

MACRO INFLUENCES ON AUSTRALIAN COTTON PRICES

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Once upon a time, the cotton market used to be influenced by what was happening in the global cotton arena however times have changed and now it is as much about macro events as it is about the physical commodity.

Of course it's not just cotton - now everything seems to be linked and events around the world are influencing all prices. The start to 2024 is certainly no different and we will all be looking at global developments to see what impact they are going to have on prices. Interest rates, inflation, oil prices and conflicts will all have an impact.

Currently the major concern is increasing supply chain costs as shipping companies avoid the Red Sea and freight rates start rising. This will impact all of us and potentially could start increasing inflation again. Watch that space carefully. Nevertheless, at present you could make an argument for prices to move in either direction depending on whether you wish to view global events optimistically, due to perceived improving financial conditions, or negatively, as a consequence of increasing conflicts around the world. Add in the numerous elections around the world and you get the sense that 2024 could be a challenging year.

Having said all of the above, trading activity has started 2024 reasonably well with both sides of the market having the opportunity to do something. Here in Australia, like in other producing countries, growers have been encouraged to sell as a consequence of improved weather conditions, a weaker dollar and a Futures market above 80 cents. The big questions are how much has been sold by growers and can we reach 5 million bales?

Spinners are also engaging with the market but that is probably more out of necessity than being attractively priced. During 2023 you will recall that the story was always about the lack of demand and it was clear during that time that spinners were reducing their stock levels. Thus, we have clearly reached a point where they simply have to start buying. Yes, it is nearly all for prompt shipments, but you would suspect that barring any major market shock this nearby buying will continue for months to come. This would also suggest that on any market price weakness there will be good support arriving in the form of larger spinner purchases.

You cannot write any cotton article without mentioning the two heavyweights USA and China, both of whom currently have interesting cotton situations. Let's start with the USA where the crop was constantly reduced during the season, the latest estimate placing it at 12.4 million bales thanks to the ever shrinking crop in West Texas. This will be the smallest crop since 2009/10 (12.2 million) and the market is really beginning to take notice. US ending stocks at 31/7/24 will more than likely be below 3 million bales and this is historically tight. The impact of this small carryover is highlighted in the July24/Dec24 invert in the Futures market, rapidly reaching 600+ points. This is potentially a big problem for Australia due to the fact that we need to sell a big crop, meaning that shipments will be required to go through until the beginning of 2025 and bumping right into a large Brazil crop in the October to December period and US new crop at year end. Remember that we price our crop on the May and July contracts whereas Brazil/USA uses Dec, hence that invert is very important.

China has returned as a big importer with large purchases by State owned companies supplemented with purchases by trading houses. The buying has mostly concentrated on US cotton with purchases of 4 million bales to date and Brazil for which we only have anecdotal evidence and the visibility of actual shipments. Australian has of course returned thanks to the improved relationship and this will be one of the interesting aspects for the marketing of our 2024 crop. Here again though the macro conditions may well influence events as everyone studies the China economic situation. But one thing is very clear and that is that China and Vietnam will be the two largest destinations for our cotton.

In closing this month's article we must comment on the fact that the new year brings with it a very big change for the Australian cotton industry through the introduction of HVI grade classification. Prior to this change we had been the only one of the "big three" (USA, Brazil, Australia) not to class grade by HVI and at a time when more and more spinners are requesting rd and +b testing results it was becoming indefensible to say we couldn't provide. With the implementation being discussed there is a lot of talk about quadrants within a grade classification and while it may be that we will only really adopt this for lower qualities such as 41 and 51's it interesting to note that Brazil and the USA do not do this, meaning that it doesn't matter whether it is 41-1 or 4 quadrant it is still just called a 41. A point of differentiation for Australian cotton? This classing change will no doubt evolve but it is undisputable that it is a move in the right direction and can only help with the reputation of Australia as the premium supplier of high grade cotton.

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