Mid Season Market Influences for Australian Cotton

By Cliff White, Australian Cotton Shippers Association July 2023

Mid-year is always a good time to review the state of the market and reflect on what we have seen over the past twelve months – and what a twelve months it has been! Just think about it: economic, political and conflict influences have seen markets move with increasing volatility not just over this time span but on a daily basis.

Focusing on the cotton market, a year ago we had higher spot Futures prices with the Dec 22 contract closing at 98.84 on 30 June 2022 while on the same date Dec 23 was at 82.76. The Dec 23 contract on which the price for 2023 crop is currently determined has seen a contract high of 98.40 and a low of 69.10 so we are currently close to the mid-point between the high and low - and not markedly different from a year ago. That price, around 80 cents based December, has been the centre of a trading range that has now existed for months despite a number of attempts to break both above and below it. The other big price difference is the quoted Cotton Outlook which quoted the Australian 2022 crop at 130.25 US cents CFR Far East a year ago, whereas today the Australian 2023 quote is 91.00. Added to this, it is interesting to note the Australian dollar per bale price of around $620 for 2023 crop is pretty much the same it was at the end of June 2022. A lot happened in twelve months but the price is the same!

Away from price movement we are experiencing a very different harvest season compared to last season with a far easier picking period delivering better yields and quality. Remarkable as it seems the 2023 crop could yet turn out to be a record crop as yields on average have been outstanding, gin turnouts amazing and quality parameters to match. We will have around 5.5 million bales of high quality cotton and no producing country can match Australia in this regard. Our spinning customers will be very happy with the bales they receive this season.

Australian cotton has certainly been getting attention in recent weeks as a consequence of this quality and when we add attractive basis levels it does tend to make spinners decide to buy Australian rather than the other competing growths. Indeed, basis in general is under pressure thanks to large crops in Australia and Brazil (around 3 million tons) and the improving crop prospects in the United States thanks to recent and welcome rainfall in West Texas.

Of course, whenever we are discussing the market and its potential direction, one producer and consumer looms large and that is China. Latest news has possible crop concerns in Xinjiang, the government releasing reserve stock and of course some well documented and significant import buying. That buying has been heavily focused on USA and Brazil at ever reducing basis levels however there is increasing enquiry for Australian cotton.

China is buying Australian even though the soft ban hasn't been lifted and while it is currently government bodies and trading companies that are dominating this trade, surely some of this Australian cotton will find its way to a spinner.

As summer takes hold in the Northern Hemisphere we may well be heading into the traditional summer doldrums when thoughts turn to holidays rather than business, however at the same time all cotton traders will be watching the weather in the USA. The "weather market" takes the market attention with potential implication for production and therefore price influence. We have already had some major weather developments as the situation in West Texas turned from drought to flood, taking the US crop estimate from a previous range of 14-15 million bales to 16-17 million bales. While the latest estimate on US cotton acreage revealed a figure of 11.09 million acres which is significantly lower than last season's 13.76 million estimate they will almost certainly see a bigger crop due to less abandonment in Texas. Is it the prospect of an increased US crop size that will finally give the momentum for prices to break out of the well established trading range to the downside?

As we head into the second half of 2023 there is little doubt that global economic conditions will continue to formulate the base thinking for price sentiment. Not wanting to sound like a broken record but it remains all about inflation, interest rates and potential recessions. In the past our marketing thoughts were driven by fundamental considerations such as supply and demand however today price movement and volatility is driven by whether it is a risk-on or risk-off day. Macro factors are pushing commodities in general lower but watch out when people start to believe that interest rates have peaked and that economic conditions are starting to change. I wonder what will be written next year?

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