

New York Futures

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In our last update, we were singing the praises of renewed demand — especially China, India, Pakistan and Turkey who are carrying the burden of world demand on their shoulders. We also identified the potential resistance to higher prices due to the funds' excessive long position and the mills' reluctance to pay above 60 cents because of lagging yarn prices.

As it turns out, both of these factors weighed in on New York's price direction. As a result New York declined over 10 cents, dropping to 49.90 level finding good trade support and export demand. During this decline we saw the funds drop from over 40 percent net long to basically even.

In May, the USDA's monthly supply and demand estimation continued to support the market. World ending stocks for the 2002–03 year were basically unchanged, while US 2002–03 ending stocks estimates fell 100,000 bales to 6.20 million.

NEW CROP ESTIMATES

In May the USDA also provided its first new crop estimates. This early season estimate showed a further tightening of cotton stocks, despite an increase in projected world production of 8.60 million bales to 96.50 million.

World consumption was also increased 1.20 million to 99.0 million bales. This left world ending stocks forecast at 34.50 million, down 2.20 million from the 2002–03 crop year. This is the lowest level since the 1994–95 season.

In the US, production was placed at 17.20 million bales, unchanged from last year. But US consumption dropped another 200,000 bales to

7.30 million. Export estimates were increased 500,000 bales to 11.50 million which left US ending stocks at 4.70 million, the lowest level since 1999–00. All in all the May supply and demand figures proved constructive.

Since the release of the supply and demand figures prices, have staged somewhat of a rebound. Weekly export sales reports reflecting activity during the time New York was in the low 50s have been strong in both sales and shipments.

This activity has in turn supported the notion that demand remains evident 'beneath the market'. As a result, New York recovered approximately 50 per cent of the sharp losses. Trading has now turned more two-sided with the prospect of weaker demand and larger production prospects still casting a shadow over the market.

During the May contract expiration, on-call mill fixations heavily outweighed grower on-call selling. Due to the large differences between May and July, mills were reluctant to roll into July. This was certainly one of the supporting factors during the March–April rally.

As May expired, the pressure on mills faded and they backed away from the market a bit. This allowed the fund liquidation to begin. At the same time some rumors of sales cancellations to China began to circulate. Before too long prices were in a full blown fund liquidation mode.

During this weakness, July on-call mill fixations helped absorb the fund liquidation. On-call mill fixations dropped from over 12,000 contracts to now just over 3,000. As we move forward, the on-call figures are more evenly balanced at 3 to 1 versus 12 to 1 earlier this year.

FUTURE PROSPECTS

Going forward, the two most important aspects will be new crop developments and demand. Demand will play a large role in New York's price direction into the July expiration.

Since April, China has been only a minor player in the export markets. This follows and/or

coincides with the SARS health scare that continues to haunt several Far Eastern markets.

As for production, it will be mid summer before we get a handle on production prospects in the US and abroad. In the immediate future this could put price pressure on the July contract back toward the 49.90 lows as the next significant event. This opinion comes mainly from the slowdown in export demand for US 11/16" type cotton. A resurgence in demand from China, India, Pakistan or Turkey would go a long way toward easing bearish feelings.

Another factor to watch will be new crop development. The slow start in some key US crop areas and Central Asian countries could add value to the certificated stocks. The July/December spread is already reflecting full carry and offers merchants an opportunity to hedge their inventory needs by taking July.

If by then the funds happen to get net short the market, watch out for a possible squeeze. After the July expiration all focus will turn to new crop and the tight balance sheet going into next season. And quite frankly, those numbers are friendly.