Cleveland On Cotton: Fewer Acres In 2021?

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

As expected, the market did back-and-fill all week, easing above 66 cents after attempting to move marginally below 65 cents. Generally, business was slow, i.e., reflecting a somewhat stale market.

Chinese exports surfaced, but not in the numbers suggested by the commitment of traders report (COT). Additional sales to China do exist and will get reported, but the question remains will the volume push 400,000 bales and/or will the final number be closer to a million bales by the end December?

Too, Brazil will sell its share. (Last week I mistakenly stated that Brazil was out of cotton — not so, they are out of beans — mostly sold to China.)

Where U.S. Bales Are Heading

A reasonably tight two-cent trading range, 64.70-66.70 cents, is expected going into the October 9 USDA world supply demand report. Import demand remains strong from China. But except for “pre-planned” sales to Mexico and Vietnam, U.S. export sales will continue to be limited.

Small sales will continue mainly to Bangladesh, Indonesia, Turkey, Malaysia, Korea and others. We must remember that world textile industry is operating on a very limited schedule as many retail outlets remain closed and mail order has become the way of life.

Hopefully, the October S/D report can uncover news to help generate higher prices. Yet, the principal fundamental we must keep paramount in our though process is that world carryover is forecast at some 103 million bales. With that, there is a heavy-heavy lead cap over the 68-cent price level, basis December futures.

The market has a double top between 66.50 and 66.70, and we all know that is a significant technical barrier to higher prices. Yet, I am on record of thinking a U.S. crop, some 300,000-500,000 bales lower and, coupled with additional strong sales to China, would allow a trade up to 67.50 cents.

Update On Xingjian Boycott

The world ban on cotton and textile products originating in Xingjian has expanded to the point that the Chinese Communist Party no longer guarantees the safety of foreigners or foreign companies there to inspect the products and plants that produce the products.

The communist party has even gained some local U.S. support in that a Washington, D.C., based lobbying firm, American Association of Apparel and Leather Importers, questioned the validity of the U.S. ban of importing goods from the Communist state of Xingjian.

Of course, the Association of Apparel Importers represents companies that import to the U.S. the apparel that was produced by slave/child labor. Additionally, the companies are big importers of slave produced polyester and cotton apparel. These companies have more interest in their polyester profits rather than whether the labor force that produced the goods were enslaved or were, in fact, the product of child labor.

The forced labor camps in China are increasing as some half-million to one million Tibetans have now been captured and forced to labor in Communist Party businesses across the country. Just some three years only a very, very small handful of others bothered to report these abuses.

Now that Fox and NBC have reported on this, the cotton industry can take pride that a small few of its participants spread this word internationally. We have commented several times about ramifications directly affecting the cotton market. A primary impact is the current demand for cotton imports by China. As mentioned, it is the U.S. cotton grower, as well as other growers, that will benefit as China must import cotton to use in its non-Xingjian textile industry.

Synthetics Taking A Toll

Historically, increased homes sales and housing starts were excellent barometers for cotton demand. Additionally, increased apparel sales and strong “back to school” sales were fundamental factors suggesting increased cotton demand.

However, now that polyester has taken the consumer market, the very strong numbers associated with the housing and apparel mean little for cotton demand. We have lost those markets. The best we can hope for is that the “better home numbers” mean a few more towel sales.

However, that is not enough to get excited about in looking for increased cotton demand. Cotton is in desperate need of a program to push its attributes to the consumer and gain some consumer attention.

This week’s export numbers portray cotton’s struggle. Net weekly sales totaled 92,700 bales of Upland cotton with 39,500 bales or 43% of the total going to China.

Sales to Vietnam (51,100 bales) and China accounted for 98% of the weekly U.S. export sales. Therein is why cotton prices are hamstrung below 70 cents with only “hope” to pull prices into the upper 60’s.

Week after week only some one to three countries account for all the exports sales…China and one or two more countries. There is not any widespread demand for cotton. Dare I repeat — it is demand that creates a bull market.

Cotton Acreage Set For Slippage In 2021

I am not a bear, but we have done most of what we can do for now. We need the late Willard Sparks now — we have noted for several weeks the level of demand for oilseeds, corn and pork coming from China, not to mention cotton demand.

Several weeks ago, we noted that China needed soybeans with a “capital N.” We know that Brazil has sold all its soybeans to China and that China continues, daily, buying U.S. beans. China will buy more, maybe all the remaining U.S. crop, but that is a stretch.

We noted on last month’s radio show that oilseeds in Europe were facing drought conditions. How does that relate to cotton? The 2021-22 market is setting up to be a real bull for oilseeds and a downer for cotton.

U.S. cotton acreage could be off as much as one million acres in 2021 due to increases in soybeans and corn prices. Yet, cotton demand, especially demand for quality cotton, will possibility be at a record premium in 2021-22 as market conditions are suggesting that 2020-21 cotton carryover will be totally void of any high grades.

China may buy all the U.S. has. (Note: you hear the Chinese Reserve sells out every day — simple — most lots contain the only high grades China has.)

The 2020 crop carryover may consist only of discounted cotton, 41-4-34, the old standard SLM 1-1/16 inch. It's still the base grade for New York. However, it is without doubt a discounted grade in the world market.

The seed companies have done their part and given the world dependable crop grade of 31-3-36. It is time for some organization to speak up for the U.S. grower and enlist changing the NY contract to the world standard.

Otherwise, it is time for the U.S. grower to align himself with some organization that will speak on behalf of the grower's marketing interest.

Prices will continue to back and fill between 64.50 and 67.00 cents into USDA's October 9 world supply/demand report. Most of the trading will be above 65 cents.