# Cleveland On Cotton: Can The Bull Maintain His Pace?

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Cotton prices continue to ride the uptrend and have now surpassed the initial price goal I earlier established. Yet, the uptrend remains in play and prices are only in the middle of the current trading channel.

As stated last week, the market adage in play here is, "Never Bet Against the Trend." Price activity this week broke above eight-month highs and moved on to establish ten-month highs. The 72-73 cent price mark is now in sight and beyond that is the 75-cent barrier with and 80 cent price resistance bar above that.

Trading did climb above 72 cents, but the market was un able to establish a close above that level. The market pulled back going into the weekend as speculators moved to take profits. Both fundamentals and technical indicators are driving cotton prices higher.

The surge in open interest associated with the price move higher bodes well for an attempt to close above 72 cents and then challenge the 75-cent mark. Other technical patterns include the price uptrend itself, as the market continues to establish higher and higher lows. The uptrend has also established a very good price channel that is guiding prices higher.

**Mill Operations Add Lift**

Fundamental factors supporting higher prices are coming from both the supply and demand side of the price equation. Most are adamant that the U.S. crop is at least 500,000 bales overestimated by USDA and possibly as high as 1.3 million bales overestimated.

Numbers this large deserve attention.

Thus, this has been supportive of higher prices. Additionally, the Chinese textile industry has moved to near 90% operating capacity, from a pandemic low of 30%. Chinese textile production is increasing faster than expected. In fact, textile production throughout Asia and the subcontinent has increased faster than expected.

So, the demand for cotton is increasing. Demand takes price higher. The next USDA supply demand report is still three weeks away, but the market is already telling us both world production and world demand will be higher.

With that, we should expect world carryover, currently estimated at 100 million bales, to fall to 95-98 million bales. Too, a 400,000-bale reduction in U.S. production would lower U.S. carryover down to 6.8-7.0 million bales (accounting for a 200,000-bale reduction in U.S. domestic consumption).

The market finds bullish news from other countries as well. The market is expecting smaller crops in India and Pakistan crops. As has been the case since the beginning of the pandemic, the New York ICE contract has found price leadership from the Chinese ZCE market.

**Where The Bales Are Going**

The current weekly export sales report was very good, finally. Net sales of Upland totaled 227,800 bales. Principal buyers were Pakistan, 92,500 bales—strong sales due to their crop disaster; China, 59,100 bales; Mexico, 33,800; and Vietnam 30,500 bales.

While the weekly sales total was finally very good, the report indicted that U.S. cotton sales are still concentrated to just a few countries. Sales were made to only 12 countries and the four principal countries accounted for 95% of the total sales.

The Big Bear in the price equation continues to be current 100-million-bale estimate of world carryover (probably down to 95-98 million as just demonstrated). Additionally, the U.S. carryover will continue to be burdensome. Even if it drops to 6.5-6.8 million bales, it is extremely difficult for me to support a case for prices higher than 75 cents.

A market selloff should be expected. The question is will the selloff be near and beyond that will the selloff come at 75 cents or even above?

Of course, I did not even see the current high above 72 cents coming, so anything can happen. The bull has had a great run. I hope he is not tired.