The world cotton market

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THE two-month period covering February and March has two distinct phases in terms of the price dynamic observed. After a fairly quiet start to February, prices once again took an upward path, and although the trajectory was punctuated by a couple of small corrections, this pattern continued otherwise uninterrupted until almost the last trading day of the month. On February 25 the Cotlook A Index reached a two and a half year high of 98.50 cents per lb.

Cotlook A Index

The rationale for the further rise in prices is the same one that has been advanced ever since the market's nadir in April last year. Firstly, monetary policies pursued by the US Federal Reserve and other central banks in order to boost the economy in the wake of Covid-19 have coincided with a general inflation in most asset classes, of which commodities has been just one. (It is noteworthy, by the way, that prices for crops – for instance, corn, wheat and soybeans – that compete with cotton for planted area in some key growing regions have benefitted equally or to an even greater degree than cotton). Added to this, though, was the fact of a new administration in the US and the prospect (now a reality) of a US$1.9 trillion stimulus package, providing for direct payments of US$1,400 to most citizens. The Dow Jones Industrial Average broke successive records during February and March, reached an all-time high on March 17.

Moreover, from a fundamental point of view, the US cotton balance sheet (to which New York futures are particularly sensitive of course) looks increasingly tight. Buoyed by active Chinese buying (including state-inspired purchases under the Phase One trade agreement), the pace of export sales and shipments reported by the USDA has been impressive since the start of the season, and most observers now predict that the carryover at the end of July 2021 will be below four million bales (compared with around 7.25 million at the end of the 2019–20 season), although the most recent figure advanced by the Department is slightly higher at 4.2 million.

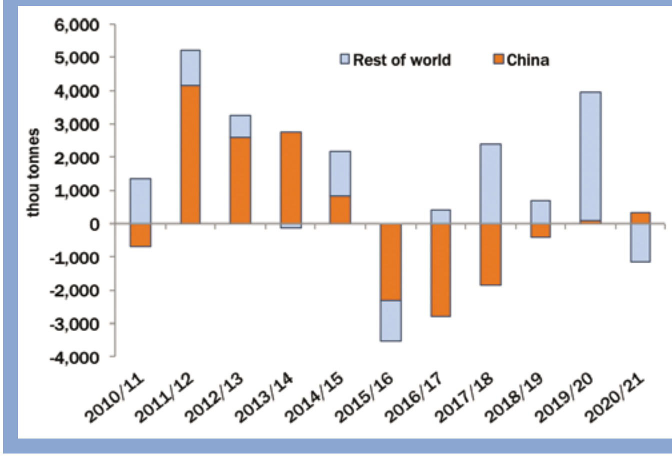
In the context of a much-reduced 2021–22 beginning stock, even more bullish sentiment with regard to the outlook for prices next season has been derived from the increasingly concerning moisture profile in Texas. According to the US Drought Monitor, the vast majority of the state's cotton area (which accounts for around half of all cotton planting in the US) is in moderate to extreme drought. The current season's abandonment figure was 47 per cent, and while time remains for the situation to be relieved before this year's crop is planted and established, there is clearly a concern that output may once again be severely impacted.

If February's price rises could be accounted for by both the macro-economic situation and fundamentals, it has been much more difficult to make sense of the sudden period of volatility that began on February 24, when the March contract on the ICE platform in New York ended the session down the permissible daily margin of four cents, and has seen two other falls of similar size on March 2–3 and March 8, as well as two strong day-long rallies. Most analysts agree that these wide fluctuations in New York had little to do with cotton fundamentals. It is worth noting nonetheless that spinners had become increasingly apprehensive buyers as landed prices approached or surpassed the dollar mark. A dollar A Index has been an infrequent occurrence over the decades and rarely sustainable for long.

As a consequence of the sustained rise of futures during the month of February, Indian cotton (which is typically the cheapest origin available and also didn't increase in value as quickly as supplies from other countries) attracted renewed interest from import markets, most notably China and Bangladesh. Offtake of Indian cotton from the latter country is typically fairly steady, but its appeal in China has waned in recent years, despite the price advantage it offers, because of concerns about quality. But the substantial stocks held by the Cotton Corporation of India appear to offer some security in that regard, given the relatively strict moisture and quality parameters imposed for the past couple of years. In the past two months, CCI has disposed of almost three million bales from its 2020–21 holdings and 350,000 bales from 2019–20 to the local and international trade. A substantial proportion of this has been sold onwards to buyers in China who had been persuaded at last to capitalise on the price advantage on offer.

The other significant talking point with regard to Indian trade has been a much-rumoured, but still unconfirmed lifting of the ban on Indian imports of yarn and raw cotton by Pakistan. Indian goods have been embargoed by Pakistan since 2019, due to political tensions. But this year's crop failure in the latter country has prompted some spinners to lobby for imports from India, where supplies (as discussed above) are abundant and available at a low price point. Other interested parties, including spinners who have secured higher-priced supplies from other origins, are keen that the ban remain in place, though.

Apparent changes in world stocks



A meeting of the Economic Committee of the Cabinet in Pakistan in mid-March provided no clarity or resolution of the matter. The potential implications of such a development are quite significant. In the past year, the tight local supply situation has meant that Pakistan has provided a useful home for a large quantity of cotton that might otherwise have struggled to find a buyer given the collapse of consumption due to Covid.

Meanwhile, in the three seasons prior to the embargo, raw cotton sold from India to Pakistan amounted to between 115,000 and 209,000 tonnes per year, and represented 14-18 per cent of international sales. Yarn exports were between 58,000 and 75,000 tonnes (five to six per cent of total sales). If India were to return as a major supplier to its neighbour, the fate of cotton from other markets (especially low-grades and recaps, for instance) might once again be more uncertain.

At the end of February, Cotton Outlook published our initial forecasts of world production and consumption during the 2021–22 season. As ever, these early projections come with a strong advisory note that the figures will be subject to changes over the coming months. Cotton planting is only now poised to begin in the Northern Hemisphere while the forecasts of consumption concern a period that will begin several months hence.

Cotlook's early estimate of 2021–22 production is just over 25.2 million tonnes, and that of consumption just in excess of 25.5 million, indicating that global stocks look set to decline for a second successive season.