# Cleveland on Cotton: With China's Realignment, Better Times Ahead?

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Flip Flop!! The opening sentence last week was, "The Big Bear." Finally, I am happy again. The Big Bull.

Prices are going up and 2021 plantings are going up. While near-term fundamentals remain bearish, a bull beginning to grow, and he will reach maturity.

Yes, this relates to China and a combination of U.S. trade policy and the European consumer's insistence on cotton both grown and manufactured outside of China's slavery/child labor zones. This has forced China to reorganize its cotton production, trade and textile manufacturing policy.

The European consumer has also been a major supporter of U.S. trade policy by banning Chinese textile imports from the slave/child labor region of China — which also happens to be its major cotton production region, Xingjian.

These combined actions have effectively told China, “We will no longer allow either your illicit cotton or textile products manufactured from that cotton into our countries.”

Certainly, the statement is clear and simple, and enforcement of the Western World’s policy will not be difficult either. I must give kudos to my unnamed friend in Nashville who has worded harder and longer than anyone else to bring this about.

**Demand Of A Different Kind**

Yes, cotton fundaments appear bearish and, in fact, are in the short term. Yet, as we questioned ourselves during my uncomfortable Bear days, why would cotton prices not go below 60 cents? There had to be a reason somewhere.

Prices “should” have been in the 45-50 cent range, it seemed. However, the market would not break. Technical indicators teased the market, but all technical rallies failed.

With fundamentals becoming clearer, the market will now work to validate technical rallies. Of course, this interaction is not without demand. Demand was necessary.

The realignment of the monster Chinese textile industry is forcing China to use both its slave-produced cotton and textile goods locally in China. They cannot be exported. Also, it is forcing China to import essentially all of the cotton it needs to operate mills that will export textile goods.

Presto, all this will require China to at least double its imports of cotton. The U.S., Brazil, Australia and (on occasion) India will benefit from this policy. The big winner will be the U.S. Australian cotton will always have a market.

**Potentially, More Bales Bound For China**

Thus, U.S. exports to China will continue. More are coming. Chinese imports, once thought to be 3-4 million bales will swell to 10-12 million, depending on how rapidly the world economy can move past the pandemic.

However, China will be very coy and very deliberative in making purchases. They are excellent in protecting their cards…as they should be. Their actions became clear in this week's U.S. export sales report. It shows they cancelled prior purchases of 177,700 bales.

However, they also bought 224,500 bales. As all of this was done by the Chinese Communist Party. They cancelled purchases made at a higher price and made new purchases at a lower price.

Actual shipments on the week to China were 153,500 bales.

Of course, the U.S. must continue to offer high quality cotton and very timely shipping commitments. The U.S. cotton merchants and cooperatives, coupled with the U.S. seed companies, provide a major role in helping the U.S. cotton maintain its favoritism in the world.

We noted last week that China's needs for oilseeds and corn were great with "a capital G.". Add cotton to that. Add pork to that.

**Most Commodities Stand To Benefit**

Just as the USSR made a political decision to upgrade its people's diet in the early 1970s and got caught with a production disaster and had to come to U.S. agriculture for a bail out, the Chinese are now having to come to the U.S. farmer in order to feed its people.

The demand for U.S agriculture is great. The trade tariff policy with China is proving to be one of the most successful economic programs in U.S. history. (Whether such was planned or not, it always pays to be in the right place at the right time.

The impact is greater than anyone ever expected. Of course, a series of events had to transpire. The policy had to be in place. Mother Nature had to take production from one country and give to others. The fact is, the supply is available and now the demand is coming.

As flush as China is with cotton today, it will likely need 18-22 million bales of imports during the next 24 months.

Nevertheless, going into the September supply/demand report, prices will struggle to break above 66 cents, basis December. November may see December futures move to a challenge of 69.00-69.50 cents. No more 50 cents from me.