Cleveland On Cotton: USDA's December 10 Report – A Pivotal Point?

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As has been long expected, the cotton market continues to work the 70- to 74-cent level, with most of the trading activity between 71 and 73 cents. December futures, with just two trading sessions remaining before expiry, slipped below 70 cents this week, suggesting the March could easily face the same fate.

Presently, mills are sitting back simply buying cotton on an as-needed basis, seeing little reason to book forward. The big fundamental –government – provided bullish news as the Trump administration enacted its previously announced ban on importing Chinese goods produced/manufactured with slave/child labor.

This principally affects most of the cotton grown in China as well as the modern textile center of Xinjian.

The Mills' Strategy

There are technical factors that support higher prices, but most other fundamentals continue very bearish. Next Thursday's December world supply demand report could pour gasoline on the bulls' desire for higher prices, but such is not within my expectations.

Yet, the significant imbalance in on-call sales and on-call purchases positions could further add to the bullish fuel, but probably not until late March-April at the earliest.

As bearish as the current world and U.S. supply demand estimates are, the nervousness associated with mills living hand to mouth will likely keep the market in its current 70-74 cent trading range into February.

Mills have demonstrated that they will not chase the market higher and have backed off purchasing when the spot month futures price approached 73 cents.

Nevertheless, the supply chain pipeline is all but empty. This is a very rare occurrence, almost never happening. Thus, fill-in buying is a daily occurrence, and this has helped keep prices near 72 cents on a daily closing basis.

The uncertainly of the Western world's demand also adds significant pressure on any attempt to push prices higher. Too, the pandemic continues to limit growth in the Western world's demand for cotton-based textile goods.

COVID-19 will continue limiting cotton demand for nine to twelve more months. Long term – another 18 to 24 months – cotton demand will explode.

Odds Favor China Hiking Cotton Imports

Some three months ago the U.S. announced it would ban imports from China that were produced/manufactured by slave or child labor. U.S. companies were given three months to adjust their buying before it was enacted.

This primarily affects cotton and textiles from the giant western Chinese province of Xinjian, a semi-autonomous region of China operated under control of the Communist Chinese Army. The Communist Army has always governed the region as a means of controlling the population, mostly comprised of ethnic non-Chinese.

The use of these people as slave and child labor has finally gained attention, and the U.S. has acted in support of human rights. Besides using slave labor in the textile process, China's domestic support price for the cotton produced in the region has been $1.28 per pound, substantially above the world price.

This has led to depressed cotton prices around the world. Prior U.S. administrations (both political parties) had refused to act. This action will force China to import more cotton. Australia, Brazil, India, and the U.S. will see increased cotton exports to China.

Additionally, European consumers support this action. Thus, China will have to import more cotton to keep its textile operation (the world's largest) fully employed.

Domestically produced Chinese cotton will be used for China's domestic consumption. Imported cotton will be used to maintain its position as the world's leading exporter of textile and apparel goods.

We have discussed different parts of this issue for the past five years. Many act as if the U.S. is the only country with which China has trading difficulties. Most countries do. Simply, the U.S. and Australia are the only two that have challenged China.

Within the week the Chinese government has referred to the Australian government as "little boys" and to the U.S., the Chinese Communist referred to Senator Blackburn of Tennessee as a "b***h." At least for that, the U.S. has sold over $5 BILLION worth of cotton over the 18-month period.

They are still buying and will buy more. It is cheaper for them to import cotton than to pay $1.28 to their own growers and, at the same time, let half their population starve to death?

China has a choice. They can either feed or clothe their people. They will keep the textile operations open, so they will import cotton and use their land for food products. We discussed this some three months ago and, again, have commented on the issues for over five years.

Will USDA's December 10 Report Lift Prices?

Another bullish factor in the market is the on-call report. On-call sales (the need to buy futures by mills) is beginning to dwarf the on-call purchases (the need for grower cotton to priced, i.e., sell futures).

That is, the need for the cotton trade to buy futures contracts far exceeds the need to sell futures. This is typically a bullish market fundamental and at a minimum will be supportive to prices.

Yet, there was little cotton hedged this year in either the cash or futures markets. So, the bullishness may not be as strong as usual. Nevertheless, the pn-call sales ratio is abnormally high this season and will support the market.

The USDA world supply/demand report will be released Thursday, December 10. Many say, "Hold onto your britches, USDA will finally get the crop estimate right, and it will be between 15.6 and 16.4 million bales," or some 700,000 to 1.5 million bales below the current estimate.

Numbers of that magnitude could generate a limit-plus move, maybe up as much as 400 points. Yet, the world would still carry over 95 million bales, including a U.S. carryover of 5.7 to 6.5 million bales.

With nearly half the crop harvested, based on the November report, I hope USDA would not be that far off. What did our father tell us about it being too good to be true?

I see Bully a ‘coming, but not this year. Most of any bullishness generated by the report should already be baked in.

Talking Cotton

The Ag Market Network announces its upcoming December 10 teleconference 1:30 p.m. Central time. The lead speaker will be Kip Butts and will be joined by Jarral Neeper, President of TruCott Commodities, Dr. John Robinson, Dr. OA Cleveland, and Pat McClatchy.

To listen to the discussion, call 605-313-5148 and, when prompted, enter code 571052# An archived recording will be available later at www.agmarketnetwork.com or on Facebook or Twitter.