



2nd March 2010

Rising New York cotton futures prices saw local cotton prices reach the sought after \$450 a bale level in the past fortnight, unearthing large chunks of domestic grower selling. Cotton futures have continued to rally in recent weeks (finishing higher 13 out of the last 15 sessions at time of writing) as a series of bullish developments has unfolded. The main buyers have been funds and speculators which have turned buyers following easing macro concerns and positive cotton news. The first supportive development was strong sales of US cotton in January and early February which prompted the USDA to lower its expected carryover stocks to levels not seen since 2003. The USDA followed this up with presentations outlining that 2010/11 crop, world and US ending stocks, would be the lowest since 1995. Once the March futures contract entered the notice period it became evident that a major US shipper was going to stand for delivery of the certificated stock (over 500,000 bales). This raised questions over whether the shipper had found a home for the cotton abroad and whether the shortage of US cotton was more acute than most thought. These events helped futures find new highs on an almost daily basis and saw the May and July contracts trade at an increasing margin above the December contract. Adding to the bullish picture was releases from China indicating that their production was expected to be 29.4 million bales for 2009/10 versus the USDA's forecast of 32 million bales. Now that the market has woken up to the declining supply of cotton a made the necessary pricing adjustments the question is where to from here? The higher prices have now made US cotton uncompetitive and the inverted market has encourage growers to sell cotton now rather than later. On the mill side it is still too early to tell what their response is as many are still consuming cotton bought at much lower levels and there is now an incentive to hold off buying, if possible until new crop arrives. A bigger question for the medium term is whether this market rally is enough to buy back enough cotton acreage to avoid even tighter stocks in 2010/11. A clearer picture of this will emerge after the March US planting intentions report is released but until then highly volatile conditions are likely to continue.

If you have any queries regarding the above or Namoi Cotton's marketing options please do not hesitate to contact Clinton Uebergang on 07 4631 6117 or 0427 903 075

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