Cleveland On Cotton: A Good Week In The Market…Sort Of

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

China continues to step up to the plate as sales improve and shipments flow. Better still, cotton futures featured a week of higher highs and higher lows.

So, the bulls are hoping for continuing strong export sales. Likely, however, this week's market excitement resulted from simply trading within the trading range.

Before we get too excited, the market continues to trade within its 55- to 60-cent trading range, basis the new crop December. The old crop July attempted to trade up to its 62.50 cent price resistance level but then settled the week at 61.56 cents.

December promises a higher trading range. However, July's first notice day comes Wednesday, so it is all but done. Nevertheless, July futures prices jumped farther ahead of December this week and now guarantees a squeeze on the July contract.

The principal Memphis merchant is expected to take all deliveries. It is believed the certificated stocks are desperately needed to fulfill export sales requirements.

December going first notice Wednesday dictates that October will become the lead month. However, October is thinly traded. Consequently, the December futures contract will become the primary contract.

Certainly, open interest in the December contract far exceeds that underlying the October contract. Despite this week's strong finish higher, the 55.50- to 60.50-cent trading range in December will continue to dominate.

Factoring In Demand, Crop Conditions

That range should move perhaps two to three cents higher as the market begins to pay more attention to crop conditions in the U.S. and in other major producing countries. Chinese production is slightly challenged, but conditions in India favor a very large crop. India, the world's largest producer, could churn out a record crop, just when it is not needed.

As indicated exports have remained favorable, given the worldwide pandemic. It's worth noting that:

- Yarn sales and spinning activity have shown improvement, albeit slight.

- Apparel sales continue to woefully lag, but apparel internet sales have rebounded.

- Although cotton consumption remains weak, it is improving, and mills are now more agreeable to pay the market price rather than wait for lower prices.

China and Vietnam were the primary customers this week, buying 90,700 and 19,700 bales respectively. Weekly shipments led the week's good news, totaling 348,300 bales of Upland and 5,900 bales of Pima.

Plenty Of Bales Already Shipped

Seven weeks remain in the current marketing year. Of some concern, export sales for the 2020-21 marketing year are some 20% behind year-ago sales. New crop sales stand at only 3,176,000 bales. The December contract will have to address that at some point.

However, total 2019-20 export sales stand at some 17.4 million bales, of which 12.4 million have been shipped. Essentially the difference between sales and shipments will be carried over to next year, adding to next year's sales and helping to address the just mentioned sales imbalance for next year.

The current pace for 2019-20 shipments would yield an export total of 15.2 million bales.

The rumor that China would fulfill its Phase One import agreement regarding U.S. agricultural goods became the fact today and likely was the impetus behind the weekly rally.

Likewise, cotton has long been a channel trader, and the December trading channel called for higher prices this week. Thus, it was a good week. However, prices are still locked in the 55-65 cent zone, with 65 cents likely being a bit rosy. We will see.

Mother Nature is beginning to take her three- to four-month control of the market. Yet, this year some good demand could be manna from heaven.