

US Beltwide market predictions

By Owen Taylor

US cotton prices will probably be in a somewhat narrow range for 2006-07, OA Cleveland said during a marketing conference at this year's Beltwide Cotton Conference in San Antonio.

Cleveland, an economist and Mississippi State University professor emeritus, anticipates a price range this year from 48 to 68 cents — a 20 cent difference. Typically, he said, an active cotton market will swing as much as 25 cents between the year's low and high prices. Specifically, he sees:

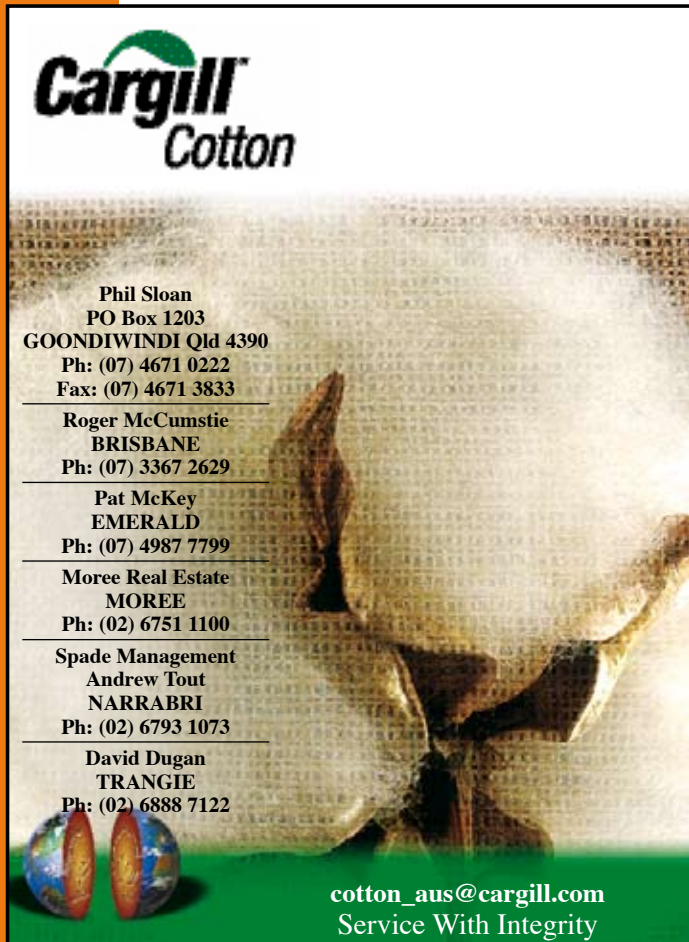
- A 2006-07 US crop of 21.5 million bales. That's based on recent yield trends but also factors in droughty conditions in some grower areas.
- Further slippage in US domestic consumption, edging downward by 200,000 bales to 5.8 million.
- Relatively strong exports, although the total will fall to 15.1 million bales from last year's level of 16.4 million.
- World production at 112 million bales and consumption at 116 million.

Don't count on improving US domestic consumption, either this year or in the future, Cleveland stressed. "Two years ago we consumed 6.5 million bales domestically," he said. "Last season, we jumped to 6.7 million bales as prices were 10 cents a pound lower a year ago, compared to now. We should not expect to see domestic consumption to climb back to 6.5 million and, in fact, we should expect another 500,000 to 800,000 bale reduction by 2010."

In Cleveland's opinion, the Step 2 program — billed as a way to save the US domestic textile industry — actually hastened what he believes was its inevitable demise. Globalisation and US trade policy already were working against the industry, and the Step 2 program sped up the process.

US growers have to reconcile themselves to the fact that they will continue to grow cotton mainly for export, and that will require major shifts in the loan schedule, Cleveland said.

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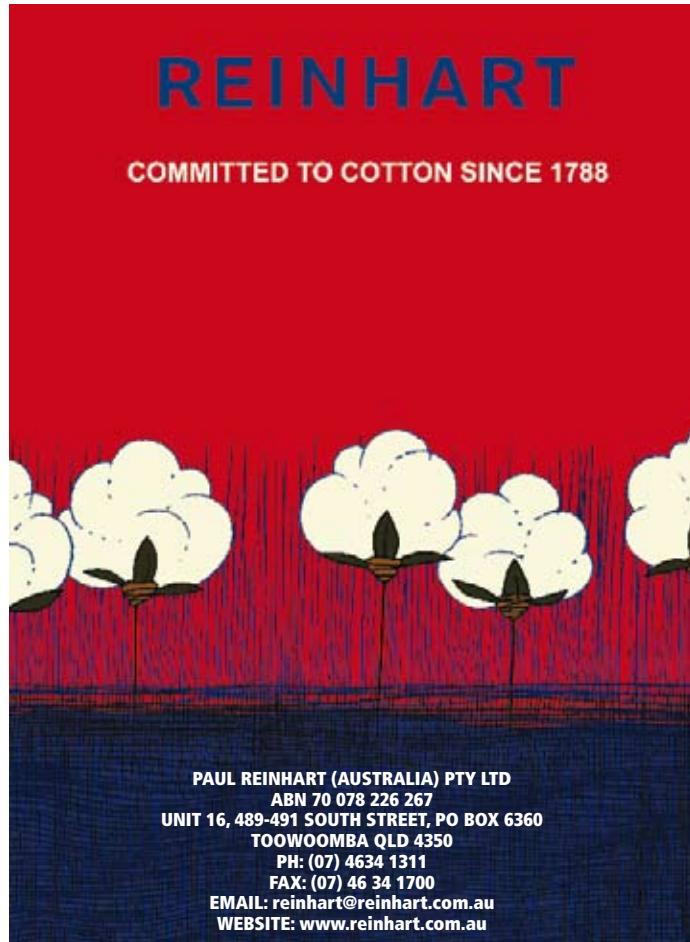
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“The historic base, SLM 1¹/₁₆” cotton, should become a discount grade in the loan schedule, just as it is in the world market,” he said. “Growers can help themselves through this by aggressively voicing their support for a premium being paid for quality.” This is necessary, said Cleveland, to reorient marketing toward an export-dominated paradigm.

Without changes in the loan schedule, there is little incentive for the US to move to quality cotton production. Merchants and co-ops offer only scant rewards for quality cotton, preferring to spread quality gains over all growers. “It’s a system that the current generation of middlemen inherited, and it hasn’t been changed in nearly half a century,” Cleveland added. “Growers also have been largely complacent about the system.”

China continues to be the future of cotton. Globecot — which Cleveland said has had the best track record for predicting Chinese consumption over the past three years — estimates that Chinese consumption will climb to 45 million bales this season. It might even hit 46 million bales.

“Taking consumption at this level, we must realise that China and the Indian subcontinent (India, Pakistan) account for 80 million bales of cotton consumption every year,” Cleveland specified. “But in that group of countries, only China is a major importer of US cotton.”

Uzbekistan is a major unknown, he added. The Central Asian nation is in political turmoil and has come under pressure from both the US House and Senate over political repression. “This is a hot spot that could rock the world cotton industry any day and lead to as much as a 10-cent move to the upside before pausing for a reality check.”

The Farm Bill debate is the “greatest challenge” for US growers in the coming 18 to 24 months. The administration is intent on cutting support for US agriculture in general and singling out cotton specifically. The cotton industry must take a unified approach in any debate, Cleveland emphasised. 🌱

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