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New York outlook

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New York futures have continued to be influenced by projections of lower stocks and steady demand. The optimistic price outlook we envisioned in the last update has proven out as prices have managed to rally even higher than first thought. By early July, New York futures, namely the December contract, was trading in the upper 40s.

The strength in New York seemed to eminate from several sources. The first was consistent demand in the US and abroad. Secondly an aggressive fund sector pushed their net long position to historic levels. And lastly there are crop concerns of some degree in several major cotton-producing regions.

The forecast for worldwide demand has remained consistent this year. Obviously there are pockets of weaker demand, mainly the European countries and to a less degree parts of the Central and South America. But this slack has been taken up by a resurgence in US and more particularly Chinese consumption, along with the other major consuming nations, and has increased cotton usage.

Latest consumption report

In the USDA's latest report world consumption was placed at 96.19 million bales. This is up 2.47 million bales from the previous season and 690,000 bales from last month's estimate. The major increases are forecast in China (750,000), India (400,000), Pakistan (300,000), Asia (210,000), Turkey (200,000) and the US (200,000).

It will be interesting to watch worldwide consumption this season as a weakening US dollar could shift the level of demand. As some of the currencies of these consuming nations change relative to each other, trends could shift. This bears watching as European yarn and textile companies are already feeling the pinch as the US dollar tumbles to parity with the euro.

Continued fund interest

The second major event of the past two months has been the continued fund interest in the long position of our market. The specs reached over 50.2 per cent net long, which represented over 38,000 contracts long on open interest of 75,605. This is one of the highest levels on record.

The huge long fund position has increased volatility in the market as daily price swings of 200 points or more have become more frequent. It also suggests any market weakness and a liquidation of this position could have grave consequences for New York.

So far the funds are right. This pattern was also evident last year as the funds got short early and successfully kept their position through one of the most bearish markets in a long time. Right now the funds have been net long since November 20, 2001 and don’t appear in jeopardy of changing anytime soon.

Crop problems

Early crop problems have also added support to the market. Continued drought in Australia, cool wet conditions in Uzbekistan, flooding in China and a prolonged dry spell in West Texas all added to the perception of lower supply. Reduced plantings added fuel to this fire.

Chinese acreage is down 13 to 14 per cent and US is down 10 per cent. Now reports come from India that suggests acreage is down 10 per cent or more and the long period of successful monsoon seasons is a risk. All of these factors have created a heightened sense of awareness to the supply side of the market.

A look at the USDA’s most recent estimate placed world production at 89.95 million bales, down 8.07 million bales from last year and 1.05

million bales from the June report. All in all world production is forecast to fall 8.2 per cent with the US down 14 per cent.

Given the above scenarios, world stocks are forecast to decline 12.5 per cent to 41.18 million bales. This represents the lowest level since the 1996–97 season when ending stocks were 41.35 million bales. The main difference between now and then is the US carryout. Old crop US carryout projections for 7.70 million bales are nearly double the 1996–97 level of 3.97 million bales. New crop carryout is forecast to drop to 6.60 million bales, still a fairly burdensome level. For this reason, US exports will continue to set the bar in New York.

US export sales

As we near the end of the current marketing year (July 31), US export sales for new crop are lagging behind last season's pace. Right now we project the US will have sales registrations of approximately 3.50 million versus approximately 4.50 million at the same time last year as we begin the new marketing season. The USDA has the US forecast exports at 10.80 million bales, down from last year's 11.00 million bales.

World prices have been on the rise lately as concern about supply and unattractive prices have made it nearly impossible to buy new crop supplies. Adding to this malaise is the weakening US dollar. As the dollar falls, most other growths have raised prices to obtain the same values.

This has kept upward pressure on the components of the A Index. If this trend continues it will create problems for US growers as well under the new farm programs.

A part of the US farm program payment is determined by world prices. The weaker world prices are, relative to New York, the more attractive for US government program payments to the grower.

This may limit early turnover of new crop after harvest. If so, the burdensome certificated stocks which now stand over 300,000 bales could find a home. Demand from shippers for

October, November and December delivery could make things interesting in New York.

US crop struggles through

In the US, the crop has made it through the midpoint of the season with the only major problems in the south Texas area. This region suffered severe drought early on which resulted in heavy losses. West Texas got off to a slow start as well due to drought in the 1-S crop district. But rains in early July rescued the major part of this acreage. Drought like conditions were also present in southern Georgia and North Carolina. Like West Texas, these areas received rains just in the nick of time.

As of this writing the US crop is in slightly better condition than last year's crop at this time. This has crop forecasters edging their production expectations higher. Based on five year abandonment and yield averages, the US crop should be somewhere around 17.0 million bales. Most crop watchers have their figures higher at 17.75 to 18.00 million as they expect above average yields.

One important note about this year's crop is the lateness. On average Texas and the midsouth crops are running about two weeks behind. This will make additional rains necessary into the first half of August versus the normal end of July. Ultimately, the final production will depend on continued good weather through harvest and little insect pressure.

Crop progress vital

Given the forecast for lower world stocks outside of the US, any crop problems around the globe could send New York sharply higher. This view, of course, is predicated on the demand side of the equation remaining firm. We will be watching crop progress in China, India, Uzbekistan and Brazil for any early signs of trouble. Problems in any one or more of these could have a profound effect on demand for US cotton and prices in New York. If the crop progresses normally, December will have a difficult time rising much above the mid 50s with the potential for a harvest selloff to the mid to low 40s still a possibility, albeit more remote.

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