

Dunavant: Optimistic about price, realistic about China

By Owen Taylor

All and all, Billy Dunavant is optimistic about where cotton prices might be heading. That was the underlying message the influential cotton merchant brought to the US Beltwide Cotton Conference in January.

"I sincerely believe that it is too early to be negative on December cotton," said Dunavant, whose market outlooks have become a sort of "state of the industry" message at the annual conference. "I think at the current discounts I would rather be long on new crop December. We think the next seven months will create a lot of excitement, which can also stimulate new crop prices."

His company has no new crop positions at this point, he said, adding that he did not want to be short. "I think US cotton can be higher in March and May than it is today."

Dunavant's outlook is influenced by several factors:

- World carryover could drop to 33.5 million bales by August 1, 2004. That compares to a carryover figure at the beginning of the season of 37 million bales. "This is a major drawdown of world stocks," he said. "When I spoke last year, we projected the world carryover to be 38.8 million bales, and it ended up being 37 million bales because Chinese imports were much greater than I anticipated."
- China has already purchased 3.4 million bales of US cotton. "We think they will buy at least another two million bales, and it could be three million bales."
- China has been aggressively buying other US com-



modities, and "with a dismal cotton crop (in China) I cannot believe we (cotton) will not be in the mix."

- China's year-end carryover is "going to be drastically low, and they cannot afford not to replenish."

"As I look around the world, the numbers say we are going to have a tight world supply in the (northern) spring, basically of all qualities but especially 21 and 31 grade, in 34 and longer staple."

"I see the low range in March at 72-73 cents,"

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Dunavant said. "But if my numbers are correct, I see the upside for May at 82 cents. Yes, we will produce more cotton in the US and the world next year. But it will not be in the marketplace until November 2004. We have got to get from here to there, and it will be a stretch."

Looking ahead to new crop 2004-05, "we think there will be a sharp increase in world production from 93.1 million bales to 102 million bales, primarily because of price. Consumption in the world will increase from 96.7 million bales to 98.8 million bales."

That increases world carryover by 3.2 million bales.

What China does in the next 12 months will determine if that's a bearish or bullish number, he said.

"If China wants to rebuild its carryover to a comfortable level, then prices next season can be as strong as this season," Dunavant said, but added. "It is just too early to predict price. I think during March, April and May of this year we will get that direction. I think as we look at December at 68.55 versus March at 75.70, that is a substantial discount. I do not want to be short new crop at these differences and at this level."

Another factor hanging over the market is the ongoing but largely unofficial debate about the farm bill. Substantial changes could "quickly impact new crop production."

Dunavant's company sees US production increasing by 475,000 bales next season. US consumption will drop again, from 6.2 to 5.9 million bales, he projected. "But US exports will again be the bright spot, being in excess of 12 million bales."

A year ago, Dunavant predicted US exports would reach 10.8 million bales, but they actually finished out at 11.9 million. "The US is rapidly becoming the major exporter of cotton, and this is extremely necessary for the future of US cotton production."

Between declining US textile production and increasing exports, it may be possible that the US will export more than twice the number of bales it will consume, Dunavant said. "It is hard for me to look back five years ago and see the tremendous change that has occurred in our industry."

In his opening remarks, Dunavant observed that the global cotton market appears to be changing about every six months, thanks to Chinese cotton exports and consumption. It has surprised a lot of people, including himself, Dunavant admitted.

A year ago, Dunavant projected at the Beltwide that Chinese cotton consumption would reach 27 million bales. The final number was 29.5 million bales. It appears the Chinese will consume more than 30.3 million bales this season, and it's projected to perhaps go even higher next season.

The Chinese effect is being felt in many ways, Dunavant observed. China continues to take market share from a number of Asian countries and Europe. That's aided by China's steady adoption of better technology.

"It is hard to believe, but China has one very modern textile mill that consumes about 2.3 million bales per year, and they are trying to grow that number. This mill produces very high quality yarns and buys the very best cotton produced in the world."

It markets the mill's yarn world-wide, he added.

The effect the Chinese have on prices now can't be underestimated, he noted. As Dunavant put it; "They are literally controlling world cotton consumption as we look to our future." 