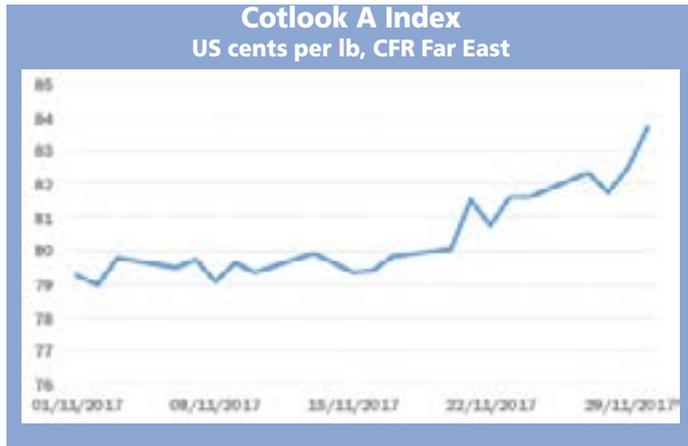


The World Cotton Market

■ By Mike Edwards – Editor, Cotton Outlook

SINCE we last wrote for *The Australian Cottongrower*, international prices have broken out of their recent trading range on the back of a sustained upward trajectory in New York futures. The Cotlook A Index touched a recent low point on October 4 of 77.60 US cents per lb, CFR main Far Eastern ports, but recovered to 83.70 cents (the highest level since September)



on November 30. The rise in prices, which commenced in late October, was triggered partly by an announcement from the Indian state of Gujarat that farmers would be paid an additional subsidy if the Cotton Corporation of India should be required to step in and commence support price purchasing operations. Consistently heavy US export sales were also a contributing factor.

The weight of new crop arrivals in India had for some time been foreseen as the most likely catalyst for a bearish move in world prices, but the change in the market's direction pushed Indian sellers' price ideas beyond the level that spinners were generally willing to meet.

Pakistan proved to be an exception. After several months during which imports from India had been constrained, leading the country's spinners to favour US supplies, late November saw news that import permits for Indian cotton will once again be forthcoming. In consequence, a sizeable volume of business has been concluded, typically with the proviso that contracts will only be executed if the news proved to be valid. Nevertheless, Pakistan is a destination that has continued to feature heavily in US export reports, topping the list of the biggest destinations for several consecutive weeks.

The marketing of US cotton has continued to be very robust to various destinations, and the week ended November 9 saw the highest weekly sales figure of the season so far, of over 500,000 running bales. Total upland and Pima commitments by late November had risen to the equivalent of over two thirds of USDA's export projection for the season (14.5 million bales of 480 lbs). A further upward adjustment to that projection cannot be ruled out, should sales continue at their recent pace.

USDA's domestic production estimate meanwhile underwent a reduction in October, which was not unexpected, owing to the various hurricanes and weather events over the cotton belt earlier in the season. But the following month an upward correction was made, to 21.377 million bales (480 lbs). Cotlook's current figure stands modestly below that number, at 21.348 million (4.648 million tonnes).

Impact on micronaire

The greatest impact from the weather appears to have been on micronaire, rather than yields, which were revised upwards in Texas and other states. US shippers may face challenges in placing cotton already contracted for purchase should the proportion falling below the desirable range for micronaire, as seems likely, prove significant.

Indian crop expectations were tempered during November by reports of pest attacks and inconsistent rainfall (including late wet weather in parts of the Central Zone). Cotlook's estimate was lowered by 170,000 tonnes, to 6.46 million. This would still represent a sizeable increase on the previous season. But besides the usual considerations, this season is noteworthy also for dissatisfaction among ginners in regard to changes introduced in domestic taxation, which have implications for financial liquidity in an era of tight margins. Protests are planned, in the form of strikes by the ginning sector.

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Pakistan's prospective final output has tended lower, on the back of adverse weather, pest infestations and low boll counts. Cotlook's figure was reduced in November by 150,000 tonnes, to 1.85 million, and further cuts are anticipated.

By contrast, yield expectations in China's Xinjiang region have grown steadily, reinforcing the impression of abundant supply and sustaining a rather bearish view of the domestic price outlook. Mills are said to have plentiful inventories. An announcement from the National Development and Reform Commission in late November implied that tight control of imports will persist during 2018 but other indications from that body are that reform of the quota regime is in prospect over the longer term. Conjecture has persisted that rotation of State Reserve stocks might result in the purchase of some foreign supplies (in addition to cotton from Xinjiang), but the magnitude and timing of any such purchases remains unclear.

As for Southern Hemisphere crops, output in Brazil is forecast to increase substantially. Excellent yields and good remuneration from the past crop have enthused farmers and an increase in planted area is anticipated at this early stage.

An addition to global stock levels is anticipated by at the end of the current season of 790,000 tonnes. But as has been the case for some time, a considerable reduction to stocks in China (of almost 1.9 million tonnes) disguises the situation in the 'rest of the world', where an addition of 2.66 million tonnes is foreseen.

