The world cotton market

By Antonia Prescott – Deputy Editor, Cotton Outlook

THE two months in view have seen a continuation of the more or less steady price rises that have characterised the cotton market since April 2020. Following a period of some uncertainty in November, bullish influences again held sway in the final month of 2020, and the A Index rose by a total of 480 cent points to end the year at its highest point for 12 months.

That pattern continued for the first three weeks of this year, with the Index gaining a further 450 points to record its highest position since September 2018 on January 22: 89.10 cents per lb. In the final week of the month, though, the market appeared to take a breath, with prices falling around three cents from the peak. The question now preoccupying the trade is whether this correction represents the beginning of a more definitive downward trend, or just a momentary pause in the overall rise.

The primary driver of prices has once again been the upward dynamic of the No.2 cotton contract on the ICE futures platform. Speculative activity has been particularly intense as some of the money released by virtue of various stimuli from the US Federal reserve and other central banks has made its way into commodities markets, including cotton.

But fundamental considerations were also a significant factor in the price dynamic seen during the period. In the US, the impact of a prolonged drought across much of West Texas and a succession of adverse weather events in other parts of the cotton belt prompted USDA to make two million-bale reductions to the size of the US crop this season. Meanwhile, the estimates of US exports were raised in both December and January on the strength of robust demand from a number of markets, most notably China. The result is that USDA's projection of carryover in July 2021 has shrunk from 7.2 million bales to 4.6 million in the space of just two months.

Cotlook A Index

Of course, the No. 2 contract is especially sensitive to fluctuations in US supply and demand, so the strong performance of futures prices is perhaps unsurprising in this context. But India too has seen a downward revision to its production figure, of 85,000 tonnes. Despite very high arrivals for the first months of the season, overall estimates of output have fallen as the impact of prolonged post-Monsoon rainfall has been revealed.

As already intimated, import demand from China has remained prominent over recent months. In December, the country reported its largest monthly import figure for seven years: 354,691 tonnes, of which Brazil supplied 39 per cent, and the US a further 35 per cent. Imports for the calendar year rose by 17 per cent from 2019 (2,158,159 vs 1,849,188 tonnes), despite all the disruption due to the pandemic. Understandably, the second half of the year (by which time China had emerged from its productivity slow-down) is responsible for most of that increase: in the first five months of the international season, imports were more than double those recorded in the same period of 2019.

Government-inspired buying of US cotton, in compliance with the Phase One trade agreement signed just over a year ago, has remained a feature. Chinese mills have also doubtless been inspired to seek imported cotton by the wide disparity between local and international prices. Elsewhere, though, the persistence of a wide differential between international prices, as measured by the A Index (adjusted to comparable local terms) and domestic spot values has blocked the start of procurement of Xinjiang cotton by the State Reserve. As discussed in our previous report, the intention had been to add up to half a million tonnes to government stocks by way of daily purchase auctions held between December and March. But in the event local prices have held firm and, despite a rise in the A Index, the gap has remained well above the maximum level (800 yuan per tonne) at which purchasing would be triggered according to the terms of the scheme.

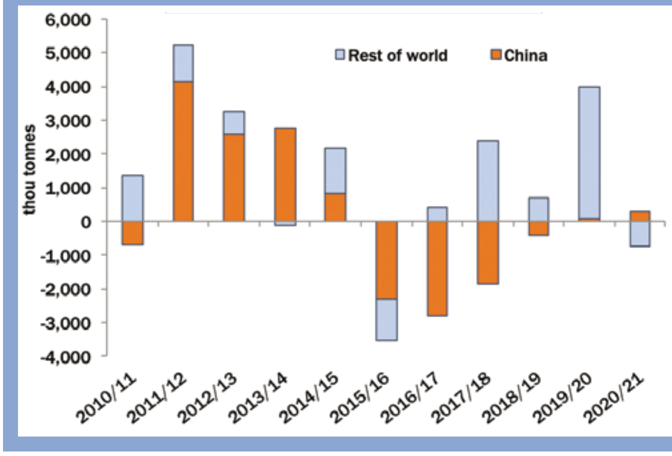
A further significant development in January is that mills are now in receipt of their share of the 2021 Tariff-rated Quota. But so far this has failed to release a rush of pent-up demand as might have been imagined. Instead, as prices rose further throughout the month and the Lunar New Year holiday approached, enquiry was more measured and business a little harder to conclude.

Generally, though, China's return to growth has helped spinning activity in other markets too, since demand for yarn was also strong at the end of the year. As is typical, Vietnam was the main beneficiary in December, taking 47 per cent of trade, but India, Pakistan and Uzbekistan also made a significant showing. For 2020 as a whole cotton yarn imports, at about 1.9 million tonnes, were only modestly below those of raw cotton

Trade in other consuming markets has been brisk as well. The crop failure in Pakistan continued to prompt robust import demand for nearby cotton as spinners' inventories remained low. Meanwhile, December's imports to Vietnam were the highest of the season so far. And in India, a strong recovery in the textiles sector has led to an impressive uptake of supplies on offer at the daily auctions held by the Cotton Corporation of India. Around 700,000 bales remain on CCI's books of the 10.7 million they acquired last season, and since October, procurement of the current crop has amounted to more than 8.8 million bales, of which 1.5 million have been sold already.

Turning to the balance sheet for 2020–21, Cotlook's estimate of global production was revised downwards in December, in response to news from the US and India. But a moderate rise

Apparent changes in world stocks



was shown in the January forecast, due entirely to a larger than expected crop from the Xinjiang region of China, reflecting better than expected yields as revealed in the daily ginning figures. Meanwhile, increasingly encouraging news of consumption in India more than made up for somewhat disappointing import data from several South East Asian countries, most notably Indonesia.

The result of these adjustments means that global consumption is forecast to exceed supply by 466,000 tonnes. This is clearly an improvement on the situation a few months ago, when an addition to world stocks in the order of a million tonnes was envisaged. But the modest reduction is nevertheless still dwarfed by the almost four million tonnes that were added to the balance sheet in 2019–20.

At the end of February, Cotton Outlook's initial forecasts for the 2021–22 season will be published.