

# Cleveland on Cotton: Dare The Chinese Cancel Commitments?

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The cotton market finally put a little pep in its step this week and moved to the very top of its 55-60 trading range and is now threatening a new higher resistance level in the 62-63 cent area.

We did mention last week that economic conditions were improving faster than expected and that cotton business was seeing some gains. That progress was confirmed by the U.S. jobs report Friday and sent commodities and equities significantly higher and with triple-digit gains in cotton.

In the short run, the dynamics of the July delivery period remain a key in the old crop/new crop price bridge. We do not bid goodbye to the 55-60 cent trading range. But we now see that the market is attempting to build a new higher trading base between 58 and 64 cents.

## **Cancellations Outweigh Net Sales**

To me, the odds favor a market in the very low 60s with a few high 50s also showing on the trading platform. It seems simple enough this year, but the old crop squeeze on the July contract may have inflated the December contract.

July option trading expires next Friday and the July first notice day (FND) is just two weeks away. That period has been priming us for some price excitement, but all the so-called excitement may be expended by FND.

Certainly, certificated stocks have been building (slowly) during the past three weeks in anticipation a price squeeze. It is believed that the principal Memphis merchant needs all the quality stock it can muster to meet export requirements already on the books.

As noted over the past three months, export sales and shipments have slowed considerably due to the pandemic's impact on world trade and economic activity.

The weekly U.S. export sales report for the week ending May 28, showed net sales of negative 10,100 bales of Upland. Some 24,000 bales were sold during the week, but 34,100 bales of existing sales were canceled.

Here's the positive news: China wasn't in the cancellation category. The market remains in full fear that China will begin cancelling purchases it has made but have not yet been delivered. Those sales are substantial, too.

A wholesale cancellation of all outstanding sales to China could take as much as ten cents (1,000 points) out of the market almost overnight.

However, China actually needs the stocks of cotton purchased from the U.S. While India and Brazil have cotton available, China already has outstanding purchases from those two countries. Typically, China attempts to maintain diversification in its sourcing locations.

More importantly, given China's experience with COVID-19, it is currently leery of Brazilian imports due to the widespread number of cases in Brazil ow.

## **How Many Acres?**

The June WASDE report will be released next Thursday, June 11 and the June plantings report will follow at months end. Data for the plantings report is currently being collected, this week and next.

U.S. plantings look to be 13.2 to 13.3 million acres, down only about 3.4% from last year. That puts the crop in the 18- to 20-million-bale range, and I favor a number closer to 18 million bales.

A crop that size will allow a slight drawdown in stocks and allow prices to stabilize in the current range.