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Cotton in choppy trade

For quite a long time, cotton trade has gone remarkably in only one direction -- up. Star Business tracks the market that has been going through a long spell of volatility, mostly driven by futures trade and several other factors. So, after oil and gold, one commodity is grabbing the headlines, setting daily record highs. Cotton has surged as much as 55 percent in the last 12 months to reach its highest price level in 15 years. There is more to come: global demand far outstrips supply, creating an imbalance that will not be solved anytime soon. But a leading garment maker here in Bangladesh argues the cotton price has to come down. "It's not sustainable."

STAR BUSINESS REPORT

COTTON is often crowned as the king of commodities. A lot of traders are rushing to the commodities market to park their money in cotton as its prices have stayed high on the world market.

Cotton was trading at roughly a dollar a pound -- after having traded in a range of 40 cents to 50 cents a pound for decades. Hedge-fund managers predicted that prices could cross \$1 a pound anytime and advised their clients to buy cotton. And their prediction came true as any forecast often does.

It turned out that the market



Yarn made of cotton is being processed at a factory in Gazipur. Cotton prices have stayed high on the world market for long.

became far more bullish than it was expected. Cotton traded at roughly \$2 a pound in early March. However, prices have remained on the declining

mode over the last three days.

"This is a tricky business. A lot of traders around the world are buying cotton only to make quick money. This is not the real demand for the commodity. It creates an artificial shortfall, making the prices go up," said David Hasanat, chairman of leading garment maker Viyellatex Group.

According to an analysis by investment news research organisation Money Morning, cotton remains a long-term "Buy". "But there is a near-term shakeout due (something that at this point is pretty much true of everything in this crazy commodity bull move)," it says.

Jack Barnes, a Money Morning contributing writer and former hedge-fund manager, says the long-term outlook for cotton is bullish because:

- Cotton has the longest commodity lead time -- from the time that crops are planted to the time that the harvested-and-processed cotton is ready for use.
- We're seeing a 30 percent-plus "cost-push" inflation in basic cotton

products.

- China is the world's largest grower of cotton, meaning it can "set" global prices.
- And China has announced that it will drastically increase the price of cotton products.

The very nature of cotton as a crop makes it an extremely long-lead-time commodity. In fact, it is said cotton has the longest cost -- in total time -- of all commodities. From the time that a farmer plants the seeds, until that cotton grows into a plant that is harvested, cleaned and prepared for actual use is 18 months to 21 months.

In China, the world's biggest cotton consumer, demand for the fibre is soaring. China imported 390,720 tonnes of cotton in January, the country's customs agency reported. That's 31 percent more than a year earlier.

Hasanat said it is highly unlikely that the figures reflect the real demand in China's apparel industry, which did not grow at the same pace as the country's cotton imports did. Hasanat argues that demand is fuelled largely by short-term traders who only hold cotton for some time

and sell it to the market later -- for robust profits, which is now a global trend.

Global investors are worried that worldwide cotton supplies are not keeping pace with China's growing -- and seemingly insatiable -- 'appetite' for the fibre. Indeed, China's National Bureau of Statistics reported early this week that cotton output declined 6.3 percent to 5.97 million tonnes last year.

Several other factors, including damage wrought by storms and flooding in Australia, have fuelled the huge run-up in cotton. In fact, the 34 percent rally in cotton prices so far this year is the biggest of the 19 commodities tracked by the Thomson Reuters/Jefferies CRB Index.

After hitting a record of \$2.0893 on February 18, cotton prices have declined by about 6 percent. Most of that loss came in the last week of February, when prices for the fibre dropped 5.5 percent, the biggest decline since November and the first weekly loss in seven weeks.

In Bangladesh, the annual demand for cotton is 6 million bales, with 98 percent met by import.

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A brief respite from overheated market

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THE old trading adage "the cure for high prices is high prices" may accurately describe the cotton futures market this coming season, as global production in cotton is expected to increase. Record high cash prices led world producers to dedicate more acreage to the farming of so-called "white gold".

There has been a major divergence in the price behaviour between old crop and new crop cotton futures, as tight global supplies have triggered several consecutive "limit-up" price moves in the old crop futures for May.

World cotton production is expected to increase by nearly 10 percent for the 2011 season.

Cotton tumbled yesterday by the 7-cent exchange limit for a second straight day on the leading futures and options exchange in New York, ICE Futures US. Futures for May delivery fell by 3.5 percent to \$1.9094 a pound.

The fibre, which dropped 3.6 percent last week, still has more than

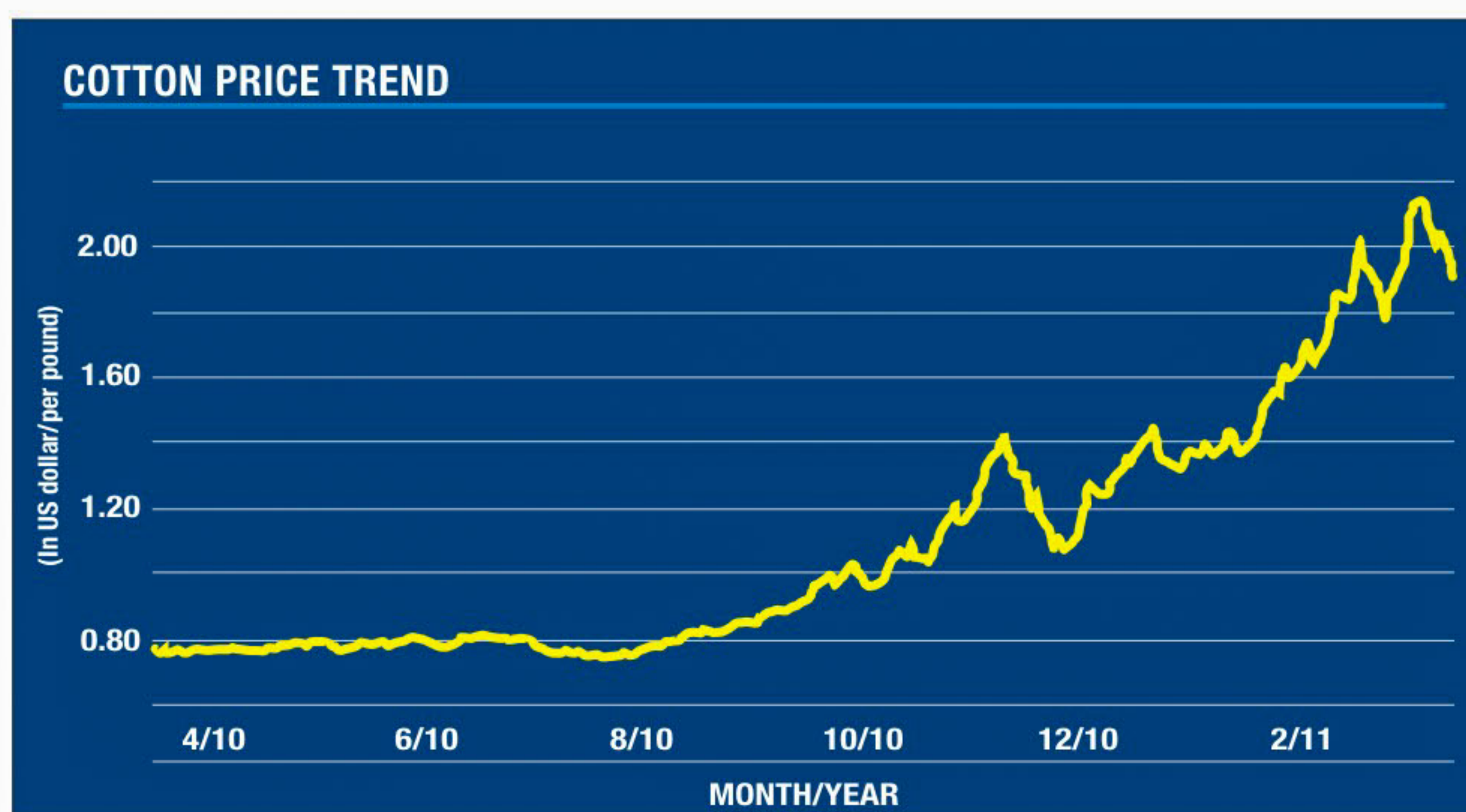
doubled in the past year as demand outstripped global supplies, according to a Bloomberg report. The fundamentals have not changed overnight, so some buyers are still returning to the market.

Cotton prices began declining on the international market on prospects of higher yields in the cotton producing countries such as China, USA, Uzbekistan, India, West African countries and Pakistan.

International cotton traders are expecting better crop production of the natural fibre this year for higher cultivation in the cotton producing countries. As a result, the price of the item is declining, importers said.

A senior official of DBL Group, an importer, said prices of cotton will decline in the next few months. "But the prices of the fibre may go up again in October or November," the official said.

Moreover, a higher yield is being speculated this year, the official said, adding that China, the largest consumer of cotton worldwide, would stop stockpiling of cotton from the international market. This may cool down the overheated cotton market.



China stockpiled a substantial quantity of cotton last year, fearing a supply shortage of the item on the international market.

"It is difficult to find the real causes

behind the sudden decline in the price of cotton right now. The prices just started declining a few days ago," said Jahangir Alamin, president of Bangladesh Textile Mills Association

(BTMA).

Alamin claimed that the prices of yarn also started declining on the local market with the cotton price falling on the international market.

The fibre, which dropped 3.6 percent last week, still has more than doubled in the past year as demand outstripped global supplies, according to a Bloomberg report