

# The World Cotton Market

By Michael Edwards, Cotton Outlook

We concluded our previous contribution to *The Australian Cottongrower* with the thought that, although few major surprises could be anticipated as regards the size of the 2008–09 crops, the outlook for consumption during the remainder of this season appeared altogether less secure. In the weeks since that observation was made, Cotton Outlook's estimate of this season's world consumption has fallen by more than one million tonnes.

Our current figure, modestly in excess of 23,000,000 tonnes, is some 11 per cent lower than that for the previous season, a decline unprecedented in modern times. China accounts for the lion's share of the reduction, but other Australian export markets, such as Indonesia and Thailand, have also reported weakening consumption.

The impact of reduced offtake on international trade in raw cotton has been particularly strong, since several of the major raw cotton consumers and importers are also producers of cotton.

In China, the largest in all three categories, consump-

tion this season is forecast to fall by some 14 per cent, but imports by close to 50 per cent. Cotton Outlook now forecasts Chinese imports in 2008–09 at 1,300,000 tonnes, against the 2,510,000 that were shipped to that market during the previous 12 months. In 2007–08, China imported over 95,000 tonnes of Australian cotton, representing just under four per cent of imports. During the August/November period of the current campaign, the corresponding figures are 28,000 tonnes and approaching six per cent.

## GOVERNMENT ACTIVITY

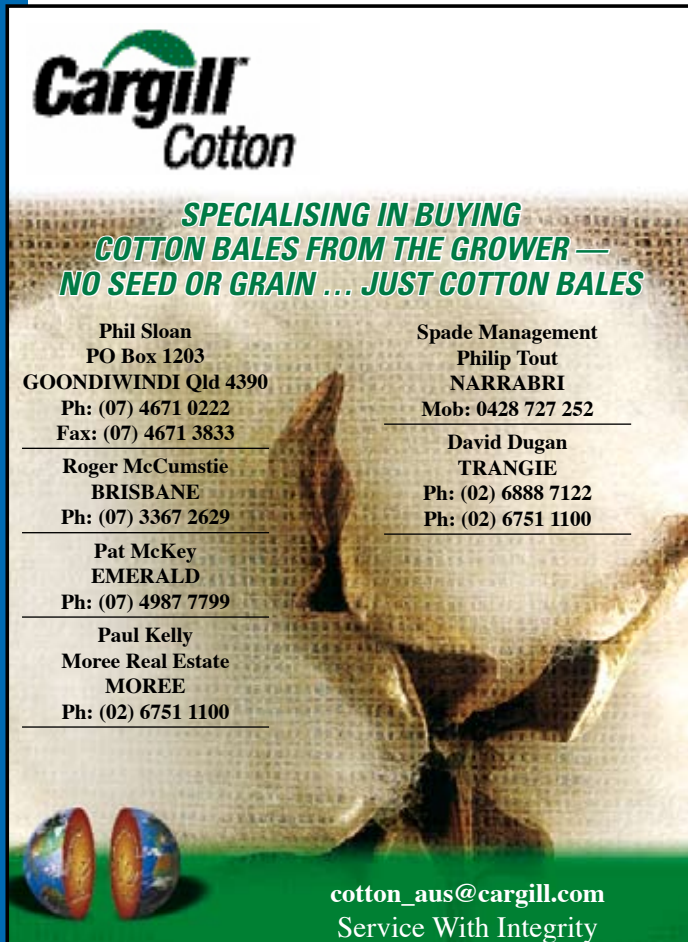
Another major theme of our previous market review was the extent to which several governments had become active in their domestic raw cotton markets. State intervention, in one form or another, has remained the order of the day over the past few weeks. China has continued to absorb cotton into the state reserve, the Cotton Corporation of India has remained a major buyer of seed cotton at this season's increased minimum support prices and, on a smaller scale, the Trading Corporation of Pakistan has purchased from ginnings.

Cotton has continued to accumulate in the US loan (latest figures show some 6,640,000 running bales of unredeemed supplies as at January 13).

In a recent editorial in Cotton Outlook, we estimated that perhaps 20 per cent of the 2008–09 global production was effectively withheld from the market, courtesy of various government mechanisms. In other circumstances, the consequent reduction in supply might have exerted a more pronounced effect on world prices. Yet the influence on international raw cotton values has thus far been rather muted, although, at a local level, markets have derived some support.

The explanation no doubt lies in the profound lack of confidence that appears to have permeated virtually all sectors of the textile manufacturing and retailing

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chain, and which has reduced demand from spinners to a minimum.

The international market has nonetheless regained some ground. Since reaching a low point of 51.80 cents per lb on November, the Cotlook A Index has staged a moderate if faltering recovery (see graph), doubtless assisted in some measure by the aforementioned government intervention, but still labouring in face of a comfortable world supply and the parlous state of mill demand. In the absence of any major positive economic news, most observers believe that, in the short term, the scope for a strong and sustained recovery of prices is limited.

But over the coming weeks and months, next season's prospective supply and demand dynamics will move into sharper focus. Cotton Outlook's first comprehensive world production and consumption forecasts for 2009-10 will be published, as usual, in the second half of February. But in the first issue of 2009, we attempted a preliminary 'snapshot' of the outlook for the major producing and consuming countries.

**TENTATIVE FORECAST**

As far as production is concerned, this first and necessarily very tentative forecast indicated a reduction in world output next season, of the order of four per cent. In China, despite the state-inspired purchasing mentioned above, seed cotton prices have dropped significantly, while costs of production have risen.

In the United States, the present, straitened financial situation is likely to prove influential – banks may have more than their usual say in farmers' choice of crops, a fact that may prompt a diversion of land away from cotton and into crops that entail less investment and less risk. At the time of writing, a December 2009 cotton futures contract in the mid-50's cents per lb, is in any event unlikely to stir much enthusiasm. Cotton may also lose further ground in Turkey. Several years of financial

attrition render unlikely a reversal of the downturn of production noted over recent years in the African Franc Zone.

The government of Uzbekistan's new crop planting target signals a modest diversion of land from cotton to food crops. Cotton retains a greater attraction for farmers on the Indian sub-continent and, all other factors being equal, the best guess is that, in both India and Pakistan, this season's output can at least be maintained in 2009-10.

To forecast how much raw cotton spinners around the world are likely to consume in 2009-10 appears a still more hazardous task. For the purposes of our early January exercise, we postulated that some improvement in the global economic situation would be apparent by the later months of this year, and that a partial recovery of raw cotton consumption, of 2.4 per cent, might thus be anticipated. Based on that assumption, which admittedly may err on the side of optimism, a significant reduction in world stocks of raw cotton – the first since 2003-04 – might be in prospect next season.



**RISK MANAGER TO ESTABLISH ASIAN HEADQUARTERS IN SYDNEY**

Global commodity risk manager FCStone Inc will establish its Asian headquarters in Sydney, following its acquisition of Australian risk management firm Elders Risk Management Pty Ltd.

Elders Risk Management had been part of Elders Limited and will change its corporate name to FCStone Australia Pty Ltd. The acquisition will expand the company's range of services and products, providing new and existing clients with greater access to commodities services and FCStone's global insights.

The Managing Director of FCStone Asia, Ed Jernigan, said: "Australia is one of the world's most important producers of a wide range of agricultural commodities, and we are pleased to be able to offer proven strategies that reduce risk and enhance profitability.

"Changes in Australia's agricultural industry, such as the de-regulation of various commodity sectors, have increased the need for a global approach to risk management. With FCStone's regional headquarters for Asia based in Sydney, Australian producers will have direct access to our strategic consulting services and sophisticated platforms, instruments, and information products. FCStone's global expertise will help strengthen the position of Australian commodity exporters in global agribusiness.

"During these difficult economic times, when extreme commodity price fluctuations have become the norm, and when distant political, economic, and climatic events can have an immediate and measurable impact on domestic markets, the need for commodity risk management has never been greater," he added.

**FIGURE 1: Cotlook A Index**

