Cleveland On Cotton: Market Demand Taking Shape

January 12, 2020

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The cotton bull continues, too young to strut but growing with confidence week after week. It's likely time for it to stop and check its surroundings now that the December has traded to 72 cents.

There is more strength to come but, again, the market would be best served to solidify its 71-72.50 cent area for now. It must build a base as it has now reached an eight-week high.

Fundaments, as demonstrated in last week's USDA January world supply-demand report, continue to reflect cause for higher prices. The significant change in the January report was that world carryover was lowered to about 80 million bales.

That, along with declining stocks in the U.S., India, China, Pakistan and Central Asia, bodes well for the current pace of higher prices to continue. Once the 72.50 mark has been scaled, old crop and new crop prices will find a challenge at the 74.80-75.10 cent level. That's price gap (74.85-75.10) the market has in its sight.

Should that challenge come in the near term – but I do not believe it will – prices could stymie demand in the short run. Holding that challenge for at least another month or two will allow demand to build and make for a stronger challenge of the 77-cent mark.

Positive Prospects For Old-Crop Prices

USDA estimated the world crop at 120.5 million bales and world consumption at 120.2 million. World carryover was estimated to total 79.6 million bales. Thus, the 2019-20 marketing year was a rare one indeed as the world used essentially the same amount that was produced.

Yet, prices are lower than year-ago prices as the carryover in world exporting countries increased while world consuming countries reduced the level of stocks they were holding in inventory.

Thus, export competition during the coming months will be heightened. But at the same time, mills will be more aggressive hand-to-mouth buyers. This supports the idea that old crop prices will see a slow rise during the late winter months.

The 2019 U.S. crop was estimated at 21.1 million bales and U.S. carryover was estimated at 5.4 million bales.

New crop prices are currently being led by the old crop March and May futures contract movement. It should be noted that the old crop July did invert over the new crop December, suggesting old crop is more bullish than new crop.

Effects Of Planting Intentions Just Ahead

However, come the end of February and into March and April the new crop December contract will begin to be influenced more by grower planting intentions and early plantings in the northern hemisphere. Too, growers are suggesting than they may not reduce 2020 plantings as much as most analysts feel they will, possibly cutting acreage no more than 5-8 percent. However, should demand show any favor, the old crop futures months will continue to exert significant influence on the new crop December contract.

Consequently, given that world carryover is declining in all but one of the primary six world producing countries, the new crop December contract has a distinct possibility of trading to 77 cents as well.

However, growers are advised to begin pricing at least 25 percent of their new crop with December futures between 74.50 and 75.50 cents. Growers should be very aggressive sellers (hedgers) at this level due to the 5.4-million-bale U.S. carryover and because polyester is exceptionally cheap.

Polyester fiber can be landed in the U.S. at 62 cents. Thus, fiber competition will be extremely strong during the 2020-2021 marketing season and cotton’s inability to recapture market share will limit the bull’s ability to run.

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