

Cleveland on Cotton: When Will Chinese “Yes” Finally Mean Yes?

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Cotton eased higher on the week, but struggled to post a daily close above 65.50 and settled the week at 65.16. This marks another building block in the market’s attempt to establish an uptrend. Of a somewhat negative technical note, Friday’s settling price was lower than the Friday opening.

Nevertheless, it is encouraging that the market did close above 65 cents. The 61-66 cent trading range remains in force. However, there is mounting selling pressure being built between 65 and 65.50 cents. A very heavy level of selling pressure lies just below 66 cents.

Growers and cooperatives will be heavy sellers above 66 cents and will exert considerable hedge pressure on any price movement between 66.25 and 66.75 cents. A virtual wall of

selling will kick in above 66.90 cents. Thus, the current five cent, 61-66 cents trading range will remain.

U.S. export sales posted a good week as net sales finally climbed above 200,000 bales of upland with weekly net sales of 206,500 bales of Upland and 4,600 bales of Pima. Primary upland sales were to Vietnam, 109,400 bales and Pakistan, 64,800 bales. Only ten countries were buyers on the week as China remained out of the market.

The other Southeast Asian textile giants were either out of the bidding for U.S. growths altogether or made only very minor purchases. However, U.S. growths are now very favorably priced and should regain some of their lost market share in Southeast Asia.

In reality, the usual fundamentals of supply and demand are taking a backseat in the normal trading activities. Rather, the ongoing debate between the United States and China continues to dominate trading actions of both speculative traders and the cotton trade as well. When will the Chinese announcement of yes finally mean yes? To date, yes has always meant a moving target and anything but yes.

To the U.S. administration's credit, they have not backed down and continue to press for a final verdict. The U.S. has not budged on tariff limitations the Chinese administration has requested. The market has found some thought that progress has been made. Likely, the solid threat to withhold the U.S. capital markets from Chinese interests, a bold move, has pushed the talks further along. It was a masterful economic card to play. Thus, the world cotton traders have been willing to bet on slightly higher cotton prices.

More aggressive growers should consider scale up selling at 65.49 instead of the 66.90 cent level. In case of a trade settlement, growers should be prepared to act very-very quickly. The market adage of "Buy the rumor, Sell the fact," will likely prevail. Trade talk highs will likely be a one-day event.