

Good time for small farmers to cotton on

Cotton prices have been testing new peaks. And, given the current state of the physical market analysts are widely predicting further advances.

By [Jim Jones](#) 7 Jun 2010

South Africa, which produces something less than 0.5% of the global total, may never be a major player in the world's cotton market. But for the large-scale farmers who produce about 95% of the country's annual crop (and the small farmers who produce the rest), international prices that are near record highs and expected to remain strong are having an important effect on incomes.

Markets are being pulled in several directions. Since 9 March 2009 - when they bottomed at US\$0.514/lb - three month futures prices for Cotton 2, the most important quality quoted on the dominant US futures market ICE (Intercontinental Exchange), rose to a high of \$0.871/lb, though they have retreated slightly since then.

That's still a far cry from the 0.97/lb being hit in pre recessionary July 2008, though nonetheless the recovery indicates that fears of recession have receded.

Major producer problems

On the supply side, the 14-month advance has been underpinned by declining stocks and fears of crop problems in major producing nations India, China and Pakistan. In contrast, there has been a good start to planting in the US, the world's third-ranking producer. Adding to the pressure is the important factor of Chinese import demand.

In India, drought and high temperatures have hit planted areas in the Punjab and Gujarat. In the US, in contrast, spring rains have benefited farmers.

The same goes for those in Texas, where the area planted this year is about 10% higher than last. Initial estimates from the US Department of Agriculture are for a 3% increase in global production for the 2010-2011 year, to 114 million bales of 225kg each as growers respond to the latest higher prices.

The International Cotton Advisory Group has been reckoning on an even larger increase of 12%, after 4% this current season.

But this needs to be set against declining global warehouse stock tonnages for each of the past four years.

The dark horse, though, is China, whose import demand seems to be insatiable and where adverse weather has affected crops. India and Pakistan, too, are increasing their purchases. In other words, barring a severe double-dip inflation, cotton prices could be set to continue their advance.

SA crop drop

But back to South Africa. According to the trade association Cotton South Africa, the current season is expected to see a 12% drop in the total crop, to 39500 bales of 200kg each, the smallest crops since the early '60s. The irrigated lands of the Northern Cape are set to provide 45% of the total, Limpopo 32% and

North West 11%. The rest comes from Swaziland, Mpumalanga and KwaZulu-Natal.

What became of government's ambition of encouraging small farmers to grow cotton in the Eastern Cape? Perhaps the market might have the desired effect if higher prices encourage farmers on KwaZulu-Natal's under-exploited Makhathini Flats and elsewhere.

Source: Business Times

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