Cleveland on Cotton: A Short-Term Opportunity Thanks To European Consumers?

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After assessing limited damage resulting from Hurricane Sally, cotton prices eased slightly lower in Friday trading, settling the week at 65.66, basis December.

Significant damage occurred only in south Alabama but did sweep across the entire state and into a portion of Georgia. However, the very significant Southwest Georgia crop was generally spared.

With other storms headed toward the Gulf the crop could face a more severe test in the next two weeks. Certainly, the Midsouth crop dodged a bullet.

The market continues to get a boost from sales to. The market again challenged 67 cents. Failing now to reach that plateau for the second time in recent weeks, the market has established a double top.

As much as I question the wisdom of predicting against a double-top formation, I continue to feel the market will reach above to the 67.50 cent level, most likely in November.

Underlying Bullish Factors

Such a rally is predicated on a smaller U.S. crop, as much as 300,000 bales lower, and continued Chinese buying brought on by structural changes in the Chinese textile industry to accommodate the demands of Europe and the U.S.

Specifically, these changes relate to the Chinese Communist Party's (CCP) automatous military province of Xingjian, the centerpiece of its cotton production zone and its increasingly important textile zone.

Due to the CCP's reported use of slave and child labor, as discussed for two years, the world is finally demanding these changes. The U.S. further increased its ban on cotton and textiles coming from Xingjian, as has Europe.

Some market observers have failed to grasp the importance of this phenomena, thinking that the U.S. and Europe cannot enforce the textile sanctions. Yet, it is no longer a question of enforcement but rather how deep the sanctions will cut.

European consumer – not the government – are demanding the change in those countries so no political election will alter the European decision. The European consumer has simply declared that products produced using child and/or slave labor will not be allowed in the region.

A Short-Term Advantage

Over the past month, we have discussed how the action will increase Chinese cotton imports with the bulk of the increased imports coming from the U.S. and Brazil. However, India and Australia will also benefit.

In the short run the U.S. will gain a temporary advantage as the Brazilian and Australian crops are essentially already sold out. In fact, Brazil, an exporting country, has found itself importing cotton for its domestic textile industry. Thus, India also stands to gain a short-run export boost.

Supporting this was the weekly export sales report for the week ending 9/10/20. Net sales of Upland cotton totaled 519,600 bales, with China accounting for 440,900 bales, or 85 percent of the total sales (at a time when Xingjian cotton yields are record high).

Sales were the largest since January 2015, or over 5-1/2 years ago. The bulk of the remaining weekly sales were to Mexico, Pakistan, Vietnam, South Korea and Turkey. Shipments were disappointing at only 187,900 bales. However, shipments to China were very good at 95,800 bales. Shipments to Vietnam and Indonesia and Mexico all exceeded 10,000 bales.

Total sales commitments to date (September 9, 2020) total 7.63 million bales. Of this total, commitments from China total 3.1 million bales, or 37 percent of the total.

The thought is that China will take another million bales. China has a WTO agreement to take a minimum of 894 million metric tons. They have announced they will take that (as per usual). However, they are famous for announcing “processing quotas” that are in excess of the WTO quota. It is these “processing quotas” that will be used to import cotton for use in manufacturing textile products supplied to Europe and the U.S.

Prices will continue to back and fill between 62.50 and 67.00 cents into the October 9, USDA world supply/demand report. Most of the trading will be above 65 cents.