

## New York Futures

By Ed Jernigan, CEO of Globecot, Inc.

The recent rally in the NYBOT to the 55 cent level in March has failed. The market's attempt to rally has failed to gain momentum, resulting in prices returning to the defensive. The reason can be found in the lack of export offtake in US styles.

Much discussion is now centering around the poor state of US export shipments. As of January 11, 2007, total export shipments have fallen 35 per cent from a year ago to only 3,190,976 running bales of upland cotton, and outstanding commitments total only 2,874,618 bales, which is down 47 per cent from the previous year.

Many of these problems have been blamed on China, which is now taking one out of every two bales of all exported cotton. Through November (Census Bureau records of shipments are available only through Novem-

ber), US export shipments to China have fallen 74.7 per cent from a year ago, which has negatively impacted US exports. But US cotton export woes appear to be much larger than that.

In regard to China, the US government has made no effort to boost US cotton export shipments outside the traditional channels. At the same time, the U.S. is spending millions to monitor and limit textile and apparel imports from China. While the limitations do not seem to have much practical effect, they have been a headache to individual Chinese exporters and to the Chinese government.

### US EXPORT PROBLEMS

Export shipments to the rest of the world, however, are also experiencing much the same problems as China, suggesting much larger issues are in play. Turkey is the second largest buyer of US cotton, taking 1,967,436 480 pound bales of upland cotton in 2005-06, with actual shipments through November falling 28.3 per cent.

This weakness has come at a time when cotton consumption is rebounding. The reasons appear to be, first, expectations of a much larger domestic crop that have since been reduced. Second, the US lost part of its advantage through changes in the GSM-102 credit program; and third, aggressive offers of Central Asian and Indian cotton have captured mill interest at the expense of US cotton — both have been available at prices cheaper than the prevailing prices for US styles.

Mexico is the third largest customer for US cotton. Shipments through November were down 11.7 per cent at 296,649 480-pound bales of upland. Much of this weakness is tied to heavy shipments before Step 2 expired and a slight softening in domestic cotton consumption. Through November, US upland shipments to Indonesia have been flat; but since that time, Indian cotton has made inroads into the market.

So far this season, US cotton has lost significant market share in much of the remainder of Asia. Through November, the largest shipment losses occurred to Taiwan (-45.5 per cent), Thailand (-22.9 per cent), Hong Kong (-50.8 per cent), Japan (-41.1 per cent) and South Korea (-68.0 per cent). Indian cotton has shut the US out of Pakistan in recent



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months, except for ELS. This was a very important market in 2004–05, taking 653,075 480-pound bales of upland — purchases fell to 372,799 bales of upland in 2005–06.

The nearby markets' sharp downturn in domestic cotton use has led to a 50.6 per cent drop in cotton shipments to Canada, with shipments also declining to Peru, Guatemala and Ecuador. The exceptions to the disappointing performance are Colombia, Vietnam, Brazil and Venezuela.

## FLAWS IN PROGRAM

Overall, the removal of Step 2 Certificate has revealed many of the flaws in the cotton program that were designed to stimulate cotton movement to export. These flaws existed last season, but were masked by the Step 2 Certificate. The industry is now having discussions on how to address these issues.


On the other side of the equation is the removal of Step 2 Certificate, along with movement of most of the 2006–07 crop into the CCC loan. As of January 16, 13,083,212 bales remained in the loan; and in some Memphis Territory states, over 80 per cent or more of the crop is in the loan.

This isolation has provided a boost to world prices. Since the expiration of the December contract, NYBOT prices have held near the same price level as last year despite the lack of export sales.

So on one side, the removal of Step 2 has supported price levels and kept US cotton prices from negatively reacting to the lack of exports. Critics of the Step 2 program have gotten their increased prices, but its removal has rendered the US a residual supplier, and could also be prolonging the ultimate movement of the US cotton stocks into the world market. The current farm program has a 10 month loan, and there

are a lot of incentives for merchants and producers to redeem these stocks before forfeiture.

Many face a negative three cent equity upon forfeiture to the CCC, which could accelerate movement of the loan cotton later in the year, and any cotton forfeited will eventually be auctioned at world market prices by the CCC.

The question is “will all this happen after the Indian, Central Asian and West African cotton has been merchandised”? If that is the case, world prices will have benefited. If not, the price competitiveness will be stiff. Nonetheless, the US is now a residual supplier. 

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