

WHAT'S THE DEAL WITH COLOUR DISCOUNTS?

Australian Cotton Shippers Association

Raw cotton quality significantly affects the efficiency of spinning operations and the quality of the yarn produced. One critical aspect of cotton quality is colour grade, which measures the degree of brightness and whiteness - often impacted by factors such as weathering, contamination and harvest conditions. When raw cotton is of low colour grade - appearing dull, yellowish or stained - spinning mills encounter several challenges.

Low colour grade cotton often correlates with degradation in fibre properties. This can include increased neps (entangled fibres), trash content and shortened fibre length - all of which reduce yarn strength, uniformity and appearance. The resulting yarn may exhibit slubbing – thick, uneven sections, making it unsuitable for premium textiles.

Cotton with a dull or stained appearance usually contains more foreign matter like leaf particles, dirt and bark. During the carding and combing stages, spinning mills must remove these impurities, resulting in increased waste levels. This not only affects the raw material utilisation rate but also raises production costs, as more cotton is needed to produce the same quantity of yarn.

To compensate for the poor appearance of low colour grade cotton, mills may attempt to bleach or chemically treat the fibres to improve brightness and cleanliness. This introduces additional steps and costs and it may affect the fibre's integrity, leading to further processing challenges or environmental concerns due to higher chemical discharge.

Colour-affected cotton has dyeing implications. If the yarn produced from low colour grade cotton is not adequately treated or sorted, it can lead to inconsistency in dye uptake during fabric processing. This results in colour variations, patchiness or unevenness in the final textile, which is unacceptable in high-end apparel manufacturing.

While colour downgrades reflect real processing challenges, the level of discount applied to such cotton is also influenced by market dynamics. The availability of similar grades on the global market, the overall supply of high-quality cotton and underlying demand for cotton all affect how mills value any fibre. For instance, in seasons where mills face limited options, even lower-grade cotton may attract relatively smaller discounts. Conversely, in oversupplied markets, discounts may widen as buyers have more choice.

Adding to this complexity is the disparity between premiums and discounts applied to forward-sold cotton and those emerging in the spot market.

A unique feature of the Australian cotton industry is that growers have the opportunity to sell their crop up to two years ahead of harvest - a flexibility rarely seen in other cotton-producing countries and uncommon in other Australian commodities. With that opportunity comes a necessary trade-off: forward prices include a built-in risk premium, which may not always align with spot market values at the time of delivery.

In contrast, spot market pricing reflects real-time market dynamics - including current demand, global supply and trade flows. As such, the value of high-quality fibre - or the extent of a downgrade - can vary significantly based on timing, buyer interest and immediate market conditions.

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