Cleveland on Cotton: “On-Call Sales” Positions Driving Market

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Cotton prices have settled higher in at least one contract month for the past 11 days. Chinese prices have hit a 30-month high. That is just too much, but then the market is not actually trading cotton.

Cotton is being bought and sold alright, but a good portion of the price advance is a result of mills having to square futures market positions they established months ago. Thus, mills are paying for their promises made to honor past contract obligations. They bought the cotton, and in many cases, they have already spun it into yarn and even sold the yarn. Now they must pay for the cotton per the futures contract obligation.

Too, there is plenty of cotton being sold and shipped daily. However, it is these “on-call sales” positions that are driving the market. This is occurring during a period of declining stocks and, in particular, during the disappearance of high quality grades. China will buy every single bale of U.S. high quality.

The rapid increase in prices caused mills to postpone fixing the price (as is usually the case) as mills expected prices would back off somewhat. This year, prices did not back off and mills are being squeezed. Prices did not come back, On-call sales positions for May and July suggest mills will need to continue as very strong buyers and push prices higher.

Prices will continue to advance because so many futures contracts must be bought so mills can meet their futures market obligations. It is this buying that will drive prices higher. Prices are on track to move to the dollar level and beyond. Sad to say, but that is just too high, and it will eventually harm cotton demand.

U.S. stocks are becoming scarce. USDA has forecast a 4.3 million bale U.S. carryover, but many expect it to be as low as 3.5-3.8 million bales. Thus, the new crop December crop has also seen its futures price advance.

Chinese prices have bumped up against a price resistance level that it has been fighting for some five years. However, on one occasion the ZCE Chinese price resistance was broken to the upside. Expect to see that again. Action in that market is very important to New York, so we must continue to watch it.

However, both Chinese and Indian mills, as late as this week, reported good mill margins. Thus, demand, while possibly slowing, remains very solid.

At its annual outlook forum this week, USDA projected 2021 U.S. plantings at 12.0 million acres. Yield was projected at 840 pounds on harvested acreage of 10 million. Thus, 2021 production was estimated at 17.5 million bales.

On the demand side of the price equation domestic use was pegged at 2.5 million bales and exports at 15.5 million. Ending stocks were forecast at 3.8 million bales. USDA did estimate that the average price received by growers in 2021-22 would average 75 cents per pound, up from its estimate of 68 cents per pound for the current season.

USDA’s 3.8 million bale carryover projection is low enough to hold December futures above 80 cents for now. However, the market is currently trading on the belief that U.S. stocks will fall below 3 million bales, possibly as low as 2.3 million bales.

The uncertainty of U.S. and South American weather will keep the current fire under the new crop December contract into the U.S. planting season. An old crop rally to one dollar will pull the December to 90 cents.

While I hope every grower gets at least that price, that is just too high to prevent the loss of cotton demand. Yet, this is the present and December is trucking to 90 cents.