

COTTON COVERAGE

A comprehensive review of global market conditions

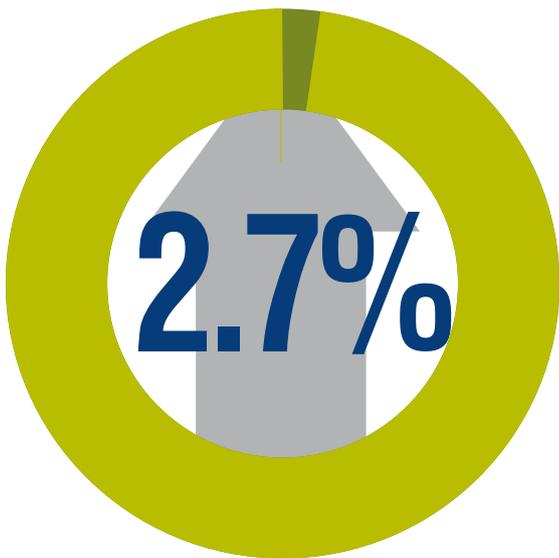
The previous issue we were anxiously awaiting further development of the coronavirus outbreak and this issue we are living it! A month is a long time in a rapidly changing and unfamiliar landscape. What was initially thought as a “China problem” Covid-19 is now clearly a “global problem” with some 3.5 billion people currently experiencing some level of lockdown measures. The use of terms like “flattening the curve” and behaviours of “social distancing” and “self-isolating” are now a normal part of our day. Amid this developing health and economic crisis, the impact on the cotton market has been formidable.

Since February cotton futures have lost circa 30 per cent as an already uncertain global economic outlook became even more so as Covid-19 was declared a global pandemic. The textile industry has been rocked by cancellations throughout the supply chain as the market anticipates a significant reduction in consumer spending on discretionary cotton products. As such, demand destruction has seen May-20 futures fall from circa 70 US c/lb in January to 50 US c/lb in March. The cotton market hasn't been this weak since June 2009; though currently remains ahead of the Global Financial Crisis low of 36.70 US c/lb posted in early November 2008. So, things could be worse! The consensus is that the cotton market should find support at 50 US c/lb (assuming the Covid-19 pandemic doesn't worsen beyond current expectations).

The wild ride has continued in FX markets with the AUD/USD experiencing a steady decline from 0.7000 at the beginning of the year through to circa 0.6600 by early March. What followed over next couple of weeks can only be described as a free-fall with a YTD low of 0.5510 reached on March 19. While the depreciating Australian dollar was helping to keep cash prices above \$500 per bale, a recovery in the AUD/USD to above 0.6000 during late March has seen cash prices fall below this crucial level for the first time in over two years.

The coronavirus continues to dominate news headlines, social media and daily conversations and it's hard to see that changing any time soon. The virus remains the biggest driver of price direction for the foreseeable future and volatility in equity, commodity and forex markets is likely to remain high. The 2020 Australian cotton season was always going to be a challenging one; but it's just got a whole lot more challenging for growers, ginners, merchants and the wider industry alike. We hope everyone stays safe and well over the coming months.

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World consumption expected to drop 1% in 2019/20 to 119.01 million bales

World ending stocks expected to increase 2.7% in 2019/20 to 82.12 million bales

