

COTTON COVERAGE

A comprehensive review of global market conditions

2020 can be described as nothing short of a rollercoaster. Covid-19 took centre stage as we pivoted through unexpected market shifts. We have watched New York futures push comfortably above 80.00 cents since the beginning of this year. The question on everyone's mind is where futures will find resistance. ICE Futures are being largely supported by a smaller US crop, mixed quality cotton on the export market, strong US export sales and a general rise in commodity prices. The US/China relationship remains unclear. But China has been actively buying US cotton, soybeans, wheat, sorghum, beef, and pork. The market will be watching President Biden and his leadership as to which direction the relationship between the two nations will head.

During the height of the first wave of Covid-19 last year, global demand collapsed, and exporters dropped prices to stimulate demand. Covid-19 continues to make headlines across the world and keep traders on the edge of their seats. But demand seems to be holding steady. Europe and United States are experiencing further lock downs and there are further fears in China, especially with the Chinese New Year holiday period on this month. We are far from regular circumstances, but it seems Australia is increasing its confidence in dealing with positive cases and area lock downs. In the physical market, spinners remain cautious on making forward commitments and leaving inventories thin. There has been a moderate easing in offering basis levels. We are seeing a fair share of mixed grades of US and Brazilian cotton heading into the Chinese market. The demand is being driven by an expansion in mills outside of China and strong growth in home textiles. Competitively priced lots available for prompt shipments continue to attract buying activity.

Specs are currently holding a net long position and if they continue to add to their positions the July/December invert will continue to worsen. The July/December spread has narrowed closer to 500 points. This reflects the spot prices trading higher than future contract month December. This is largely due to a short-term supply demand disruption from the US cotton crop. The US 2021–22 planting decisions for next season will be closely watched in the market. The National Cotton Council will be releasing its Planting Survey on Thursday, February 11. Commodity prices began the year favouring corn and soybeans, but cotton seems to be holding as well. These planting decisions together with further demand and macro-economic impacts will hold specs into the market or liquidate some positions.

As the Northern Hemisphere planting window gets closer, the USDA WASDE projections only becomes more crucial in the current market climate. The World Agricultural Supply and Demand Estimates for the 2020–21 cotton outlook showed higher exports, lower production, and lower ending stock figures for the month of January. World production was projected one million bales lower overall. The most noticeable changes were led by the United States followed by Pakistan and Argentina. World consumption on the other hand saw a slight increase for the month of January. Increases were largely reported into China, Turkey, Indonesia, and Vietnam. World ending stocks came in 1.2 million bales lower this month.

The Aussie and the US Dollar have continued to tango from 2020 and into the New Year. The AUD saw big gains towards the end of last year with a great influence by the 2020 presidential election as President Biden administration was elected. Progress from the Biden administration will be continued to be monitored as traders watch for immediate relief to the US economy. The Aussie commenced the New Year in the positive territory and for the month of January traded in a 2.2 cent range. Vaccine developments have contributed greatly to the trading range of the AUD/USD together with an increase in commodity prices.

The 2020–21 forecast for the Australian domestic crop is projected at 2.3 million bales. La Niña conditions allowed additional dryland plantings after generally good rain in December. Prices domestically have held a bullish tone for the nearby months. Overall, there is positive sentiment for economic and market recovery both domestically and across the world. What remains uncertain, is the length it will take to see this recovery.

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USDA world consumption 2020–21 increased 12.8% to 115,730 million bales.

USDA World ending stocks 2020–21 decreased 3.0% to 96,320 million bales.

