Cleveland on Cotton: 90 Cents Is Within Striking Distance

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It should not go unnoticed that we have often commented that traders should watch the Chinese market as New York has a long tendency to follow Chinese prices. That trend has not been as strong the past few years, but never doubt it. There are solid reasons.

Did the market go up this week? Bill Crowder told me three months ago it was going to 90 cents. I told him he was crazy. Of course, at the time I believed the USDA production estimates were creditable.

I knew China would buy and buy and buy (and keep buying), but I did overestimate the foreign crop, especially the Pakistani crop. Kudos to Bill, or rather long time Bull Bill.

I did suggest last month that USDA carryover would work its way down to some 4.0 million bales. So, today’s 84 cents plus, basis March, has now stretched just beyond my 83-cent forecast. With exports still to climb and mills caught a bit naked, his 90 cents is within striking distance.

My next target is 88 cents, basis March, but On-Call sales suggests his 90 cents is easily doable—not that it will, but it's in sight.

It can't get any better than that, or can it? The potentially more bullish market to me is the December contract. Get a set of reins and hold me back. It is just too early to get too bullish December, but…

With Government stimulus money for all, the beginning of a release of pent up demand, the physical reopening of schools we are now learning that should have never been closed, the influx of money into the hands of Chinese consumers, the very aggressiveness of Indian sales, the problematic soaking wet oversold Brazilian crop and reduced U.S. plantings into a La Nina growing season, opens several price doors.

However, to quote the best commodity weatherman in the world, "Hold on to your hat!" If the market rally can last as long as that sentence, then we will all be in the money. As I said last week, "I like the market." We are 3-4 cents higher this week and I like it just as much.

However, you should note that the major rally today was in the old crop March, May, and July contracts. The new crop December contract was just being pulled along. Yet, that long list of bullish factors does exist. The growing season will just have to see if they mature.

We may have seen some "buy the rumor, sell the fact" activity today, but whatever, the rally was based on real export related fundamentals.

Also boosting the rally was the continued better than expected export sales and shipments report. Recall, last week's comment that exports were proving to be very bullish. While sales were noted to only some 17 countries compared the 20 or more the past few weeks, very large sales were made to China, Turkey, and Pakistan.

Very good sales were also made to Vietnam and Indonesia. Net Upland sales totaled 286,700 bales with Pima sales totaling another 19,000 bales. Combined shipments were 339,200 bales. The weekly export sales report can be viewed here.

The February USDA supply demand report will be released Tuesday, February 9 at 11:00 A.M. Central time. USDA typically does not change its U.S. production estimate in February, but the Department has lagged reality so much this season we should expect an update. U.S. carryover should be lowered, and exports will, sooner or later be increased. World ending stocks will likely see as much a one million bale reduction.

The report will be discussed on Ag Market Network at its upcoming Teleconference on Tuesday, February 9th at 1:30 p.m. Central time. Speakers include Kip Butts, Jarral Neeper, President of TruCott Commodities, Dr. John Robinson, Dr. OA Cleveland, and Pat McClatchy.