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# Reading Fundamentals From The Cotton Futures Market

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Volcot America, Inc.

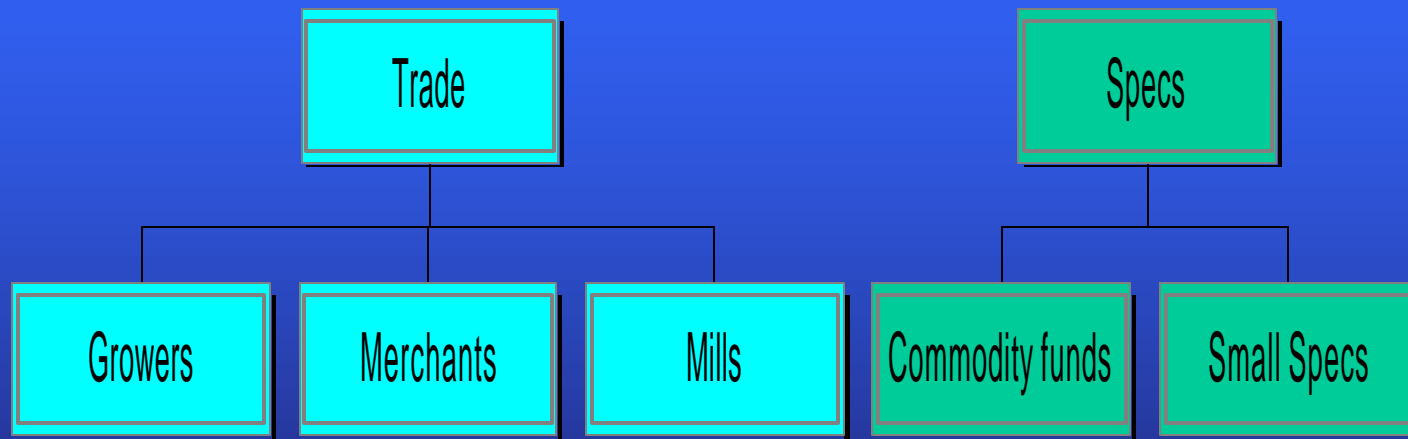


# Fundamental Analysis

- ◆ More art than science
- ◆ Definition = Study of supply/demand
- ◆ Reality vs. Perception
- ◆ Technical analysis = timing
- ◆ Dynamics -Who? Why? What ? and When?



# Who are the Players?





# Growers

- ◆ Always long = crop
- ◆ Sell some of their crop on-call
- ◆ Futures market a hedging tool
- ◆ Government programs play huge role in their decisions



# Merchants

- ◆ Work from long and short side
- ◆ Use mainly fundamental analysis
- ◆ Government programs (Step-2) important
- ◆ May use Certificated Stock as leverage



# Mills

- ◆ Always short = mill consumption
- ◆ Buy large portion on-call
- ◆ Government programs (Step-2) important
- ◆ Futures market a hedging tool



# Specs

- ◆ Do not trade physical cotton, nor Cert.Stock
- ◆ Make up about 50 % of futures market
- ◆ Use primarily technical analysis
- ◆ Spec/hedge report reveals their exact position





# Cotton Fundamentals

- ◆ Supply/demand reports
- ◆ Weather
- ◆ Economic indicators
- ◆ Government programs
- ◆ Domestic mill report
- ◆ Weekly export sales



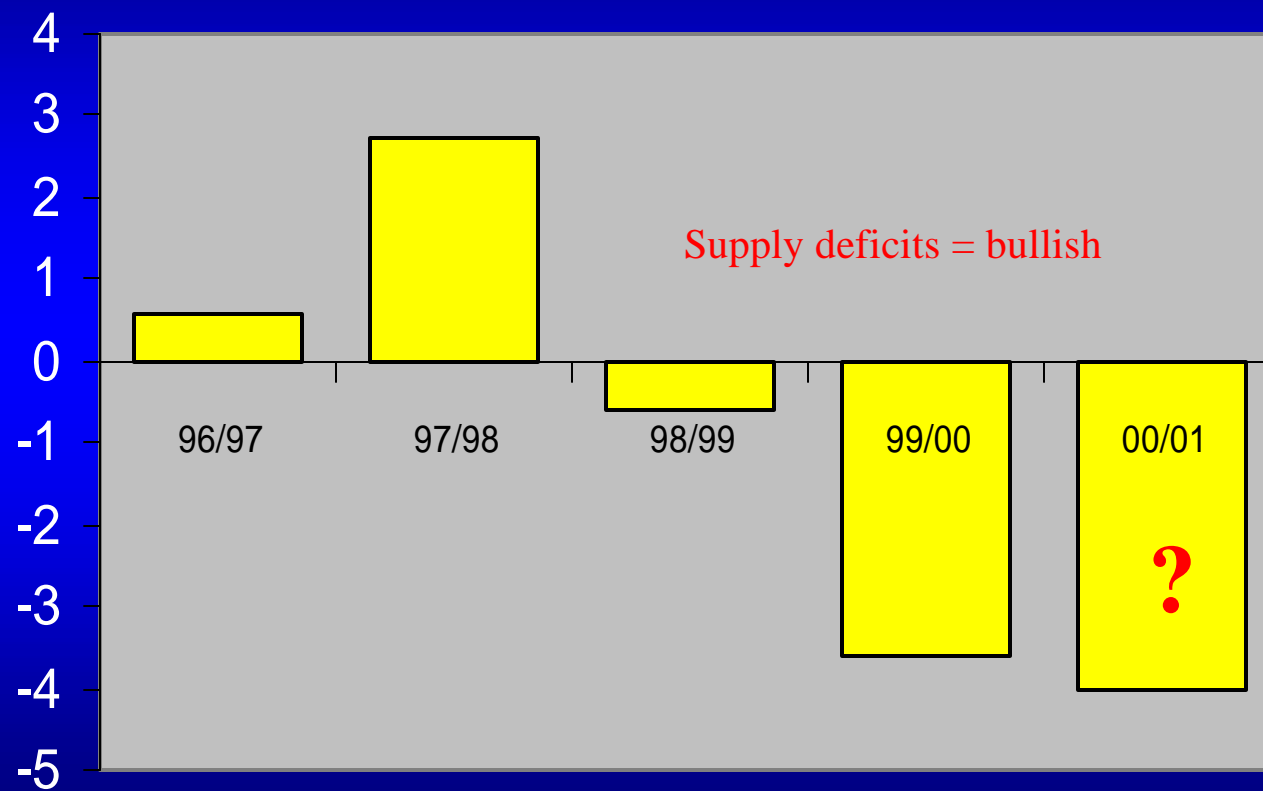
# Cotton Fundamentals

- ◆ A-index
- ◆ Spec/hedge report
- ◆ On-call report
- ◆ Open interest/Clearance sheet
- ◆ Certificated stock
- ◆ Technicals (support/resistance)



## WORLD SURPLUS/DEFICIT

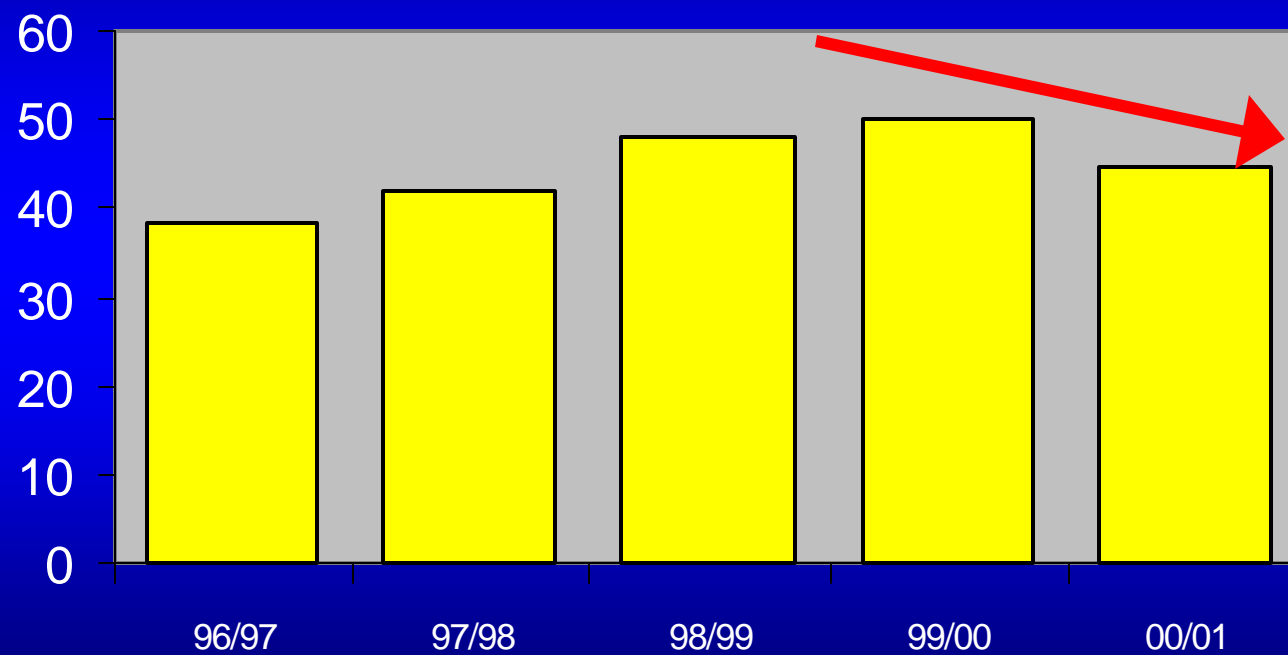
IN MILLION BALES

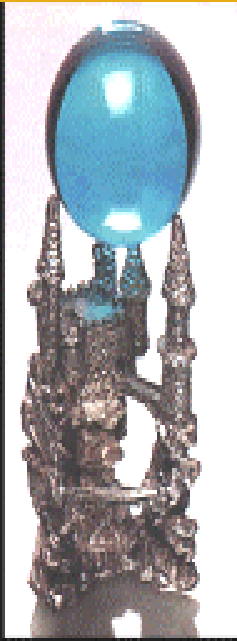




## STOCKS-TO-USE RATIO

IN PERCENT





# Market Outlook

- ◆ Statistics bullish, but market falls
- ◆ Was it just the shift in the net spec position?



# Market Outlook

## Long term

- ◆ Economic slowdown?
- ◆ 2001/02 production increase?
- ◆ China



# Market Outlook

## Short term

- ◆ Cert.Stock poker play
- ◆ China imports?
- ◆ Southern Hemisphere crops

# CONCLUSION?

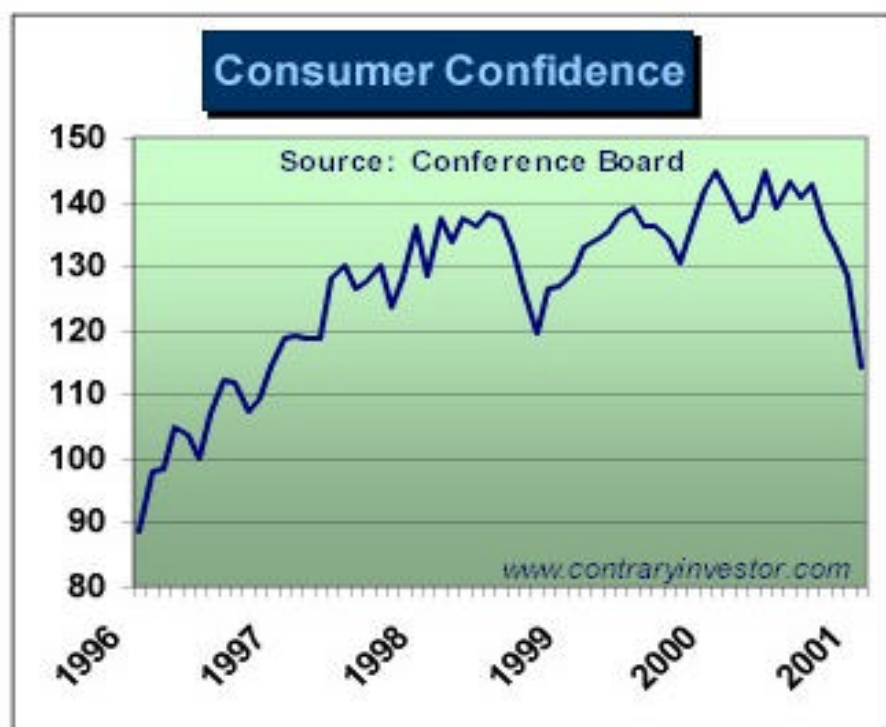


"Spring and summer were rather slow  
but I think I'm in for a great fall."





# Will Demand hold up?



# Spec/hedge report

SPECULATION						
	LONG	ACC'TS	%	SHORT	ACC'TS	%
Customers	26,142	1,086	35.7%	37,232	1,143	50.8%
House	4,272	53	5.8%	1,507	54	2.1%
<b>Total</b>	<b>30,414</b>	<b>1,139</b>	<b>41.5%</b>	<b>38,739</b>	<b>1,197</b>	<b>52.9%</b>
<b>= 3.0 mio bales    HEDGING = 3.9 mio bales</b>						
	LONG	ACCTS	%	SHORT	ACCTS	%
Customers	38,749	389	52.9%	22,828	203	31.2%
House	4,068	8	5.6%	11,664	6	15.9%
<b>Total</b>	<b>42,817</b>	<b>397</b>	<b>58.5%</b>	<b>34,492</b>	<b>209</b>	<b>47.1%</b>
<b>GRAND TOTAL</b>	<b>73,231</b>	<b>1,536</b>	<b>100.0%</b>	<b>73,231</b>	<b>1,406</b>	<b>100.0%</b>

**= 7.3 mio bales**



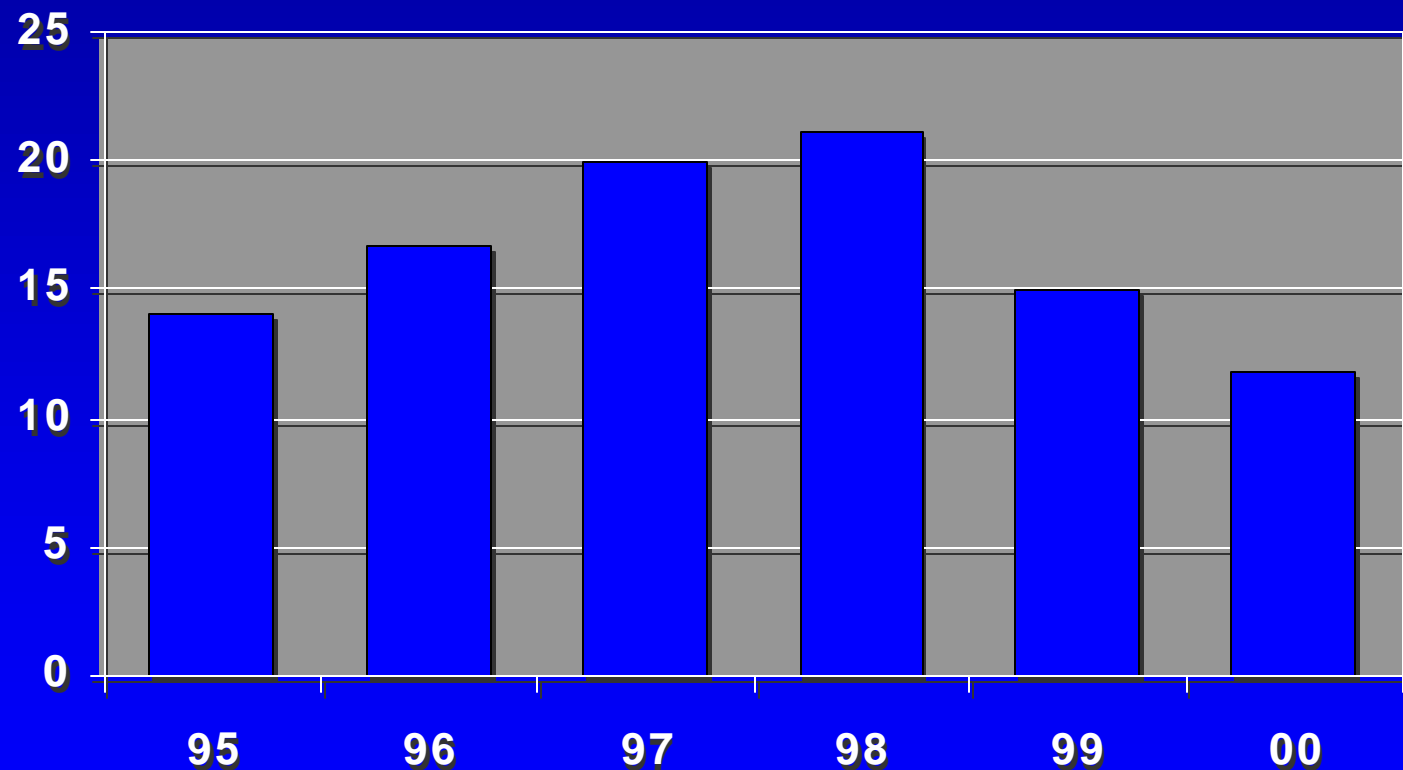
Futures Based On:	Call Cotton Based New York				Open Futures Contracts - New York Cotton Exchange	
	Unfixed Call Sales	Change From Prev. Week	Unfixed Call Purchs.	Change From Prev. Week	At Close 2/2/01	Change From Prev. Week
March '01	2,108	-11	3,173	-1,689	29,097	-2,729
May '01	6,764	-110	6,208	1,291	20,816	2,906
July '01	16,222	-848	2,662	229	11,353	1,007
October '01	1,518	-23	445	57	1,106	22
December '01	3,684	407	1,636	9	10,978	171
March '02	9,226	555	5,000	0	915	231
May '02	3,322	378	15	15	397	133
July '02	5,062	580	0	0	301	10
October '02	224	0	0	0	5	0
December '02	186	159	142	0	14	0
Totals:	48,316	1,087	19,281	-88	74,982	1,751

= 4.8 mio bales

= 1.9 mio bales

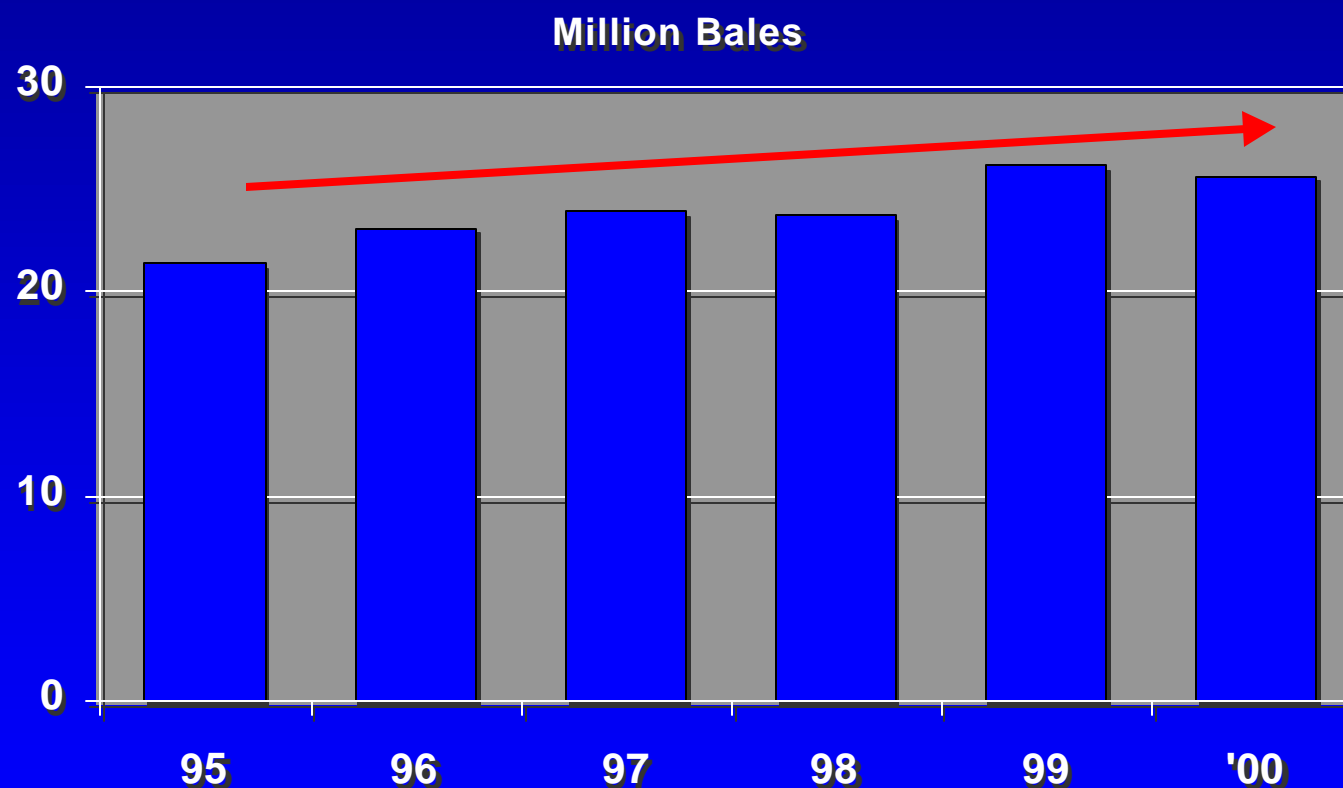
# Chinese Stocks

Million Bales



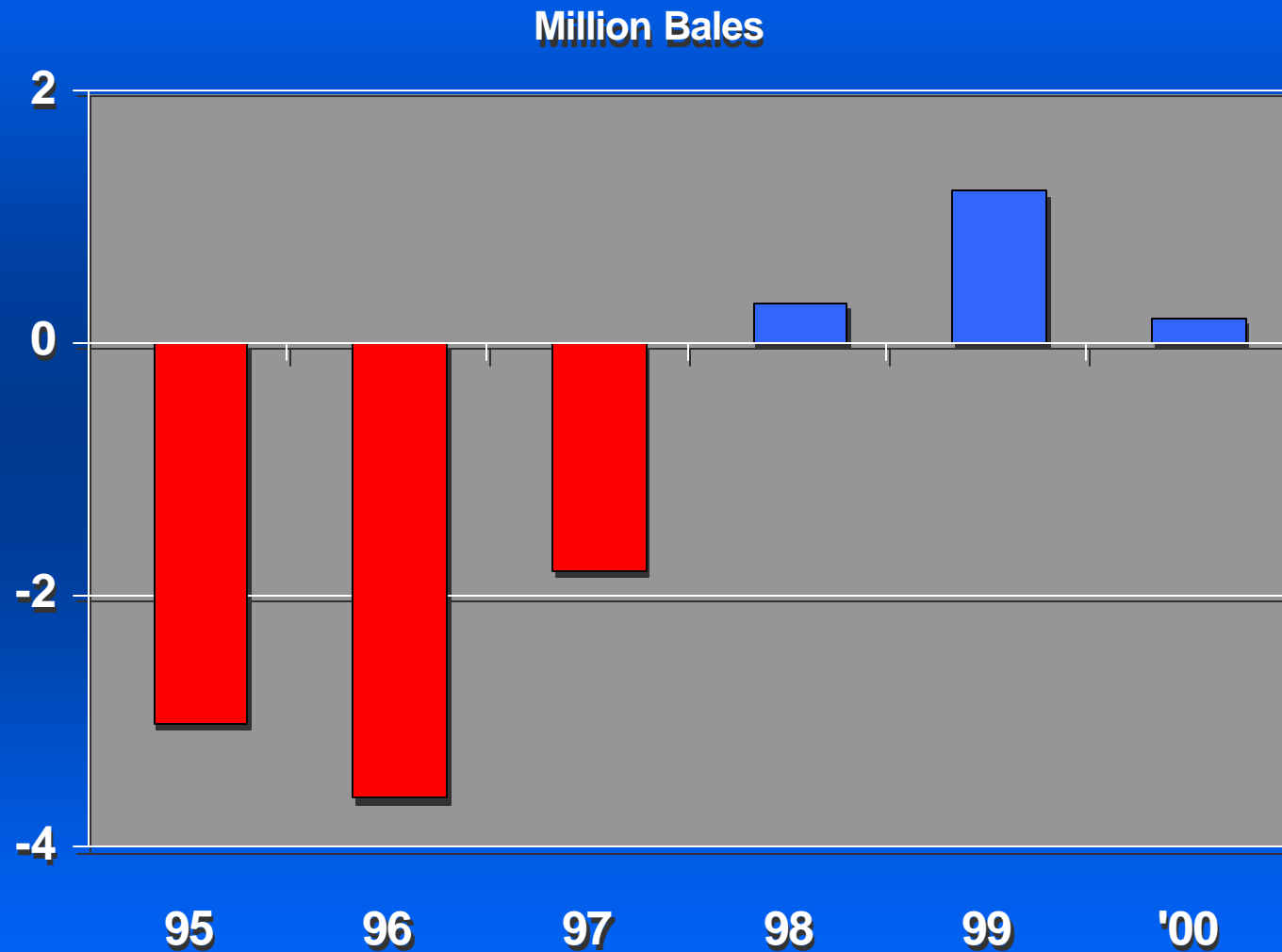
Over last 6 years = minus 2.4 mio bales

# World Stocks (excl. China)



Over last 6 seasons = + 5.4 mio bales

# China Net Import/Exports



Over last 6 years = 6.7 mio bales net imports