Cleveland On Cotton: Looking Ahead To 77 Cents?

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

New export sales, coupled with Washington's agreement of the new NAFTA pushed by President Trump, benefited the market all week. The red March (March 2021) actually traded above 70 cents as prices climbed to six-month highs.

The nearby contracts can be counted on to climb above the 70-cent mountain as well. Said again, the Bear is dead and the Bull is growing.

Better-than-expected U.S. export sales for two consecutive weeks pushed the nearby March contract to a six-month high of 68.31. The AWP scored a triple-digit gain over last week as mills increased their price fixing as good textile business continued.

The new trading range appears to be 66 to 72 cents, but traders will find difficulty moving the market beyond 69 cents in the near term. Again, a price setback to the low 66-cent level can be expected, but historically the Christmas-New Year holiday season is good for some unexpected export business.

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Yet, the price trend remains pointed upward and the natural path should take prices to 75-77 cents, basis the March/May contract.

The new NAFTA legislation, assuming the Mexican cartels can be controlled, will open new markets for U.S. cotton with the potential of Mexico becoming the primary user of U.S. cotton, surpassing both Vietnam and Turkey as the principal market for the U.S. fiber.

India and particularly Pakistan have been very good customers. Both were somewhat unexpected, but the crop disaster in Pakistan made that country an excellent buyer. Too, Pakistani yarns (U.S. cotton) have made headway into the Chinese yarn market.

The effect, although indirect, has been a boost in the Chinese consumption of U.S. cotton. Thus, this was one way around the Chinese tariff on U.S. cotton. Too, Turkey and Vietnam have remained solid customers for U.S. cotton.

China Active But Running Behind 2018

Additionally, the market noted two consecutive weeks with very good sales to China. Further, this week's report indicated strong shipments were made to China. Weekly net sales this week were 263,700 RB (249,400 Upland;14,300 Pima). Shipments were also above expectations at 224,900 RB (213,200 Upland; 11,700 Pima).

U.S. export commitments now stand at 11.9 million bales versus 10.8 at the same time year ago. To reach the USDA export forecast of 16.5 million, weekly sales need only average some 140,150 bales, very-very easily doable.

However, total export shipments are 3,8 million versus 3.3 million a year ago at this same time. Granted, we are a month away from the beginning of the traditional heavy shipping period; however, shipments must average some 385,000 bales to meet USDA's projections.

After being absent as a bullish factor all year, On-Call Sales are showing signs of bullishness although cotton held by growers remains frightfully large. March On-Call Sales outnumber On-Call Purchases only 13,000 contracts, but the combined May/July On-Call Sales outnumber May/July On-Call purchases some 59,000 to 5,000 contracts. Thus, the door is open for some bullish activity.

Finally, mention was made of "cotton held by growers remains frightfully high." The prudent strategy, tried and proven many years over, is for growers to sell their physical cotton and buy the July call option (at the money or up to 3 cents out of the money). Otherwise the grower will be stuck with the storage and other carrying costs of cotton.

This tends to far outweigh the cost of a call option. Of course, the call option allows the grower to take advantage of a higher price just as if he still had the physical cotton.

Buy the call, don't pay storage cost. March tests 72 cents. May moves beyond that.

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