World Cotton Market

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We concluded our last contribution to The Australian Cottongrower with the affirmation that "the timing of China's re-entry into the international market will be crucial, if the bullish statistical outlook is to be translated into a tangible reality." In early September, a strong revival of Chinese import demand duly materialised, causing a marked shift of sentiment to the bull side.

A number of factors may have influenced the timing of China's reappearance on the international stage.

One influence may have been the administration of the country's Tariff Rate Quota. It is understood that mid-September is the point by which quota must be used, or returned for reallocation.

No less significant were developments in relation to the outlook for Chinese production, so notoriously difficult to forecast with any degree of confidence. Reports reaching Cotton Outlook during August and early September frequently referred to the adverse effect on yields of weather conditions in several major cotton-producing regions. The likely delay to early arrivals and probable quality shortfall may well have prompted some mills to seek foreign growths, most notably from the African Franc Zone 2002–03 crops, readily available for prompt shipments.

Moreover, extrapolating from surveys conducted by the China National Cotton Exchange, one could arrive at a significantly smaller crop figure than that which appeared to gain acceptance in Chinese industry circles early in the season — when a figure of around 5,800,000 tonnes or more was considered well within reach. On September 10, Cotton Outlook reported that a much lower figure (5,000,000 to 5,200,000 tonnes), was given credence within the Ministry of Agriculture.

During the same week, the Outlook reduced its Chinese estimate from 5,525,000 to 5,200,000 tonnes. USDA cut its own figure from 5,879,000 to 5,552,000 tonnes, while confounding the pundits by reducing its US crop forecast, whereas the market had been confident of an increase.

Certainly, the strength of Chinese yarn production remained impressive during July and August (17 to 18 per cent above the corresponding months a year earlier), confirming that the impact of SARS on spinning activity was confined to a modest slowdown in May. Cotton Outlook's current estimate of Chinese raw cotton consumption for 2003–04 (which assumes that cotton's share of fibre consumption has about been maintained) is a staggering 6,800,000 tonnes — over 31 per cent of the world total.

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The scale of the apparent shortfall of China's production relative to consumption (1,600,000 tonnes during 2003–04, in the context of an already much-depleted stock position), understandably fired the market's imagination. In two sessions, New York futures gained over five cents, while the Cotlook A Index rose to its highest level since the end of December, 2000.

But bullish sentiment was not unqualified. The profitability of spinning operations in many parts of the world had for some time appeared very poor, in developed and developing countries alike. Mills that were already struggling for profitability showed the utmost resistance to a sudden hike in raw cotton replacement costs — at least until yarn prices could be raised commensurately.

The growing polarisation of the international market — whose structure is today characterised by a massive Chinese import requirement and a steadily growing US exportable surplus — is itself, for many observers, a cause for concern.

The sharp upturn in prices in early September coincided with two international gatherings of major significance for cotton. The International Cotton Advisory Committee held its Plenary Meeting in Gdansk, Poland, and the much-heralded Ministerial Meeting of the World Trade Organisation took place in Cancún, Mexico.

The effect of subsidies on world cotton prices was well to the fore in both meetings.

Paragraph 4 of ICAC's communiqué from the Gdansk meeting states that "The overwhelming majority of member governments reaffirmed the negative impacts of subsidies and other government measures on cotton production and trade affecting cotton farmers, especially in the developing and least developed countries, and urged that all government measures and subsidies on cotton be removed."

In Cancún, cotton achieved an unprecedentedly high profile, thanks largely to the 'cotton sector initiative' launched by four African countries, which sought to detach the cotton sector from the complex negotiations. The initiative sought an end to all cotton subsidies by the developed countries and transitional compensation for those impoverished countries perceived to have suffered economic loss, as a result of those subsidies. The attempt to treat cotton in isolation was firmly rebuffed, and the initiative foundered amid the overall failure of the Cancún meeting.

While the current recent signs of price recovery will be welcomed by cotton producers everywhere, the cotton market continues to face significant structural challenges.