

# New York Futures

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**T**he current global cotton market appears to be haunted by a wide range of conflicting signals.

First, since turning bearish following the October 8 highs, New York futures have served to reinforce a very bearish outlook among the global spinning community. Admittedly it did not take much to accomplish this since most spinners complained bitterly about the inability to raise cotton yarn prices to the same extent that raw cotton prices had advanced. Those mills that found themselves with low inventory and a need to cover appeared to focus primarily on price.

Even those with high quality demands appeared willing to lower quality restrictions in order to reduce the price.

In other markets, spinners appear to be reducing output of the lower count open end yarns and moving into the higher count yarns where an ability to raise prices is evident. Overall, the sales yarn sector in most markets is battling an over-

capacity that continues to limit the ability to raise prices.

Another factor impacting the ability to raise prices is the competitive nature of Pakistan and Indian yarns. Sales yarn producers in both markets, which focus heavily on the lower count yarns, are enjoying a significant price advantage against their competitors.

## PRICE ADVANTAGE

One market where knitters and weavers are increasingly becoming aware of the price advantage of using imported Indian and Pakistan yarns is China. India's April through July cotton yarn exports to China soared 406 per cent to 13.11 million kilograms. A surge in Indian yarn exports has also been noted to South Korea, Mauritius, Egypt, Portugal and Russia.

Amid this dynamic, spinners are maintaining a bearish attitude toward prices. The 500 point decline in New York has served to strengthen their resolve even more to wait for their price targets.

A general tightness of prices at origin is prevailing around the world. The trading dynamics at origin in Uzbekistan have served to strengthen prices. In addition, the volume of Uzbek high grades moving into China has altered the trading patterns and significantly reduced the volume going to the traditional consuming markets.

This season, cheap Uzbek offers from traders have not been available. Given the sales volume into China already, the available quantities could be quite tight for the remainder of the season.

In the African Franc Zone, a lower crop and economic considerations limited forward sales and kept prices firm. Mali T-Juli is continuing to bring prices of 56.00 US cents per pound, with top grades at 56.50 and up. Amid these prices, CIF offers below 60.00 for February and forward shipment are difficult to obtain, even when New York declines.

It is difficult to obtain cotton in other markets, such as Spain. Brazilian new

crop has turned out to be one of the most competitively priced at origin, even though the price level and currency has made it difficult to obtain volume. In the US market, crop movements have been made difficult by a new CCC loan schedule that provides a larger premium for certain styles.

The impact of China on global price behaviour is continuing to expand. The country has imported near record volumes of cotton monthly since May. In recent weeks, China absorbed most of the remaining West African old crop high grades, a significant volume of 2004-05 Aussie crop and Uzbekistan crop.

### CHINESE INFLUENCE

Two dynamics are impacting the Chinese market that is making it difficult for traders to find confidence. First, the opening up of the Chinese market has brought a flow of information that has made it difficult to discern fact from fiction.

Today, sales yarn spinners are complaining bitterly about the ability to raise prices and some of the older units have reduced operations. This, along with the uncertainty regarding export orders for apparel to the US markets due to the lack

of a textile agreement, has suggested to many that cotton consumption was waning. But output of yarn and fabric has not backed this up and is continuing to grow monthly at 20 to 30 per cent.

This is being fuelled by record fixed asset investment in the cotton textile sector — up by over 50 per cent in 2005. This is bringing on new capacity in both yarn and fabric, allowing growth in yarn and fabric output to continue at over 25 per cent, despite the idling of some older capacity.

Amid these conditions, China's cotton use is set to reach 44 million bales, a level which means record cotton imports or a continuation of demand that has been evident since May.

Against this backdrop is another large US crop and the full array of implications this has on the movement of NYBOT futures. Since New York is a FOB warehouse contract, it is heavily influenced by the advances of the local US market and the delivery mechanisms of the exchange. The fact that the contract remains with an SLM 1-1/16" quality base means that over 74.4 per cent of the 2005 crop classed so far is tenderable.

This makes any tightness in deliverable

stocks an unusual occurrence that has limited durability. The continued decline of US cotton use, which will fall below 5.5 million bales in 2005-06, has changed the dynamics of what's tight and what's not.

These conditions have set the stage for a battle between the influences of the non-US supply/demand balance, which presents a growing deficit in consumption versus output against the US need to export a record volume of cotton. From September into the October highs, the world influence ruled and prices rallied nearly 900 points, and then came the reassertion of the US influence and prices fell 650 points.

The fund groups have been one of the losers. First, they were found short at the bottom, which was followed by the expansion into a net long as the highs were reached. As the market has declined back into the 50.00 to 52.00 level, this group appears at another crossroads between liquidating longs and again moving to a net short position or adding longs back on stability.

Overall, we expect the battle between US and world influences to continue to intensify over the remainder of the season.

