

The World Cotton Market

By Ray Butler, Cotton Outlook

The period leading up to and following the January 1 watershed, when remaining quantitative import restrictions under the Agreement on Textiles and Clothing were removed, has witnessed several developments that could influence patterns of trade in textiles and clothing and which might therefore indirectly influence the world cotton market.

China, seen as the biggest potential winner in the post quota period, has acted to deflect the criticism directed at its trade and economic policies by introducing export tax rates that seem geared towards penalising the lower cost textile exporter and encouraging higher-value exports.

But the rates of tax are modest and their principal intent would appear to be political, reflecting sensitivity on Beijing's part to those foreign complaints. Some of China's leading enterprises have come together, however, to form 'pricing panels' with the purpose of imposing 'self-restraint', which is seen as preferable to engaging in protracted and potentially damaging battles to fight 'safeguard' actions.

The main proponents of such safeguard measures in the United States have meanwhile suffered a blow as a result of a court order, which challenges the validity of 'threat-based safeguards', as opposed to measures taken on proof of actual damage.

'Self restraint' appears to be a new mantra that applies not only in China but elsewhere. US retailers, who are looking to India as an alternative source to China, have entered into discussions with suppliers in that country, to try to ensure that the quest for safeguards by the US textile industry is not extended to that origin.

Likewise, awareness of the advisability of such a course of action has been apparent in Pakistan. Industry leaders from India and Pakistan have recently forged links to seek common ground in the post-quota era.

THE DRIVING FORCE

The Chinese situation, however, is perhaps most significant from a cotton point of view, since it is China, of course, that is the principal driving force in terms of world cotton trade. Both India and Pakistan have themselves produced bumper cotton crops, thus curtailing their import purchasing potential for upland cottons.

In the run up to the year-end, China's spot market, in

similar fashion to the world market, presented a mostly flat appearance. Mills chose to run very low cotton inventories, in face of burgeoning yarn stocks and tight finances, and import demand was for the most part focused on making use of outstanding 2004 import licences. This probably added up to quite a substantial volume of business, in aggregate, but the large-scale transactions witnessed a year earlier remained notably absent.

With most Northern Hemisphere crops made by this point in the year, the possibility of surprise regarding the 2004-05 season's basic statistical numbers has already virtually disappeared. Indeed, the January forecasts made by the USDA have merely added to the perceived weight of supplies available, portending an increase in the theoretical world end-season carryover of over 2,500,000 tonnes. This season's record US crop figure has been raised further, to over 5,000,000 tonnes.

USDA has taken note of reports from Beijing, indicating a crop of around 6,300,000 tonnes, which is some 1,700,000 tonnes below China's estimated level of consumption. Since we last reported to *The Australian Cottongrower*, final output potential in Pakistan, already set to reach a new record, has continued to rise, and the pace of arrivals in India has continued to suggest its output too might reach a new benchmark.

WEAK FUNDAMENTALS

The argument for higher prices in the near-term would on the fundamental data therefore seem to remain weak. Yet New York futures, which had struggled to move out of a trading range in the low to mid 40 cents per lb for an extended period of time, had in early January broken through to higher ground, owing to a distinct change of attitude by speculators, who chose to buy the market and eliminate their previous net short position.

In fact, speculators acquired a net long position in New York for the first time in over nine months. In the immediate aftermath of USDA's bearish figures, furthermore, speculator buying continued to move futures upward.

The rise in New York has presented the trade, perhaps unexpectedly, with a selling opportunity, of which it has taken advantage, apparently in the belief that the rise will not be sustained, and that world prices will certainly not move by the same degree.

The Cotlook A Index, which reflects shippers' asking rates to mills on C/F main Far Eastern ports terms for Middling 1 3/32", has nonetheless risen above 50 cents per lb for the first time since late October.

Whether temporary or not, a turn in the market appears to have occurred. This movement, together with signs of a strengthening US dollar, could bring a modicum of relief to cotton producers.

