The world cotton market

By Antonia Prescott – Deputy Editor, Cotton Outlook

IT will come as no surprise to regular readers that the predominant factor governing the movement of prices in December and January was, once again, the state of Sino-US trade relations. At the beginning of the period in view, the indications of an early resolution of the dispute (or even just for an agreement on "phase one" of the deal) did not appear especially promising. Various statements emerging from the US, including from the president himself, about a prolongation of the tariff regime at least until the US election in November tended to hold optimists in check.

Cotlook A Index

Nevertheless, as the implementation date for the next round of proposed US tariffs (December 15) loomed, the majority opinion in the market favoured a postponement. In the event, this expectation was more than met when, on December 12, news began to break that the long-awaited Phase One deal had at last been agreed. New York futures were quick to respond, the market closing at a five-month high on that day.

Prices subsequently moved steadily higher as the formal ratification of the agreement approached, and on January 15, the date of the signing ceremony in Washington, the Cotlook A Index was established at 80.20 cents per lb, a full 670 cent points higher than its recent low point at the beginning of December (a rise of almost 8.5 per cent).

But in the period since the formal agreement, market confidence appears to have faltered somewhat, with futures fluctuating quite widely even from day to day. The agreement itself, while undoubtedly a welcome development, in fact does relatively little to elucidate the immediate future for Sino-US trade in cotton and cotton goods.

Using 2017 as a base year, China has committed to an ambitious expansion over the next two years of its purchases of US agricultural commodities, including cotton, but no breakdown by product outlining how such increases might be achieved has been made public.

Moreover, the tariffs on Chinese goods (including textiles and apparel) entering the US market remain in place, and consequently no removal of additional duties (for instance the 25-per cent additional tariff on US raw cotton) by Beijing is envisaged either. So it is by no means clear how China might actually effect additional purchases of cotton by mills, if the government continues to espouse the principle of acquisition according to market needs, not to mention the strictures of the WTO. (The EU has already raised the prospect of a legal challenge to the agreement on the grounds that it may not comply with WTO requirements.)

If cotton is to make a significant contribution to the increase in imported agricultural products required by the deal (bearing in mind that China imported US cotton worth almost $1 billion in 2017 and that agricultural purchases overall need to rise by $12.5 billion and $19.5 billion in 2020 and 2021 from the 2017 baseline), many commentators are of the opinion that direct state intervention will be required, perhaps in the form of a grand-scale procurement of US cotton by or on behalf of the Chinese State Reserve.

The recent operations of the State Reserve have, in any case, been worthy of scrutiny. In our previous market review for *The Australian Cottongrower*, we reported that a series of daily purchase auctions was set to begin in the first week of December 2019 and run through March 2020. The stated intention was to procure as much as half a million tonnes of high-quality cotton from the 2019–20 Xinjiang crop, and the Reserve set a maximum daily purchasing total of 7000 tonnes.

In the early phase of the series, the rate of acquisition was quite brisk. But it tailed off fairly rapidly, and by the end of the seventh week of the series, only about 55,000 tonnes had been purchased, so 11 per cent of the intended total. The reason for the shortfall seems to be an unwillingness on the part of those in possession of 2019–20 Xinjiang stocks to part with them at the prices offered by the State Reserve during a period when rates on the open market were rising.

The volume of cotton estimated to reside in the State Reserve currently is around 2.25 million tonnes, of which perhaps three quarters are by now several seasons old and therefore of questionable usefulness and value. Another sales auction series is envisaged (though not as yet confirmed) for this year. So the failure to acquire Xinjiang cotton at the rate foreseen may have left the door open for further purchases from the international market, including from the US if that is deemed desirable.

Improved trading activity

In terms of trading activity, the period spanning the turn of the year has seen a marked improvement in the demand emanating from a range of markets. Yarn offtake, and therefore spinners' incomes, have improved notably and have fuelled turnover in US and Brazilian cotton in particular, while more West African stocks have been purchased from first hands and sold to mills, especially in Bangladesh.

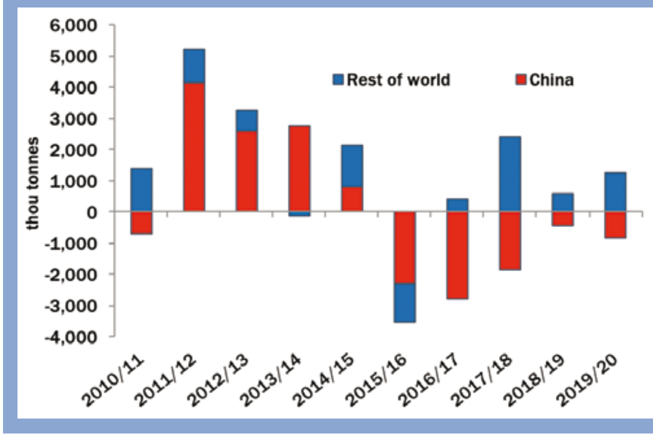
US export sales have picked up pace and now appear, at least on paper, on course to reach the USDA's target of 16.5 million bales (of 480 lbs). One source of uncertainty on this front, of course, is the proportion of upland sales to China still unshipped – about 76 per cent of the quantity committed so far this season.

It is Brazil, though, which has made the most notable achievement in terms of exports recently. Despite the well-documented challenges in terms of logistics and infrastructure involved in transporting the crop overland and then securing vessel space at the country's congested Santos port, the total amount of cotton exported in the second half of 2019 was over a million tonnes, 34 per cent of it to China (including a good volume credited to the State Reserve) and a further 14 per cent to Vietnam.

The harvesting of 2019–20 crops in the Northern Hemisphere has drawn to a close, with estimates of output continuing to fall, especially in the US and Pakistan. Likewise, a downward adjustment to the prospects for the upcoming crop in the Southern Hemisphere principally reflects the impact of the drought in Australia, which needs no rehearsal in this publication.

But Brazil seems set to repeat the bumper crop of over 2.7 million tonnes attained in 2019. By contrast, despite the brighter mood in consuming markets, no significant changes in the patterns of consumption have been seen that would cause global estimates to be adjusted over the period. The result is that production looks likely to continue to outstrip consumption (albeit by a reduced margin) and the current reckoning of the addition to world stocks by the end of July 2020 is about 400,000 tonnes.

Apparent changes in world stocks



In late February, *Cotton Outlook* will publish initial forecasts of production and consumption in the 2020–21 season. One key factor in determining the outlook will be the decisions of US producers between competing crops as they contemplate this spring's planting campaign. Any agricultural purchases by Chinese buyers (or indeed the government) confirmed in the intervening period may well have a significant bearing on those decisions.