

# The World Cotton Market

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Since late September, when we last contributed to *The Australian Cottongrower*, there has been a modest but tangible improvement in the upward momentum of world prices. The Cotlook A Index has moved from the high 40s to the low 50s cents per lb and, at the time of writing, stands at its highest level since March 2000.

Thus far, the price recovery has been largely driven by supply-related factors. Although spinners' resistance to higher prices, especially for better grade cotton, appears to be weakening, the poor tone of textile markets and wider economic uncertainties has acted as a brake on the market's advance. Spinners are still not purchasing with sufficient vigour to provoke a more decisive upward movement.

The upturn has nonetheless been accompanied by a moderate advance of New York futures, which appear to have broken out of their previous trading range. That performance has proved more positive than many traders had anticipated.

## Why have futures risen?

Indeed, in our last market review, we suggested that the sluggish pace of US export sales would result in downward pressure on New York. US exports have continued to lag behind those of last season, so what has brought about the reversal of direction?

The single most significant factor has been the adverse weather that has affected several of the northern hemisphere harvests, but most importantly that in the US itself. Throughout October (just as Australian cot-

ton producers were hoping against hope for rain), successive weather systems wrought havoc in several parts of the US cotton belt, most notably in the Memphis Territory and southeast, but toward the end of the month also in West Texas.

The result was a radical reappraisal of the probable quality composition of the crop and a degree of uncertainty regarding its size. USDA's November report revealed a relatively modest adjustment to projected output, which was reduced by 255,000 bales (480 lbs) to 17,815,000. Some observers anticipate a further cut, as the scale of abandonment in the worst-affected areas is taken into account.

In addition to providing the impetus for the upturn in futures, the quality problems associated with the US harvest contributed to a wider perception that higher grades might become scarcer. Final confirmation of a deep cut in prospective Australian production was of course also of major significance in this regard, while the political uncertainty in Côte d'Ivoire also contributed to the apprehension of customary users of high grades.

The upturn in prices has also been assisted by the steady dwindling of trade offers of old crop cotton. New crop asking prices are much more closely in line with replacement costs at origin, which remain conspicuously firm.

The world supply and demand situation meanwhile remains broadly supportive of a bullish case. Production in 2002-03 is forecast to fall short of consumption by over 1,500,000 tonnes — roughly two thirds of that imbalance being attributable

to China. In mid-October, the country's National Bureau of Statistics released a crop forecast of 4,800,000 tonnes, a figure above previous ideas, but still over 1,000,000 tonnes below Cotton Outlook's forecast of Chinese consumption in 2002-03. Yarn production data continue to testify to the robust growth in Chinese spinning activity.

## Chinese stocks unknown

The unknown factor remains Chinese stocks, or more precisely the management of those stocks by the authorities. A senior Chinese official has recently placed stocks at the beginning of the season at around 2,200,000 tonnes (including 1,250,000 of pre-1998 cotton). Based on Cotton Outlook's present estimates of production, consumption, imports and exports, that figure will have been reduced by the end of this season to around 1,450,000 — implying the lowest stocks-to-use ratio since the late 1980s.

Chinese import demand, predominantly for prompt shipment requirements, has been a feature of recent trading. On several occasions during the period under review, China has featured the single largest destination in the USDA's weekly export report, and cumulative upland registrations by November 7 were over 300,000 bales higher than at the same point in 2001-02.

Potential exporters of cotton to China now await news of the manner in which the import quota for 2003 will be administered. Once again, China may hold the key to the behaviour of world prices. 