The World Outlook

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The past season has been "abnormal" - how do we define a "normal" one? - but abnormal in the sense that significant shifts in trading patterns have occurred. Most striking has been the setback to the Soviet 1989/90 crop, hard hit by frost at planting time, together with Pakistan's huge expansion of domestic spindleage. Neither country, therefore, could be looked to for its customary export supply. India's emergence as a considerable provider to world markets was thus fortunate since her medium and short staples proved ideal replacements for the missing Pakistan styles. And China, the most unpredictable of all, continued to buy.

Subsequent, weather-related events in the Southern belt, with which you are all, perhaps painfully, familiar, conspired further to exacerbate the tightness of supply in the upland better qualities. The impact upon world values of these unwelcome developments quickly became evident. Moreover, the main beneficiary was the United States, one of the few sources of abundant comparable supplies. As we all know, the US 1989/90 crop programme committed those farmers who sought Loan and Target Price protection to curtail acreage by 25 percent during that season, a requirement which with hindsight was unnecessarily restrictive, as not only were exports to exceed expectations but domestic US consumption has remained unforeseeably strong.

The 25 percent ARP figure was established with regard to the end-season stock target set in the 1985 US Farm Act of 4,000,000 bales - a large figure in itself but, being a fixed quantity, an inappropriate target when disappearance is expanding. Recognition of this fact is cited among the reasons why so much attention, both in the US and internationally, is now directed to a more equitable measure of stock fluctuation, one which expresses carryover as a proportion of the level of recent total offtake. The US thus seems likely to adopt, in the new legislation now being prepared, a target carryover equivalent to a stocks-to-use ratio of 30 percent. Those of you familiar with the US system will immediately recognise the implication of such a change for the manner in which the United States Department of Agriculture exercises its control of the supply tap: based on the statistical forecasts in circulation at the time the 1990/91 ARP was decided - as long ago as last November - the desirable stock target for July 31, 1991 would have been over 4,800,000 bales.

In terms of taking a view for the purpose of establishing policy guidelines, as illustrated by the US example, the stock ratio is clearly a useful device. Moreover, there is, palpably, a close correlation between world stock and world price, as even the elementary statistician or economist would surmise from examination of a simple, historical comparison.

As an illustration of broad trends, therefore, the stock ratio has considerable merit. Difficulty arises, in my view, however, if one attempts to draw from it specific assumptions about the price outlook. A statistical forecast merely takes a "snapshot" of prevailing information and opinion, and may in some cases be little more than a guess. We at Cotton Outlook, in addition to the preoccupying task of watching prices, make our own forecasts of world production and consumption. Although generally we all move in the same direction, there are at times significant differences between our predictions and those made by the USDA, and between the USDA's and those from the International Cotton Advisory Committee (ICAC). Moreover, the forecasts made by all three bodies are sometimes adjusted appreciably within a relatively short space of time. Merely a few weeks ago, for example, a report from the US Agricultural Counsellor in Beijing induced Washington to reduce its Chinese 1989/90 crop forecast to 17,400,000 bales - a reduction of 600,000; to reach the same level (at that point in the season to argue in favour of a difference would have required a substantive piece of evidence to the contrary), our previous guess had to be reduced by no less than 1,000,000 bales. I do not intend to convey the impression, by the way, that such large adjustments involve only those countries for which crop information is tardily received. In the 1987/88 season, our forecast of US output rose, between October 1987 and the following June, by almost 2,000,000 bales. I well recall, as a further example, taking a week's holiday with my family in France at Easter this year; before departing an Australian outturn of at least 1,300,000 of your bales - of excellent quality - seemed attainable; well, it rained in France too!

A snapshot is an ideal way of permanently recording where you have been, and what you saw when you were there, but is of course, by its very nature, soon out of date. Perceptions about the world supply and demand position can and do change quickly, and prices fluctuate accordingly. In 1987/88, monthly averages of our 'A' Index ranged from 86.45 US cents per lb in August to 64.00 cents by the following July - a spread of some 22 cents - compared with a season's average of 72.30 cents. In 1989/90, the equivalent price spread was almost 25 cents, around a season's average of 66.35 cents. Based on data to June of this year, the price range this season has been somewhat narrower, at around 15.00 cents. Ladies and gentlemen, you here have a right to question the value of a season's average price forecast, since your interest, as producers, is surely centred on the return you will obtain when your crop is marketed.

Cotton Outlook's present assessment is that overall world carryover by July 31, 1991 will be only marginally changed from this year's level, notwithstanding the sharply higher level of output foreseen in the United States. The ICAC recently stated that if, "as seems likely", stocks record little change, "the next two seasons could be ones in which cotton prices are relatively stable and the Cotlook A Index averages between 80 and 90 cents per lb".

This remark may excite you but please, I beg you, do not be misled. Cotton Outlook is most emphatically NOT in the business of making price forecasts; so much remains uncertain, and if we get it wrong you would rightly point a finger accusingly at us. The US is clearly set to produce a big crop - possibly some 30 percent above last season's outturn. Already this season, however, we have lost yield from the dryland areas in Texas, the inadequacy of the rainfall having created difficulties not unfamiliar to some of you who farm in this part of the world. We must assume that the Chinese grower has responded enthusiastically to restored incentives but I can give no assurance that our present forecast of production in that country is any closer to reality than that we put forward a year ago, and which apparently proved so wide of the mark, for production in 1989/90. Pakistan would appear to require a crop of close to eight million 480 lb bales to resume its share of the world export market, a result attainable only if she were to obtain a further significant improvement in yield, and one which is thus dependent largely upon the weather. India's ambition to maintain a presence in the world market is, by comparison, even more dependent upon the climate during the growing season. What, you might wish to ask yourselves, of the Soviet Union, where we assume the crop has made a better start than last year, but are unsure what marketing system will be in effect. Will cotton be made available in an efficient manner? How will the change by which cotton moves to the USSR's former Eastern European satellites in return for hard currency, following Comecon's demise, affect the overall pattern of trade?

If these uncertainties are not enough, what of the prospects for world consumption? You will doubtless be aware of the longer-term growth prospects for fibre use, and may garner some reassurance from ICAC's expectation that the processing of much of that greater volume will occur in the less-developed textile manufacturing countries, some of which favour your cottons. But if the bulk of the gain over the next ten years proves in fact to be in China and the Indian subcontinent, what then of your potential increased offtake? The proposed phasing out of the GATT MFA, whatever method is finally chosen, will also have profound implications for the future pattern of fibre demand, at which we, for the moment can merely guess.

In the shorter term, most pundits agree that world consumption will remain at about the 86,000,000 bales level. How confidently mills take up the Northern belt new crop supplies during the course of the next few months will inevitably be a key factor in determining the requirement for your 1990/91 crop cottons.