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
Who are the Players?

- Trade
  - Growers
  - Merchants
  - Mills
- Specs
  - Commodity funds
  - Small Specs
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

Supply deficits = bullish

96/97 97/98 98/99 99/00 00/01
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?
### SPECULATION

<table>
<thead>
<tr>
<th></th>
<th>LONG</th>
<th>ACC'TS</th>
<th>%</th>
<th>SHORT</th>
<th>ACC'TS</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Customers</td>
<td>26,142</td>
<td>1,086</td>
<td>35.7%</td>
<td>37,232</td>
<td>1,143</td>
<td>50.8%</td>
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<tr>
<td>House</td>
<td>4,272</td>
<td>53</td>
<td>5.8%</td>
<td>1,507</td>
<td>54</td>
<td>2.1%</td>
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<tr>
<td>Total</td>
<td>30,414</td>
<td>1,139</td>
<td>41.5%</td>
<td>38,739</td>
<td>1,197</td>
<td>52.9%</td>
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= 3.0 mio bales

### HEDGING

<table>
<thead>
<tr>
<th></th>
<th>LONG</th>
<th>ACCTS</th>
<th>%</th>
<th>SHORT</th>
<th>ACCTS</th>
<th>%</th>
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<tbody>
<tr>
<td>Customers</td>
<td>38,749</td>
<td>389</td>
<td>52.9%</td>
<td>22,828</td>
<td>203</td>
<td>31.2%</td>
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<tr>
<td>House</td>
<td>4,068</td>
<td>8</td>
<td>5.6%</td>
<td>11,664</td>
<td>6</td>
<td>15.9%</td>
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<tr>
<td>Total</td>
<td>42,817</td>
<td>397</td>
<td>58.5%</td>
<td>34,492</td>
<td>209</td>
<td>47.1%</td>
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### GRAND TOTAL

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<tr>
<th></th>
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<th>SHORT</th>
<th>ACCTS</th>
<th>%</th>
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<td>73,231</td>
<td>1,536</td>
<td>100.0%</td>
<td>73,231</td>
<td>1,406</td>
<td>100.0%</td>
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= 7.3 mio bales

= 3.9 mio bales
### Call Cotton Based New York

<table>
<thead>
<tr>
<th>Futures Based On:</th>
<th>Open Futures Contracts - New York Cotton Exchange</th>
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<tbody>
<tr>
<td></td>
<td>At Close</td>
</tr>
<tr>
<td>March '01</td>
<td>2108</td>
</tr>
<tr>
<td>May '01</td>
<td>6764</td>
</tr>
<tr>
<td>July '01</td>
<td>16222</td>
</tr>
<tr>
<td>October '01</td>
<td>1518</td>
</tr>
<tr>
<td>December '01</td>
<td>3684</td>
</tr>
<tr>
<td>March '02</td>
<td>9226</td>
</tr>
<tr>
<td>May '02</td>
<td>3322</td>
</tr>
<tr>
<td>July '02</td>
<td>5062</td>
</tr>
<tr>
<td>October '02</td>
<td>224</td>
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<tr>
<td>December '02</td>
<td>186</td>
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**Total:**

<table>
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<tr>
<th>Call Unfixed</th>
<th>Change From Prev. Week</th>
<th>Purchased</th>
<th>Change From Prev. Week</th>
<th>Total At Close</th>
<th>Change From Prev. Week</th>
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<tr>
<td>48316</td>
<td>1087</td>
<td>19281</td>
<td>-88</td>
<td>74982</td>
<td>1751</td>
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= 4.8 mio bales  = 1.9 mio bales
Chinese Stocks

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