Cleveland on Cotton: 70 Cents Within Sight?

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USDA killed the Bear this week. USDA did not even provide an opportunity for hibernation. It was an outright slaughter. The next bear hasn't been born and will not even be a cub until at least as early as 2022.

There is a new price range on the horizon and it is a higher range. Cotton in the seventies is in sight. There will be no more 50's or 60's for a while. That is not to say there are only blue skies ahead. There will be a few gray ones as cotton attempts to regain market share, but supply demand balance sheets in the world's major producing countries are coming back near alignment and world stocks are finally declining.

But again, there will have to be a concerted industry and world effort to rebuild cotton consumption. All good things take time to mature. Too, there are still some technical price resistant points that must be scaled and there still remains a large amount of scale up grower selling that the market must chew through as it claws higher.

There are still a few old bear tracks left that will impede progress. Nevertheless, the 70's are coming. Not only did the report allow a path for higher prices, but it also boosted 2020 plantings above previous expectations. In fact, a couple of states may now even see increased cotton plantings in 2020. What do you say North Carolina?

USDA worked its magic around the globe. Beginning with the U.S crop, USDA lowered its estimate down to 20.8 million bales, down 890,000 bales below its October estimate. The reduction was based on measurably lower yields in the Southwest, particularly the Texas plains.

U.S. exports and domestic usage were unchanged and the smaller U.S. crop allowed domestic carryover to be reduced 900,000 bales, down to 6.1 million, still too high to support an 80-cent market, but a level that a 75-cent cent market can be comfortable with. Too, with the November estimates in place, the 77-78 cent technical target can now be seriously addressed.

World production was lowered from last month's estimate of 124.8 million bales down to 122 million bales, a reduction of 2.8 million bales, a very significant month-to-month change. Of much greater market impact, all reductions came from the world's leading producing countries.

- The U.S. crop, as mentioned, was reduced some 900,000 bales;

- Pakistan, down 600,000 bales;

- India, down 500,000 bales; China,

- down 500,000 bales;
- Turkey, down 300,000 bales.

Additionally, there were other minor adjustments. World consumption was lowered only 120,000 bales. Thus, world ending stocks were reduced from an estimated 83.7 million bales in the October report to the current estimate of 80.8 million bales, a reduction of 2.9 million bales.

A reduction of this magnitude will likely allow for a futures price increase of 8 to 12 cents as the marketing year progresses. Of course, quality and cash basis, coupled with successful inroads from the consumption side of the price equation will have their respective input on price changes.

The market should now expect to see an increase in world cotton trade and a resurgence in exports. The crop estimate for the world's major exporting countries was reduced 650,000 bales. However, the crop estimate for the world's major importing countries was reduced 1.3 million bales; thus, setting up the need for increased imports to satisfy the major textile production nations.

A Bull is born.

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