Cleveland on Cotton: Market Maintains Momentum Despite Neutral USDA Report

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Cotton continues to have a laundry list of fundamentals that support the bullish side of the price equation. There are bearish ones as well, although I am challenged to think of any…but the silent spring lingers. The price deck just does not seem to have all 52 cards, and when I do count 52, a couple of them, once turned over, are jokers.

Thus, short term I remain steadfast in the Dollar Cotton Tent, at least until April. Yet, as I look down the road, I tend to get a little squeamish. It reminds me of the day before a big game with Texas, Jackie Sherrill taught his Miss State team how a bull became a steer. His team won in a big upset, two times in a row. The national news talked about it for two years. The steer's photo ran in a paper for years.

My list of bullish points outweighs my bearish points. Yet, be very cautious! This bull market is very much beginning to take on the likeness of that steer. I would love to see December go to a dollar, but the odds of an 80-cent trade are very high. The supply demand imbalance can support higher prices, but without unexpected economic news or production difficulties in a major producing country the longer term calls for lower prices.

Cotton price activity appears to sit on a teeter-totter, rocking first one way then the other, never finding any balance. It’s up 200-300 one day and down the next with no clear fundamental reason uncovered for the respective moves.

The technical news is more positive than negative, but the projected price resistance levels have become lower than before, and the projected price support points have also become lower…the beginning of a trend change. The suggestion is that lower prices are in front of us.

Cotton fundamentals are generally bullish. Yet, major economic indicators are all but a basket case. The media reports the Consumer Price Index (CPI), as if it was a clear and defining economic indicator. They totally fail to mention the Producer Price Index (PPI), which truly is the principal and primary economic indicator of inflation in the U.S.

The PPI, years ago known as the WPI-Wholesale Price Index–is the key inflation indicator and it currently dwarfs the CPI in real numbers, an indication that US inflation is measurably higher than is reported. (The WPI never measured wholesale prices, and neither does the PPI. The PPI measures prices of goods when they first enter the production process.)

Think a moment of the retail automotive business. There are few if any cars to be had, prices are up, used car prices are up, employment is down, and salaries/commissions is down, in line with sales. Thus, productivity is down, and prices are higher. The spiral digs deeper, leaving inflation to climb higher.

Cotton goods are caught up in this. Pima cotton has already been undercut by this. Pima prices have reached a zenith.

Marketing year sales have fallen to the lowest level of the year and demand has all but dried up. High prices have shut down textile processing of extra long staple fiber.

The on-call sales ratio is still highly supportive of dollar cotton. Between now and the first ten days in June the known buying of futures contracts dwarfs the known selling of futures contracts by 10,391,500 bales. That’s a lot of buying, but as the ratio of on-call sales versus on-call purchases has come down, so have prices, a normal phenomenon.

The on-call position is market supportive, but it is not bullish beyond 115 cents. It is just bullish enough to keep old crop futures in the 102-110 cent range—for now.

Export sales continue bullish, export shipments remain bearish. Weekly sales for the week ending December 9, were a net 286,400 bales, very strong. Major buyers were China, 97,300; Pakistan, 52,500; Vietnam, 36,300; Bangladesh, 36,000, and Turkey, 19,800 bales. Pima sales were only 700 bales indicating that U.S. Pima has priced itself out of the market.

Additionally, buyers for the 2022-23 marketing year were, Bangladesh, Pakistan, Turkey, China, and Mexico. Too, Pakistan was a good buyer for immediate shipment and for 2022-23. On a bullish note, it is likely that the Pakistani crop is going backwards. Two months ago, USDA increased the crop by 1.0 million bales.

This month USDA reversed it course and took that away. Pakistan continues to be a near-term and long-term buyer, suggesting its crop is yet even smaller than the USDA estimate. Pakistan is bullish for market prices. Shipments to all countries were only 131, 500 bales on the week and need to average about triple that each week the final 32 weeks of the marketing year to reach the USDA target.

It is doable, it has been done. However, if even just a little about the current export shipping woes is true, and it seems to be so, then the U.S. cannot come close to meeting that standard. There is a bear hiding in plain sight. Yet, look for

China, Pakistan, Bangladesh, and Turkey to continue to be good buyers.

Expect the market to hold on until mid-April…We will take another look then, but the inflation bug is beginning to sting the consumer.

Merry Christmas and Happy New Year. Join us at the Beltwide Cotton Conference, San Antonio, January 5, 2022.