Understanding the Price Drop: Key Factors for Cotton Growers

By Matthew Bradd, Australian Cotton Shippers Association October 2024

Australian cotton prices have recently seen a steep drop, falling below $600 AUD per bale and just 10 short months ago prices were at $700 and above and with $1000/bale a distant memory. Today's market presents significant challenges and it's critical to understand the driving forces behind this change especially when there is a 5 front lining bale prices and gross margins are being squeezed by higher input costs.

The global cotton market is currently experiencing a supply surge, primarily driven by record production levels in Brazil, a strong recovery in the US and another solid production year in Australia. The US is projected to rebound in 2024/25, with production expected to reach a three-year high owing to improved weather conditions. Brazil, with a compound annual growth rate of 12% over the past five years, may produce its largest crop yet at 16.7 million bales. These surging supply levels are creating downward pressure on cotton prices globally and impacting Australian prices.

Added to this, speculators bet on the decline of ICE cotton prices and the larger US crop size this year. They sold short (selling something you don't yet own) in the hope they could buy it back at lower levels. Indeed, it became a self-fulfilling prophecy and ICE went from 90 cents to as low at 65 cents before recovering to the low 70s. For anyone wanting to know the future direction of prices, looking at the speculative positions is a great place to start and it's published on the Commodity Futures Trading Commission website weekly. Worth checking out.

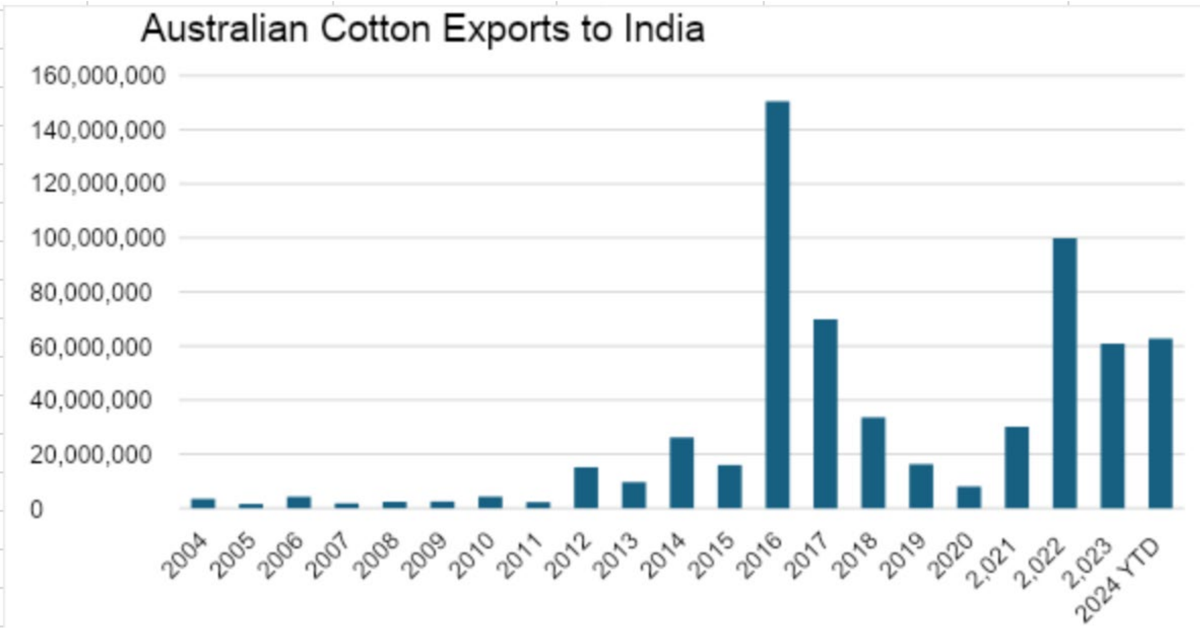
While supply increases, demand remains lukewarm. Although global demand has rebounded from the pandemic lows, it has not yet returned to pre-pandemic levels. Economic headwinds in major cotton-consuming nations, such as China and the US, contribute to a "murky" demand outlook. This sluggish demand means that even as more cotton floods the market, the additional supply is not being absorbed quickly enough, keeping prices subdued.

China has gone quiet; Vietnam is quiet and the only real sign of any demand in recent months has been from the Indian sub-continent.

What does this mean for Australian cotton growers?

We can turn our attention to strategic opportunities in India, which continues to present a valuable market for Australian cotton, favouring high quality varieties such as Strict Middling 38-40 staple, 30-32 GPT and 4.0-4.5 mic.

The chart below demonstrates India is an increasingly major importer of Australian cotton, underpinned by the Australian-India Economic Cooperation and Trade Agreement which allows for 51,000 tonnes of Australian cotton to be sold into market duty-free.



The Indian market values Australian cotton and spinners tend to buy higher quality cotton for integrated production from spinning to end garment – making good sense, especially if the apparel is bound for the Australian consumer market.

On this same trend, major regions across Asia are important for diversification. Essentially there are three major regions - Southeast Asia (with Indonesia and Vietnam key markets), East Asia (China and Taiwan) and South Asia (Pakistan, India and Bangladesh). It is important for Australia to maintain a significant presence in these key markets to facilitate moving large crops.

For Australian growers, managing input costs and optimising yield will be crucial in this low-price environment. Although Australia's production remains strong with an expected 5 million bales in 2024/25, exports are likely to soften as China and other major markets moderate their demand.

The other headwind is the rising AUD/USD. Australian growers have been somewhat price-cushioned from the weakness in the AUD/USD rate. Historically speaking the Australian dollar averages 0.7200 and recently this average has been closer to 0.6800, facilitating better AUD cash prices.

Since early August, our dollar has climbed from 0.6350 to nearly 0.7000. It's extremely difficult to forecast the AUD/USD with any real accuracy - there are too many factors at play and getting a couple of forecasts right is a good effort, let alone all the influences that move the AUD/USD. If you are looking for some direction, the main factors affecting this exchange rate now are interest rate differentials, commodity prices (especially iron ore), China's economy, the US Economy, the US election, Australia's economy and the wider global economy. The AUD/USD is known as a risk proxy for Asia and can reflect the sentiment of this region.

Pricing for the 2024/25 season could be a bumpy ride – make sure you engage with your market advisors for insights and guidance on navigating this evolving market.

Ends