COTTON MARKET AT A PIVOTAL POINT

By Cliff White, Australian Cotton Shippers Association

September is shaping up as a potentially pivotal month for the cotton market.

Macro events always have the potential to move markets significantly, but the anticipated meeting between President Trump and President Xi perhaps - excuse the pun - trumps them all, with considerable market sentiment riding on the outcome.

Rumours have circulated that the meeting could be cancelled, but viewed from the outside, it would appear both sides have good reason to ensure discussions proceed. From a cotton perspective, the critical question is whether any agreement includes a commitment for US cotton to make its way into China. Whether there is a deal – or no deal – there are potential ramifications for cotton prices.

That anticipation is framed against the backdrop of what appears to be a declining US crop, following relentless heat and limited rain, particularly across the important West Texas cotton-growing region. The USDA is likely to revise lower its crop estimate to somewhere in the range of 13 - 13.5 million bales during September. Coupled with the hoped-for US-China agreement outlined, the result could be a very tight US supply position.

Of course, our market is now heavily influenced by Brazil. As well as firmly establishing itself as the world's largest cotton exporter, Brazil has become an increasingly significant player in the futures market. There is however an important distinction. US cotton has a direct physical relationship with ICE futures, as US-origin cotton can be delivered against the contract, whereas Brazilian cotton, or cotton from any other origin for that matter, cannot. This brings basis firmly into the equation and growers here in Australia have no doubt noticed the rapid decline in basis over the past few weeks.

September has started with the correction we had to have. After a relentless move higher, the December contract touched a high of 93.74 before losing 764 points in just three sessions (A$55 per bale) and is currently trading around the 86-cent level. While the correction is certainly healthy - and the market needed it, it leads to the question of whether the big bullish move is over.

When a market has carry between trading months while physical basis levels are declining, it is generally a warning sign that (for now at least) there is plenty of cotton around. The majority of that cotton is owned by the merchants and they need to move it into the market. That has not been an easy task over the past six weeks.

Cotton demand largely disappeared during August, driven by the rapid rise of futures prices mentioned earlier. However, if market observers are anywhere near correct, purchasing activity from the world's cotton spinners will need to reappear this month.

The difficulty was that the sharp rise in futures was not matched by global yarn prices, squeezing spinning margins and giving mills little incentive to chase cotton prices higher. With lower-priced stocks already on hand, spinners were content to work through those inventories and wait for a break in the market.

That break finally arrived in early September. The question now is where meaningful mill buying begins to emerge. Is there sufficient interest in the mid 80 cent range or does that market need to move into the low 80s before we see sizeable demand return?

One final point on pricing – and an important consideration for growers when contemplating selling 2027 crop – is the current inverse between the July and December 2027 contracts.

Where a contact is priced against May or July, but delivery occurs too late for the merchant to market that cotton against those cover months, the hedge will ultimately need to be moved to the December contract. With the market inverted, that adjustment – or any associated late-delivery penalty – can be substantial and materially reduce the grower's final return. Worth looking beyond the headline price when making selling decisions.

Returning to my opening observation: September has the potential to be a pivotal month for cotton markets.

Will the recent price decline be enough to bring spinners back to the market in meaningful numbers? Will a meeting between the US and China deliver a trade agreement that includes cotton? Will US weather continue to erode crop prospects? There are plenty of questions still to be answered, but September should provide considerably more clarity on each of these fronts.

Finally, on a personal note, this will be the last market report I write as an ACSA Director, ahead of my retirement from the Board in November.

Having arrived in Australia in 1987, I have been fortunate to spend almost forty years involved in the Australian cotton industry. It has been an extraordinary period of change, growth and innovation – and a tremendously rewarding industry to have been part of.

Having recently attended the Australian Cotton Conference on the Gold Coast, I came away with every confidence that the energy, innovation and excitement that have characterised this industry throughout my career is in very good hands and will continue for many years to come.

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