Cleveland On Cotton: Volatility Ahead As Many Bales Remain Unpriced

October 4, 2019

By O.A. Cleveland, Consulting Economist, Cotton Experts

Granted, it was slow motion, but this was a bonus week, a happy week as the market gave us a little of the Beatles 1963 hit version of *Twist and Shout.* Since the prior week's solid attempt to close below the critical 60.25 support price, the market has made its trek higher and touched 62.18 cents this week before settling at a very healthy 61.71 cents.

This rally is best described as stealth since analysts are at a loss to pinpoint where its strength is based, and it is a classic indication of our contention that technicals are the leading indicator of fundamentals.

But, we digress.

The market is showing signs of a weak buy signal, a call that has been scarce in this market. While fundamentals are the ultimate determinant of price, technicals are universally recognized as the roadmap prices take on their ultimate journey.

As the month long “new” trading range attempts to solidify its near-term hold on December futures, look for the 61-66 cent range to hold going into next week’s October world supply demand report.

What The Report Will Show, What It Means

The world supply-demand report will show a record crop in Brazil and lower production in Australia, possibly as much as 100,000 bales. The Indian crop is likely larger, but don’t expect USDA to increase it just yet. Indian rains have been excessive in some parts. Yet, the moisture is providing more benefits than expected to date.

The Pakistani production problem was suggested to be a boom for U.S. exports. But as of yet, there has not been any indication of such. Actually, cash markets across the U.S. have been exceptionally quite, typically with only one active buyer on a daily basis.

Too, export sales, while improved this week, remain behind the target level. Likewise, export shipments are below the level needed to reach the USDA projection.

However, both sales and shipments improved over last week’s paltry activity. Net export sales of Upland and Pima were 181,600 bales. Upland shipments included 154,700 bales and Pima shipments totaled 12,500 bales. The latest cotton export data can be viewed at apps.fas.usda.gov/export-sales/

Bearish Days Remain On The Horizon

This is not to say the old 56-60 cent trading range will not be revisited, but the current market wants no part of it. Despite the record crop in Brazil that is rapidly moving in the export market, the ever-increasing size of the Indian crop and the mixed bag of the U.S crop, the market will have more bearish days.

The U.S. crop is seen to be deteriorating in the Southwest, expanding in the Midsouth and enjoying a slight increase in the Southeast. The moisture expected in the Midsouth and Southeast will find plenty of open cotton. However, harvesting is rapidly progressing across the two regions.

As per recommendations, the Midsouth cut off the irrigation pumps in September. Yet, 2019 proved to be an outlying year that called for September irrigation, but that is hindsight. Yields may not reach the same potential had the crop received September irrigation, but grades are likely to be higher. Thus, harvest has progressed very rapidly and the rain will not color as much cotton as in most years.

There remains only a very small amount of cotton than has been hedged or fixed price contracted. This remains as a very bearish market element that must be reconciled between now and November. The coming six weeks could see volatile price activity, but it is better to begin above the 60 cent level rather than below it.

Give a Gift of Cotton Today.