

Game Changer for Global Cotton?

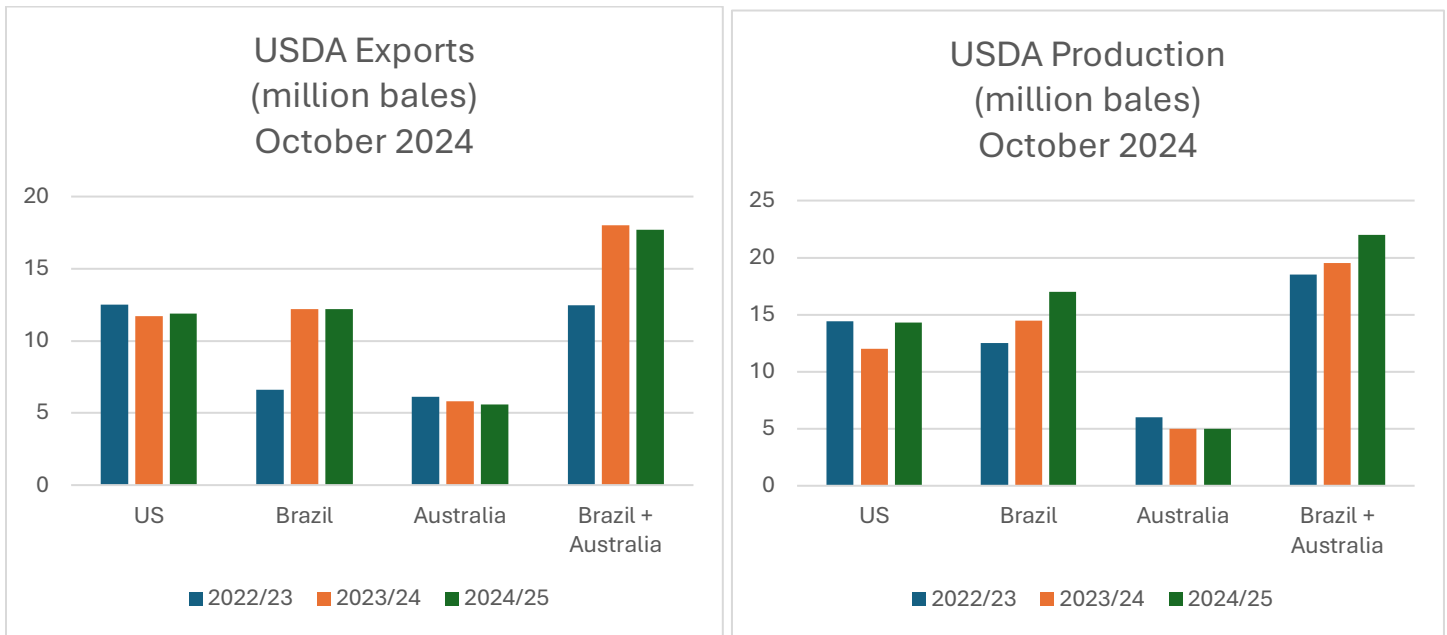
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As we approach the end of a whirlwind 2024, it is worth noting that it has also been a momentous year for the global cotton industry with some very significant changes occurring – and this may well prove to be game changing in terms of the global cotton structure.

Brazil has emerged as the major exporter this year, overtaking the USA and based on the current circumstances, looks set to maintain that position for the foreseeable future. It is, and has been, the cheapest growth available for many months as illustrated by the Cotlook A Index and this situation does not look like it will change anytime soon. Together with Australia, 50% of the forecast global free trade of 43 million bales will come from the Southern Hemisphere. That is an amazing statement but shows how important production in the south has become.

The rise of the southern hemisphere in terms of cotton production and therefore market influence cannot be understated and the fact that Brazil has the cheapest cost of production between the three major exporters of USA, Australia and Brazil means any production reduction must occur in the first two countries. This dynamic has the potential to upend a global market that has been driven by the USA for decades. This has huge implications for the only cotton Futures market that we have available, ICE. The volumes being traded by Brazil and by a much lesser degree Australia, are impacting and influencing moves in the market on the forward traded months. With US growers largely absent from the Futures market due to the unattractive level for them, it is the Brazilian and Australian grower that is participating in the market.



The Futures market continues to be range bound as demand is still reported to be poor and even though business is taking place, it is mostly for nearby shipments with little demand for next year's shipments. Consequently, we are searching for direction with a Futures market stuck between 68 and 74 cents based December and it is difficult to see what might happen to make the market move decisively out of this range. Perhaps it will be the US election and depending on the result, we could be headed for a global tariff tit-for-tat trade war. Whatever the result, the global consumer is still being reserved in their activity due to the cost of living pressures, therefore a broad Futures range of 65 to 75 looks likely for some time.

As always China poses the big question in any cotton discussion and its economic position remains the focus for many traders as it impacts the level of imports. Currently those import estimates are disappointing the market. The import forecast for the 2024/25 marketing year is around 9 million bales, combined with large consignment stocks that are rapidly becoming “old crop”, the situation would lean to the bear side rather than the bull.

With Australia already planting what is expected to be a larger crop, somewhere around 5 million bales, it is expected that we will also see larger production in Brazil, possibly approaching 18 million bales. This then begs the question about what will happen in the USA? Cotton in the USA is the most expensive to produce and even with all the subsidies received it would seem that acreage will decline for the next season. Financial providers will be encouraging growers to plant other crops - beans or corn - due to current market conditions. Of course, those planting decisions are a few months away but unless the December 25 contract can trade in the 75 to 80 cent range then acreage will decline. This is without taking the drought conditions in Texas into account.

Finally, I cannot finish this article without sharing some positive news regarding the global cotton industry coming together because of the potential European legislation that could impact the import of natural fibres into the EU. As things stand, manmade fibres are deemed more environmentally friendly than natural fibres. Led by “Make the Label Count” the global cotton industry is coming together to discuss ways to lobby for and promote cotton as a single commodity rather than each origin trying to do their own thing. To this end ACSA, ACSA (USA) and ANEA (Brazil) continue to explore ways to collaborate that will raise awareness of cotton and its many benefits to society.

Cotton has several challenges to overcome in the next few months, not least of which is revived global consumer activity however it may well be macro events that trigger a big move in all markets. You all know what to watch for!

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