Cleveland On Cotton: Much Depends On What China Does Or Doesn’t Do

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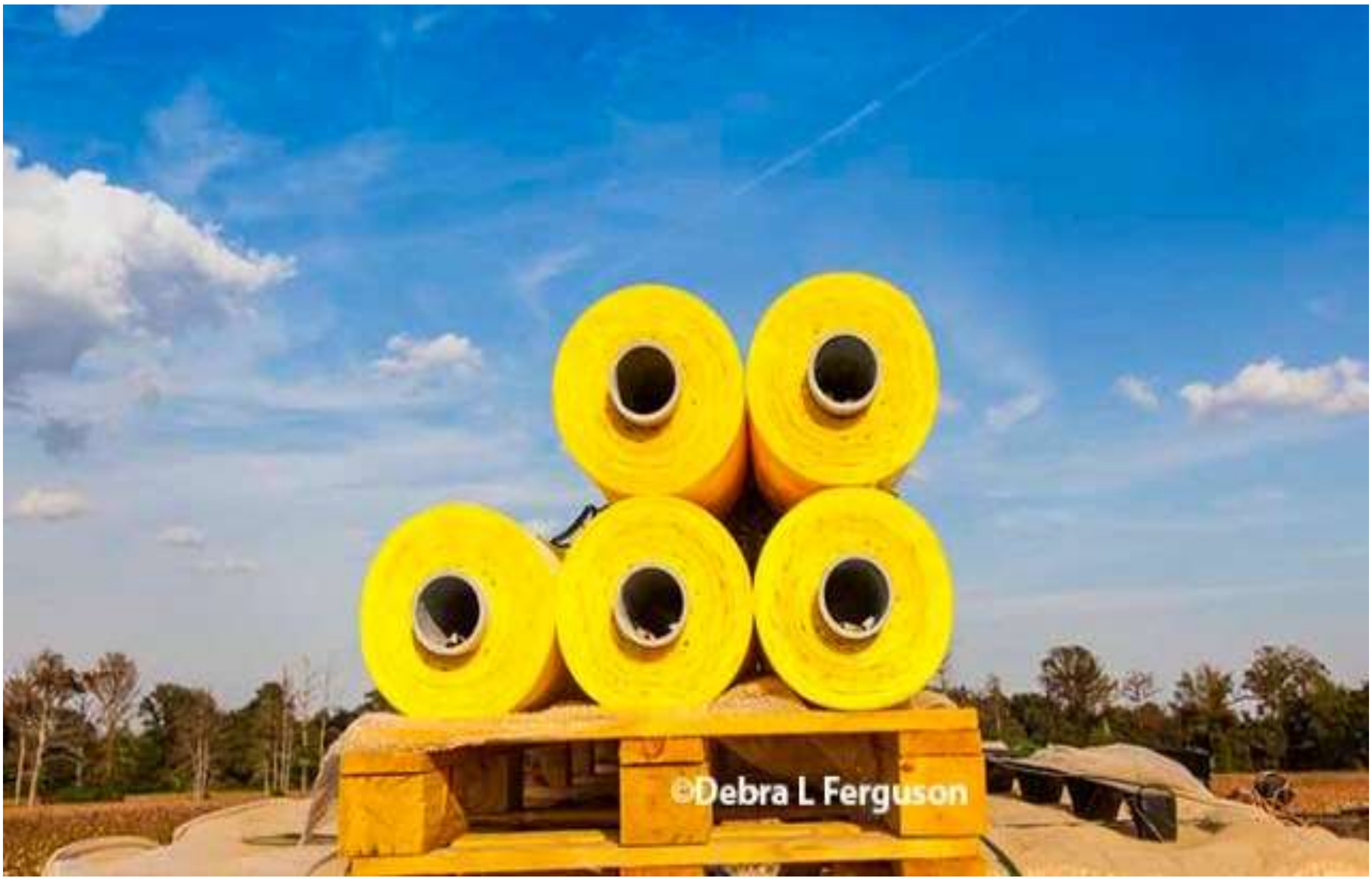

Cotton eased into the three-day weekend a bit unsteadily but still standing erect. The market was down on the week, but only after failing to close above its 59.50-cent resistant level.

Carry returned to the market as the new crop December futures contract eased some 64 points over the nearby July contract. Excess carryover both in the United States and globally continues as the bearish force that keeps a heavy hammer over this market.

- The near-term fundamentals appear positive for prices, at least on the surface.

- Technicals continue to look friendly near-term.

- Additionally, the market has traded very well within its 55.50 to 59.50 cent range with little attempt to deviate from that dominate range.

The China Factor

Most traders and growers alike are locked onto what China does, or does not do.

The textile industry is gradually increasing its activity, which is a plus, but a new world crop is in the ground. As mentioned, excess carryover stocks already exist in all markets. So, expect the current 55.50 to 59.50 cent range to continue into the July contract's first notice day (FND) of June 24, just five weeks from now.

The market can be expected to react to the level of certificated stocks as the principal Memphis merchant appears to have solid demand for quality stocks.

While growers still have available cotton, the board continues to offer the least-cost cotton for the merchant needing to fulfill export commitments. Yet, quality stocks will command a bit more premium than currently offered as harvesting of the 2020 crop begins.

Too, while China remains a magic word in the cotton market, it is no longer the amount of cotton China buys in the export market. Currently Chinese buying is some combination of:

- Meeting the Phase 1 agreement.

- Rebuilding its Strategic Reserve.

China is ripe to do this in a period of cheap (low) prices. However, the key has become shipments. All the current buying (2019-20 marketing year) will not get shipped. There is simply not enough time to move all the purchases recently made and that are currently being made.

Actual Shipments Of Cancellations?

So, the question is whether China will move shipments into marketing year 2020-21 or simply cancel the purchase agreements. Historically, the market’s inclination was that the shipment would be made. However, that is no longer a safe bet. Cancellations have become a very active political game with the Chinese.

This becomes a major reason why the market will continue with its narrow five-cent sub-60-cent trading range.

China does remain the primary buyer of U.S. cotton, but export sales and shipments have slowed. U.S. shipments on the week only reached 256,800 bales. Upland net sales for the week were 128,900 bales and Pima sales were only 600 bales.

Upland exports to date total 10.81 million bales. This is some 13% above the prior year’s pace and 72% of the USDA 15-million-bale estimate.

About 10 weeks remain in the marketing year. But seasonally, this is the time for large weekly shipments.

Weather Delays And Snake Eyes

Other fundamentals gaining notice this week included a somewhat slight uptick in yarn demand at many locations as well as the late planting problems in the Southeast and Midsouth.

Weather problems in China added to that.

Yes, lateness is a factor, but let’s not be too concerned about late U.S. plantings until after July 4. And don’t look for any planting inside the Mississippi River levee – cotton or soybeans.

The Covid-19 payment to growers will be 9.5 cents per pound based on 50% of one’s respective crop. There are more than a couple of snake eyes in the provision, so be sure to check with your producer representative.

The limit appears to be $250,000 per entity and does not count against any program payment. The payment is not a subsidy or disaster payment, but a payment made due to Covidid-19 market interruption.