Cleveland On Cotton: Brutal Competition Ahead

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It is not a pretty picture. You may not want to read this. I do not have a solution. The only bullish marketing news for cotton is a backhanded slap at other row crops.

Cotton does offer some return to management, albeit only a little. Further, I would like to think that most of what I write today will prove to be incorrect.

Yet, the white fiber is in a bit of trouble, or rather a whole lot of trouble. The only positives are agronomic, with no marketing positives.

The market is busted. International growths can no longer be hedged on the New York Cotton Exchange (The ICE) with the confidence that the price of cotton can be accurately discovered.

The market has no carry, not even from one year to the next, or to even the year following, not even from one month to the next.

The futures market values the 2022 crop, the 2021 crop and 2020 crop all the same. Even the price of the 2023 crop can be inferred to be worth the same 59-60 cents that was the weekly close of the current December 2020 futures price, 59.44 cents.

Certainly, such cannot be the case, but the market says it is. I have forever said the market is always correct, it is just the traders and analysts that are wrong.

Yet, here we are reaping the 3- to 4-plus-bale per-acreaverages the seed companies have given us while trading volume has fallen to a modern-day low and open interest is at a six-year low.

Simply put, no significant entities are interested in trading cotton. The market is left reflect to nothing but a day trading market. The grower is left out, and he has no spokesman in the marketplace or leverage.

He only has his hat to grip in his hand as he goes abegging for a price, for something of value to exchange for his cotton. The futures market and its rule makers and its regulators have written him off.

No one, no entity, no organization is going to bat for the cotton farmer, and no hero looms on the horizon.

That said, look for the market to continue to trade between the very low 60s on the high side to the low 50s on the south side. Mill business is gradually crawling back. However, consumers still lack money, i.e., buying power.

The export world for U.S. cotton during the coming season is all but locked into whatever business that China and Vietnam will provide. What might surface is a bit of buying by Turkey, Bangladesh, Mexico, Indonesia, Pakistan and a few others. The key phrase is “a bit.”

Too Much Cotton, More On The Way

The world is facing a record level of cotton supplies outside of China, or even a record level of supplies outside of China and the U.S combined.

The market is facing an improved first crop out of Brazil, a crop that has been coming to the market for some 45 days. Now, the Brazilian second crop is readying for harvest.

In a sense, the world almost doesn't need any other cotton. It does not need the Indian crop, the world's largest producer. It does not need the Chinese crop, the world's second largest crop. It does not need the U.S, crop, the world's third largest crop.

Add to that the fact that the Brazilian crop, without any possibility of being stored, and it will find its way to the market almost as soon as it is harvested.

Clearly, world price competition for cotton will be brutal over the next 7 to 8 months. As a grower from north Alabama once remarked, there will not be any new Tahoes for a few years, bass boats either.

Despite the pandemic, China continues to buy U.S. cotton. Here's the bad news: most other countries are out of the cotton market.

Consumer activity is dreadfully low. While business is slightly improving, the improvement is having to rebuild from record low levels of yarn production. Thus, any positive market impact will remain at a snail's pace.

Here Are The Numbers

Net sales of U.S. cotton on the week totaled 102,700 bales of Upland. The downside of that was that nearly all of it was to China, with hardly any other buyers. In total, buyers from only five other countries ventured into the market.

The June 30 USDA annual plantings report will be released Tuesday. The average of analysts' estimates was 13.2 million acres. The lowest estimate was 11.9 million and the highest was 13.9 million. The USDA March intentions survey reported 13.7 million acres.

A broad 13-cent trading range is in play with the dominant range between 57 and 61 cents. It will be necessary and vital for the government to add money to the general economy once the current stimulus expires in July. Expect a similar package coupled with additional farm aid.