

# Cleveland On Cotton: Welcome To The New Reality

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Keep the faith. Cotton is attempting to break above 67 cents. It will. Yet until it does, the lower 63.50-67.00 cent trading range will be the most fertile trading territory, that is for now.

The weekly close threatened to challenge the price resistance at 67 cents. However, the resistance proved to be too strong.

While the consensus of analysts calls for little change in next week's December U.S. and world supply demand report, the market is trading as if it expects a price-friendly report.

With U.S, harvesting above 80%, it is conceivable that world cotton supplies are tighter than the current USDA estimate. Particular attention should be given to the U.S., China, Brazil and India.

When we declared the bull dead some seven weeks ago, we commented that it would be a difficult and slow road to the upside. Too, I indicated the upside could be as high as 77 cents.

Yet, a significant challenge above 70 cents should be in the works. Growers are cautioned to begin scaling up selling on any trading nearing 67 cents. I believe this is consistent with the previous recommendation. Quite probably, some growers sold on today's rally above 66 cents, a good strategy in my opinion.

## **Has The Market Adjusted?**

Textile mills continue to sit back and wait for a price collapse to the 63-cent area, basis March. They will not get it. The northern hemisphere harvest is essentially over. Don't look for production surprises after this month.

In the meantime, mills have tended to do only hand-to-mouth buying, but have also continued to fix prices on a scale-up basis. And the price decline mills have expected (hoped for) has not materialized.

They now risk being caught and forced to do additional scale-up buying, which would spook the market to a serious challenge of 67 cents and above.

Analysts continue to write that the Chinese trade tiff prevents the cotton market from moving higher. Yet if the disagreement was settled immediately, it's doubtful that much additional U.S. cotton or world cotton supplies, for that matter, would find a demand point.

U.S. export sales and shipments are ahead of the five-year average. U.S. sales to date remain the second highest on record. World cotton trade flows have changed drastically in the past eighteen months.

China continues to purchase U.S. cotton, yet not as much. However, U.S. cotton has found other outlets. Brazil has

increased its sales to China, but has lost share in other markets. Pakistan was an unexpected very large buyer of U.S. growths. T

he market has adjusted to the impact of the tariff and were it lifted immediately, the market would see very little impact.

China is reducing its textile production, and other textile manufactures have gained that market share. No “magic switch” can be thrown to return things to the past. The market has completely moved the switch. The past is the past.

## **Making A Case For Mexico**

A market the U.S. cotton industry must move its attention to is Mexico. One major manufacturer recently left Mexico, citing cartel gang problems and resettled in Bangladesh. The U.S, would be well advised to work with Mexico to alleviated the cartel gang problems and help Mexico create one of the world’s leading cotton textile manufacturing destinations — as the Chinese textile industry declines.

Mexico is a ready-made market for U.S. cotton. For most commodities, China is not the market it once was. Don’t cry over that spilled milk. Instead, work to capture other markets that are now developing.

## **Give A Gift of Cotton Today**