

# Cleveland on Cotton: Bearish Hints from WASDE Cotton Report

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Cotton prices ended the week moving to the downside, but with the weekly settlement showing a 24-point gain for the week.

The rather dull week was highlighted by the June WASDE report, which carried a bearish sentiment as world ending stocks were increased. More importantly, the report indicated a weakness in world demand, a key signal that suggests a weak market. Yet, the question remains as to whether the weakness has already been reflected in market pricing or whether more weakness is to come.

The 64-68 cent trading range remains in force and will likely remain so until Mother Nature plays another card on the crop development scene. Good cotton weather will pressure prices, but the trading range lows should hold until mid-July.

Higher prices await some positive demand news (possible) or unfavorable weather as the crop gets off to its start for the 2019 season. While there remains more than the normal weather stressed planting/emergence/stand problems in the U.S. and across the northern hemisphere, the crop is off to a okay beginning with essentially the entire growing season to catch up.

Pockets in the U.S. face moisture problems as does much of India, but such problems historically are not uncommon. Typically, Mother Nature relents and allows the crop to get planted. There is nothing atypical about a record crop struggling at the start.

The monsoon is late in India and has generated concern, but plenty of time remains and the forecast calls for a near normal season.

The big Southwest region of the U.S. forecast calls for excellent crop development moisture, but some areas are in need of a dry period to get the crop properly seeded. It is a wait and see situation. Thus, the reason New York futures will likely hold within the current 64-68 cent trading range into mid-July.

Demand continues to seek its way and one monthly estimate of a fall is sometimes met with an increase the next month. This is another reason the market is expected to remain in a relative narrow trading range for at least another month.

The June WASDE report showed world production at 125.3 million bales and world consumption at a like number with world ending stocks at 77.3 million bales, an increase of 1.6 million bales above last month's estimate.

Generally, the WASDE estimates were expected by the market. However, the market was surprised that USDA decided to increase the 2018 Indian crop 500,000 bales after reducing it 1.5 million bales just last month. That is part of the bearish hint that lingers in the market as it suggests that U.S. exports sales to India will not be as aggressive as expected.

As mentioned last week the Brazilian harvest continues with a bumper crop, but is being somewhat offset by a severely strained Australian crop that is already essentially sold out.

The U.S. market has no natural sellers at present and will not have any until the crop size is further determined. Yet, if the crop does approach the estimated 22 million bales, grower and cooperative selling will pressure the market much closer to 60 cents. That pressure most likely awaits the August-September time period.

**The point is that the market cannot be said to have found a bottom.** We must caution ourselves that there could be as much as a nickel to the downside in front of us. However, the December 2019-July 2020 time period should find buyers to help take the sting out of falling prices. Yet, a trade above the 70 cent level most likely awaits the 2020 crop, unless a significant production problem befalls the crop. Positive U.S.-China tariff news will offer only temporary and limited upside movement.

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