Cleveland on Cotton: Market Reclaims High Ground, Fundamentals Remain Bullish

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As expected, the cotton market reclaimed the high ground this week as Thursday's close pressured our December futures target of 88 cents. The Thursday settlement was 86.72. Additionally, the old crop July was as back above 90 cents. Both contracts settled the day near their trading highs, a very strong signal for higher prices.

Yet, prices have been there before only to fail and to retrace their steps. While that can occur once again, market fundamentals continue to demonstrate a more bullish feel.

World yield potential has declined primarily due to weather events in the major producing countries of China, India, the U.S., and Brazil. Further, food crops and oilseed crops continue to take acreage from world cotton plantings. The pace of U.S.

export sales is well above that needed to exceed the USDA export estimate for 2021.

Due to extremally strong weekly export shipments, USDA will likely raise its estimate of 2020-21 exports, from 15.75 to 15.90-16.0 million bales.

The new crop December contract’s next objective, above our nearby 88 cent target, is 92 cents. However, drought conditions in the U.S., coupled with the on-call sales ratio both in the July and December contracts is growing a bit more bullish. Thus, cotton prices for both old crop and new crop may soon be pounding on the 96-cent door…and who knows from there.

The approval of Chinese sliding scale quota purchases, leaked two weeks ago, and made public last week has added more fuel to the price fire. China does need the cotton, yet they have allowed prices to climb without adding significant new purchases.

Exports shipments to China continue very strong and export cancellations essentially match new purchases. Thus, the market does not appear to feel cancellations of any magnitude will occur. Nevertheless, market bulls should always fear cancellations.

While export sales have seasonally slowed, export shipments for the week ending 4-29-21exploded to a marketing year high of 481,300 bales (456,600 Upland and 24,700 Pima). That is, export shipments have totaled about 1.2 million bales the past three weeks. Too, shipments are on a record pace, breaking the pace set in 2010-11 (based on August-March data).

USDA will release its May supply demand report this Wednesday, May 12, at 11 AM central time. The report will be discussed on the Ag Market Network Teleconference at 1:30 p.m. Central time that day. Speakers include Dr. John Robinson, Kip Butts, Jarral Neeper, President of TruCott Commodities, Dr. OA Cleveland, and Pat McClatchy.

To listen, call 605-313-5148 and when prompted enter code 571052#. An archived recording will be available here or on Facebook, or twitter. Additionally, USDA will provide its first formal outlook for the 2021-22 marketing year. A bullish report is expected.

The USDA report should include an update on the size of the 2020 cotton crop. The report is expected to reflect a crop as much as 200,000 bales below the April estimate. Coupling that with the potential for increased exports could reflect a U.S. carryover as low as 3.5 to 3.7 million bales.

Assuming a U.S. 2021 drought reduced crop of only 16 million bales, then 2022 carryover would drop to a very bullish 3.0 million bales or below. The meaning–defer any additional 2021 crop pricing. The March-July 2022 futures could be sky busters, not that December 2021 may not be.

Nevertheless, let’s hold any excitement, the market will continue to back and fill and there will be some gloomy days. However, the decline world and U.S. stocks, coupled with a decline in U.S. and world production, will take prices higher. Demand remains robust.