

New York Futures

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Trading the cotton market has been particularly difficult and disappointing for some this season. It seems the market placed its faith in Chinese consumption and demand, and forgot about the implications of another bumper world crop. I know that has particularly been the case for me.

If you had been told that, between June and September, the Chinese were going

to purchase nearly 2.3 million bales of US cotton plus significant volumes of Australian, West African, Brazilian, Indian and Central Asian cotton, would you have been bullish? If you had known that the US would have one of the worst hurricanes on record (Katrina) run smack through the middle of the Delta cotton region just before harvest, would that have made you bullish?

Or that China's eastern cotton areas would receive not one, not two, but three typhoons before harvest — maybe that would be enough to make you bullish? Well if you answered no to all or any of these questions you were correct. Given these circumstances, I on the other hand would have expected the market to be pushing 60 cents — not 50 cents. As it is, all of these things have occurred but prices are not anywhere near 60 cents.

In the September USDA Supply and Demand estimates, the government raised world ending stocks by 1.39 million bales. This increase came as the result of an increase in world production of 1.74 million bales to 111.53 million bales. Production increases in India 1.40 million bales to 18.40 million bales — and a 1.0 million bale increase in the US estimate to 22.28 million bales were the primary changes.

Against this, a slight reduction of 500,000 bales in China's production to 25.50 million bales and a decline of 300,000 bales in the southern hemisphere crops partially offset the increases. World consumption was raised marginally to 112.20 million bales — an increase of 180,000 bales. In the US, production increases as mentioned above were offset by a 750,000 bale lower beginning stock number and a 300,000 bale increase in exports. These changes left US ending stocks unchanged at 7.0 million bales.

In the 2005–06 season, the USDA has increased world production in each of the past three reports. Production has climbed 5.34 million bales while ending stocks were raised over 7.15 million bales.

ABUNDANT SUPPLY

The Stocks-to-Use ratio has now climbed to 45.6 per cent and indicates an abundant supply is available around the world. Not surprisingly these changes have gone a long way to contributing to the overwhelming bearish sentiment among the trade. Can this sentiment be changed? As of this writing, harvest is rapidly gaining momentum in the US and around the world.

Harvest has also begun in China, northern India, Pakistan and Central Asia. Market expectations are for good yields and



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production in each of these countries. So far, early yield data for the US has not been as strong as expected. This is particularly true of the Delta and Far Western regions where early yields have proven disappointing. For the remainder of the US, harvest has yet to begin. Despite this, West Texas still looks very promising but will need a late autumn, as the crop is two to three weeks behind.

This will heighten weather concern for an early frost or wet autumn. Either would have a negative impact on yields and could positively affect prices. As for China, the old saying is you can't tell much about the crop until late September or early October. That would be true again this year.

Right now I am leaning more toward a belief that world crops are as about as large as they are going to get this year. A bold statement given most big crops tend to get even bigger by the time all the bales are counted.

If this opinion is correct then New York futures should not venture much lower than the recent lows. In fact, any variance toward a smaller world crop over the coming months should have just the opposite affect. But in the near term, the market will have plenty of resistance to higher prices.

The bulk of the US crop remains unsold and will likely move to the loan again early this season. As last year, this crop will move out of the loan when the New York futures/Adjusted World Price spread widens out over 1300 points.

Outside of the US, West African and Central Asian cotton remains unsold at origin, which would provide even more selling pressure on any rally New York might muster. Until something comes along to change the trade's view of abundant supply, cotton gains will be limited.

On another note, the US farm program looks headed for change. The WTO ruling against the US Step 2 program and other provisions has already started discussions on the next farm bill in 2007. The President has spoken and is clear on his view.

Agricultural subsidies and trade distorting practices should be abolished. This leaves little doubt that the current US farm bill is in for a change. Whether it is tighter payment limitations or acreage restrictions on direct payments and subsidies, change is in the air. Any or all of these could have serious implications on future US production and prices in New York.

