New York Futures

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Since our last update in December, New York price action has continued active and dare I say, volatile. As is usually the case with cotton prices, values fell faster and further than most expected. Present company included.

In fact the market gave back over 20 cents of its previous rally with spot December falling to 61.50 during delivery while March fell to 67.09.

At this point, the Chinese factor reappeared as Chinese mills moved in to take advantage of the attractive prices. China bought US, West African, Australian, Brazilian and CIS cotton. Traditional importers became active as well. Against this demand the market has slowly recovered nearly 50 per cent of the losses from the late October highs.

In the USDA's January supply and demand report, the government made very few changes to the world numbers. In fact there were no changes made to the US or Chinese numbers at all. In the end, small production adjustments gave world production a slight boost to 92.20 million bales — up 30,000. Imports were lowered marginally by 60,000 bales to 32.41 million while consumption dropped 60,000 to 97.11 million bales.

Exports were also reduced 60,000 bales to 32.05 million. These adjustments pushed world ending stocks up 170,000 bales to 32.36 million — a 33.3 per cent stocks to use ratio which is up 0.2 per cent from last month.

BIG QUESTION

The biggest question going forward continues to center on China. So far we have every indication that China's consumption has and will remain firm. In fact, China's January through November apparel exports were up 25.2 per cent.

China's cotton fabric production in November rose 8.8 per cent year on year to 11.364 billion square

metres. Manmade fibre has risen relative to cotton, however, as manmade fibre production grew by 17.6 per cent in the January–November time frame.

Total yarn production increased 16.1 per cent. Continued high domestic raw cotton prices and generally higher world cotton prices will certainly weigh on the growth in the future. How much remains to be seen.

Cotton's share of the market in China declined to 49.06 per cent in November versus a January through November market share of 51.13 per cent. Continued growth in China could ultimately be curtailed by another outbreak of SARS and/or the reality of just plain ole high cotton prices.

In the US and elsewhere in the world, a lot of cotton has moved from growers' hands to merchants and final users. This could partially explain the 20 odd cent sell off in New York.

In the (northern hemisphere) autumn, New York's rally was fueled by demand and the merchants' need to cover basis positions. New York provided the best mechanism to hedge this risk and the trade rushed to buy futures and/or options in the absence of available supply.

At the same time the funds built up extremely net long positions as well. Now, however, the opposite appears true. Merchants are now long basis in many cases and interested to move cotton into final users' hands.

This has kept the market subdued along with remnant grower selling above the market. The funds are still net long — nearly 40 per cent. In fact, the funds have kept a net long position for seven months. This feature appears likely to continue for a while longer as the fall in the US dollar against most major currencies should keep the fund sector interested in the long side of commodities in general.

BULLS BANK ON CHINA

Going forward, bulls are banking on China. It is that simple.

The belief in the bull camp centres on supply side worries. In fact, China's ending stocks are forecast to drop to 6.78 million bales. This is just over two months' consumption.

For this reason, China may be forced to buy all the way up to new crop arrivals toward the end of 2004. This would ensure adequate supplies to maintain growth in China's textile industry.

Outside of China, consumption is weakening in almost every country. This is the result of China's expansion. A trend we do not see ending in the very near future.

Looking ahead, it is hard not to be a bit bullish. World ending stocks are forecast to be the lowest since the 1994–95 season. In addition the weaker dollar may put downward pressure on 2004 production prospects in the export producing countries like the West African Franc Zone, Central Asia and some South American countries.

Drought in Australia is still plaguing prospects there as well. Add in rising grain prices, and cotton could have to bid for acres. For old crop, prices would still seem to have the chance to rally back above 80 cents. New crop should follow along, rising to above 70 cents to hold on to acreage against corn and soybeans.

Namoi and Sundown establish ginning joint venture

In December the Boards of Namoi Cotton and Sundown Pastoral Co announced that they had entered into an agreement to establish a joint venture to own and operate the Wathagar gin in the Gwydir Valley near Moree.

The joint venture arrangement is to be known as "Wathagar Ginning Company."

As part of this arrangement, Namoi Cotton has agreed to sell a 50 per cent interest in its Wathagar gin to Sundown.

Namoi Cotton will hold the remaining 50 per cent interest in the joint venture and has been appointed by the joint venture partners as the manager of the facility. Sundown, one of the largest cotton growers in the Gwydir Valley, will supply the Wathagar Ginning Company with cotton for ginning.

This arrangement is subject to a number of conditions, including relevant government and licence approvals. Completion is scheduled to occur on February 28.

The appointment of Namoi Cotton as manager of the facility will ensure that clients at the gin will receive the same high levels of service as they have come to expect from the Wathagar gin.

"The Board is very pleased with the establishment of this joint venture as it will facilitate consistent throughput levels over the long term," said Namoi Cotton's chairman, Stuart Boydell. "This will underpin business performance, ensuring the Wathagar gin is operated and maintained in accordance with industry best practice for the benefit of all clients."

Sundown managing director David Statham, said that he was looking forward to the alliance with Namoi. "This provides Sundown with an opportunity to participate in the ownership of a high quality ginning asset, under strong management by Namoi Cotton," he said. "We are looking forward to working with Namoi to ensure that existing high levels of client service and operational performance are maintained for the benefit of all clients."