Firm Prices, Deferred Demand

by Neeraj Rana for Australian Cotton Shippers Association

A market that firms while its buyers stand aside is worth pausing on. Australian cash values have spent most of July in the A$605-615/bale region and pushed a little higher into month end, close to the best levels growers have seen for this crop. Export enquiry though, has been thin throughout. Firm prices alongside absent buyers is the most important thing to understand about where the market sits heading into August.

The reason is simple enough. Mill buying switches off sharply once December Futures push into the 80-plus range, and only turns positive below 78 cents/lb. December has been range bound between 78 and 82 cents/lb for most of July, testing the top of that band without breaking it. Every time the market has rallied into the zone where sellers want to sell, buyers have stepped away. This is not a market running out of cotton - it is a market where price and demand are not in the same room.

It is worth being precise about what is actually tight. After a season that delivered strong yields and quality at the better end of the range, Australian growers are close to 90% sold on the 2026 crop and selling is drying up fast. Cotton that has been sold has not disappeared; it has changed hands and merchants are long basis across all growths. Grower long is gone, merchant long is not, and with mills unwilling to engage above 80 cents despite a lighter coverage for the fourth quarter, the risk currently sits with the trade rather than the farm.

The India Window
Which brings me to the calendar. The first gins will press their last bale this month and capacity comes off gradually through August before falling away sharply through September. That timetable runs straight into the most interesting demand story on the table. India exempted cotton imports from the 11% basic customs duty and the agriculture cess from 1 June to 31 October, and to arrive inside that window Australian cotton broadly needs to leave by early September - precisely as ginning capacity falls away.

The demand behind that deadline is also real. This year India's balance sheet is structurally in deficit and the tightness bites hardest in September and October, with the monsoon running a meaningful shortfall and El Niño pointing to a drier finish. If government support programs become active from November onwards, that tightness could carry into the fourth quarter of 2026 and the first quarter of 2027. Proximity is Australia's edge over Brazilian old crop on longer voyages, though whether it converts into volume depends almost entirely on where ICE trades and how the Indian basis behaves over the next four weeks.

The part I think is under-appreciated is that even after 31 October, Australia has a door into India that no other origin has. Under the Australia–India Economic Cooperation and Trade Agreement, 51,000 tonnes enters at zero duty each year, and historically it gets filled. This year the general exemption has made all origins duty free, so it has barely been called on. That leaves a genuine tool for last quarter of the year, and unused allocation is not free: exporters who do not use 90% of their entitlement face a one-for-one debit against the following year's.

China: Later, Not Never
China is the other half of the picture, and there the answer is also “later”. State reserve auctions have cleared 100% every session at solid prices and should run to around the end of September, keeping China largely out of the import market in the meantime. Replenishing those reserves is the

obvious next step, but that decision looks likely to wait: President Xi visits the United States on 24 September and it is hard to imagine a call of that size before the two presidents have met. China will need to import. When it chooses to is not yet clear.

Why the Waiting Matters

It is worth being clear though, about what is actually driving this market, because the crude oil story has tended to obscure it. After several years of surplus, the global cotton balance sheet is heading into a production and consumption deficit this season. Crude and Middle East headlines have been fanning that fire, but they did not light it. The distinction matters, because it changes what patience is worth. Through the surplus years, a mill buying hand to mouth was being rewarded - there was always more cotton behind the cotton it passed on, usually a little cheaper. In a deficit year the same habit stops being a policy and becomes a position. China's reserve auctions clearing 100% every session are worth reading in that light: stock moving out of official hands and into consumption, in a season where the world is using more than it grows. None of that fixes a quiet market today. It does change who carries the risk of being wrong.

So my read is this. The demand is not absent, it is deferred - clearly September onwards for India, and at some point beyond that for China. We know that a handful of the larger mills have covered three to four months out, but most other buyers across destinations have settled into the new normal of holding minimum inventory and buying only for nearby shipment. That makes the task of moving the cotton which has already shifted from farm to trade a harder one. Bridging that gap between supply and demand is therefore a calendar problem as much as a flat price and basis problem, and over the next four to eight weeks the trade will do its best to resolve the imbalance through some combination of the two. If that does not clear it, carrying the cotton is not the worst outcome - but it should be a decision rather than a default. The two windows visibly coming - India's after 31 October under the ECTA quota, and China's once reserve replenishment begins - both sit in the fourth quarter and beyond. Cotton carried with those in mind is a very different proposition to cotton carried because it did not sell, and that is the call worth getting right.

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