Cleveland on Cotton: Weather and Trade – Hedging is Key

April 18, 2019

By O.A. Cleveland, Consulting Economist, Cotton Experts

Cotton prices continue locked in their technical channel with new crop fighting to climb above 78 cents while the old crop July struggles to breech the 80 cent mark. July's objective is the 82.50-85.00 cent range, but December will continue to face a near impossible barrier just below 80 cents.

Fundamentals are little changed on the week, much less the month. Exports sales and shipments continue their recent strength and the demand for U.S. growths remains active around the globe.

The MidSouth and Southeast plantings are a bit delayed due to wet fields. The long range weatherman has more moisture in store for those regions in the upcoming weeks, but remember the saying, *April Showers Make May Flowers*. Actually, cotton is unlikely to see May flowers, but there should be an abundance of May/June flowers. That is, it is not atypical to experience widespread delays in cotton planting, but Mother Nature usually allows time for the cotton plant to catch up. In the meantime, the market will, from time to time act as if the crop will not get planted. Thus, look for price volatility to continue as one of the principal talking points in the market.

Exports, Trade

Exports, weather and the U.S.-China trade battle are daily news. Only the two governments truly know the potential resolution of the trade battle. Comments by both governments imply excellent progress is being made. However, that lyric is some 6 months old now and a new one is past due. The often quoted “super-secret” sources suggest an agreement is less than 2 months away, but that, too, is an old line now. Nevertheless, one day it will be correct. The next battle will be enforcing the agreement. It is well known that China has almost never stood by its trade agreements, literally almost never. Thus, agricultural markets may be further disrupted, or possibly slow to accept the benefits of a new agreement. However, the initial euphoria of an official announcement will allow for one or two days of friendly trading.

The weekly **USDA export report** shows net weekly sales of Upland were 217,600 bales and Pima sales of 14,300. Next marketing year sales were 20,600 bales of Upland and 2,200 bales of Pima. While these sales were not as robust as the recent monthly average, the volume was sufficient to maintain a pace that exceeds the prior year’s pace.

India remains in the market for U.S. cotton**,** a sign that market conditions are ripe to maintain the current price strength. **China, Vietnam and Turkey were major buyers**. Export shipments maintained the pace required to meet the current USDA annual estimate of 15 million bales as 340,000 bales of Upland were shipped along with 11,500 bales of Pima. China, Bangladesh, Vietnam, Indonesia, Pakistan, Vietnam and India were the main destinations.

While we remain optimistic about increasing prices, the market has not demonstrated that new demand is surfacing. Thus, the importance of weather and the U.S.-China situation looms as the primary market fundamentals. The “normal” resolution of these events will likely have the effect of pressuring prices to the downside. Thus, growers are advised to be very aggressive hedgers as the December contracts moves above 78 cents. The 79 cent level will be critical. We commented, as late as last week, that December could move beyond 80 cents. That opportunity remains. However, our goal is now 79 cents.