Cotton Price Definitions

Supplement to the Monthly Economic Letter

The cotton market is highly globalized, with more than one-third of global cotton harvests shipped internationally every year. Being a global market, there are several international cotton prices that are tracked in the Monthly Economic Letter. While each of these prices describes the value of cotton, there are differences in their meaning and the purpose of this document is to provide brief descriptions of what these prices represent.

NEW YORK NEARBY

The New York Nearby refers to the U.S. cotton futures market. Most commodities are traded in futures markets and different commodities have different contract months, or months when delivery of the commodity represented by the contracts is due. There are five contract months (March, May, July, October, and December) in the New York futures market. Contract months reflect prices a market participant is willing to buy/sell today for cotton delivered in a specific month in the future (i.e., the March contract indicates a market participant's buy/sell price for cotton delivered in March.). The term "nearby" refers to the contract that is closest to expiration. To illustrate, in January, the nearby price refers to the March contract. In April, the nearby would refer to the May contract. The significance of the nearby price is that the cotton described by this price is scheduled to be delivered soon, which suggests that the nearby price approximates the market's valuation for fiber with immediate shipment.

A INDEX

The A Index has been published by the trade group Cotlook since the 1960s and is considered to be representative of a "world cotton price." This price index is based on daily surveys of cotton merchants and describes an average of export prices offered by international cotton merchants for shipment to spinning mills in the Far East, where the majority of the world's cotton is spun into yarn. Only "medium grade" cotton fiber can be included in the average that is the A Index, and there are currently 16 different cotton varieties from around the world that are eligible. However, with certain restrictions, only the five least expensive eligible varieties are used to derive the A Index. The rationale behind the use of the cheapest values in the average is that the cheaper options could be expected to be more heavily traded. Therefore, an average of the cheaper varieties prices could be more reflective of transactions in the global market. The A index tends to be higher than the New York Nearby for two reasons 1) the quality of the cotton represented by the A Index is slightly higher than the quality represented by New York futures and 2) the A Index prices include shipments to the Far East.

CHINA COTTON (CC) INDEX

The China Cotton (CC) Index refers to prices for cotton within China. It is a simple average of prices of Chinese cotton offered by Chinese merchants for cotton delivered to Chinese spinning mills. There are several different CC Indices, with different prices reflective of values for different cotton qualities. The most commonly quoted CC Index is for the quality code 328. The CC Index (328) has been used as a trigger for purchases made by the Chinese government's reserve system and is the one tracked in the Monthly Economic Letter.

INDIAN & PAKISTANI SPOT MARKETS

Spot prices refer to values for the immediate exchange of cotton for cash. Some of the most active spot markets in the world are located in India and Pakistan. Average daily prices in these markets are reported by cotton organizations in each of these countries. As opposed to the A Index and CC Index, which respectively describe prices inclusive of delivery to the Far East and to Chinese spinning mills, these values do not include any delivery costs.

For more background covering the world cotton market, please listen to Cotton Incorporated's series of educational podcasts.