The world cotton market

By Antonia Prescott – Deputy Editor, Cotton Outlook

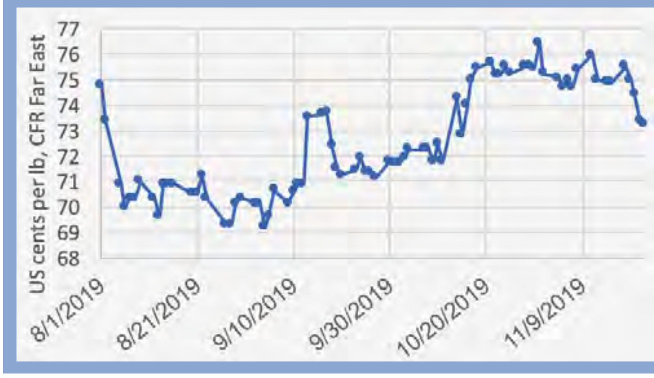
WORLD prices in October and November have once again been heavily influenced by progress (or perceptions thereof) in the Sino-US trade negotiations. A significant boost to confidence came on October 11, when it was announced that the basis for 'phase one' of a trade deal had been provisionally agreed and might be signed at the APEC summit in Chile, scheduled for November 16–17.

Despite the very tentative nature of the statements emerging from both sides, prices as measured by the Cotlook A Index rose sharply in the week to 10 days that followed, before settling into a new trading range between about 75 and 76 cents per lb, and on October 31, a seasonal high of 76.45 was recorded.

But in what is by now a familiar pattern, the bullish mood subsequently faded as the Chile summit was cancelled (for reasons entirely unrelated to the trade dispute) and the promised phase one agreement remained out of reach. On November 20, further uncertainty was generated by press reports that mentioned a view from US officials that the preliminary deal may not be agreed until the New Year, as China pushed for the lifting of US tariffs on its goods and the US escalated its own demands.

From a cotton market perspective, the frequent emphasis

Cotlook A Index



on Chinese purchases of US agricultural products served as a reminder that an eventual agreement has the potential not only to improve the overall trading environment but might also impact the US cotton balance sheet. But a comment from the US president warning of tariff increases in the event that no deal is reached poured more cold water on the mood, with the result that prices fell to a five-week low.

Given the circumstances, the dull trading conditions of the past few months might have been expected to continue. In the event, though, import demand from mills has been stimulated in a couple of key markets – namely, Pakistan and Turkey – by the disappointing results of the local crops.

Production in Pakistan has been hampered this season by various problems, including excessively high temperatures at certain points of the growing season, untimely rains and pest infestations, but perhaps most crucially the inadequate quality of the planting seed. By mid-November, the scale of the crop failure was clear from the arrivals data disseminated by the PCGA (Pakistan Cotton Ginners Association). The running total was 1.8 million bales (or about 280,000 tonnes) lower than the quantity recorded by the equivalent date last season, a reduction of over 20 per cent. As a result, demand from mills for any US and Brazilian supplies available nearby has been strong, and a number of smaller producing and exporting countries have likewise benefited.

In Turkey, production has also failed to meet expectations, although in a less dramatic fashion than in Pakistan. Quality, as well as quantity, has been affected, which has prompted increased interest, again in US and Brazilian cotton, but also Greek.

Another key development during the period has been the revelation of at least some details of the direction of policy with regard to China's State Reserve. In October, a sizeable quantity (perhaps as much as 250,000 tonnes) of Brazilian cotton was bought by or on behalf of the Chinese state. Then, on November 14, it was announced that the Reserve would commence a series of purchase auctions for domestic cotton, to run from December through March, with the aim of procuring up to half a million tonnes from the Xinjiang 2019–20 crop.

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