Drop In Consumer Income Affects Cotton Market

cotton outlook

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Cotton and other commodities continue to be vexed by the collapse in consumer income in all major world economies and most, if not all, of the minor world economies, and the return to subsistence income in developing economies. It is more than evident that China is suffering as much as, if not more than, the U.S. and Europe. While the Indian economy is holding better than that of China, it too could reach near collapse at any time. The lack of consumer demand for textile goods has been particularly devastating to the Chinese textile industry; by far the world's largest, accounting for as much as 45 percent of the world textile industry. No country is spared and almost no commodity is spared. However, feed grains and oilseeds are and will hold up better than cotton, but only because of the innate demand for food.

There are two major issues at work with respect to the cotton market. First is the continued drop in consumer income that is now running on twelve months. This issue has left consumer shaken to the point of purchasing only for their most basic needs. Textile goods are not one of those basic needs. Too, it is expected that real consumer income will continue to fall for at least another twelve months. The other issue is tied to the food crisis that is now in its third year. Yet, it is demonstrating signs of improvement. However, inclement wea-ther conditions in major world crop production areas could place the world food shortage on the front stage again. Thus, the potential for a food crisis, rather than an actual food crisis is the reality that the grain and oilseed markets are trading.

The interaction of those two issues will keep cotton acreage in a declining mode for at least one more year, if not two. It was that point that speakers that this week's monthly Ag Market Network discussion were implying when they all suggested that prices could move higher. Additionally, RaboBank, on the heels of that discussion released comments suggesting that cotton prices would see a rally in 2009.

It is difficult to disagree with that analysis. Most likely prices will move higher. Yet, the poor export sales are not because prices are too high, but rather that there is simply far too much textile manufacturing capacity given the current level of consumer demand. Numerous textile operations have been closed in China and the Subcontinent, but more so in China. Thus, despite near record world carryover of stocks, prices could move marginally higher as the current collapse in prices has likely been overdone. Humans trade commodities, thus human emotions are a primary component of market activity…and human emotions always overreact. Thus, prices move too high or too low, depending on the fundamental cause.

However, the price rally coming in cotton will be nothing more that the Shakespearean "Much Ado About Nothing." Any price increase in the coming twelve months will most assuredly be capped on any move near the upper 50 cent level. The combination of excess supply and the collapse in demand will limit any market rally until well in to 2010.

Cotton growers will be required by financial considerations to move all their cotton through the Commodity Credit Corporation (CCC) loan program. The market will remain stagnated well below the cost of production. Producers are strongly advised not to POP their cotton and hold it for a later sale. Such would likely be a receipt for disaster. Δ