

# The World Cotton Market

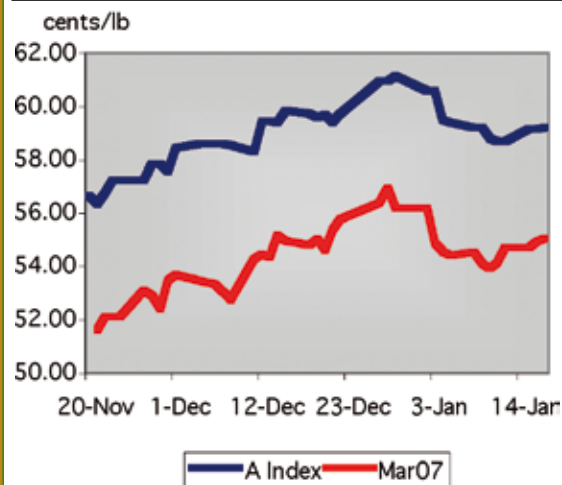
By Matt Robinson, Cotlook Ltd

Between mid-November and the end of last year, international raw cotton asking rates rose steadily and on December 29 (the last trading day of 2006), the A Index reached its highest level of the year, namely 61.15 cents per lb. This compares with its average value for 2006 of 57.44 cents per lb.

The rise in prices was influenced primarily by technically-inspired advances in New York futures. A key factor was renewed interest on the part of speculators in buying New York futures. According to the New York Board of Trade, between November 17 and December 29, speculators shifted from a net short position of 17.4 per cent, to a net long margin of 7.4 per cent.

The upturn in No. 2 cotton futures coincided with even stronger increases in grain and soybean values and related conjecture that such movements would result in a shift in acreage out of cotton and into those alternative crop in parts of the US cotton belt for the 2007–08 season. The most recent trade estimates point to a decline in US cotton plantings this year of between 10 and 15 per cent (the area sown this season totalled 15,274,000 acres).

**FIGURE 1: A Index versus NY Futures**



Although New York futures, and prices in general, have eased modestly since the turn of the year, a good level of buying interest among the speculative community has been noted in the December 2007 contract and open interest in that delivery, at over 20,000 contracts, is described as being unusually high so early in the year. Prospective cotton area in the US should move into sharper focus at the beginning of next month, when the National Cotton Council issues its planting intentions estimate at the end of its annual meeting.

An additional supportive feature for futures has been the tight availability of US cotton for nearby shipment. This season's crop has moved into the government loan in large volume and the unfavourable price relationship between nearby futures and the Adjusted World Price has rendered it difficult to redeem supplies at prices which are workable on domestic and international markets.

The AWP has tended to mirror quite readily any upturns in New York futures, keeping the difference between the two relatively stable. The unpaid loan balance (from both this season and last) stood at over 12.8 million bales (480 lbs) on January 16, representing 65 per cent of the volume classed by January 11.

## US COTTON NOT COMPETITIVE

The dynamics of the domestic market have not been conducive to US cotton being offered competitively on international markets and export registrations have remained well behind the pace set last season, owing almost entirely to slower sales to China. Since we last wrote for The Australian Cottongrower, the USDA has reduced its export forecast for the running season from 16,200,000 to 15,700,000 bales (480 lbs). The fear that the US will once again become the 'residual' world

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supplier has influenced calls from the American Cotton Shippers Association (ACSA) for changes in the Marketing Loan.

Diminished competitive pressure from US cotton has allowed other growths to move to the fore. Most noteworthy has been the emergence of offers of Indian descriptions as the benchmark for competitiveness in various grades. That origin has moved off in volume into China, among many other destinations, where spinners have recently commented on the tight supply of Australian from the 2006–07 crop. From a prospective crop of 27,000,000 bales (170 kilos), India is expected to export 5,000,000 bales in 2006–07, according to official estimates.

Looking forward, apart from a growing focus on planting intentions in the Northern Hemisphere (Cotlook's initial 2007–08 supply and demand forecasts will be published at the end of February), the level of import purchasing in China will also be a key factor influencing global prices in the months ahead. Beijing has allocated tariff-rated quotas for 2007 totalling 894,000 tonnes (as per its obligations to the WTO) by which cotton can be imported with a duty of one per cent.

Moreover, indications have emerged that additional quotas will be made available from March onwards (depending on the market situation), with a system of sliding-scale duties, the calculation of which has been revised to avoid discriminating against purchases of lower grades. But many mills have so far proved somewhat reticent in adding to their import commitments, owing in part to the attractiveness of domestic crop prices relative to international rates, despite a recent firmer trend of the former.

Estimates of China's potential import requirement have been revised downward of late, in light of increased local crop expectations (a record lint outturn of over 6,700,000 tonnes is foreseen this season) and the rather slow pace of shipments through to the end of 2006. Nonetheless, current projections suggest that Chinese mills will need to import over 2,500,000 tonnes during the final seven months of the marketing year. The volume imported during the corresponding period in 2006 was 2,742,000 tonnes.

The way in which cotton is traded internationally may eventually change significantly if trading New York futures on a new electronic trading platform (established following the merger of Intercontinental Exchange and the New York Board of Trade)

gains momentum. Electronic trading (which commenced on January 26) will be conducted alongside the No. 2 cotton futures pit, but will continue beyond the outcry session on the floor of the Cotton Exchange, for a period of 22 hours out of 24.

Although the open outcry and the electronic markets will be allowed separate highs and lows, the settlement price for both will be that posted after the open outcry close. Merchants have expressed some concern over the implications of futures trading around the clock, including how to handle the timing of price fixations against 'on call' contracts.



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