cotton outlook

Economic Condtions Heavily Influence Cotton Market

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Another week and another round of life of contract price lows for cotton... Furthermore, if lower lows are not made during the coming week, then they will be the following week. With the December contract past first notice day the spot trading month, March, has become the nearby contract and, like December has fallen below 40 cents. The 35 cent mark is now the next objective. The cotton market, heavily influenced by general economic conditions, is also reflecting the very weak demand for cotton that has further deteriorated.

Export sales for the week ending 11/13/08 were better than the prior week, but remained behind the pace needed to make the 13.0 million bale USDA estimate for 2008-09. However, the marketing year is little more than three months old. Thus, time still sides with the USDA estimate. However, I believe the U.S. will ship no more than 12.5 million bales. Net sales for the week were 221,100 RB with Upland accounting for 220,400 RB and Pima for 700 RB. The primary buyers of Upland were China (39,700 RB); Turkey and Mexico. Japan (300 RB) and Thailand were the primary buyers of Pima. Shipments totaled 240,900 RB with Upland accounting for 239,000 RB and Pima for 1,900 RB. The primary destinations for Upland were China (87,200); Turkey and Mexico. The primary destinations for Pima were Germany (900 RB) and Indonesia.

Domestic consumption also continues as a disappointment. The NCC's (National Cotton Council) textile mill consumption survey reported Thursday that annualized domestic usage for November was only 4.00 million bales. The U.S. Department will release it preliminary estimate next week, however, the NCC's mill survey has historically been a good predictor of the official government data. The month to month consumption during 2008 has averaged some 400,000 bales less than the year ago levels.

The cotton market will continue to trade in the general direction of the stock market and with some correlation to the oilseed and grain markets. With consumers around the globe backing away from the purchase of durable goods such as vehicles, washer/dryers televisions and the like, as well as many non durables such as toys, telephones and textile goods, the stock market nose dive will remain a daily topic. In turn, this will exacerbate the consumer's concern of having enough disposable income to meet basic needs. Too, it is clear that many consumers have concerns regarding continued employment. Of course the automobile is a major consumer of textile goods. The economic difficulty of that industry is also working to reduce the demand for cotton and other textile goods.

As has been noted the past few weeks, the economic crisis is global and the Chinese textile industry is more affected than the textile industry of any other country. Chinese consumption could be off as much as five million bales during the 2008-09 marketing year. Too, since China is the primary buyer of U.S. cotton, it is for this reason that U.S. exports are likely to fall below the 13.0 million bale USDA estimate. A substantial number of Chinese mills are facing bankruptcy and a good number will not survive. Δ