

# Cotton Exceeds \$1 for First Time Since 1995 on Supply Concern

By Wendy Pugh - Sep 20, 2010 3:00 PM GMT+0530

Cotton exceeded \$1 per pound in New York for the first time since 1995 as demand from textile mills outpaced supply, draining global inventories. Futures in Zhengzhou climbed to a record.

December-delivery cotton jumped as much as 3.8 percent to \$1.0198 per pound, the highest level since June 1995, and traded at \$1.0130 at 5:16 p.m. in Singapore. Prices have surged 62 percent in the past year. The May-delivery contract in Zhengzhou advanced 3.4 percent to 20,600 yuan (\$3,068) a metric ton.

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Adriano Machado/Bloomberg

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Sept. 16 (Bloomberg) -- Bloomberg's Olivia Sterns reports on the impact of a rise in cotton prices on the clothing industry. (Source: Bloomberg)

Hedge-fund managers and other large speculators increased their net-long positions in New York futures by 2 percent in the week ended Sept. 14, according to U.S.

Commodity Futures Trading Commission data. Speculative long positions, or bets prices will advance, outnumbered short positions by 55,939 contracts on ICE Futures U.S., the Washington-based commission said in its Commitments of Traders report.

“There is a real shortage of raw cotton available to mills, be it India, Pakistan or China, ahead of new crop deliveries which obviously don’t come on line in any great volume, really, for another month,” David Watson, Senior Advisor, Markets, at FCStone Australia, said by phone from Sydney.

China, the world’s biggest cotton grower and buyer, may boost imports as low temperatures and rain hurt crop quality and production, five China-based analysts said in a Bloomberg survey this month. The crop may shrink for a second year to between 6.4 million and 6.8 million tons, they said. Production tumbled 13 percent to 6.8 million tons last year, according to the China Cotton Association. Heavy rains soaked some open-boll cotton in its final development stage, they said.

#### Stockpile Drawdown

“There has been a huge drawdown in stocks globally and you don’t have the buffer from the U.S. that you used to have,” said FCStone’s Watson. “As soon as new crop supply comes on at the end of October, early November, and you have a full new crop available, I would imagine the price will back off.”

The harvest in India, the second-largest producer and shipper, may be less than forecast if monsoon rains last longer than normal, according to the Confederation of Indian Textile Industry last week. Production in the year from Oct. 1 may be less than the 32.55 million bales estimated by the Cotton Advisory Board, Confederation Vice Chairman Prem Malik said from Mumbai. Output this year is estimated at 29.5 million bales, according to the board. An Indian bale weighs 170 kilograms.

Prices may advance by a further 10 cents to 15 cents a pound in the next 15 days to a month, said Kantilal V. Shah, chairman and managing director of Mumbai-based trader Gill & Co., whose company has been trading cotton for more than 100 years.

“You’ve never seen such a hectic rise,” said Shah in a telephone interview. “It has broken the rules.”

Pakistan’s cotton imports will almost double to 3.5 million bales in the year ending July 31 from 1.8 million bales a year earlier, the U.S. Department of Agriculture’s attache said in a report posted Sept. 3 on the agency’s website. Production will drop to 8.75 million bales from 9.92 million “because of considerable losses caused by floods,” the agency said.