

New York Futures

By Hibbie Barrier, The Jernigan Group

New York futures continue to exhibit signs of economic uncertainty as prices fell sharply into the July delivery period before rebounding. The June/July rally has been impressive as the forecast for tight world supplies has put an upward bias in the market's sentiment.

During this time, the funds moved from a net short position of 11.1 per cent on June 10 to 37.1 per cent net long on July 15. Over the five weeks it took the funds to put on this position, prices rallied from 57.16 to new contract highs at 63.10. Since then the market has fallen into the trading range between 60.50 and 63.10.

In the July USDA supply and demand estimates, 2003–04 world ending stocks were forecast at 32.96 million bales, down 180,000 bales from the June estimate and 4.0 million bales from 2002–03. World production was forecast at 94.84 million bales, down 640,000 bales from the June report but well above 2002–03 production of 87.72 million bales.

World consumption was placed at 99.0 million bales. This was unchanged from the June report but 1.17 million higher than 2002–03.

In the US, production estimates were cut 600,000 bales to 16.60 million bales. Domestic consumption is forecast at only 6.80 million bales, the lowest level since 1985.

Exports were bumped up to 11.80 million bales which would represent an all time high, 200,000 above the 2002–03 figure. These changes pushed ending stocks to 3.90 million bales — down 600,000 from the June estimate. US ending stocks are forecast to be the lowest since 1999–00.

There is no doubt the market has found support in the USDA's numbers as well as the questionable start to the primary growing season. Despite this the market seems to have run into resistance above 60 US cents. The resistance is not coming from grower hedging but rather from a slowdown in mill demand.

This is probably so for a couple of reasons. One, the attractive Step 2 marketing certificate at over 7.00 US cents has made US cotton attractive and encouraged inventory building at mills and in merchant warehouses overseas. The second is lagging yarn prices which have yet to catch back up from the sharp future sell off in early June. As we move forward, more and more attention will shift to demand as mill buyers continue to buy hand to mouth against yarn orders.

The bears' argument stems from a more pessimistic view of world demand. In the past, consumption increases in any one particular country or region have come at the expense of another. That is, the boom in China, Turkey, India and Pakistan is displacing mill consumption in Europe and the Far Eastern countries like Taiwan, Indonesia, Thailand and Japan. North American mill consumption is suffering as well with US, Mexican and Canadian usage in downward trends. The current USDA estimate suggests real consumption gains, especially in China.

This marketing year prices in New York will be more responsive to developments in China. That is from a production as well as consumption point of view. China is forecast to produce a whopping 27.0 million bales.

This is up 4.4 million from last year's crop and would be the second largest crop in the past 30 years. In 1984 China produced 28.70 million bales. In the USDA's monthly estimate, imports were put at 2.60 million bales. This estimate is made with consideration given to the large estimated production and strong mill demand.

Significant changes to either of these balances could have world price repercussions. In the US, prices will key on export offtake more so than

any other time in modern history. This is due to the fact that US domestic consumption is in a downward trend and at 6.80 million bales would be the smallest since 1985.

Going forward, the US carryout for the 2002–03 season could very well be depleted by the arrival of new crop. US domestic use and export shipments should run over 1.0 million bales per month. US ending stocks for 2002–03 are 5.80 million bales. This would leave approximately five months of supply.

This could become a problem given the potential lateness of the US crop. Amplifying this is the US farm program. In the farm program the New York Adjusted World Price spread plays a large role in determining grower income. The wider the differences, the better for US growers.

At the current relationship, growers are likely to place their cotton in the loan at harvest and wait to market their cotton later in the season. This would place a high demand from shippers on available supplies and make an argument for a New York rally to shake loose cotton from growers hands.

For now, the USDA's forecast for supply and demand implies prices are headed higher. As we said before, small changes in some key areas like China for instance could have a profound effect on world prices and in New York.

As in the past with China, we usually don't know the whole story until the crop is out of the field. So, the market may have to wait a while before confirming the full extent of the USDA's estimates and its bullish implications. Barring a crop disaster of some sort I wouldn't be surprised to see New York in the mid to low 50's before we can see much improvement above the recent 63 US cent highs.