

# The world cotton market

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Since we last commented on world market conditions, a long-awaited and welcome upturn in international prices has taken place, as the “brighter signs” referred to in our last article have been transformed into a rather more tangible improvement in international prices.

The Cotlook 2001–02 A Index has risen from the low to the mid 40s cents per lb, while the Forward Index (reflecting offers for shipment from October onward) has briefly touched the 50 cent mark. Futures have also gained ground, breaking out of their previous, long-standing trading range.

To what can we attribute this improvement, following such a lengthy period of stagnation? A weaker US dollar may have been influential. Speculative activity on the futures market has also played a part, as well as the progressive reduction of trade long positions in 2001–02 crop cotton of various origins, to more manageable proportions.

## Shift in perceptions

But probably the most convincing reason for the upturn lies in a significant shift in perceptions of the prospective statistical position for the 2002–03 season. Based on Cotton Outlook’s supply and demand figures in mid-July, production during the season ahead will fall short of consumption by no less than 1,424,000 tonnes, promising to subtract appreciably more from world supply than the excess volume that was added during the season just ended. That represents over three times the scale of the correction envisaged when our first new crop projections were published in February.

In the intervening period, our production

forecast fell by about 350,000 tonnes (the adjustments have involved most major Southern Hemisphere-producing countries — including a reduction of 116,000 tonnes in our figure for Australia alone). Our estimate of world consumption has risen by a massive 674,000 tonnes. The increase includes significant upward revisions for Turkey and the US, but these are dwarfed by the scale of the adjustment to the Chinese forecast.

How strong and how durable will the recovery be? Much will of course depend on the eventual size of the Northern Hemisphere crops now in the ground, and in particular those in the US and China, each of which produced bumper crops in 2001–02.

### US planting down

USDA's June plantings report suggested that cotton has been sown on an area of 14,415,500 acres — 2.4 per cent lower than the March planting intentions survey indicated, and 8.5 per cent less than the area planted the previous season. The department's subsequent production forecast of 17,500,000 bales (480 lbs) was toward the upper end of private expectations.

The US production outlook has since been enhanced by the beneficial rains that fell in early July in important dryland cotton-producing areas of West Texas. By the middle of that month, USDA was able to report that the crop was in slightly better condition than at the same stage of the previous season.

Observers of the Chinese crop have no such regular, official estimates to guide them, but do at least have at their disposal a greater flow of information from local sources than ever before. From the piecemeal data that have emerged in recent weeks, including the National Bureau of Statistics estimate of spring plantings, one can discern a rough consensus that the area sown to the 2002–03 crop has fallen on average by around 14 per cent.

Weather reports have for the most part suggested that yields are unlikely to be high this season. But the temptation to take a pessimistic

view of Chinese production may be tempered by the knowledge that, in each of the past two seasons the size of the crop proved to have been seriously underestimated when the National Bureau of Statistics released its official production figure around the year end.

In several other major producing countries, the start to the growing season has been accompanied by less than perfect weather, with irregular rainfall in parts of West and Central Africa, and a faltering Indian monsoon. Although the effect on crops is not yet considered irredeemable, the conditions would suggest that the exceptionally good yields achieved in 2001–02 are unlikely to be repeated.

Yet on the demand side too, there would appear to be grounds for caution. The more confident mood evident among spinners in the early months of the year (as reflected in Cotton Outlook's quarterly business confidence survey) has given way to a more qualified optimism. Since spinners' fortunes will to a large extent be dependent on the vigour of textile demand during the remainder of the year and beyond — especially in the developed world — the recent, severe setbacks to world stock markets in early July may seem a little ominous.

### Concentrated growth

It may be significant that the predicted improvement in consumption arises not from a broad-based reaction to the stimulus of low prices, growth being instead concentrated in a handful of major textile giants.

The volatile movement of New York futures in late June and July — not untypical during the early months of US crop development — has done little to bolster confidence in the prospect a steady and sustainable recovery in the market (doubtless the most desirable scenario, not only for producers of cotton, but also for traders and mill consumers of cotton).

In the view of some analysts, a downturn in futures — at least relative to prices for the major 'outside growths' — may at some point be regarded as inevitable. US styles must regain

their competitive edge, according to this view, if the huge volume of exports recorded in 2001–02 is to be repeated during the season ahead. It remains to be seen to what extent — with a more healthy supply and demand situation in prospect for 2002–03 — the anticipated onslaught from the US might undermine prices for the 'outside' growths.

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