

The World Cotton Market

By Matt Robinson, Cotlook Limited

International offering rates have presented a fairly steady appearance since late September, when we last contributed an article to *The Australian Cottongrower*. The A Index has moved typically in a range of between 68.00 and 70.00 cents, while December 2007 New York futures remained between 63.00 and 65.00 cents for much of the period, but softened more recently as positions were rolled out of the expiring spot month.

At times, New York futures (especially the more distant deliveries) have continued to be influenced by movements in grains and oilseeds markets, owing to the possibility of relative crop prices prompting a shift in acreage out of cotton in the United States next season. New crop Chicago Board of Trade futures contracts in corn, wheat and soybeans have all gained ground during the past couple of months, whereas December 2008 cotton futures have declined modestly.

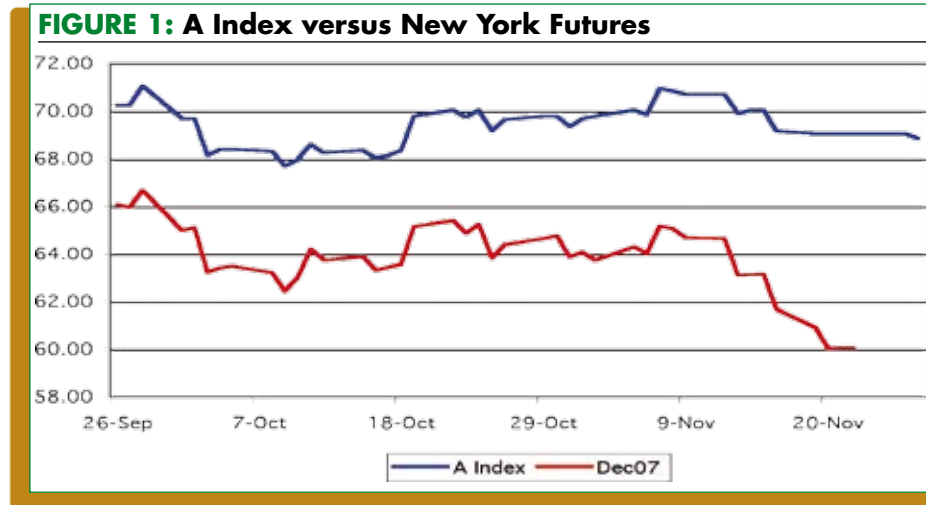
Predicts shortfall

The predicted shortfall in global supply this season has also been considered supportive for prices. Cotlook continues to foresee a large drawdown in global ending stocks this season of approaching 1.3 million tonnes (which is barely altered since we last wrote for the *Cottongrower*), following two marketing years in which little inroad was made into the large addition to the world inventory in 2004–05.

Nonetheless, quite substantial changes have occurred in Cotlook's 2007–08 production and consumption estimates. Most significantly, in early October, we sought to reflect the recognition among senior Chinese officials that 2006–07 production was understated by the National Bureau of Statistics' estimate, which hitherto was regarded as the substantive figure.

Our 2006–07 estimate was raised by 640,000 tonnes, to 7,740,000. A slight downturn in output is anticipated this season, to 7,600,000 tonnes. Most other international forecasting agencies have also subsequently revised their Chinese production estimates.

Elsewhere, crop expectations in Pakistan have been lowered significantly, as the extent of damage from insect activity and disease became apparent. It is noteworthy that the country has emerged as



an important source of import enquiry in recent weeks, not least for Indian cottons, but also for Egyptian long staples.

On the demand side of the global balance sheet some revisions have also proved necessary, including an increase in China (so as to present a credible scenario regarding that country's stock position, in light of increased supply estimates) and decreases in numerous other countries.

Those lower consumption forecasts are noteworthy, given the widespread anecdotal evidence of a downturn in global trade in textiles and clothing, amid deepening concerns about the global economic outlook and therefore future levels of consumer spending in some key Western Hemisphere markets. Business opportunities have also been negatively affected for many Asian exporters by the weakness of the US dollar against their local currencies.

Weaker US dollar

The Indian rupee has appreciated by around 11 per cent against the US dollar since January 1, the Turkish lira by close to 16 per cent and the Thai baht by 12.5 per cent. The appreciation of the Chinese Renminbi has been less pronounced, at under six per cent, but has still been considered detrimental to the performance of the domestic textile and clothing industry, which has also had to absorb a reduction in July of the export tax rebate on clothing exports and the tightening by Beijing of other macro-economic controls aimed at curbing inflation and credit flows.

Against this backdrop, spinning mills in most parts of the world have struggled to

pass on higher production costs to downstream textile manufacturers. The A Index has averaged over 68.00 cents per lb so far this season, compared with 59.15 cent during the whole of 2006–07.

Meanwhile, recent peaks in crude oil prices have not only had an impact on polyester staple fibre values but have of course increased mills' general running costs. Reports have been forthcoming from a growing number of yarn producing countries (including those one might consider among the least vulnerable to fluctuations in demand) of mills temporarily curtailing output, rather than spinning cotton at a loss, or accumulating yarn inventories in face of a sluggish offtake.

Such developments have in recent weeks served to shake confidence somewhat in the consensus view that the price outlook, based on friendly supply and demand fundamentals, is unequivocally positive. Additional uncertainty over the longer term pricing picture has also stemmed from the failure of new US farm bill proposals to progress through the US Senate.

Prices weakness has also been a feature of the long staple market, with Egyptian Giza 86 (in which there was a large carryover from the previous season and an ample supply from the new crop) being taken up at aggressive levels in a number of markets, but most notably in Pakistan. The premium commanded by the Egyptian Giza 86 variety over the A Index is currently at its lowest since the 2002–03 season. US Pima has also been quoted at reduced levels.