Cleveland on Cotton: Chinese Politics Loom Large

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"When It Rains It Pours." So goes the Morton salt slogan. And cotton prices seem to be pouring lower and lower each week.

December declined 192 points on the week, falling at one point to 58.06 and settled the week about 100 points above its life of contract low. The 57-61 cent trading range remains intact but will be challenged unless the market senses the U.S. crop is getting smaller.

Mills backed away from fixations and offered little buying on the week as they felt prices were moving lower. China stepped in announcing it will make it more difficult for its mills to buy U.S. cotton. That is a moot point since China is not even shopping for U.S. cotton. Prices held within the expected range. Look for more of the same in the coming week and probably until USDA's September 12 WASDE report.

Positive market news is difficult to find and certainly, there is no bullish case to be made. The market recently experienced 2 outside range trading days, which can be interpreted as bullish. However, outside range signals are typically weak indicators, at best, and these seemed to have proved that point.

Politics and Policy

China's answer to the security and information tariff sponsored by the U.S. has been to attempt to hurt U.S. farmers. China's attempt has met with limited success and Washington has attempted to reimburse U.S. farmers for potential losses suffered as a result of the tariff.

Generally, U.S. farmers have viewed Washington's attempts as very successful. However, China is attempting to rev up its attacks on the U.S. This policy will keep the big price bear hanging over the cotton market and lock cotton prices in the high to mid 50s — for now.

Chinese Troops and Cotton Prices

The much greater concern to the market, much-much greater, is the possibility of Chinese troops invading Hong Kong in an attempt to quell the freedom celebrations. Cotton prices could easily slip 10 cents or slightly more should troops enter the city. Such military action would limit the worldwide shipment/acceptance of Chinese apparel products. The semiautonomous Chinese city has been under siege for several months. All industries, including its giant textile operation, have slowed. In the case of textiles, the industry has all but shut down.

Export Sales and Lower Prices

We have mentioned it before, but export sales are likely facing some large cancellations as prior sales were at 70+ and 80+ cents. Some 7.4 million bales have been sold, but only about 715,000 bales have been shipped. This week's export sales were a weak 159,900 RB (164,000 Upland and -5,100 Pima). Global demand remains the primary issue relating to price deterioration.

In September, USDA is expected to further reduce its estimate of world consumption. The Chinese mill slowdown has expanded. They are reportedly slowing down yarn production and imports by operating at 50 to 75% of the usual operating hours.

Crops in the Field

Both the Chinese and Indian crops made excellent progress this week and, despite the exceptional seed genetics delivered the past three years to U.S. growers, the U.S. crop appears to be slipping back to near 22 million bales. However, we are reminded that the past 3 crops have surpassed early estimates.

This week's hype about an impending general economic recession in the U.S. was more about people trying to talk news rather than actual facts. The U.S. seems to have a recession about every 10 years and based on that analysis it is time for one. Possibly the media can invent one. However, the U.S. consumer has strapped the economy on his back for now and is plowing a straight furrow. Expect the market to continue churning the 57-61 cent trading range. For now, growers are left to market via the LDP/MLG/POP as the adjusted world price sits at the loan level.

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