

The World Cotton Market

By Michael Edwards, Cotton Outlook

The impressive rise in international raw cotton prices, described in our previous contribution to *The Australian Cottongrower*, saw the Cotlook A Index rise from around 63.00/64.00 cents per lb in early October, to the mid-70's in late November. The bullish momentum has moderated somewhat during the more recent period under review.

The market had made some further ground by early January, before drifting lower. The high point was reached on January, 5, when the Index came within 5 cent points of 80.00 cents – a level last seen at the start of August 2008, when the market was poised to collapse under the weight of the emerging financial crisis.

Having failed to breach that level, at least by the time of writing, where does the market go from here? In the short term at least, a precipitate retreat of prices would seem unlikely – unless a headlong exit of fund buyers from the cotton futures market were to take place. While acknowledging the extent of the recovery already

achieved, most observers seem inclined cautiously to the bull side, as far as the remainder of the current season is concerned.

CASE FOR FIRM PRICES

The case for the persistence of firm prices over the coming months rests in large part on the relative tightness of the supply position in 2009–10 crop cotton. Of Australia's major competitors for a share of the international market, few have substantial quantities still to sell.

Uzbekistan's crop was effectively sold out some months ago – the focus of traders in that origin is now on quality and logistical issues, rather than on new purchases.

In the African Franc Zone, the uncommitted supply is also depleted, from crops that have fallen substantially in size in recent seasons. Much of what remains unsold in Brazil is likely to be absorbed by a domestic market that has strengthened notably in recent months.

The situation in India is rather less clear. The interna-



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tional trade is reckoned to have purchased a fair quantity at origin, but current interior prices have remained firm. Aware that replenishing their positions may prove both difficult and costly, and that spinners in China and elsewhere have substantial volumes to cover over the coming months, most merchants have proved reluctant to discount their offers.

In view of the limited uncommitted supplies available from the aforementioned origins, it seems likely that, once trade positions have become depleted, the US will provide the principal source of new supply to the international market over the next few months.

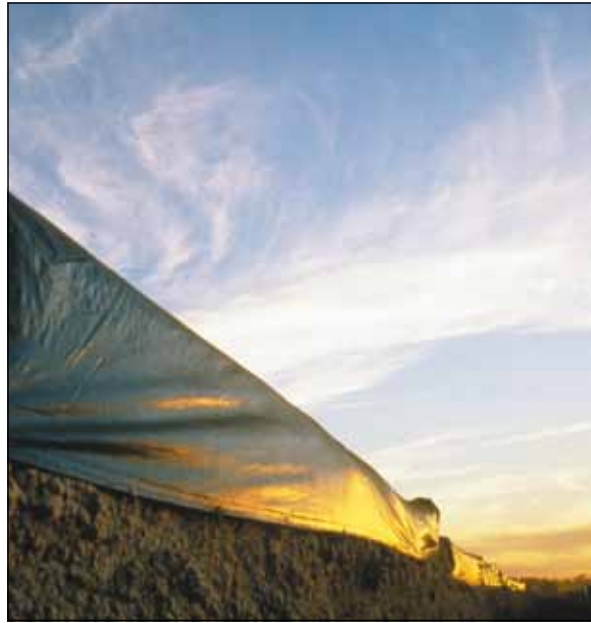
As one well-respected analyst has pointed out, even in the US the supply position could tighten quite rapidly, if export demand is sustained. Having lagged considerably behind the pace of last season during the first half of 2009–10, US export sales registrations have appeared more robust during the period under review – during the first half of January, upland export commitments rose by more than 750,000 running bales.

China's greater prominence as a purchaser of imported cotton has also contributed in no small part to the prevailing firmness of asking rates. The third and final tranche of domestic state reserve cotton was disposed of at auction by late December.

Local prices have presented a conspicuously firm ap-

pearance during the past month or two, to the extent that, even following the strong rise in the international market, imported cottons appear to offer Chinese spinners a significant price advantage over local supplies.

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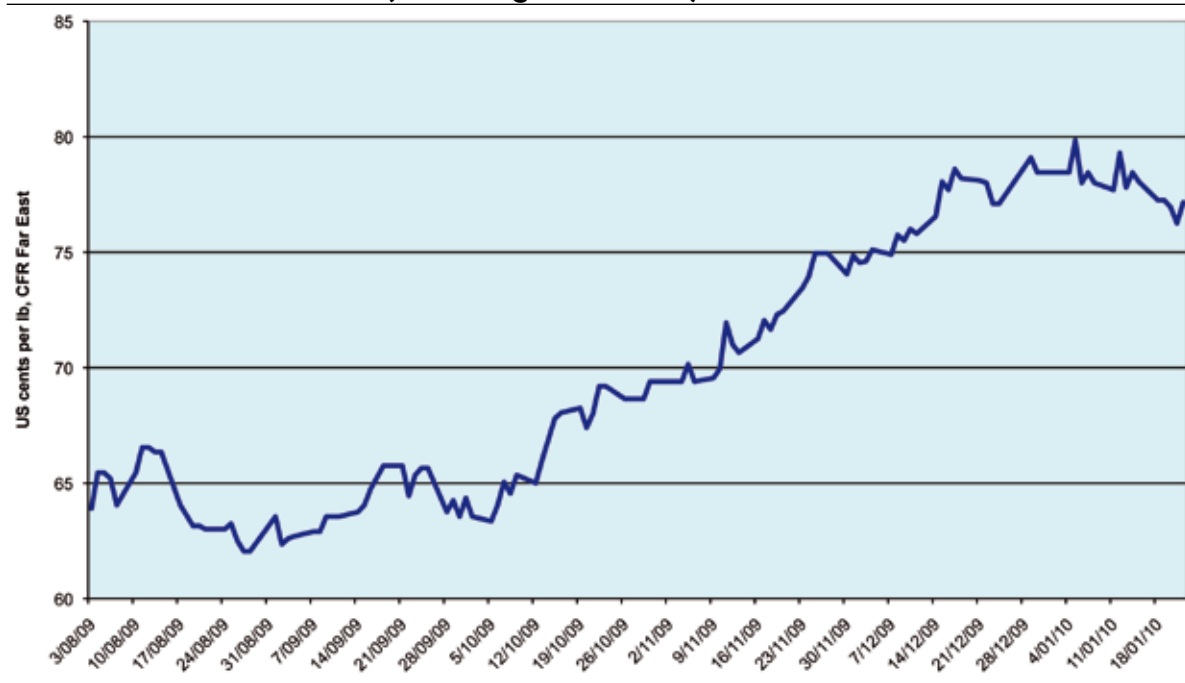
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FIGURE 1: Cotlook A Index (since August 1, 2009)



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The import figure for December, at 217,000 tonnes, was the highest monthly total since May 2008. With the announcement of an initial volume of 1,894,000 tonnes of import quota for 2010 (the customary 894,000 tonnes associated with China's terms of entry to the WTO, plus a further one million tonnes of 'discretionary' quota), mill buying has continued into the New Year.

High grades have appeared to be in most demand, in part the result of a shortfall in domestic output of such qualities. The lower average quality of this season's lint outturn has been confirmed as more classing data have been published, and has been exacerbated by the persistent difficulties in effecting timely shipment of cotton from Xinjiang (a major source of high grades) to eastern consuming centres. On the face of it, the situation is one from which shippers of Australian cotton might stand to benefit.

While Chinese import demand remains a supportive factor for world prices, it should be noted that local prices (for all commodities, including cotton, as well as equity values) turned weaker in January, in reaction to evidence that the government will tighten credit, in order to curb excessive investment, and rein in inflation.

The outlook for new crop supply and demand is steadily moving into focus, as farmers in the Northern Hemisphere ponder their planting intentions. Given the impressive recovery of the international market since March of last year, it would be reasonable to forecast a recovery in cotton plantings in the area devoted to the 2010–11 crop. Cotton Outlook's initial forecast of

world production and consumption in 2010–11 will be published towards the end of February. A preliminary 'snapshot' of the prospects in the major producing countries, published in the magazine in early January, suggested an increase in output of over 10 per cent, to just over 24,500,000 tonnes. That figure compares with a record world crop of 26,430,000 recorded in 2006–07.

To forecast the future trend of consumption is unusually difficult, given the current uncertainty with regard to the strength and duration of economic recovery. Having fallen by an unprecedented 13 per cent in 2008–09, mill use of raw cotton is estimated to recover by seven per cent during the present season.

But many spinners appear to view the future pattern of consumption with a degree of caution. In addition to the economic uncertainties alluded to, the shift in price relationships between cotton and synthetic fibres may serve to constrain growth in consumption of the natural fibre. Our initial, tentative estimates, like those of the International Cotton Advisory Committee, suggest very modest growth in raw cotton consumption next season.

The net result of our first stab at supply and demand projections for 2010–11 gives no clear signal regarding the direction of world prices. We tentatively forecast an addition of just over 200,000 tonnes to world supply during that season, against an estimated reduction of more than 1,700,000 tonnes during the current campaign. The one certainty is that the numbers will change over the coming months. Planting intentions will become clearer, and the market will look for signs that the economic situation is providing a greater stimulus to demand than we have thus far dared to anticipate. 