New York Futures

By Hibbie Barrier

For the past three months New York futures have been consolidating with an upward bias. It has been interesting to watch month after month bearish USDA reports shaken off by the market. This does my heart a little good as in my last update in November I ventured out on the proverbial limb to proclaim prices had fallen just about low enough.

Since then New York managed to consolidate in a three cent range for nearly two and a half months before pushing above the 45.00 level. Fund buying provided the majority of support with some trade interest noted as well. It seems mill demand is good and inventories are low. The big question now is how much more will the funds buy and how accurate are current views of world consumption?

In the January USDA supply and demand estimates world production was raised for the eighth consecutive month to 115.6 million bales, an increase of 17 per cent over the 2001–02 record. Production increases were in Pakistan of 1.5 million bales, India up 200,000 bales, United States up 191,000 bales and Australia up 100,000 bales. Syria and Sudan were each raised 100,000 bales as well. These increases were partially offset by a 500,000 bale decline in China's production estimate.

World consumption was up 1.14 million bales to a new record at 104.43 million bales. Increases in China, India, Brazil and Pakistan accounted for most of the gains. In the end world stocks were forecast to rise 590,000 bales to 47.12 million. This marked the seventh consecutive report with higher world ending stocks. In the process, stocks rose nearly 12 million bales and prices have fallen from the mid fifties to the mid forties.

DEGREE OF BEARISHNESS

In our last update we discussed the degree of bearishness within the marketplace. That feeling in the market has now been replaced with one of complacency.

Merchant recognition that sellers will only sell at "their" levels has moved some merchants off the overly bearish stance. The rally in New York above 45.00 essentially did the same. While no one is predicting a runaway bull market, gone also are the calls for the mid thirties.

As I look at the market I am bothered by one thing. Unsold US, West African, Indian and Pakistani cotton in the late spring just as the southern hemisphere crops are being harvested. I suggested in my last article that the basis for high grades would stay firm given the relatively small supply in the far western US and out of West Texas.

This has been the case and will probably remain so up until late spring. After that, cotton coming due in the US loan and the arrival of southern hemisphere high grades should cap this basis. Of course, quality problems in the southern hemisphere would drastically alter this view as well.

As we enter the next few months we must also look at new crop prospects in the northern hemisphere. Already this season's low prices indicate reduced acreage in China and some other parts of the world.

Unfortunately we cannot say the same for the US where bumper crops and a generous loan program would seem to suggest acreage will be the same or even higher next year. Nonetheless cotton prices below 50 cents near planting time are sure to hamper world production.

As for New York, the latest rally managed to free up enough cotton to allow shippers to catch up on commitments. The question is did they free up more than they needed? If so, cotton could find its way back to the board and in the process weaken New York. If not, we could see a similar market as we had in November as prices spiked on tight spot market supplies near delivery.