Cleveland on Cotton: Will New Crop Break 80 Cents?

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Cotton muddled through the week seeing nothing but red until the bears waved a white flag on Friday and allowed cotton prices to ease back to their support at 80-81 cents, basis old crop and 77 cents, basis new crop. Thus, the market survived an attempt by bears to run prices lower.

This price cleansing process will prove beneficial to the market by adding considerable strength to the price support, basis the old crop contracts. New crop prices, all but ready to test 80 cents, will continue to batter the 80-cent wall. The battering ram should be strong enough to break above 80 cents in the April-May period.

The world’s desire to plant oilseeds in 2021 will bode well for 2021 cotton crop plantings. Demand continues to be very stable and pent up demand is building with consumers.

The cotton market will be sensitive to rumors and actions by the U.S. Congress regarding a new stimulus package. Such a package, while long term very inflationary, will in the short term add more vigor to the stock/equity market and somewhat boost consumer spending for non-durable goods; thus, boosting cotton consumption.

Prior stimulus funds tended to be used by consumers for durable goods. A new stimulus package should support stronger cotton demand for as much as a year, or at least until the back to school shopping season.

Cotton should continue to enjoy a demand-based rally throughout the summer. Additionally, the reduction in both U.S. and world plantings will lend support to the price rally.

Demand is much stronger than expected. World demand is not at a record level and carryover stocks of cotton are very excessive. However, demand is more than exceptional given that the industry had expected a near collapse in demand due to the Chinese coronavirus.

That is, market action and the market’s response to restarting the textile industry, coupled with the record level of funds world governments made available to consumers, created a record surge in consumer demand. The textile pipeline was exhausted and is only now near the point of catching up.

It is “beginning to catch up” just as the pent-up demand is preparing to push through the market. Thus, another stream of the immediate need for cotton is set to begin.

The Chinese textile industry, by far the world’s largest and the Indian textile industry, the second largest, are operating at 100 percent capacity. Further, Pakistan and even India are operating around the clock to spin yarn for export to China. Turkish activity has increased substantially and other countries such as Vietnam, Bangladesh, and Indonesia, initially expected to slow production, have maintained their spinning operations.

China has a huge appetite for imported cotton yarn. The U.S., Canadian, Great Britain, Australian and some European countries embargo of the slave/child labor-based Xingjian products has created such demand for imported yarn.

Exports of U.S. cotton continue at historical high levels. Shipments to date (yearly) are the highest in some 40 years and yearly sales to date are the largest in 10 years. The pace of weekly sales and shipments clearly suggest that USDA will have to increase its estimate of U.S. exports and decrease its estimate of U.S. carryover.

U.S. carryover could fall to some 4.0 million bales, or 600,000 bales below the current estimate. (Once thought to be a foolish forecast. It is not as far fetched as it seemed just a month ago.) Too, this activity has occurred as the availability of containers for shipment to the Far East has been severely restricted as has the availability of truckers to move U.S. cotton to the ports.

Weekly sales for the current and next marketing year of Upland cotton and Pima cotton totaled an incredible 402,100 bales—a time when futures prices were some 80 cents per pound for base grade SLM 1-1/16 inch cotton. The sales were very broad based and ten different countries bought more than 10 million bales. This was an extremely a bullish report.

Washington’s is increasing energy prices which will slightly elevate polyester prices, but that will not impact cotton demand for the near to intermediate term, possibly longer. The primary impact of higher energy prices is that it increases earned hard currency reserves for Russia, Saudi Arabia, Venezuela, and the remaining large oil exporters.

The grain and oilseed complex will likely draw more acreage from cotton than I initially estimated. Nevertheless, the “insurance price” related to new crop plantings will be established during February and the New York ICE contract should average near or above 80 cents. Thus, I still expect U.S. growers to plant 11.9-12 2 million acres.

I like the market. More importantly, if you like the market enough to plant cotton then I challenge you to like the market enough to sell some—80 to 85 cents comes and goes….70-75 cent s stays.