

# The World Cotton Market

By Ray Butler, Cotton Outlook, Liverpool

The 2003–04 season has ended on an unexpectedly bearish note. A few months ago, the balance of supply and demand seemed to augur strengthening prices as the season reached an end, with world stocks in decline, and a diminishing supply in specific qualities.

In the event, the market has lost substantial ground. Barely two months ago, when we last wrote for *The Australian Cottongrower* the Cotlook A Index was fluctuating just below 70.00 cents per lb. Today, the value is in the mid 50s, and looks decidedly vulnerable to a further move to the downside.

Much of the bullish case had been based on expectations regarding demand from China. In addition to its commitment to allocate a tariff-rated quota under its WTO terms of entry of 894,000 tonnes for imports of cotton during 2004, the Chinese authorities had voluntarily added a further amount of 1,000,000 tonnes.

But broader economic policy initiatives were to prove significant. Firstly, the impact of changes to the export tax rebate regime, designed to deflect mounting pressure on Beijing to revalue the Renminbi, was perhaps underestimated. Secondly, following the spring holiday, the priority was to take the steam out of an overheating economy, and credit lines were tightened with the aim of achieving a 'soft landing'.

A generally optimistic outlook for new crop production prospects in the northern hemisphere has also increasingly coloured price sentiment. Based on Cotton Outlook's latest forecasts, the 2004–05 season will see production outstrip consumption by well over one million tonnes — adding to the world supply more than was subtracted during the 2003–04 season.

Despite recent torrential rains in some areas, the weather in China has so far been much kinder to cotton than last season.

Larger plantings and a significant recovery in yield suggest a lint outturn close to 1,500,000 tonnes larger than in 2003–04 (though one still insufficient to meet the domestic industry's requirements). A more moderate increase should take place in Central Asia, while in the United States, exceptionally favourable growing conditions have limited abandonment and raised expectations in respect of yields.

It is of course premature to assert that output from the northern hemisphere crops is assured. Indeed, the apparent failure of monsoon rains to reach some major cotton tracts in India could signal a substantial cotton import requirement, of which there is already some evidence.

For the time being, however, the world cotton market appears to be characterised by too much supply and too little demand. The growing polarisation between US exports and Chinese imports that represents the key dynamic in today's market, is

also, without doubt, a source of considerable instability.

China's importance to the health of the world cotton market is manifestly greater than at any previous point in history. New market structures and industry representative organisations are features of the economic changes in that country, and the China Cotton Association (which aspires to be the 'National Cotton Council' of China) has proved particularly influential in bringing about yet a further change in Beijing's 'macro control' of the cotton market.

In the week before this article was written, the government reacted to two reports submitted by the Association, and pressure from other bodies, by announcing the relaxation of credit lines, the postponement of loan repayment dates to the country's Agricultural Development Bank and the re-accumulation of state reserves, in an attempt to stabilise interior market prices. By so doing, the policy is clearly geared towards supporting the cotton farmer, who has expanded cotton plantings significantly this season, and thus the rural economy.

Simultaneously, however, a 'recommendation' was made to enterprises with unused quota (estimated at some 500,000 tonnes) not to sign new import contracts for the time being. For the international market, now so dependent on China's actions, the policy initiative would seem to be bearish, at least in the short term. If Chinese import demand should indeed prove limited over the next few months, the uncommitted supply from the northern hemisphere, and above all from the United States, promises to weigh heavily on the market.

### NEW COTLOOK INITIATIVES

The shift of trade flows on cotton has undoubtedly gathered pace following China's entry into the World Trade Organisation and this shift has prompted Cotlook to take several new initiatives.

We are proud to have recently announced our participation, along with the China Cotton Association and the China National Cotton Exchange, in a new organisation, the Beijing Cotton Outlook, which will channel international information to China's industry and which intends to be the pre-eminent source of market intelligence for Chinese mills. Cotlook's English and other language services will have access to unrivalled news of developments in China, for the benefit of our readers worldwide.

Cotlook has also brought forward a planned change of emphasis in the

Cotlook A Index. The A Index was first calculated in 1966 as a CIF Liverpool value. This was changed to a CIF N. European basis as the UK industry declined.

The A Index in its current form (based on CIF North European values) has been, and will remain, a price indicator to which many industry participants can relate their own activities but recognition that this might eventually prove to be a less applicable device led in 2003 to Cotlook's introduction of a parallel, and very similar Index, based on CIF Far Eastern values.

That Index has typically shown a modest discount, relative to the European-based value. It seems to be a natural progression

that the Far Eastern A Index henceforth will be considered the principal barometer of world prices, and that change in emphasis will take effect from August 1 this year.

If any reader attending the Australian Cotton Conference wishes to know more about the A Index or about any of Cotlook's activities, please do not hesitate to contact our representative, Matt Robinson, who can be contacted at the CRDC stand in the exhibition area.

