Cleveland On Cotton: Price Your Crop

October 16, 2020
By O.A. Cleveland, Consulting Economist, Cotton Experts

My Thursday evening search turned up price ideas of 70 cents, 72 cents, 73 cents, 75 cents and – finally – 80 cents. Rightfully so, everyone should have an idea about cotton prices.

The most frequent response was that "it's over," meaning the price rally has ended. The current price rally has been persistent, establishing higher and higher lows dating back to April 2.

Prices have returned to their pandemic level. This week the market saw an uptick every trading day and climbed some two cents higher. The rally did not stop at 70 cents, moving four points higher to 70.04 and establishing an eight-month high.

Now Is The Time To Price

The market adage, "never bet against the trend," tells us that the next objective is 72/73 cents, basis December. Of course, the market has now reached our absolute high forecast, but let's hope it can continue to run higher. I am not comfortable it will. Yet, the upward sloping trendline is there trying to push prices higher.

Nevertheless, now is not the time to be greedy. Now is the time to price. Without disrespecting the upward price trend, it is notable that the price trend has very nearly bumped up against a major price resistance line.

Market strength has been unpinned by a weather-reduced U.S. crop, stronger sales to China than the market expected, and a resurgence in Chinese mill activity. Additionally, back to production, the onset of heavy rains in India this week has had a negative impact on crop size. However, local estimates suggest the damage will be under 150,000 bales — not particularly significant, given that a record crop is in the field.

Those elements continue as the basis for the price rally. China will continue to buy cotton as we have commented for several weeks. Yet, other countries have pulled back from buying cotton now that the market has moved above 67 cents.

Exports Lag

Actual export sales are 1.3 million bales behind year-ago levels. Indian and Chinese mills are running very well, but most Asian mills remain on a week to week or month to month buying schedule.

Generally, these textile mills are still not seeking any long-term orders for raw cotton as yarn orders are all short-term, implying that mills remain very cautious about future business.

The export sales report for the week ending October 8, 2020, showed evidence of this as Upland sales only ran 98,900. Primary buyers were Pakistan, China, Guatemala and Vietnam.

Weekly export shipments were a very anemic 192,600 bales. As prices have moved higher, weekly export sales have eased lower and lower. Thus, it appears that China is the principal means of support in the U.S. export market.

Supply/Demand Uncertainties Abound

The U.S. supply/demand matrix remains very dynamic. Some suggest the U.S. crop will be lowered by 300,000 bales or more. Yet, I contend that U.S. domestic consumption will eventually decrease by 200,000-300,000 bales.

The combination of the two would leave U.S. carryover at a very large 7.2 million bales. Thus, U.S. export sales hold the key as to whether U.S. carryover can be lowered to a somewhat manageable level. That said, there ae those that consistently argue that the U.S. crop is over stated by nearly one million bales.

I do hope USDA's 16.1-million-bale October estimate is not even close to a million bales too high. Such would be dreadful to growers if the crop is that small.

Additionally, such an overestimation would be very detrimental to the integrity of NASS-USDA if the October estimate was that far off the final crop size, discounting of course an early freeze in Texas.

There have been years when estimates were that far off, but only in years with larger Texas acreage and then caused by the ever-possible untimely freeze over the Southern Plains. Traditionally, actual deviations from NASS-USDA estimates have been easily explained.

It's time to price 100% of your crop. If you're still bullish, buy a May or July 2021 call option, 3 cents out of the money.