

The World Cotton Market

By Michael Edwards, Cotton Outlook

The upward trend in upland raw cotton prices has continued since we last wrote for *The Australian Cottongrower* in mid-November. Then, the Cotlook A Index had moved into the low 50s cents per pound. At the time of writing, the Index had moved into the upper 50s.

The steady, if unspectacular, strengthening of prices has been underpinned by a world statistical position which, superficially at least, would seem to provide ample support for a bullish view of prices. Cotton Outlook's estimates indicate that world production will fall short of consumption during 2002-03 by no less than 1,870,000 tonnes, far outweighing the addition to the world supply during the previous campaign.

QUALIFIED BULLS

Given the tightness of supply, particularly acute in the upland better grades, one might have anticipated a still more explosive price recovery. Yet trade opinion, while undoubtedly inclined to the bull side, remains qualified by several potentially negative factors, which together have served as a brake on the rise of prices.

Confidence in the global economic outlook remains decidedly fragile, a view fully reflected in the tenor of reports from textile markets around the world. Retail demand for clothing and textiles during the Christmas holiday period appears to have been rather disappointing.

Moreover, international competition has become more intense than ever, with the progressive dismantling of quota restraints

by the industrialised countries, the entry of China into the World Trade Organisation, and the emergence of other players into the global market, such as Vietnam.

In the circumstances, spinners in many parts of the world have experienced difficulty in passing on increased raw cotton replacement costs to their customers for yarn. As raw cotton purchased earlier at cheaper prices has dwindled, the stagnation of yarn values has become a more acute problem for many mills.

The positive nature of the global supply and demand figures rests to a large extent on the contribution of China. That country accounts for the bulk of growth in consumption during the 2002-03 season, and represents nearly half of the global shortfall of production. So realisation of a significant portion of China's apparent potential as an import market is of paramount importance for the continued strength of the market.

Traders are of course aware that part of the gap between this season's Chinese production and consumption will be filled by old crop stocks, of which over 400,000 tonnes changed hands on the National Cotton Exchange between the beginning of September and the middle of January. Some import demand has also been noted during the same period, though enquiry has slowed appreciably early in the New Year, a fact generally attributed to the hiatus between the end of the 2002 quota year, and the widespread availability of new licenses for 2003.

The final influence that may be giving pause for thought to those of a bullish per-

suation concerns planting intentions in the northern hemisphere, which are gradually moving into sharper focus. It should perhaps be recalled that the sharp fall of world output in 2002-03 was only partially a reaction to lower dollar prices for raw cotton.

INCREASED PLANTING RISK

As the Australian cotton farmer knows to his cost, external factors such as adverse weather were also highly significant. Cotton Outlook's initial production and consumption forecasts for 2003-04 will not be published until February. But there are already some indications that increased plantings may be in the offing in some countries, influenced both by the partial recovery of prices, and by expectations of more helpful weather conditions.

Much may depend on the price relationship with competing crops. Needless to say, the behaviour of farmers in the US, the world's foremost exporter of raw cotton, and in China, the largest consumer, will be of crucial importance.

Equally, on the consumption side, one is entitled to question whether the strong, investment-led growth in spinning activity in China and one or two other countries will take its toll of capacity in other parts of the world.

For the time being the supply and demand fundamentals continue to provide support for the market's recovery. But its sustainability into next season is not a foregone conclusion.

Cotton Outlook publishes a range of international cotton news services, details of which can be found at www.cotlook.com. 