Cleveland on Cotton: Sales Improving, but Cotton Prices Show Little Change

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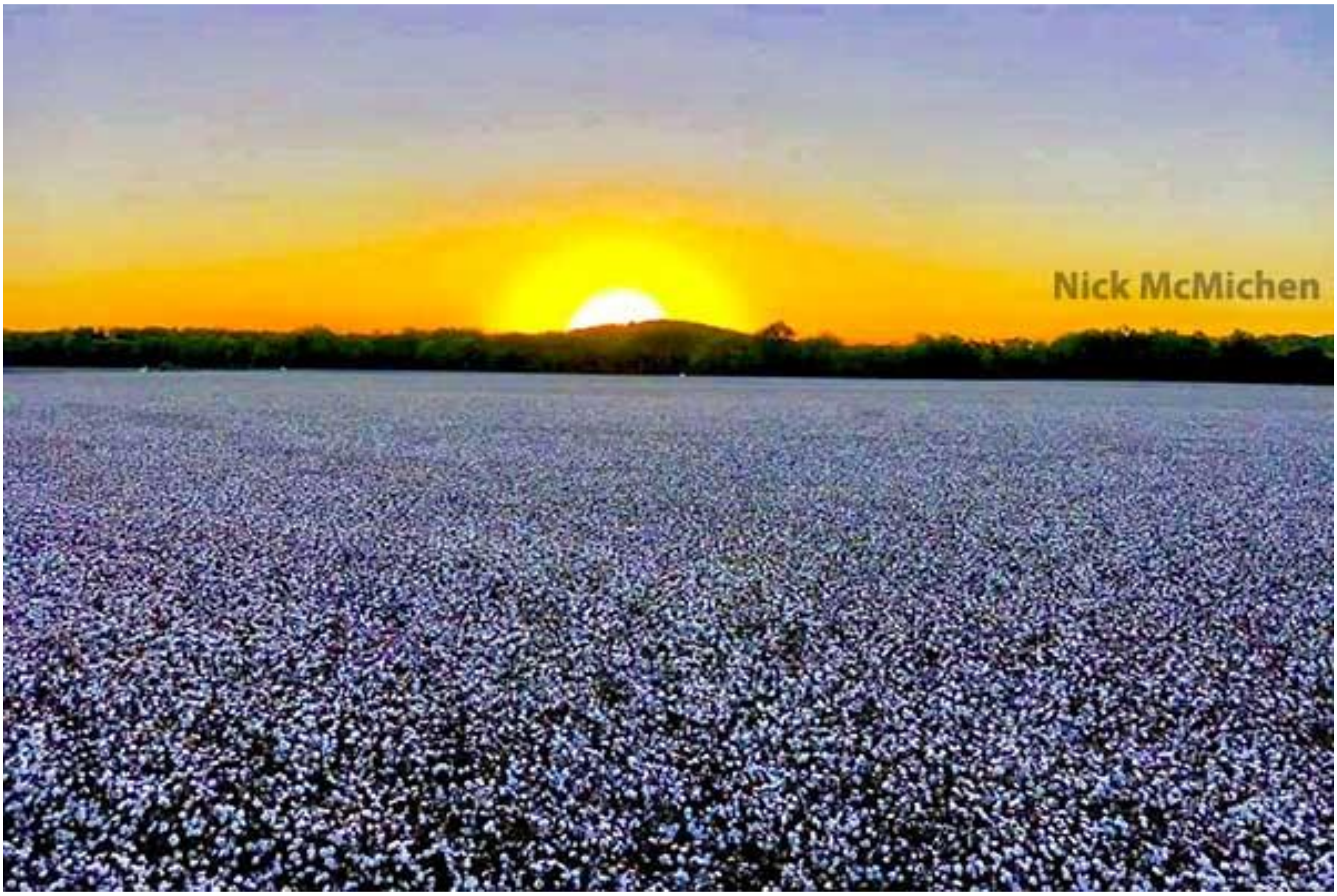

There was terrific excitement in the market all week. Some thought cotton futures were finally headed to 90 cents. Yet, remember, it's all about demand.

Export sales are extremely limited to nil when prices are 86 cents and above. Sales are meager with prices between 83 to 85 cents. Sales are decent with prices at 82 cents and below. Period! A dip into the 70s is necessary to uncover great sales.

This week's market excitement fizzled when prices topped 86 cents. March futures settled the week at 86.79 cents, just nine points above the prior week's settlement. Thus, the 75-89 cent trading range continues with the more dominant range being 81 to 88 cents. There is little-to-no change expected in the coming month. The trading range will likely continue at least until mid-March when trading expectations surrounding USDA's March 30 Plantings Intentions Report will surface.

This week's export sales report was a carbon copy of the prior week's report, although slightly better. Yet, recall that cotton prices were in the 81-83 cent area when the last two weeks' sales were made. Net sales of upland totaled 219,800 bales for the week ending Jan. 19, with China buying 62,300 bales. This was China's largest purchase of U.S. cotton since October.

Many in the market are now expecting particularly good purchases from Chinese and Southeast Asian mills, claiming textile mills will resume normal operations now that the coronavirus in China is ebbing.

Let's hope that is the case and I am incorrect, but I do not see the normal demand parameters just yet. Export shipments could increase, but that could possibly be the merchant's way of storing unsold cotton in less expensive warehouses. Sooner or later, mills will need the cotton, but not now. Shipments of this kind do not move the demand needle.

This week's Chinese purchases did return China to lead market for U.S. cotton, moving them ahead of Pakistan (1.842 million bales). Chinese purchases of upland to date are 1.892 million bales. Too, actual shipments to China to date total 1.396 million bales compared to just 601,600 bales shipped to Pakistan. An unknown quantity of sales to Pakistan could be cancelled due to the inability of textile mills to open the letters of credit needed for shipment.

Weekly shipments of upland to all destinations were only 177,900 bales – well below the number needed to support the pace of shipments needed to meet the USDA export estimate of 12.0 million bales.

The new crop December contract continues to show its strength but will not be able to push above the May/July contracts unless/until the market senses that new crop plantings will be 10.5 million bales or below. The National Cotton Council planting intentions survey will be released on Feb. 12 and could supply some support to the December contract. While the respective price ratios with soybeans and corn are more favorable to cotton than they were two months ago, the ratios still favor the other crops. The stage is being set for December to move higher, but more work needs to be done.

As commented last week, growers should consider selling old crop on any move near or above 87 cents, basis the March contract. Price resistance is extraordinarily strong above 87-88 cents.

Give a gift of cotton today.