Cleveland on Cotton: Market Bulls Still Have Horns

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The market is screaming, I'm hungry. Feed me! It's the time of year when we typically write about the Dog Days of Summer, mid-August, blistering hot, muggy, and simply uncomfortable, day after day. Cotton, loving that kind of weather, is adding weight to its heavy fruit load and the market can't decide in which direction to move, but it is typically reluctant to move higher. Oh! Also, prices seem to be in the 70's.

So, it's mid-late August now, it's warm not hot, the humidity is heavy, but the cloud cover is more widespread this year. Cotton is still fruiting, not so unusual, but the new fruit is battling the existing fruit for plant energy—not the desired recipe for late August.

The market sees all this and is questioning crop size. The range of crop estimates is much wider than typical, and it's getting late in the growing season. Prices are in the 90's and are focused only on higher prices. The market is looking for reasons to move higher, not lower. Yet, prices are not sure just where to go, higher or hold on at the 90-92 cent level.

The price fight is ongoing, the bulls are scoring both the most frequent and hardest hits. The bulls continue to use the word "Demand." It's real. Its armor is deflecting the bear's claws, but there are some chinks—high prices, covid, shipment delays, limited supplies of quality forcing mills to buy lower grades.

Those do bear watching. Yet, China remains a big buyer of U.S. cotton—a big buyer. Too, the Chinese reserve action sells out daily, 100% subscribed every day, day after day.

The market hit its primary price resistance level of 97 cents this week. Speculative funds were very active and took prices there along with some mill price fixations. Some suggest the FED's idea that it may think about lowering interest rates—next year—sent the market packing back to 92 cents.

Likely, the market was just tired of running up hill. It had moved too high too fast and simply just needed to rest and pick up new money and new buyers. All that implies that fund managers had gotten too aggressive in pushing prices higher while other fund managers sensed a time for profit taking and pushed prices back to 92 cents.

That was purely a speculators battle—mills and growers were on the sideline of the 500-point swing.

Whether it be the FED, Chinese coronavirus concerns, a drought of buyers, and/or just simply time to step back, take a deep breath, and check the air around the market, the market did take a breath. Both the price run up and selloff were nothing more than actions of a typically active market searching for price discovery.

Fundamentals were the same this week as they were last week. The market still has its bullish horns, and the next hurdle is a close above 97 cents with prospects for a dollar, plus some above that. Yet, the fact remains that the market is trading in the top one-two percentile of its historical range.

This is not time to be caught naked in the market. The market is screaming, I am hungry. How do you feed it, sell a chunk of your expected production, 50 percent at least, or at least hedge at the current price in either the cash or futures market.

Growers and mills have a wealth of marketing tools, forwarding contracting, futures hedges, the options market, and or all or even some combination. If a grower sells cash, it can be backed up by buying call options. Possibly one may just wish to stand alone and buy put options. Then if desired work in some fixed price forward contracting. Just don’t sit Home Alone.