Cleveland on Cotton: Riding the Export Wave

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Cotton prices continue to ride the export wave as U.S. export sales exploded with more than 500,000 bales booked during the prior week. USDA did release its April world supply demand report which was seemingly bearish, but was totally faded by the market.

Coupled with booming export sales, the declining Indian crop and carryover added to both the new and old crop bullish sentiment. Additionally, excessive moisture via rainfall and/or flooding across essentially the entire MidSouth and Southeast underpin the reality of a late planted 2019 cotton crop. Too, the stage continues to be set for a weather reduced crop.

Yet, bearish factors continue to circle the market, highlighted by an improving **Brazilian crop** and desperately needed moisture in **Australia**. Further, the current price increase is likely drawing increased 2019 plantings in India, the world's leading producer.

The May-June planting window facing the U.S. grower will likely see the old crop July and the new crop December contracts creep closer to 80 cents. December will climb above 80 cents with an objective of 85 cents. December futures will work overtime to reach 80 cents, our next pricing objective.

China has become an aggressive buyer, confirming thoughts expressed in late February. The more rumors that surface that a resolution to the U.S.-China trade dispute is near, the more aggressive Chinese import buying becomes. China needs an additional 800,000 bales for its reserve program and as many as 500,000 bales for direct mill sales. Too, 200,000 bales, subject to the five cent tariff is in the works. Without question these are bullish demand estimates.

Cotton Exports

The weekly export sales report showed net sales for both marketing years, 2018-19 and 2019-20, at 527,700 bales. This included current year sales of 289,000 bales of Upland and 30,200 of Pima. **Vietnam, India and China were major buyers.** (Note: India, an exporting country, will need more.)

Export shipments held their recent bullish pace totaling 383,300 bales of Upland and 21,000 bales of Pima. Thus, the U.S., the world's leading exporter, is on pace to reach USDA's export target of 15.0 million bales. Thought to been far too high just 3 months ago, that estimate may have to be increased. (Heretofore we have always noted export sales and shipments in running bales, a gin bale. As such we have used the industry's nomenclature "running bales—RB," to maintain the distinction between the 480-pound "statistical bale." In future discussions of weekly export statistics we will simply use "bales.") So much for record keeping duties.

Low 80's

Aggressive Chinese buying coupled with a resolution could propel prices into the low 80's. The extreme tightness around the world of high grades 31-3- 36+ is also adding to the favorable price outlook. The December contract is still tied to the old crop July contract; thus, any advance in July will generate an increase in December futures. One might expect a 30/40 point advance in December for a 100 point increase in July. However, the ratio is very subjective.

Growers are encouraged to move price protection to at least 25% of their expected crop. Keep that in mind as the market battles to scale 78 cents, basis December, heretofore a roadblock to higher prices. Coverage should be moved to 50% on a trade to 80 cents, unless one is comfortable at 79 cents.

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