

Cleveland on Cotton: Without Consumer Activity, Market Remains Stalled

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China steps up. Great export sales. Bearish price response. USDA's supply demand report was loved by the bears.

Just when I begin to feel that I am smart, the cotton market reminds me that I am but a mere mortal. Yet, it is so gracious, it invites you back for more education.

The market had appeared to be absorbing bearish news, and even countering it with a whiff of comfortable, if not outright bullish news. An attempt to break into a new trading zone, one between 60 and 65 cents, was attempting to develop. Yet, not so.

The major selloff in New York and other world equity markets, coupled with an ever-growing bearish USDA outlook forced the cotton trading range back into the 50s, with a 55-60 cent trading range now the order of the day.

That's the cotton market for now.

Will China Follow Through?

China was a big buyer, but prices moved lower, just opposite of what would have been expected. The export shipment report placed shipments within reach of USDA's 16 million bale estimate for the 2019-20 marketing year that ends July 31, 2020.

Yet, prices eased backward and the market invert (July over December) solidified. The market spent all week telling us that cotton was worth more today than it would be tomorrow. Rightly or wrongly, that was a clear message.

The first order of business is to get through first notice day on the July contract and then get about the business of trading the new crop 2020-21 marketing season.

The price bridge to the new-crop December contract seems to center on U.S. sales to China and, as the rumors run rampant each week, will the Chinese sales actually become shipments?

Market rumors continue to persist that Chinese cancellations will become significant. But at least for now, the market invert tells us that some merchant wants/needs cotton. Typically, this need would be for export purposes. With cotton continuing to come to the Board for certification, it appears the merchandising community will stand for delivery.

Certainly, the market firmly believes that the principal Memphis merchant will take all the Board will deliver.

Here Are The Numbers

Weekly export sales totaled 438,500 bales of Upland and 3,400 bales of Pima. Upland cancellations were 38,800 bales, leaving net sales of Upland at 399,600 bales — making for a very healthy export sales report.

China and Vietnam accounted for 412,400 bales of the total sales. Shipments were slightly above the amount needed on a weekly basis to meet the USDA export estimate of 16 million bales.

Further, sales for the next marketing season, 2020-21, were very strong, coming in at 193,400 bales of Upland.

Low Consumption Locks In The Trading Range

With that, sales of all cotton on the week and over both marketing years were an exceptionally strong 635,400 bales. Such a number would typically call home the bulls.

But until world consumption begins expanding, cotton prices will continue to be locked in the 55-60 cent trading range.

Deviations outside the range will likely be shortlived. However, the world market still awaits consumption to engage and world/U.S. ending stocks to begin to fall.

The USDA June plantings report will be released at the end of the month. USDA is currently using a planting estimate of 13.7 million acres.

Actual plantings are forecast to be some 13.2 million acres and this portends a U.S. crop of 18.0 million bales, some 1.5 million below the current estimate. This difference will allow for more optimism in the market and open the way for a return to a trading range of 60-65 cents.