

Textile Industry Works Through Record-Breaking Cotton Inventory

cotton

outlook



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The fresh breath of big funds and other speculators that had pushed cotton prices higher has turned sour and funds have begun exiting their long positions. Prices are now in danger of falling below the 67-68 cent level as consumption slows and the world's textile industry attempts to work through record breaking U.S. and world inventory levels of cotton. Most likely, the short term bearishness in the market will continue through the September and October period as the market marks time waiting for a consensus on the size of the Northern Hemisphere crop. If the New York December contract slips below 67 cents, the next support

level is 65 cents.

The final chapter of the recent Beijing Olympic spectacular is being written in a slowing Chinese and world economy. With the end of the Olympic building boom, the largest in history, most world commodities are seeing an end to strongly bullish markets. By no means are those markets in danger of crashing, but rather the strong Chinese building boom is over and overall commodity de-

mand has declined appreciably. Speculative funds are now focusing more on international currencies as the dollar continues its five month old rally. The English pound and other European currencies are losing value, relative to the dollar, just as some Asian currencies are. That is, the speculative funds have reduced most their longs in cotton and other agriculturals, in favor of long positions in the financial markets.

The weekly export sales report tells the story of cotton prices. The marketing year is still very young (just 1/12 over), but both sales and shipments lag far-far behind. Net sales of all cotton exports for the week ending August 28, were a poor 24,600 RB with Upland accounting for 24,400 RB and Pima sales just 200 RB. Primary buyers were Turkey (8,500 RB); Taiwan and Japan. China cancelled a prior 14,500 RB sale. Exports were 228,400 RB with Upland accounting for 226,300 bales and Pima at 2,100 RB. Principal destinations for Upland were China (84,100 RB); Mexico and Turkey. Major destinations for Pima were Turkey (1,000 RB); India and Indonesia.

Exports to China are expected to increase in the second half of the year and some of those sales will occur in the near term. However, a number of those mills, flush with local cotton, are in a game of blind man's bluff as they hope for December to slip closer to 65 cents.

Mother Nature has inundated the Midsouth crop, but has brought needed moisture to the Southeast. The Midsouth crop will survive, as it always does; tomorrow's weather will be more important. However, without sunshine by early next week, boll rot will be an issue. Of course a dry September and October, with good sunshine, will add to the top crop and offset the boll rot.

USDA's September supply demand report will be released next Friday, September 12. The market appears split on the outcome, but expect consumption to be lowered. The Indian and Australian crops have benefited from recent rains. Yet, parts of China have suffered too much moisture. Don't look for any rally into the report, at least based on cotton fundamentals. However, the grain and oilseed markets could take cotton higher. Δ