

The World Cotton Market

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The period since our previous contribution to *The Australian Cotton-grower* has encompassed the transition from the 2004–05 to the 2005–06 cotton season. The campaign just ended was exceptional from several points of view, not least in terms of the yields achieved. A combination of mainly benign weather and steadily improving cotton-farming technology produced record yields in several major producing countries — including Australia.

As a result, the world produced not only the largest cotton crop in history; last season also saw the largest ever increase from one season to the next — a staggering 27 per cent. Production exceeded demand by more than 2,700,000 tonnes.

In the circumstances, the season's average A Index, at 52.20 cents per pound, proved higher than might have been feared, though the weakness of the US dollar meant that, for many producers,

returns were scarcely more remunerative than in the 2001–02 season, when the A Index touched a low point below 35.00 cents per pound.

Australian producers have figured among those penalised by the exchange factor in recent seasons, as have those in the African Franc Zone (whose currency is linked to the euro) and farmers in Brazil.

SHARPER FOCUS

The new season's supply and demand dynamics have moved into sharper focus over the past few weeks, as cotton in the Northern Hemisphere has approached maturity. Few setbacks have occurred and, at the time of writing, Cotton Outlook's forecast suggests that global output will exceed consumption by over 700,000 tonnes.

When our initial forecasts were published in late February, a decline of well over 1,000,000 tonnes was indicated and, as recently as the end of July, it

seemed reasonable to forecast a deficit of close to 600,000 tonnes.

The transformation of the supply and demand dynamic can be attributed in large part to higher forecasts for the United States, Pakistan and, in particular, India. The last-mentioned country has long been acknowledged to have enormous potential for growth, with the largest area under cotton in the world, but yields amongst the poorest of any major producing country.

There is mounting evidence that the adoption and more effective transfer of technology (including, but not limited to, the introduction of transgenic varieties) is allowing India to achieve a quantum leap in productivity.

On paper, Cotton Outlook's current supply and demand estimates indicate an Indian surplus in 2005–06 of over 770,000 tonnes. In the short term, at least, the volume of exports from that country seems likely to be appreciably

smaller, for a number of reasons. It seems probable that a sizeable proportion of the eventual surplus will end up in the hands of government or state organisations such as the Cotton Corporation of India and Maharashtra Federation, which, on past experience, may be slow to dispose of the supply.

Logistical constraints may also play a part as will the relative lack of familiarity of many export markets with Indian cottons — with the notable exception of the popular Shankar-6 variety from Gujarat. India's impact on international prices may thus prove more muted than the bald supply and demand figures imply. But if recent progress in yields is sustained, India may over the longer term emerge as a serious contender for international market share.

US EXPORTS

For the time being, however, the United States continues to claim the lion's share of the world exports. On September 12, USDA increased its forecast of US exports in 2005-06 to 15,300,000 bales (3,331,000 tonnes), compared with a final figure last season of 14,300,000 (3,113,000). By early September, US exports were running nearly 10 per cent ahead of last season.

Over 43 per cent of US export sales for shipment this season have been to China and, needless to say, the pattern of import demand from that quarter will be a major market factor over the months ahead. Our figures continue to point to an unprecedented import requirement from China, with production set to fall short of consumption by over 3,000,000 tonnes.

The Cotlook A Index has recently moved within fairly narrow margins, reflecting the lack of a clear lead from New York futures, and the present disposition of the various players in the market. Sellers at most origins are reluctant to discount prices so early in the season, the more so as current levels are scarcely remunerative, and below the cost of production for many.

In the circumstances, merchants are exercising caution in accumulating 'short' sales. Last but not least, spinners appear mindful of the global and demand position. Since yarn values, and the textile market in general, remain subject to constant downward pressure on margins, mill buyers are more wedded than ever to a hand-to-mouth policy in respect of raw cotton purchases. Whether the recent fragile stability of prices can be sustained in face of the weight of world supply over the coming months, remains to be seen.

