

The World Cotton Market

By Ray Butler, Editor, Cotton Outlook

The world cotton market has clearly entered a bullish phase, particularly as regards the high quality sector in which Australian cottons typically feature. Sentiment has been driven principally by two factors:

- The difficulty of securing additional replacement supplies at a number of origins; and,
- China's increasing need for cotton imports.

Sellers at most origins have been progressively under less pressure to make price concessions. Simple supply and demand statistics perhaps demonstrate why. In August last year, the theoretical world ending stock was over 10,000,000 tonnes, according to both the United States Department of Agriculture and the International Cotton Advisory Committee.

By July 31 this year (the end of the recognised international statistical season), the figure will have fallen by more than 20 per cent, according to Cotton Outlook's forecasts of the 2002-03 season's output and consumption. Our recently published, initial forecasts for 2003-04 portend a further decline in stocks by the middle of next year, notwithstanding a sharp recovery in world production.

CHINESE STOCKS

The stock reduction is most apparent in China. During 2002-03, the carryover figure is expected to decline by over 33 per cent. Even with the prospect of a substantial recovery in this year's plantings, which could result in a record-sized crop, China's import requirement would seem likely to grow significantly during 2003 and 2004.

The signs already exist that some Chinese mills have turned to foreign cottons quite extensively on price grounds — the difference between the China Cotton Index and the Cotlook A Index has widened appreciably since early February and daily average auction values and average forward e-commerce prices on the China National Cotton Exchange have risen steadily.

Customs data reveal that imports during January were over 81,000 tonnes, the highest monthly figure recorded for some years and China continues to figure prominently in US export sales registrations and in anecdotal trade reports of day-to-day business in Central Asian, West African and various long staple descriptions.

China is not alone in its perceived requirement for large-scale imports between now and the movement of the next domestic crop. Outturn forecasts for the current season have declined sharply in India and arrivals from the present crop have tailed off earlier than expected in Pakistan. Both markets are therefore seen as potential buyers from the international market in the coming months.

There are some caveats to the apparent bullish trend that should be borne in mind. Potential developments in the Middle East are undoubtedly not conducive to the expansion of international economic confidence. A rising oil price may continue to render cotton competitive against synthetic fibres but higher energy and transportation costs could prove broadly detrimental across the textile sector in general.

Cotton Outlook's initial forecast is that

world consumption, though still exceeding production, will grow only marginally during 2003-04. Gains seem likely to be focused mainly in countries that are themselves cotton producers or that have been a recent recipient of inward investment, such as Vietnam. Further decline is foreseen in most of Europe, the United States, Japan and Thailand, while no growth is predicted in Indonesia or Taiwan.

PRODUCTION RISE

It is also pertinent to note that the Cotlook A Index rose during early March above 60 cents per lb for the first time in over two years, in advance of many Northern Hemisphere farmers' final planting decisions. The considerable enthusiasm evident in some countries for sowing cotton as the main cash crop stands therefore to increase further, which could add to the weight of supplies available to the market come the next harvests. Some revision to plans in state-controlled systems has already been mentioned.

In the United States, the customary annual survey by the National Cotton Council foresaw little change in cotton area overall but it is worthy of note that, at the time of writing, December New York has risen more strongly since the beginning of the year than prices in the Chicago grains complex.

US cotton production forecasts could therefore tend to rise, rather than fall, providing the weather is favourable. The US cotton industry's increasing dependence on exports, in face of deteriorating home consumption prospects, will sustain its role as a formidable export competitor. 