlook

The less optimistic crop expectations have coincided with the emergence of a rather stronger feel to the textile business outlook, which may have been fuelled partly by the recovery in economic prospects in the United States.

Signs that the gloom was lifting were already evident by the end of the first quarter, according to Cotton Outlook's Quarterly International Business Confidence Survey, and reports from many parts of the world since then have referred reassuringly to reasonable levels of demand for yarn (though less so with regard to prices). The depths of depression which recently affected the US industry, and which led to many well-publicised textile mill closures, seem meanwhile partly to have lifted.

Cotton Outlook now foresees that world output in 2002–03 will decline to below 19,500,000 tonnes whereas world consumption will exceed 20,200,000.