Cleveland on Cotton: Brazil Prices Undercutting U.S. Offers to China

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As was cautioned in last week's newsletter, cotton prices came under pressure all week and new crop December prices broke below the psychologically important 75 cent support level, giving a good victory to the market bears.

The long term support at 72.50 cents remains in place, but the psychological impact to the market was damaging. Many growers view the 75 cent level as an absolute bare minimum break even point. Weekly export sales and shipments were less than impressive, Mother Nature allowed for improved planting conditions almost universally across the cotton belt, new export sales inquiries were weak and most of the world trade business went through Brazil instead of the U.S.

The 2019 U.S. crop is being viewed as off to an excellent start and the market is beginning to trade prospects for a larger crop of 22-23 million bales. As such December futures will continue to drift between 72.50 and 75.50 cents with pressure on either side.

It is far too early to declare 2019 plantings out of harm's way. However, more normal weather is in the forecast.

Flood gates along the Mississippi River remain closed.

Any moisture falling between now and June will be left to collection and evaporation in the field. There will be no run off. Consequently, additional flooding of fields can occur. However, most, if not all of this will be limited to the south Delta – tending to limit any potential loss due to additional flooding. Even at that, the most severe loses now would appear in areas near the low end of a field and not an entire field itself.

More than any other market fundamental, it is the potential for a "normal" planting season during the remainder of the year that has cast a bearish spell over the market in the context that both U.S. and world ending stocks will increase.

Export Factor

Adding to the slight market bearish tone is the export factor discussed at the Beltwide Cotton Conference. As we indicated at that meeting, Brazil has begun to increase its share of the Chinese export business, effectively taking market share away from the U.S.

Some had felt that all the U.S. had to do was waltz back in and the business would come back. Not so, not so at all.

China is becoming comfortable spinning the Brazilian high grades and in many circumstances the genetics of the Brazilian high grades are the exact same as the U.S. high grades. Thus, it is market share the U.S. can only take back by lowering its export price. Yet, at present, Brazil is undercutting U.S. offers and making it more difficult for the U.S. to make competitive offers into China.

Too, we have cautioned time and time again not to put our price objectives in the Chinese-U.S. trade basket. The trade resolution, as we have said, may take much longer than expected and, at that, should not be expected to be an end all for cotton world trade problems. Trade flows have been altered and the U.S. will now have to be more competitive than ever. The market tone is dull and therefore bearish. I do not expect prices to fall out of bed, but the low 70s may be laying down a skirmish line in the market.