Cleveland On Cotton: Market Is Fighting The Upward Trend

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Cotton survived Friday the 13th trading and spent most of the week in the 69-70 cent trading range in very static trading, almost fearful to trade in any direction.

Yet, the market reversed itself going into the weekly close and prices climbed above 71 cents, only to close just below that mark. The idea of a somewhat friendlier Chinese market sat heavy over the ICE contract all day and was the primary reason for the New York contract to instantly move higher at the close.

The December contract dominated activity via the December-March spread as traders sold December futures and rolled their positions to the March contract. Mills were very reluctant to chase the market higher.

However, volume sellers like the U.S., India, and Brazil appear ready to feed cotton to the buyers in the 69-70 cent area. Mills have continued to aggressively bargaining prices down slightly.

Most mills are not actively covering into the next quarter as they feel prices will trend lower and hand to mouth buying will be an adequate strategy.

The Market Is Fighting The Upward Trend

Additionally, while the trendline most definitely continues its pronounced upward sloping curve, current trading activity appears to be mounting a significant attempt to lower the slope of the trendline.

That is, the market appears to be establishing a significant challenge of the current trend and is calling for prices to fall some three to four cents. This could be done and still allow for a price uptrend to remain in force.

The Chinese ZCE contract appears to be in the lead position for price direction. Some are looking for the new spot March contract to challenge 75 cents, but the current export pace remains weak.

The weekly export report for the week ending November 12 showed net Upland sales of only 131, 400 bales.

Where The Bales Went

The number of destinations seeking cotton climbed slightly higher than observed the past several months. This week's report showed that 16 countries purchased U.S. upland growths.

However, only five of those countries purchased more than six thousand bales. Thus, export business, owning to the Chinese coronavirus, remains much slower than in past years.

The principal buyers were Vietnam, 57,880 bales; Pakistan, 33,100 bales; China, 22,500 bales; Turkey. 22,500 bales; and Indonesia, 10,800 bales. China's action to cancel previous sales of 45,000 bales was noted.

Export shipments were strong enough to keep pace with USDA’s export estimate of 14.6 million bales for the year. However, exports will begin to slow unless export sales pick up. There are 38 reporting weeks left in the 2020-21 marketing year.

Domestic U.S. cotton consumption continues as a drag on cotton prices. It is estimated to be 2.5 million bales by USDA for the current marketing season. However, the pace has never exceeded 2.3 million bales.

Too, it has subsequently slowed to only some 1.9 million bales. Possibly, USDA considers it is too early in the marketing year to adjust the estimate lower. However, a rate of consumption this low will balloon the U.S. carryover estimate even higher. Thus, it is very important to future market activity.

We find it difficult “bulling up” to my cohorts’ 75 cents, basis March, but I hope he is correct. Don’t get caught paying storage costs. Sell your crop, i.e., fix the cash price. If you remain bullish buy calls. I, for one, are no longer bullish.