

# World Cotton Market

By Ray Butler, Editor, Cotton Outlook

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When we wrote for The Australian Cottongrower in March, prices were on a steady incline, with the Cotlook A Index having surpassed 60 cents per lb for the first time in over two years, owing partly to the perceived tightness of supply in upland better qualities (particularly, of course, from Australia).

But most importantly, evidence was then already to hand of China's import purchasing activity. The subsequent strengthening of prices in the Chinese market supported that activity.

The China Cotton Index (an average of prices paid by local mills) published by the China National Cotton Exchange rose during the period from February 10 to March 24 by no less than 19 per cent, whereas the Cotlook A Index, as a measure of international values, rose during the same timeframe by only seven per cent.

During that period, US exporters registered sales to China of well over 700,000 bales (since then, up to the beginning of May, new registrations only marginally outweighed cancellations). And US growers were not the only beneficiaries of the increased Chinese demand.

The Chinese government acted to try to cool the market by virtually doubling the amount of old crop stock offered at auction from the beginning of March to about 10,000 tonnes per day — a practice that continued up to the May Day holiday, resulting in the release into the market of well over 300,000 tonnes.

The impact of SARS, as readers of The Australian Cottongrower will patently know, has been instrumental in reversing the previous bullish trend.

The psychological impact on business confidence worldwide has been immense. Although yarn output in China during April was well maintained, recent reports have referred to output curtailments in the textile and clothing sectors, in face of a dwindling volume of new export orders and declining domestic expenditure as people avoid retail spaces.

Elsewhere, a Cotton Outlook survey suggests new fabric orders from Hong Kong and Dubai have decreased sharply in South Korea, China's fabric trade with Japan has slowed and Taiwan's business has suffered. Indonesia and Thailand have been badly affected. Turkey and India, by contrast, have both alluded to the receipt of new orders diverted to them from China.

The retreat of oil prices since the beginning of the Iraq war has brought a fresh competitive edge to polyester fibre prices, which may also have partly deflated cotton demand.

## FUTURE CHANGES

New York futures has not been immune to the changes in perception but its movements have been much more exaggerated, with speculators taking fright en masse at one stage and liquidating entirely their previous net long position. In early May, the July contract fell to over 1000 US cent points per pound below the level prevailing in mid-March and, at the time of writing, it remains some way short of that mark. The May 2004 contract has suffered a much narrower swing and is almost back to the March level.

## PRICE PROSPECTS

So what are the prospects now? Actually, perhaps not all that discouraging, if SARS is coming under control. Even taking account of some impact from SARS on consumption in certain countries, Cotton Outlook continues to predict a massive contraction in the theoretical, global ending stock by the end of the current season (July 31). A further decline in stocks is projected by July 31, 2004.

The United States Department of Agriculture also

suggests that 2004 ending stock will be the lowest recorded since the 1994–95 season — when prices reached astronomical levels.

There are of course dissimilarities between now and then. In particular, the US is today the producer of substantially an export crop, owing to the decline in US domestic consumption, and US stocks are not expected to shrink to the very low level of 1995.

But world stocks by mid 2004 are projected to be the smallest for at least 30 years. Before then, stocks in China may perhaps approach a point so low to give rise to concern. Furthermore, Northern Hemisphere crops have not made the best of starts, particularly in California, Central Asia and, apparently, Xinjiang. Plantings do not appear to have expanded in some countries as much as might have been imagined on the back of the earlier price recovery.

Provided consumption does not falter more than we currently foresee, the chances seem to favour stronger, rather than weaker, prices in the months ahead.