Cleveland on Cotton: Digging Deep for Some Good News

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By O.A. Cleveland, Consulting Economist, Cotton Experts

One had to dig deep this week to find positive news in the cotton market. It could only be found in the markets double bottom technical support between 66 and 67 cents, basis the December contract. Even at that, going into the weekly close that support was showing slight weakness.

The panic trading that occupied the market all week, while seeming to abate somewhat, remains a primary concern. As one analyst put it, “I wonder if we could export more if we gave it away?”

The double bottom should, from a fundamental basis and absent the tariff debate, prove to be very supportive. Near the weekly close the market had lost about 290 points on the week.

In the absence of new tariff news look for the 65-67 cent price level to hold. However, the December life of contract low stands at 65.25, established on May 14.

Any tariff discussion is full of assumptions and guessing, but we can find a few facts in the discussion.

At least two weeks if not nearly a full 3 weeks before the announcement of the tariff breakdown, December futures prices began a noticeable retreat. Coupled with early year discussions of a world record crop with particular increases in India, the U.S. and Brazil, growers were advised to price at least 50% of their crop. The market did trade up to some 78 cents before backing off.

In April and early May growers were again advised to book at least 50% of their crop above 75 cents. Since then the December contract has lost some 8-9 cents. The loss corresponded with the dual announcements.

First, USDA forecast a record world crop above 125 million bales – the first ever. Of course the crop could be smaller as the growing season is just at its beginning. However, the idea of the crop swelling as high as 127 million bales has also gained considerable attention.

Then, the U.S. Trade Representative’s office announced a temporary stalemate in the pending tariff agreement with China. Thus, it is difficult to claim that the price selloff was all China related.

Certainly, a significant portion of the selloff can be attributed to the tariff issue. Yet, well before that announcement the concern of a record world crop had begun to pressure prices. A price decline as low as the mid 60s had been foretold by a number of analysts as early as February.

Additionally, many have suggested that the tariff reduced the export demand for U.S. cotton by as much as a million bales. Such a statement is likely a giant reach.

In November, 2018 USDA estimated U.S. exports would be 15.0 million. Since then, and until last week in its May report, the estimate had been unchanged at 15.0 million. However, the May estimate was lowered to 14.7 million bales. Thus, essentially since late fall the estimate had been 15.0 million bales, just 300,000 above the current estimate. Of course, these were estimates and the final number may change.

The tariff has cost the U.S. cotton export business, but it is doubtful it has been close to 1.0 million bales.

The tariff appears to have had a greater negative impact on cotton growers than on grain growers. Additionally, the lasting impact on export markets will be more pronounced on cotton growers than on grain growers. Finally, the effective market tariff based payments have been decidedly more favorable to grain growers than to cotton growers.

The market will likely be stuck with mostly trading in the 60s than anywhere else, notwithstanding weather disasters.