

The world cotton market

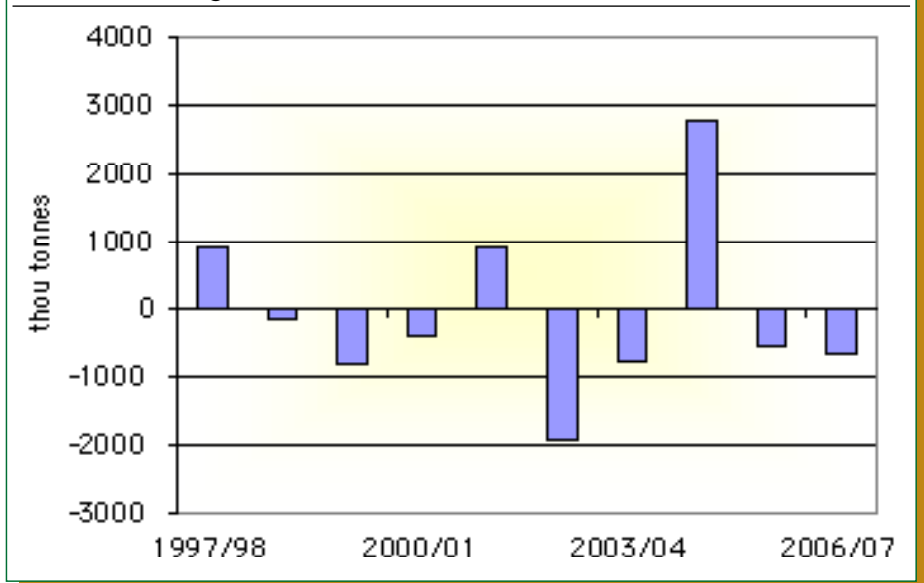
By Matt Robinson, Cotton Outlook, Liverpool

International raw cotton prices have presented a firm appearance during much of the period since we last wrote for the *The Australian Cottongrower*, back in the middle of January. The Cotlook A Index (based on C/F Far East terms) continued to edge higher during January and February and reached its most recent peak on February 20 of 60.30 cents per lb, its highest value since June 2004.

The Index reflected confidence among international traders that mills in a number of markets needed to cover what were thought to be quite substantial outstanding requirements sooner rather than later. A further supportive factor was the continued firmness of replacement costs at many of the major origins.


New York futures also strengthened, with buying by speculative funds a prominent feature. By February 10, the speculative net long position stood at 35.8 per cent, the largest net long margin recorded since April last year. The market up to

FIGURE 1: Changes in world stocks



that point proved resilient, rebounding swiftly from any dips, as substantial physical sales were hedged.

But towards the end of February, trade confidence that the potential was limited for prices to move significantly lower (in



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the short term at least) wavered somewhat. After February 10, speculative funds started to curtail their long holdings and then commenced accumulating short positions.

The shift in the speculative community's positioning increasingly weighed on the market, particularly as it coincided with a change in price sentiment in China, where the scale of supplies arriving in eastern consuming centres from both Xinjiang, and in the form of imports, undermined domestic market values. An impressive volume of cotton imports had been accumulated on consignment at the major entry ports and sales from those stocks have been a significant feature of trade during the period under review.

CHINESE SENTIMENT

The change in Chinese sentiment is demonstrated by the movement in the China Cotton Index, which has declined daily since February 23, and by Zhengzhou cotton futures, with the May contract falling below 15,000 yuan per tonne on February 27 for the first time since early December, a level it has since failed to regain. This price weakness has contributed to the fact that the most recent declines in New York futures have not been met with the same influx of Chinese mill buying witnessed earlier.

Whether the recent softer trend in international prices will be sustained will of course depend, to a large extent, on developments in China and levels of import demand from that country. The pace of US shipments has risen sharply of late (spurred partly by the re-triggering of the pima competitiveness payment on February 17) and the high weekly rate needs to be sustained if the USDA's increased export projection of 16,800,000 bales (480 lbs) is to be achieved. US shippers will of course be anxious to maximise returns from the upland Step 2 subsidy before it disappears on July 31.


At the time of writing, the consensus remains that China will need to import a substantial, additional quantity before the movement of the new crop next November, a period in which the expanding 2005-06 Australian crop will be available for shipment. Moreover, conjecture within China has pointed towards the possibility of the government using the macro-economic controls at its disposal (such as taking up cotton into the strategic reserve) to stabilise prices, an aim that Beijing may seek to pursue as it tries to encourage

growers to plant cotton for the coming season. Any move that takes cotton out of the immediate supply channels should provide a climate more conducive to further import activity.

A growing influence on the price outlook in the month ahead will of course be the supply and demand outlook for 2006-07. Cotlook has this month released its initial forecasts for next season, which suggests that global stocks will decline by 865,000 tonnes, following on from the modest downturn predicted for this season.

Our forecasts suggest that world production will increase in 2006-07 by 2.5

per cent, to 25,289,000 tonnes, with much of the gain expected in China, as attempts are made (with official encouragement) to bridge the massive gap between domestic output and the expanding needs of local spinning mills.

Globally, the gain in consumption is expected to amount to 879,000 tonnes, thus implying a further decline in world stocks. As in 2005-06, the consumption growth appears likely to be concentrated in China and the Indian subcontinent, while consumption in the US, Europe and Japan will continue to lose ground. Our updated forecasts are published weekly in the *Cotton Outlook* magazine. 



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