

The World Cotton Market

By Michael Edwards, Cotton Outlook

International raw cotton prices have lacked any fundamental new direction during the period under review, losing some ground during the second half of March, since when values have tended to drift, with a bias to the downside. For most of the period, the Cotlook A and FE (Far Eastern) Indices have fluctuated just below 70.00 cents per pound.

The recent, lacklustre behaviour of prices has come as something of a disappointment, as the expectation that the market would rally in the second half of the season had been widely held in trade circles — based primarily on fundamental supply and demand considerations. The tightness of current crop supplies at origin has been apparent for some time, and the progressive reduction of trade long positions has argued in favour of firmer prices.

Furthermore, US export sales have continued to make steady progress. By May 13, US export sales were already close to the Department's forecast of a record 13,800,000 bales (480 pounds) for the season. Moreover, the industry has risen to the logistical challenge of making that forecast a reality. Shipments have averaged just under 350,000 bales during each week of the period under review and, by the same date, 75 per cent of the season's projected exports had been shipped.

Yet, the reaction of futures to this impressive progress toward a record export volume has often been perplexing. The volatility in New York mentioned in our last *Cottongrower* article has persisted, to the extent that even seasoned observers of the futures market have on occasion seemed at a loss to find a plausi-

ble rationale for some of the more extreme price movements.

Whatever its cause, the unpredictable fluctuation of futures has done little to bolster the confidence of mill buyers, many of whom continue to complain of poor profitability and, in some developed countries, an uncertain future. The cautious behaviour of spinners, buying mostly in hand-to-mouth fashion, awaiting opportunities to cover on downward breaks in New York, has undoubtedly contributed — perhaps crucially — to the failure of prices to strengthen as the season has progressed.

As the season has passed, moreover, attention has increasingly focused on the outlook for the 2004–05 season. Planting in the Northern Hemisphere has generally made good progress over the past few weeks, tending to reinforce ideas that a strong recovery in production is in prospect next season.

At the time of writing, Cotton Outlook's supply and demand forecasts suggest that world production will exceed consumption by some 770,000 tonnes in 2004–05, whereas for 2003–04 our estimates point to a deficit comfortably in excess of 1,000,000 tonnes. With the customary caveats regarding the tentative nature of forecasts at this early stage, the statistical outlook sends a bearish signal in respect of the forward outlook for prices.

The past few weeks have witnessed some potentially significant developments in respect of the politics of international trade in agriculture. A meeting of European Union Agriculture Ministers on April 22 agreed to fundamental changes to the EU support system for cotton, effectively 'decoupling' a sub-

stantial proportion of support payments from output (in favour of direct income support), and basing the remaining aid on area planted, rather than volume of production.

Just a few days later, a preliminary ruling by the World Trade Organisation's Dispute Settlement Body, in respect of Brazil's complaint regarding US cotton subsidies, received widespread attention. Although confidential, the decision is widely believed to have substantially upheld the Brazilian complaint.

The US Administration has indicated that it will appeal if the final decision, due to be made public on June 18, is unfavourable. It has also vigorously restated its view that any reform of trade on cotton within the Doha round must form part of a far broader agreement on trade in agriculture, which of course forms only one part of the wider trade negotiations.

In early May, the EU Trade and Agriculture Commissioners addressed a letter to other WTO members, in which they made proposals intended to lend new impetus to the Doha round of trade negotiations that had stalled in Cancún the previous September. Agriculture, they stated, was the key to progress in the negotiations. Perhaps emboldened by the notion that the aforementioned reforms had 'put their own house in order', the Commissioners singled out cotton as a priority for 'early action'.

Although not formally linked, these developments have, in the short term, served to maintain the high profile that cotton has acquired within the Doha round and could, in time, trigger a process that may culminate in a fundamental transformation of the structure of the world cotton market. 