Cleveland on Cotton: Lackadaisical Week Defies Bullish Signals

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Sometimes one should take a few days off to figure out what is happening. It seems I have not been able to gage the cotton market as I would like. Obviously, my screen is fuzzy! I have tried all week to reboot, and I keep coming up bullish the market.

My market optimism remains very positive. Possibly not as bullish as previously thought, but still bullish. U.S. quality and world quality are just so tight. The market must ration the limited quantity and market rationing occurs only by higher prices.

Granted, the world carryover, some 94 million bales, is a bit large, but quality fiber is in short supply around the world. U.S. exports and quality growths in other countries are in excellent demand. So, where is this 90-cent market I have written and spoken about. Who knows, maybe it is gone for good, but I don’t think so.

Market rationing always occurs. We were aggressive sellers above 82 cents and again above 85 cents: thus, growers did take some very healthy profits. That was all fine and good, but growers always ask, “What have you done for me lately?” Fair enough! No, I cannot guarantee the market will give us more 90-95 cent trades. I believe it will, but I though so a month ago and that has not materialized.

Mills are now buying hand to mouth for nearby supplies. Yet, for the past three weeks they have also been very good buyers for third and fourth quarter needs.

Additionally, mill purchases for the 2021-22 marketing year have also been excellent. Thus, mills are expecting a combination of increasing demand and limited supplies during the coming marketing year. That combination projects higher grower prices. Mills have a long-term view of higher prices, but the past five weeks have accustomed them to the possibility of nearby needs falling into the mid 80’s.

Yarn mill margins are excellent, and mills are wanting to replace yarn supplies at lower prices. However, the mid to upper 80 cent level, basis May futures has offered solid price support. However, the market has not been able to sustain a rally above that level.

The market appeared to be set for a rally this week but was met by one of the most lackadaisical trading weeks on record as speculators preferred to only watch commodities. Daily trading volume was anemic and even daily trading ranges were limited.

It was a non-week, with one major exception, the market moved lower. The May contract settled below 85 cents, at 84.68 and December futures slipped below 83 cents to a paltry weekly settlement of 82.51 cents. That was a far cry from last week’s forecast of 85 cents.

Nevertheless, the current marketing year and 2021-22 outlook for world production and consumption strongly skews on the side of consumption and a significant reduction in world carryover. The inverse relation between production and consumption continues to aggressively favor higher cotton prices.

If anything, the forecast imbalance in production and consumption suggests December 2021 futures and the March, May and July 2022 futures contracts will trade between 85 and 95 cents.

While prices have slipped and growers make their final planting decisions, the market remains focused on plantings of 12.0 million acres or slightly larger. The record high insurance price of 83+ cents will keep cotton rotations of track.

Additionally, the past week's moisture in West Texas did reinforce the planting decision for many growers. Granted, the regions drought has not been broken. However, the recent moisture provided growers the boost needed to keep the intended cotton acreage.

Bullish cotton demand was verified again this week as both export sales and shipments far exceeded expectations. Lower prices, below 90 cents, have brought an explosion in demand. The past two weeks have seen sales climb to nearly 900,000 bales (2020-21 and 2021-22 sales of Upland and Pima).

Net sales of Upland for the week ending 3/11/21 totaled 437,400 bales and Pima sales of 7,100 bales. Next marketing year sales of Upland totaled 143,300 bales. Sales continued strong all week. Too, the most recent week was also highlighted by cancellations of only 900 bales, essentially nil.

Seven countries made double digit weekly purchases, highlighted by sales of 126,300 bales to Vietnam and 98,300 bales to China. Export shipments continued well above the pace needed to exceed the current USDA export estimate of 15.5 million bales as combined weekly shipments totaled 362,200 bales.

We are treading water for now. Yet, as stated, market fundamentals continue to favor higher prices. The Chinese talks will be out of the way next week. The equity market has helped whip saw commodity prices and the Southwest drouth continues its influence.

However, the demand side of the price equation will exert it influence and pull prices 3-5 cents higher.