Cleveland in Cotton: Bull Trend Taking Shape?

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While last rites for the Bear were performed last week the birth of a new bull is just that, a baby bull.

One of you declared I was ridiculous for the declaring the bear dead and gone last week, and I do note the market lacked any follow through this week. Nevertheless, a new bull was born.

The market had to dog paddle all week as it had to navigate through the sea of legacy rolls/spreads of the long only speculative rolls out of December and into March long positions. The thousands of the sell December/buy March trades left December a bit worse off, but it is only days from the formal beginning of its expiry. Thus, the attention was really focused on the March contract.

The overhead price resistance in the 67-68 cent area has proven far too strong to penetrate. Prices will likely remain locked in the month long 150-point range around 64.50 cents. The price bias, however, is higher.

The atypical volume of grower held unfixed cotton will continue to be an obstacle to higher prices. Growers are opting to incur the storage and carrying costs this season. Of course, that is a very dangerous marketing strategy for growers without high grades of quality cotton. High quality cotton usually returns more than carrying costs, but not average cotton (SLM and below).

While the May contract will offer 70 cent plus offers, those price offers will likely not be seen until late March to late April.

The tried and true strategy for growers is the one originally expounded by the late Joe O'Neill when he was the President of the New York Cotton Exchange. That is, buy a 2 or 3 cent out of the money call option on the July contract. Then sit back, most likely until May. By that time the market will have likely signaled it intentions and the grower can then make decisions as warranted. This strategy gives the grower a second chance to view market action and it removes the expense of carrying charges against the physical cotton.

The tariff battle with China remains unchanged, but additional increases are not due to take affect for another, December, 15. Thus, plenty of time remains to resolve the now daily squabbles over terms of the settlement.

Yet, it is refreshing that the U.S., after some 25 to 30 years of allowing China to run over the economy, Washington has finally stepped in to support American economic activity. There is no need to resolve the squabble until and unless the U.S. is completely satisfied with the results.

Chinese cotton purchases will likely be limited with or without a resolution. The market will continue to work within a 150-point range around 64.50, but with bias to the upside.

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