WHY MERCHANTS MATTER

by Richard Porter, Australian Cotton Shippers Association

Merchants (or traders) have operated for as long as trade routes have been open – in my reckoning, since around 3000 BCE. While the world has changed dramatically in the five millennia since, the role of the trader is as relevant as ever.

Taking the Australian cash cotton market as an example, the work of a trader - while often unseen - remains fundamental to how our industry operates, even in 2025.

First and foremost a cotton trader helps to discover price – both at origin for Australian growers and at destination (offshore spinning mill). In a competitive, transparent market like Australian cotton, traders play a vital role in ensuring that pricing inefficiencies are largely arbitraged out.

Merchants keep the market moving. Thanks to basis trading and hedging, traders provide liquidity on days when a farmer and a spinning mill might not naturally transact. Growers generally like to sell cotton when the market is trending higher and spinning mills tend to buy when the market dips. Traders fill that gap by buying cotton from growers and selling futures when prices rise, and doing the reverse when prices fall. It's this balancing act that keeps the market functioning - and that's basis trading in action.

Thanks to a well-functioning futures market and the strong contract performance of Australian growers, traders can also offer forward pricing - often two to three years out. Having access to forward pricing helps reduce risk and smooth income, which is something many other broadacre industries envy.

Not all cotton is created equal. Traders add value by segregating different qualities into merchantable lots. A spinning mill making high-end shirting fabric will seek cotton with different fibre characteristics than one producing denim. By sorting and marketing cotton according to its end use, traders create opportunities to maximise the value of every bale - delivering better returns across the grower's whole crop.

Traders also serve as liquidity providers - particularly at harvest time, when growers face high costs and need to move product to free up cash flow. Even if export demand isn't immediate, traders can purchase cotton, store it and merchandise it when the destination market requires physical delivery. This financial flexibility supports both farmers and mills.

And of course, traders are logistics problem-solvers. In Australia, that means coordinating movement from the gin pad to the warehouse, into a container, across the port and onto an export vessel - managing documentation, insurance, phytosanitary requirements and the array of customer and country-specific risks along the way.

The way we trade has evolved - from ancient caravans to digital contracts and futures screens - but the place of merchants in physical commodity markets like cotton remains as vital as ever. Traders connect growers to the world, manage risk and keep the cotton moving.

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