

The World Cotton Market

By Matt Robinson, Cotton Outlook

International raw cotton prices have moved within a well-established range during the early part of the 2009–10 season. That range has been defined in terms of the December 2009 contract in New York by a low of around 58.00 cents

per lb and a high of roughly 65.00 cents per lb.

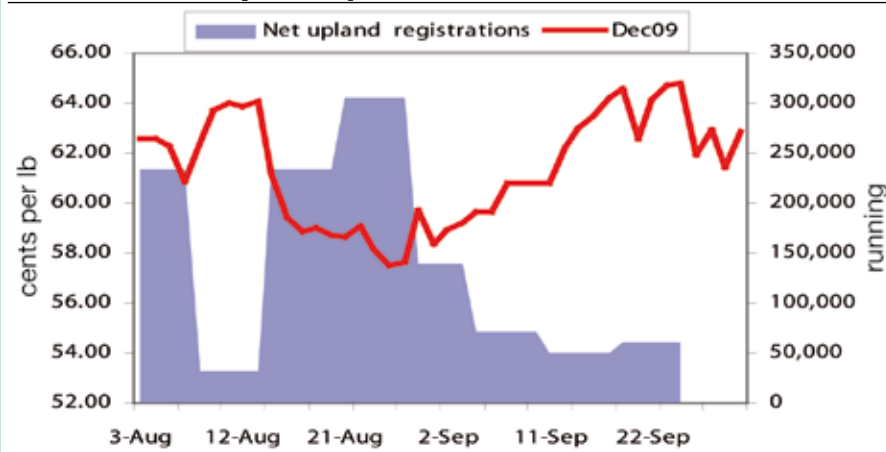
At the lower end of that range, mills have been ready buyers, covering fairly sizeable gaps in their nearby coverage. Old crop US cottons have attracted at-

tention, though interest has also been directed to Tanzanian, Indian and Pakistan cottons on price grounds. Spinners with specific higher-grade requirements have also turned to Australian growths.

But as the accompanying chart demonstrates (Figure 1), when the December contract has pushed above 60.00 cents per lb, international trading activity has tended to tail off sharply, with mills displaying strong resistance to higher prices. Demand in Pakistan and India has centred mainly on local cottons, based on price grounds, while in China, the limited volume of 2009 import quota available has influenced mill buyers to focus primarily on the continuing liquidation of cotton from the state reserves, despite a firmer trend in the prices commanded by those stocks.

At the upper end of the recent price range, the trade reported the emergence of buying opportunities at a number of origins, including, as *Cottongrower* readers will be well aware, Australia. But perhaps

FIGURE 1: Weekly US Export Sales versus New York Future




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the heaviest new crop purchasing has been detected in Uzbekistan, where nigh on 300,000 tonnes have already been committed into international trade hands, or about 40 per cent of the country's theoretical exportable surplus. By the same stage last season, no new crop sales had been finalised at that origin. Active purchasing was also witnessed in India, though traders reported difficulty in securing the volumes they desired.

The caution with which US shippers have approached new crop business has been a notable feature of the market, and one which has provided sellers of 'outside' growths with an opportunity to market cotton nearby without significant competition from the largest exporting nation. Offers of new crop for shipment dates before the end of the year have been limited, reflecting the slow start to harvesting in many parts of the US cotton belt. The weather in the Southeast and parts of Texas has been less than ideal, influencing some doubts over the potential quality composition of the crop, as well as prospective yields.

Unfavourable weather conditions have also been noted in central and eastern China, where untimely rains have affected

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open cotton. Cotlook's 2009-10 China crop estimate has been reduced recently by 250,000 tonnes, to 7,000,000 tonnes. Crops in Central Asia have developed late and, according to some observers, may be smaller than previously thought, even if they escape exposure to autumnal rainfall. Rains have also recently interrupted picking in Greece and Turkey.

A predominance of lower grades is expected to emerge from those cotton areas in the weeks ahead. Continued reports of pest attacks and incidences of cotton leaf curl virus from Punjab have undermined confidence in yield potential in Pakistan.

In India, the consensus view had formed that a new record output of at least 32,000,000 bales (170 kilos) is in prospect, prior to reports of recent flooding in some areas.

Since the beginning of the season, Cotlook's global 2009-10 production forecast has been reduced by 307,000 tonnes, to 22,811,000 tonnes. During the same timeframe, our global consumption forecast has increased by 208,000 tonnes, to 23,228,000 tonnes. We are therefore predicting a fall in world stocks this season of over 400,000 tonnes, a modest downturn, following five seasons in which increases have been recorded, according to our estimates.

But one might argue that there is scope for that prospective shortfall in supply to widen, in view of recent weather developments. Moreover, signs have emerged during the past month or so of an improvement in the yarn business climate in many parts of the world.

UPTURN IN DEMAND

An upturn in demand has been accompanied by a firming in cotton yarn values. Anecdotal evidence has been forthcoming of building mill confidence with regard to the business outlook during the remainder of the year and into 2010, particularly on the Indian sub-continent.

Spinners in Pakistan have benefited from a very strong export offtake of coarser counts of yarn from China. It remains to be seen if the general upturn in the pace of yarn orders is merely attributable to a replenishment of much-depleted stocks right through the textiles and clothing production chain, or a more sustainable improvement in the market, related to increased global economic activity.

Raw cotton market fundamentals would at present seem friendly towards the market and crop related issues were certainly influential during the most recent rally in futures during September. But, as always, speculative influences have also been at work, with the upturn in New York coinciding with a movement of speculative money out of a weakening US dollar into alternative investment assets, including equities and commodities.

The concern must be that any sustained downturn in those markets would cause that money once again to move on, resulting in the liquidation of sizeable speculative 'longs' in the No. 2 futures contract. The Commodity Futures Trading Commission reports that, at the end of September, Swap dealers held 67,638 'longs', while 'longs' in the Managed Money category numbered 40,392. After substantial purchasing and hedging of non-US new crop growths, the number of short positions held by the trade (or the Producer/Merchant/Processor/User category) stood at 102,199.

The impression gleaned at the International Cotton Association's annual dinner, at the beginning of October, was that the majority of international merchants considered the upside potential of the New York market to be greater than the downside risk. But any such strengthening in futures will need to be matched by a continued improvement in the yarn business environment for higher physical raw cotton prices to be sustained.

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