Cleveland on Cotton: Seat at the Dollar Table Depends on Mother Nature

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With apologies to Mr. Rogers, "It's a beautiful day in the neighborhood, a beautiful day in the neighborhood, want you be my Magic, Mr. Cotton…" Cotton has us just singing away as past and present demand has pushed and pushed the market to 11-year highs and that Magic Dollar level. Prices settled Thursday evening at 105.80, basis December futures, and were unchanged at Friday noon.

Some feel demand has dried up, and possibly it has slowed. Yet, demand's bullish sense lingers. December battered its way through the magic dollar mark as it were a measly 70 cents.

Recall, last week we spoke of a long-term demand that would support the market for probably three years. Will the current price run carry prices to 115 cents,125 cents, even higher, maybe?

The next major technical price objective is 115 cents, then 125 cents. Cotton so seldom hits such a grand slam that we caution ourselves not to ger too carried away. As Yogi Berra commented, “Prediction is difficult, especially when it’s about the future.” None of these price heights would surprise me as demand has been that robust.

However, remember one thing for sure, I am 100 percent sold on 100 percent of my expected production, Absolutely Without Question. Well, maybe I have 5 percent left, just to play with. If you have any quality cotton, then demand a premium as it is very scarce. Demand will carry prices higher, but it is the demand for futures contracts that is leading the price parade.

Demand needs to be explored as the current demand is associated with futures contracts as much as with physical cotton. We have, in most weeks, mentioned on-call sales and on-call purchases. In simple terms on-call sales represent cotton sold to textile mills, but the mill has not yet fixed the price.

The price will be fixed by the mill at its own discretion. The mill fixes the price by buying futures. On-call purchases could be viewed as cotton that the merchant has purchased from the grower, but the grower has delayed fixing the price, but will at some later date. The grower fixes his price by selling futures contracts.

The controlling futures contract month is December (the can may be kicked down the road—March, May, or July futures, but let’s keep it simple). The situation: the latest report shows that mills must fix the price on 14,190,000 bales between now and June. However, growers need to fix the price on only 2,941,800 bales between now and June.

The ratio of buying futures contracts to selling contracts is 4.82 to 1, even higher than it was last week. Thus, the potential depth of the price hole in which mills may be falling is only getting deeper…and deeper.

With cotton futures prices at 105 cents some spinning mills are likely facing the decision to switch from cotton fiber to some acid-based oil derivative fiber, better known as polyester. Certainty no self-respecting environmentalist would wear an acid-based fiber!

Back to the textile mill. Quite possibly, and in many cases factually, the mill has already used the fiber, spun it into yarn and sold the yarn to a weaving mill. In fact, the shirt may already be on your back. The cash demand for that particular physical cotton is past. Yet, the demand to fix the price, that is, to buy cotton futures is imminent.

That demand still exists. Thus, cotton futures must be purchased thereby giving the market appearance of immediate demand for cotton. This dichotomy has caused some to suggest that cotton demand has slowed. The demand function facing the cotton market includes the demand for cotton futures that must be purchased—on-call sales as well as for cash physical cotton.

Additionally, it also includes the any selling pressure that could result from on-call purchases. Most tend to forget that the cotton demand function cannot be expressed the same as that for grains, oilseeds, or livestock. Because of the cotton market’s unique ability to use on-call sales and on-call purchases, cotton’s demand function is a bit more complicated.

Physical demand remains very strong as well. China purchased 420,200 bales during the week ending 9/23/2021. They purchased well over a million bales of U.S upland during September. Net total Upland sales during the recent week were 571,400 bales.

Granted, export demand during the recent week was not as broad based as earlier in the year. Only fifteen countries were buyers of Upland cotton during the week; we would like to see some 18-22 countries buying U.S. cotton each week. Turkey, Indonesia, Mexico, Thailand, and Vietnam were the primary buyers.

The current Washington Administration has continued the prior Administration’s policies of agricultural trade with China. Thus, the Trump Phase One trade package continues, and China continues to be an exceptional buyer of U.S. cotton. The U.S. has continued its policy of prohibiting Xinjiang cotton/cotton products from entering the U.S. due to China's discrimination and slave/child labor practices in the Xinjiang Chinese province.

Europe has continued its support of the Xinjiang cotton ban as well. The magic word, China, continues to linger in the market. Thoughts swirl as to how much more cotton China will buy. They have not finished. Additionally, mills have been given more authority to purchase U.S. cotton and unconfirmed reports are that mills need greater authority to by U.S. growths.

Cotton prices have skyrocketed in China, matching the increase in U.S. prices. Actually, Chinese buying has been the basis for the explosion in New York futures prices. China is on a countrywide weeklong holiday this week so news could be sparse.

U.S. crop size continues to field second guessers, me included. We know the fruit load is phenomenal. However, most of the U.S. crop is two weeks plus late. Too, the cool moist days and nights have increased the level of boll rot across the Cotton Belt.

The MidSouth and Southeast crops have suffered the most. Likewise, September rains have spotted most of the open cotton and grades have suffered. The chances of harvesting a high-quality crop are very dim.

The market is seeing resistance at 106, basis December. For old crop prices to move higher the market needs to see the Red December contract move above its 85.50 level, up to the 87-88.50 cent level, clearly expressing longer term demand.