

# Covid-19 and the cotton market

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It was only weeks ago that our cotton market was forced to change direction from prices in the \$600 per bale range to now in the \$400 per bale range. The main cause – a previously unknown virus called Covid-19. Pre Covid-19 the cotton market had a bullish tone about it with the US/China trade war seemingly at an end. Demand was picking up with export sales numbers out of the US increasing daily.

The end of the trade war also signalled a strategic purchase plan for the Chinese to increase government stocks to protect the Chinese spinning mills and garment manufactures from supply issues. On the back of these bullish factors there were expectations that cotton prices globally were starting a steep move higher.

Covid-19 put an end to any expectations of a rising market and each day the pandemic continued to spread, the market moved down accordingly. Many food-based commodities like wheat and fresh fruit and vegetables began to rally due to the Covid-19 panic buying whilst non-food commodities such as cotton, wool and lumber started to fall.

For the first part of the decline the \$AUD kept pace which gave growers a false sense of security with \$AUD cash prices only slowly changing from one day to the next, but the ICE futures market has kept on falling and the \$AUD has held its ground in the past few weeks.

Can the market go lower than where it is currently at around US50c/lb at the time of writing.? It certainly can and I think it probably will.

After seeing the ICE futures drop, we are now hearing that physical demand is slowing to a grinding halt. Why would the spinners not want to buy cotton that is 20c/lb cheaper than where it was?

I think because all of the shops that sell those garments are closed, and in turn all the brands have stopped making new clothes and all the material manufacturers have stopped producing for garment makers and then all the spinning mills have stopped making yarn for material makers.

The whole supply chain has stopped and who knows when it will open. This sudden change in our textile market is something none of us have seen before and hopefully never again.

A small positive to this disaster is that China has slowly started to open its doors to manufacturing. This was on the back of very aggressive Covid-19 lockdowns in the most affected regions like Wuhan. This aggressive move has brought China slowly back online for business.

The problem is that it seems many countries like USA, Italy and Spain were a little slow with the lockdown, so this will keep demand slow for longer in two of the biggest consuming markets in the world – the US and Europe. Most of the Chinese production will stay slow until we see other parts of the world open back up for business.

Here are some of the questions for growers with 2020 cotton to sell.

## Do I sell now?

Most cotton merchants are saying they have no buying appetite. Some may give you a price, but those prices are well

below the market in February and they are factoring in no real demand on the mills side.

## Do I sell basis and wait for the market to recover?

Basis has already fallen out of bed with most mills not needing immediate stock due to the shutdown of most retailers.

## Do I sell now and buy calls?

This could be a good option, but you are potentially selling basis at a low value and you are also committing to a P & D. Volatility in options is high at present so premiums have gone up due to the big swings we have seen in the futures market.

## Do I store cotton and hold off from selling?

This option will give you time to decide away from ginning pressure and cashflow pressure. It also gives the market time for the supply chain to start working again. The grain market has been doing this for years – sometimes you need to wait for the market to get its appetite back before selling.

Raw Cotton Australia is a grower friendly system which allows growers to easily warehouse their cotton after ginning. The Raw Cotton Australia team handles all costs and logistics post ginning and can also provide a cash advance. Cotton is fully insured and bales are not released to buyers until fully paid for.

The service is 100 per cent independent and allows you to sell cotton in specific grades to the highest bidder when it comes time to sell. This could be a great option for growers in the current market environment.

