New York Futures

By Hibbie Barrier, The Jernigan Group

New York futures activity has been nothing short of spectacular as prices rose despite traditional harvest pressure around the world. In our last update we mentioned the importance that China would play on New York's price direction.

This combined with the lateness of the US crops set the stage for New York's sharp rally which ultimately reached over 80 cents. Since then prices have fallen nearly 10 cents amid grower selling, December option expiration and slackening demand.

CHINA PRODUCTION DOWN

In the November USDA supply and demand estimates, world ending stocks were forecast to fall 2.07 million bales to 31.66 million, the lowest level since 1994–95. The primary reason for the decline in ending stocks was a much anticipated reduction of 3.50 million bales in the Chinese production numbers.

World production was cut 2.36 million bales to 92.14. Due to the decline in production in China and Pakistan, imports were raised 2.0 million bales to 32.74. Consumption was forecast at 97.86 million bales, down 760,000 from last month's estimate. This marked the third consecutive decline in the domestic use forecast. Exports were placed at 32.26 million bales, up 1.93 million from October.

The recent trend toward lower consumption is a natural reaction to the rally in physical prices. As prices continue at or above current levels we would expect demand to be rationed.

Just how much more consumption declines is a function of how high prices will rise. In the meantime the current stocks-to-use ratio of 32.4 per cent would be the lowest since 1994–95 (35.5 per cent) and just above 1993–94's 30.9 per cent. During these years New York traded as low as 55 and as high as 117.

Outside of China, smaller crop estimates in Turkey, Pakistan and Uzbekistan also will have price ramifications.

As China continues to acquire cotton, traditional import markets will struggle to find readily available supplies. This could spark another rally that could take prices back into the mid 80s with little trouble. This will be accomplished as the majority of cotton will be out of growers' hands and there will be a lack of hedging pressure to slow the market.

Today the funds are around 40 per cent net long. They have held a long position since June 24, 2003. Recent selling suggests they are raking some profits off the table and who could blame them? This has been some ride. Since they went long, prices have risen over 2000 points.

The continued weakness in the US dollar will underpin support for cotton prices as well. A change in this trend could alter our enthusiastic bullish view. Until then, only a drastic change in the outlook for world economies would seem able to curtail cotton bulls.

Today the Chinese crop has been estimated at 22.0 million bales. Some private estimates are guessing closer to 20 million when it is all said and done.

If the latter proves true, China will have to import more than the 7.0 million bales the government is now forecasting. Some estimates range as high as nine to 10 million just to give them a more comfortable level of stocks. Today China's ending stocks are 6.78 million.

This only represents a little over 10 weeks mill consumption. For this reason China's mills are likely to continue to buy even past this crop year and right up to harvest the next year. Obviously, higher cotton prices mean more acreage next season.

But the recent rally in grain prices — soybeans in particular — may offer competition for acres. For this reason I see December 2004 having to rally into the mid to upper 70s to hold on to acres.