Cleveland on Cotton: Demand Driven Bulls Trample Over 93 Cent Resistance

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Many thought USDA's August estimate of the U.S. crop might be a scene from a "wild wild west shoot-'em-up," but everyone was bowled over, nonetheless. So much for the market not pushing above 93 cents until the September supply demand report! USDA's August estimate was what I had expected the September report to look like. Kudos to USDA for biting the bullet.

The near 600,000 bale monthly reduction in the U.S. crop estimate sent the market on a triple digit daily shopping spree. Prices barreled through longtime price resistance at 93 cents and did not slow until getting within 30 points of 95 cents. The next price objective is 97-98 cents, followed by the phycological dollar level, and then the 108-110 cent range.

The report was so bullish that prices sailed above longtime price resistance and took prices into the upper 2 percent of the historical level.

This is a demand driven market. Make no mistake about that. Spinning mills can't produce enough yarn and apparel mills can't find enough product. Retailers complain every day that they can't get product. Both U.S. and world stocks are declining, as we have long proclaimed they would. Too, the battle for acreage between alternative crops is at feverish pitch and consumers continue to bid up the demand for resources.

Dollar cotton has a seat at the table. However, the territory above 95 cents has historically caused mills to reduce cotton's share of the spinning mixes and more of manmade synthetic petroleum-based fibers.

The principal adjustment in the August report was the 540,000-bale reduction in U.S production, down to 17.26 million bales from last month's estimate of 17.8 million. As a smaller crop would suggest, exports were lowered 200,000 bales, down to 15.0 million. Year ending stocks were lowered 300,000, down to 3.0 million, not quite, but close to akin to "running out."

This change principally flowed through the world supply estimates along with a 750,000-bale reduction in the increasingly important Brazilian crop. Brazil has become the single major competitor to the U.S. in the world export market.

USDA did not reduce Brazilian exports, ostensibly because Brazil has very little warehouse space outside of mill storage and must export much of its crop upon harvest. Thus, they cannot hold crop in storage and manage price risk after harvest as the U.S. often does. However, they do produce a high premium crop and in most years that is to their advantage. Yet, in years such as this, they tend to have to reduce their asking price somewhat, even during such a shortage.

Other production changes of note were Australia, +500,000; Central Asia, -150,000; and Franc Zone, +290,000. World production totaled a net reduction of 530,000 bales, down to

118.84 million bales. Other production reductions expected in the months are expected for China, India, and Pakistan.