New York Futures

By Hibbie Barrier, The Jernigan Group

New York futures activity has increased dramatically of late as the typical summer doldrums have now officially passed. The impetus for the change continues to be China. When we last wrote we predicted cotton would fall into the low to mid 50s before rallying above the 63 cent high.

I never dreamed the market would accomplish all of this before the next article. This just goes to show you that you can sometimes be right but not necessarily for all the right reasons.

My view was predicated on another year of declining stocks with normal crop development. There was also a need for New York to discount in the short run relative to world prices in order to move US cotton into export channels before setting the stage for a spring rally. But since then, fears of lower Chinese production and sharply higher Chinese domestic prices have pushed China back to the forefront of the market's attention.

STOCKS TO FALL

In the USDA's September supply and demand report, world ending stocks were forecast to drop 2.07 million bales to 32.22 million (480 pound) bales. This reduction came primarily from a decrease in world production of 2.02 million bales to 93.36 million.

The major changes were in China where production fell 1.50 million bales to 25.50 million. In the US, production was estimated at 16.94 million, down 160,000 bales. Pakistan's production was cut as well, dropping 150,000 bales to 8.35 million.

On the other side of the balance sheet, consumption was placed at 98.86 million bales, down 300,000 from the August estimates. But exports were raised 310,000 to 30.42. US ending stocks were reduced as well, falling 500,000 bales to 3.80 million. This drop came as beginning stocks fell 100,000 bales, production 160,000 bales and exports increasing 200,000 bales.

Since mid-August, prices have rallied over 10 cents. The funds have moved to over 40 per cent net long and the trade got caught a little short.

As of this writing, December is trading about 66 cents. Cash cotton trade in the US has been confined to remnant old crop lots between growers and merchants. New crop turnover has been limited due to the nature of the US farm program.

The rapid ascent of world prices has taken away the US growers' loan deficiency payments. This has forced growers to rethink marketing plans amid the possibility of declining government payments.

It is not too different from last season when merchants were forced to deal with declining Step 2 values. In that case, New York discounted to make US cotton competitive without the marketing certificate.

Growers face a similar dilemma except that New York would have to rally to satisfy grower return expectations. This is because as New York rallies above the 60.00 level, US grower income falls until prices reach back near the 70 cent level. This may explain the lack of grower selling throughout the 10 cent rally.

As we go forward and at the risk of sounding like a broken record, China holds the key to New York. If Chinese demand continues strong and relatively firm, New York should remain firm — say 58 to 60 cents or above. If China's crop should come in smaller, as the Chinese Ag Ministry suggested in their latest survey (23 to 24 million bales), prices could easily push above the 70 cent level where we would expect heavy US grower selling to emerge.