The World Cotton Market

By Michael Edwards, Cotton Outlook

The period since we last contributed to *The Australian Cottongrower* has been characterised by a weakening of international raw cotton prices and volatile fluctuations on the New York futures market. The Cotlook A Index, in the mid-70s cents per lb when our last report was penned, is barely above the 70 cent level at the time of writing.

Such a decline scarcely appears justified on fundamental considerations. The global balance sheet for the current season has not altered significantly during the period in question. According to Cotton Outlook's latest estimates, production is still expected to fall short of consumption by a little over one million tonnes.

The movement of prices appears instead to have been influenced largely by the direction of New York futures. Since much of the uncommitted supply from the 2003–04 crops is held in trade hands and, one must assume, a significant proportion of such holdings are hedged in New York, international prices have proved particularly responsive to the lead given by futures over the past few weeks. During that period, New York has produced some sharp price movements, for which a convincing rationale has not always been apparent.

The size of speculative interest in the futures market provides a partial explanation. The behaviour of futures may also be symptomatic of the increasing percentage of US production that must be exported, rather than consumed by a domestic textile

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industry that is in decline. US exports in 2003–04 (according to USDA's March projection) of 13,800,000 bales (480lbs), will be equal to nearly 76 per cent of US production. US cotton today accounts for over 40 per cent of international trade.

Progress towards that level of sales has been brisk. By March 4, sales totalled just over 11,400,000 running bales. Of that volume, some 56 per cent had been shipped, suggesting that US shippers will be faced with a major logistical challenge during the remaining five months or so of the season, if the USDA's figure is to be achieved.

The record US export forecast would not, of course, be remotely feasible without the existence of a huge import requirement from China. At 4,870,000 tonnes, the eagerly-awaited crop estimate from the National Bureau of Statistics proved somewhat higher than many observers had anticipated. But such has been the strength of mill consumption that, in early March, the authorities issued an additional import quota of no less than 1,000,000 tonnes. Cotton Outlook's estimate of Chinese consumption in 2003–04 has been raised by 200,000 tonnes, to 6,800,000 and we foresee imports during the period of no less than 1,600,000 tonnes.

EXCESS SUPPLY

On February 20, Cotton Outlook published its first supply and demand figures for the 2004–05 season. Production is forecast to rise by about 11 per cent to some 22,300,000 tonnes, while a rise in consumption is foreseen of just 1.5 per cent, to just under 21,400,000 tonnes. The net result is an excess of supply over demand next season of around 900,000 tonnes, a similar volume to that subtracted from the global balance sheet in 2003–04. To that extent, the figures can be construed as moderately bearish.

But with planting only in its very early stages in the Northern Hemisphere, new crop statistics should of course be regarded as very tentative. Moreover, the strength of prices for some crops that compete with cotton may serve to limit the expansion of area in certain countries.

The nearby soybean contract in Chicago, for example, has risen by some 18 per cent since the beginning of the year, and by over 60 per cent since March 2003. So some observers question whether US cotton plantings will expand in the manner suggested by the annual survey published at the end of January by the United States National Cotton Council, and which forecasts a rise of some 9.5 per cent.

China is a source of particular uncertainty. Although the very high prices obtained by farmers in 2003–04 seem certain to result in higher plantings, it remains to be seen to what extent the authorities might wish to restrain such enthusiasm in the interests of food security. The last grain harvest was the worst for some 13 years.

The single largest producing region, Xinjiang, apparently intends to raise cotton area by just three per cent, whereas for the country as a whole an increase of 10 per cent is mooted. It would seem reasonable to postulate a recovery in yields, following this season's dramatic shortfall, the scale of which remains perplexing, even allowing for adverse weather.

As the weather pattern in China and elsewhere in the Northern Hemisphere comes under scrutiny over the coming months, an end to the market's recent volatility may still be some way off.