

The world cotton market

■ By Antonia Prescott – Deputy Editor, Cotton Outlook

THE almost complete seizure of world markets in response to the Covid-19 pandemic has eclipsed all other concerns in the two months since we wrote for *The Australian Cottongrower*. Cotton prices have plummeted along with those for most other commodities as demand for all non-essential

goods has come to a standstill. At the time of writing, a third of the global population is on lockdown, ordered by their governments to stay at home.

In this period of enforced stasis, then, it is worth taking the time to consider the chain of events up to now. The retrospective view is relatively clear, even if the way ahead is anything but.

The outbreak of coronavirus in China was first reported in December and the severe measures taken by the government to restrict the spread of infection, particularly in the province of Hubei, were reported widely. Nevertheless, the full scale of the potential for the virus to disrupt the world economy was not appreciated at that time, either by governments or markets. The attention of those in the cotton industry tended to be focused primarily on the shutdown of production in many parts of China and the likely impact on raw cotton consumption in that market as a consequence.

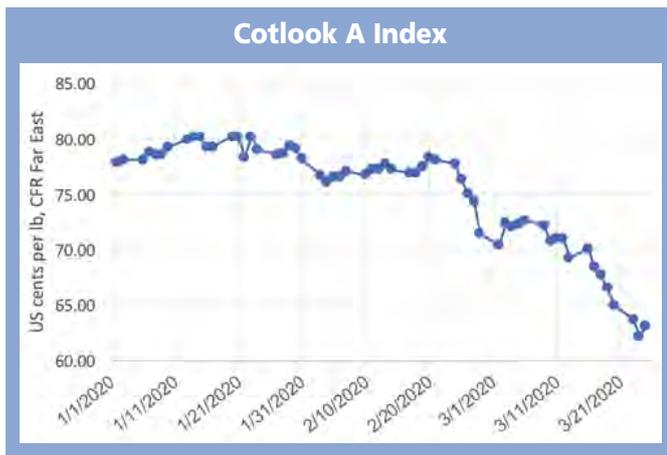
Inexorably, though, apprehension has turned to anxiety and hence to alarm as the number of infections across the world has risen, and measures taken by governments to mitigate the spread have brought economic activity to a halt. Markets for stocks and equities have reacted with almost universal dismay, mitigated only slightly (despite the jaw-dropping sums of money involved) by government initiatives in many countries aimed at supporting their populations and stimulating the economies.

Cotton prices have not escaped the general collapse, of course. In the two-month period between January 23 and March 25, the Cotlook A Index (the recognised barometer of world physical prices, expressed in US cents/lb, CFR Far East) has lost a total of 17.15 cents, or over a fifth of its value.

But as we have already noted, the looming demand crash was not anticipated in the early part of the period under review. Indeed, the slowdown of production in China and the gradual softening of prices actually stimulated an uplift in international buying that persisted through February and even into the first half of March. The USDA weekly export report recorded several successive weeks of record sales and shipments, and Brazilian and West African cotton also saw increased demand, the latter from Bangladesh especially.

But as a result of the shutdown, retail outlets in many parts of the world are suddenly closed, and consumers are now focused on essential purchases only, not least because many face a reduction in disposable income in the immediate term, if not for longer. In consequence, the trade in raw cotton has all but ceased: mills are contemplating cancelled (or at best delayed) upstream orders, and traders are wary of counterparty risk and further price declines. Buying at origin has also come to a halt, since many producers have been slow to respond to the collapse in global demand and are unwilling to part with stocks at the prevailing prices.

To make an accurate estimate of the impact of the pandemic on the chain of businesses involved in the cotton industry is all but impossible. No-one knows how long the widespread closure of shops, market yards and factories will last, nor what the situation will be when they return to anything like normal operations. The very least we can say is that it seems a recession is in sight in many parts of the world, and may well be upon



Specialists in the Sale and Valuation of Rural Properties

- Rural Properties
- Town Sales
- Auctions
- Clearing Sales
- Water Trading
- Registered Valuers
- Property Management
- Cargill Cotton Agents




MOREE REAL ESTATE
www.moreerealestate.com.au

Paul Kelly	0428 281 428
Cliff Brown	0428 669 173
Michelle Tucker	0427 522 585
Sandy Bailey	0406 109 492

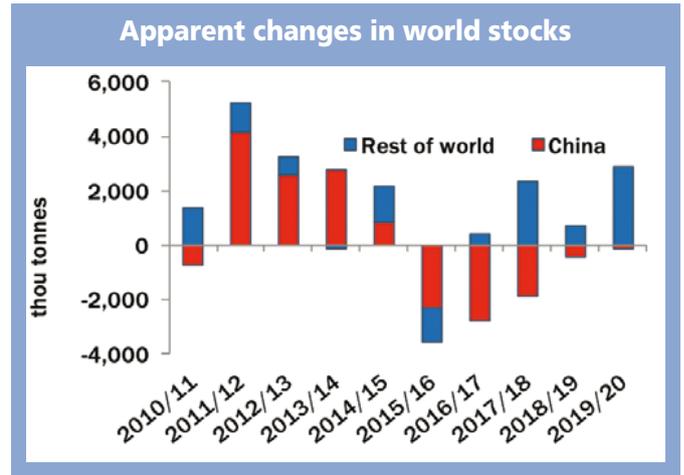
us already. That being the case, cotton consumption – and probably production too – seem certain to fall, but the question of magnitude has the power to confound analysts using even the most sophisticated of models, since the situation is so very uncertain and moving at such a pace.

Cotlook's initial estimates of production and consumption next season advanced at the end of February have long since been overtaken by events, and our March revisions to the figures for 2019–20 and 2020–21 are, by our own admission, somewhat arbitrary – intended more to indicate the probable direction of travel rather than the precise extent of the decline.

To production first, then. Clearly, no market-influenced adjustment to the proportions of the 2019–20 crop is practicable, since most Northern Hemisphere harvests are complete, as is planting (again on a massive scale) in Brazil. The slump in demand has come far too late to avoid a significant oversupply for the current year, and a response from the production side of the market will be perceptible only in the coming season. Farmers' crop decisions in the run-up to the planting window are always influenced, at least to some extent, by relative prices for competing commodities. In the US this year, producers will be conscious of the steep fall of cotton futures in New York in the middle of March. Likewise, farmers in India and Pakistan may well be swayed in the direction of food crops if price relationships develop in their favour in the next month or so. In the former country, the government-mandated Minimum Support Price for seed cotton to a large extent shields producers from the fluctuation of world prices. The same can be said of farmers in China's Xinjiang major producing region

of Xinjiang. In late March, it was confirmed that a target price of 18,600 yuan per tonne (roughly US\$ 1.20 per lb) is to be maintained for the next three seasons.

The impact on consumption will be more immediate, of course, and our estimates for the current season have been adjusted as well as those for 2020–21. Taken together, the alterations to supply and demand forecasts (which, as discussed, will probably require significant refinement in the coming months) indicate that production in the current season is now likely to outstrip consumption by a much increased – and now, frankly, daunting – margin of 2.8 million tonnes.



Barcoo...

Enjoy a cool holiday this year, and at a great rate



Barcoo is a superbly appointed lodge at Dinner Plain in the heart of Victoria's high country. This year round playground offers trout fishing, magnificent scenery, great restaurants, peace & quiet and other cool activities.

- 4 bedrooms (all with queen size beds) • 3 bathrooms • Spa pool
- Fully equipped with all mod cons • Sleeps up to 16

***GREAT VALUE FOR
LARGE OR FAMILY GROUPS***

Further details phone 03 5178 3088 or www.dinnerplain.com