The World Cotton Market

By Michael Edwards, Cotton Outlook

The Cotlook A Index (now based on Far Eastern values) started the 2004–05 season at the beginning of August at exactly 50.00 cents per pound, advanced rapidly during the second half of that month to reach a high point of 57.90 on September 1, before drifting down to the mid-50s at the time of writing.

But the movement of prices has been far from smooth, and our last contribution to *The Australian Cottongrower* has been followed by a period of exceptional volatility in the international raw cotton market. The erratic behaviour of New York futures has no doubt been the single most significant influence during the period in question.

NO CLEAR TREND

Daily fluctuations have frequently been as wide as they have been unpredictable, but no clear trend has emerged. To some extent, one can ascribe this behaviour to a customary US 'weather market', fuelled by the threat to the crop of successive tropical storms or hurricanes, and accentuated by the weight of speculative positions in the market.

Other probable factors include the much-reduced stabilising influence of domestic mill fixations (local consumption having declined dramatically), and the consequent reliance of the US on export markets, amongst which China is paramount.

Whatever its causes, the unpredictability of futures has tended not only to undermine confidence on the part of mill buyers, but also to restrict trading enterprise in the merchant community, at least as far as its more cautious members are concerned. The levels at which cotton can be sold to spinners have remained well below price ideas at many origins.

The fundamental supply and demand picture has remained unambiguously bearish during the early months of the season. The extent of damage to the US crop from Hurricanes Frances and Ivan has proved less than had been feared.

Losses have largely been confined to the south eastern states (where quality will also have suffered), but have been offset by the excellent growing conditions in other parts of the belt, including the Far West. A record US crop thus remains in prospect.

Parts of China too have experienced untimely rainfall, leading to a modest decline in production forecasts. But the magnitude of the reduction has been less than the increase in forecasts elsewhere in the Northern Hemisphere.

Most parts of Central Asia have experienced better growing conditions than last season. Uzbekistan's harvest is well ahead of last season and, barring untoward weather, promises to be of significantly better average quality.

Following a worrying pause, the resumption of monsoon rains in India restored optimism in the production outlook there. On September 21, the country's Cotton Advisory Board advanced a 2004–05 crop forecast of no less than 3,621,000 tonnes, a figure that would represent by far the largest crop on record.

In Pakistan too a bumper crop appears in prospect. If these expectations are fulfilled, there would seem little prospect of a

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renewal of the import demand from these two countries that has intermittently been a positive market factor in recent seasons.

According to Cotton Outlook's latest supply and demand estimates, global production in the season ahead will exceed consumption by a substantial margin — around 1,500,000 tonnes. That compares with a shortfall of about 800,000 during the 2003–04 season.

GROWING CHINESE IMPORTS

Furthermore, recent changes have tended to accentuate the polarisation between China and the rest of the world. Adjustments to our forecasts for that country have included a reduction of 400,000 tonnes to production, and an increase of 200,000 tonnes to consumption. The resultant deficit would imply a growing Chinese import requirement, which may be construed as supportive to the market.

The other side of the coin, however, is that, outside China, the excess of production over consumption has become still more pronounced, as expectations of output from the Northern Hemisphere crops have risen. At the time of writing, if one excludes China from the equation, production is forecast to exceed consumption by an alarming 3,000,000 tonnes or more.

The scale and timing of Chinese import purchasing will thus, self-evidently, be a key influence on prices in the months ahead.

There has recently been little clear evidence that Chinese mill purchasing on the scale witnessed at this time last year is imminent. Some piecemeal demand has been forthcoming, and anecdotal reports indicate that many mills have low stocks. But they also appear constrained by the tighter financial climate prevailing in recent months and prefer to purchase on a hand-to-mouth basis.

While conceding that mills may be cautious buyers, some observers believe that the need to replenish strategic reserves will drive Chinese demand from governmental bodies over the coming months. Others believe that the country may not actively turn to the international market until the early months of 2005.

If this last hypothesis proves correct, one might anticipate downward pressure on prices, as the arrival of the Northern Hemisphere crops weigh on the international market. In this connection, the pace of US export sales, and the related behaviour of New York futures, may prove significant.

By September 16, the 2004–05 season's US export sales were over 50 per cent ahead of the previous season's total at the same date, and equal to nearly 46 per cent of USDA's export projection for the season — raised in August to 12,200,000 bales (480 lbs). Whether that momentum can be maintained in the absence of a major upturn in demand from China remains to be seen.