

Cleveland on Cotton: Opportunity is Ripe but Not for Farmers

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



The dog days of summer came hard to cotton as the expected market crash finally occurred. December broke below 60 cents, establishing a new life of contract lows at 59+ and setting the stage for a trip down to the long ago forecast of 55 cents.

With demand destruction fully incorporated in the market fundamentals we can now focus on the supply side of the price equation. USDA field enumerators are in the field this weekend collecting data for the August USDA Supply and Demand report which will be released August 12.

In the meantime, expect the market to trade either side of 60 cents with a definite bias to the downside. Hopefully, most growers took some price risk protection when we urged them to price in the 81-83 cent level and screamed for them to price above 75 cents. Now we will have to try and salvage something out of this price disaster.

Cotton Merchandisers Indecisive

A year ago the trade had almost **20 million bales** hedged. There are only some **300,000 bales** hedged today. This market has caught the entire merchandising industry with a classic “deer in the headlights” look. The entire merchandising and trade sector of the industry remains spellbound and without any ability to hedge cotton or to manage price risk. One has to wonder if this will not be the final year of operation for some merchants. They have been caught totally off guard and (very, very) surprisingly not been able to react. Again, I have never seen an entire sector of the industry unable to make any pricing decisions.

Unchartered Waters

Realize, this, the U.S. is looking at a 20-22 million bale crop with almost none of it is hedged. This is completely unchartered waters in U.S. cotton history. It has never occurred. The crop is 3-4 months from peak harvest and nothing has been hedged.

The stage is set for massive selling over the coming months. Futures traders and speculators wanting to go short the market have probably never seen such a ripe opportunity. Of course, Mother Nature can still destroy the crop, but we are fast approaching the point that the only marketing strategy left for the cotton grower is to bury his head with the ostrich and pull it up in a few months just to see if he has survived.

Uncommon Bears

Buyers have already signaled that they will be slow to take up cotton. What buying there is will be dwarfed by selling.

What is out there to prevent another 10 cent collapse in prices? ...Another 10 cents, that would be a 50 cent market!

I saw bears coming, but I thought it would just be the regular ones coming out of hibernation. No, not this time. All of them

are coming after the cotton market this year. The fundamentals do not appear so bleak – bleak as they are. Yet, without any crop already hedged, and likely with some 2 million-plus bales of export cancellations in the wings, the bears have never had it so good.

There is nothing pretty here. There is no way to make it pretty. There is no way to make it sound anything but what it is, ugly. Growers had a chance to price. They had a second chance to price. They even had a third change to price. The market always gives the grower a second chance, but we have now missed all three chances and can only sit back and keep taking direct hits to the chin.

Demand Continues to Suffer

Demand continues to suffer as more and more economies continue to battle economic slowdowns. In fact, the U.S. is the only developed economy that is growing and shows continued growth. Thus, the only positive news surrounding the cotton market is left to come from the U.S. economy. Yet, that will not carry cotton demand very far as cotton's share of the spinning system has lost its battle with the plastic fiber polyester.

The very cheap polyester chemical fiber continues to flow like water into the U.S. by the Nikes and Adidas of the world. They have a total disregard for the use of forced child labor camps as well as brutal physical attacks on protesting textile workers and on the citizens of Hong Kong.

Cotton is facing a very difficult year. The world textile industry is being totally reorganized and this is also slowing the demand for cotton. Hopefully, mills, manufacturers, designers, and retailers will attempt to refrain from continuing to use the garments coming from forced labor camps. Cotton has a long history of fighting such abuse. However, polyester users have turned an eye away from human abuses.

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