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World cotton price crash may impact output next season

COMMODITY COMMENTARY

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After registering unsustainably highs levels, world cotton prices have faced a sharp correction in recent months following a healthy change in the market fundamentals.

From a tight demand-supply balance in 2010-11, the world cotton market has got into a state of surplus in 2011-12 thanks to a big rebound in output.

Ending stocks are expected to show a substantial increase. With supplies far ahead of demand, prices have reacted as they naturally would. The supply pressure driven price slump has surely affected growers' incomes in many countries; and as the Washington DC-based International Cotton Advisory Committee (ICAC) put it recently, the price fall in the current season has not only reduced farmers' incomes but also decreased for the first time in three years the attractiveness of this crop when compared to that of its main alternatives.

INDIAN SCENE

Domestic cotton has been no exception. Cotton growers in India, especially in Maharashtra, have begun to demand higher support prices to compensate the loss of income resulting from sharp price fall.

The Government has, unfortunately, not been able to persuade cotton growers to accept the reality.

It is necessary to educate cotton growers about the futility of expecting higher and higher prices disregarding demand and supply conditions.

It is necessary to build capacity among growers to withstand the vicissitudes of the market.

Currently, the global commodity market picture in general and agriculture market in particular is far from inspiring. In general agricultural prices have come under severe pressure in recent weeks.

The ongoing concerns about the Euro zone debt, the health of the global economy and changing (read, deteriorating) sentiment are currently driving the market.

The selling pressure is reflected in the US commodity futures market regulator (CFTC) non-commercial positions which in many of the commodities including cotton are at their lowest in over a year.

World cotton supply and distribution (in million tonnes)

	2010/11	2011/12	2012/13
Production	24.88	26.88	25.14
Consumption	24.49	24.39	25.02
Exports	7.62	7.72	8.40
Ending stocks	9.01	11.50	11.62

(Source: ICAC)

PRICE FORECAST

No wonder, many analysts have revised their price forecast for 2012.

As for cotton, the market is probably poised to post the most marked year-on-year price fall. It would be no surprise if prices come under further downward pressure following large crops in at least three major origins.

Worse, falling prices or consumer-friendly prices are unlikely to stimulate demand as macroeconomic concerns still rule and leading indicators point to a slowdown across nations.

In ICAC assessment, the price levels of the current season will result in a decline in global cotton production in 2012-13 to around 25.14 million tonnes compared with 26.88 mt in the current year.

This would mean production and consumption will be evenly matched next year. Of course, many imponderable factors may operate between now and the next season.

However, what is certain is that in 2011-12, world cotton prices will continue to face pressure.

If the global economic outlook worsens, demand will be impacted too.

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