Cleveland on Cotton: Fewer Acres Likely Despite Continued High Prices

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The New Year always begins with our listing of Bullish and Bearish market factors. These factors that will likely lead market direction over the course of the year.

Bullish

- Imbalance in World Food Supply/Demand
- World Demand Increasing: pent up demand
- World Stocks Decreasing
- U.S. Stocks Decreasing
- U.S. Old Crop Quality Sold/Selling Out
- 10% Reduction–U.S. New Crop Plantings: grain/oilseed prices pressure plantings

- Drought expected in U.S. Southwest; Texas-Oklahoma Plains
- Increasing Chinese Prices/Declining Stocks
- Decreasing Chinese and Indian Stocks
- Commodity Complex Encourages Speculative Bullishness
- U.S./Europe Prevention of Chinese Child/Slave Labor Products Entering marketplace
- Technicals: trend, moving averages, fund positions, on-call sales
- Aggressive Selling Posture of Indian Cotton

Bearish

- Chinese Covid Virus Disruptions
- World Stocks 98+/- Million Bales
- U.S. stocks 5 +/- Million Bales
- Increase in Australian, Brazilian, Pakistani, U.S. Production
- High Prices Cure High Prices
- Low Polyester Prices
- Selloff in Record High Stock Market Will Pressure
- Cotton Prices

World demand for food grains, feed grains and human edible oils have all but drained world supplies and are now straining the world's ability to maintain current consumption levels. While this issue has flown under the radar, and not yet reached the consumer's dinner table, it soon will.

We have, and continue to see, significant increases in the world's agricultural complex of commodities. This has significantly enhanced the capital flow and speculative funds flowing to commodity markets. As the year ended cotton prices jumped to life of contract market highs across the trading spectrum and prices have remained at or near those record prices.

Certainly, this has been true for the entire agricultural crop complex. The corona virus relief in China, the source of the virus, has allowed mills to reopen and move to full 100% operation. Yarn demand exceeds production and other Asian and subcontinent countries have increased raw cotton imports to meet the Chinese demand for yarn.

This demand strength will continue as textile mills continue to bid for cotton

Cotton will continue to bid for acres as the strength in the oilseed and grains complex continues. However, world cotton carryover is excessive compared to grains and oilseeds so cotton will lose planted area in the 2021 production season. USDA will release its January 2021 world supply demand report on Tuesday, January 12.

It is expected that USDA will lower its estimate for U.S. production and carryover but raise its estimate of world production. World consumption could increase slightly as could U.S. exports. The combination of such events will support ICE cotton futures and a challenge of 83 cents. Yet, climbing above the 81-83 cent level will be a difficult barrier to scale.

U.S. old crop production is expected to be lowered to 15.3-15.4 million bales. A reduction below 15.2 will help scale 83 cents. World carryover is expected to be 97-98 million bales. However, the world is awash in low grade cotton so premium cotton will continue to receive strong bids.

It is this world carryover, near 100 million bales, that continues to be the principal bearish factor in the cotton market. However, world production is expected to just meet world demand during the 2020-21 marketing year and prices should remain in the mid 70’s to high 80’s.

Our expected price range during the coming year lies within the 73-87 cent price range. This is just a 14-cent range. A typically active cotton market might be expected to trade between a 20-to 24 cent range during any given year.

Thus, the question one should ask is just which side of the price range I may have missed? I expect the price high to come earlier in the production cycle, rather than later. However, Mother Nature and the Chinese coronavirus will likely play major roles.

As for marketing plans, I previously suggested pricing 10% of the new crop at 75 cents, another 10% at 77 cents and another 30% at 80 cents. I would want to be 50% sold at 80 cents. Yet, do not let the market slip below 75 cents with having some production priced.

Market prices could stretch to 87 cents if the Chinese are held to the current trade agreement and the U.S. government continues to enforce its human rights programs against the Chinese. Enforcing the human rights programs causes China to import more cotton as more and more world consumers object to Xinjiang cotton due to its dependence on child/slave labor.