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Cotton Prices Seen Holding Steady, But Global Uncertainties Persist

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Cotton prices are feeling some pressure over concerns about overall economic growth, but should remain steady thanks solid fundamentals, according to a new report from the International Cotton Advisory Committee (ICAC).

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Cotlook A Index, an average of global prices, is projected to have a mean of 87 cents per pound in 2018-2019 season compared to 88 cents per pound in 2017-2018, the CSC noted.

Spot prices for U.S. cotton averaged 69.81 cents per pound for the week ended Jan. 31, according to the U.S. Department of Agriculture. This was up from 69.17 cents per pound the previous week, but down from 75.71 cents per pound a year earlier.

Easing potential price volatility from trade tensions, notably the U.S.-China tariff conflict, which the ICAC feels is not impacting prices, is a better balance in supply and demand developing.

By the end of the 2018-19 season cotton season, world stocks are projected to drop to 17.6 million tons, a decrease of 5 percent compared to the prior year, ICAC projected. It would be the fourth straight year of stock, or inventory, declines.

Global consumption is expected to be unchanged at 26.8 million tons, but a 3 percent drop in global production to 25.9 million tons will draw down the world's warehouses. Production in China is expected to increase 1 percent to 5.94 million tons. Combined with a 7 percent falloff in India's production due to insufficient rainfall, China will regain the top spot for cotton production for the first time since it fell below India in the 2015-16 season.

Cotton Incorporated's most recent price outlook said this is "an uncertain time for the market," noting that "even though we are nearly halfway through the crop year, more questions than answers appear to be presenting themselves."

Cotton Inc. said an expected increase in Chinese cotton imports has not been seen, which it said is likely caused by the lingering trade dispute with the U.S. and China. The organization agreed with ICAC that the weakening global economic outlook is also adding to general uncertainty.

“Since the summer, forecasts for global GDP have been adjusted lower,” Cotton Inc.’s Monthly Economic Letter said. “A chief concern is the slowdown in China and slow growth in Europe...Slower global economic growth is associated with slower demand growth. This is true across commodities, with the sharp declines in oil prices since October partially attributed to expectations of slower economic activity in China.”

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