

Cleveland On Cotton: Reaching 70 Cents – “A Bridge Too Far”?

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The cotton market took on a shinier look this week, thanks to three factors:

- Trade talks generated positive news. Potentially, U.S. cotton could flow more freely into China, depending on eventual agreements.
- USDA’s WASDE report lowered stock numbers.
- An impending freeze in West Texas could reduce the size of the eventual crop, another bullish development, although bad news for those growers.

Going into the weekly close, the nearby December contract was up 221 points on the week, with its third consecutive higher weekly close. Maybe an uptrend is in the works – that is, the market is experiencing a series of higher and higher lows.

December traded to 64.00 and was on tap to establish its highest close in over a month.

Demand continues to be the fly in the price ointment, but the potential for a smaller world crop, as suggested in USDA's October supply demand report, could offset some of the price bearishness that has plagued the market all year.

Is 70 Cents Realistic?

The AgMarket Network group unanimously agreed that 66 cents, basis December, was a real possibility. Two of the group's members indicated they could see December trade to 70 cents.

For me, talk of 70 cents brings to mind the title of a particular war movie, **A Bridge Too Far**. I do hope they are correct. The spoiler for me: other exporting countries still hold too much cotton to hope for trading above 67 cents.

Nevertheless, the 61-65 cent trading range is still the order of the day and must be breached before the bull can make his mark. Yet, the continued optimism of a partial settlement in the trade dispute is a significant reason to argue for higher prices.

Trimming Production Estimates

USDA lowered U.S. production 157,000 bales and lowered ending stocks from 7.2 million bales down to 7.0 million bales. The 2019 U.S. crop is now estimated at 21.7 million bales.

The impending freeze in West Texas over the weekend could take another 200,000 bales or more off the 1N and 1S crops, hence the argument for yet a smaller U.S. crop.

The freeze is some two to three weeks earlier than the normal first freeze. State and region production estimates are listed in the table.

Total world estimates were little changed from the September data, but certain country changes were notable.

The Indian crop was increased one million bales, as expected, but decreases in the U.S., Brazil, Australia and Pakistan crops slightly offset the increase in India. However, world consumption, production and carryover were only marginally changed from the prior month.

World production was estimated at 124.8 million bales with world consumption at 121.6 million.

U.S weekly export sales continue a bit anemic. However, forward sales were significant enough that total commitments and shipments to date are slightly ahead of the 2018/19 pace. Also on the positive side, weekly sales came from a broad array of countries, — indicating widespread demand for U.S. cotton, albeit light demand.

Take 65 Cents As A Serious Point

The market must still battle through the bearish on-call purchases that signify the historically excessive volume of cotton that growers still must fix. This coupled with questionable demand numbers comprise the primary reason that I am skeptical of the market advancing beyond 66-67 cents.

Also, the volume of cotton held in the world's major exporting countries must be reduced before the 70-cent level can be breached. Additionally, as stated last week, the market does not seem to want any part of the upper 50s again. The U.S, is well into its harvest and the price lows should be in. Let's go to 66 cents and take another look-see. Begin scale up hedging at 65 cents plus.

REGION	PLANTED ACRES		HARVEST	YIELD	PROD
	2018/19	2019/20	Crop Estimate		
	USDA	USDA	October 2019 Est		
	Final 2018	Sep Est.	Hvr Acres	Lbs.	Prod
SOUTHEAST	2,885	2,968	2,930	920	5,615
Alabama	510	540	535	951	1,060
Florida	117	113	111	930	215
Georgia	1430	1400	1,390	932	2,700
N. Carolina	430	510	495	921	950
S. Carolina	300	300	295	765	470
Virginia	98	105	104	1,015	220
MIDSOUTH	1,985	2,410	2,358	1,140	5,600
Arkansas	485	620	610	1,157	1,470
Louisiana	195	280	270	1,013	570
Mississippi	620	720	710	1,115	1,650
Missouri	325	380	368	1,265	970
Tennessee	360	410	400	1,128	940
TX/OK/KS	8,695	7,875	6,735	639	8,960
Kansas	165	175	160	960	320
Oklahoma	780	650	575	701	840
Texas	7750	7050	6,000	624	7,800
FAR WEST	285	278	258	1,500	806
Arizona	160	160	159	1,525	505
California	48	55	54	1,742	196
New Mexico	77	63	45	1,120	105
TOTAL UPLAND	13,850	13,531	12,281	820	20,981
PIMA	250	231	228	1,522	724
Arizona	14.5	8	8	1,020	17
California	211	205	204	1,593	677
New Mexico	6.8	5.5	5.4	800	9
Texas	18	12	11	916	21
TOTAL COTTON	14,100	13,762	12,509	833	21,705

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