

Cleveland on Cotton: Time to Move Higher

January 3, 2020

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Cotton's 2020 year begins with a bullish tone and with strong upside fundamental potential compared to 2019. The little bull has its legs and has demonstrated some flair with a current seven-month high in prices.

It is time to continue north to higher prices. Let's review some of the Bullish and Bearish factors facing 2020. Granted, I will miss some.

Bullish

- Nearby prices at 70 cent level after falling into the 50s.
- The tendency of prices to move to 75 cents after a bearish year.

- Increasing world consumption amid world economic rebirth.
- Declining world carryover and declining U.S. carryover.
- Declining world plantings and slightly lower world production.
- Exceptionally robust U.S. economy and strong consumer spending.
- Very active increase in speculative market purchases.
- Bullish market technical projecting challenge of 75 cents.
- On-Call sales (March/May/July) out distancing On-Call purchases.
- Strong December cash sales, removing cotton from grower hands.
- High yielding and increased lint quality from seed companies.
- S. planted acreage falling 8-12%.
- Export sales pace well exceeds USDA sales estimate of 16.5 million.
- Tariff resolution favors increased exports to China/limits cancellations.

Bearish

- Declining U.S. domestic mill use.
- Market analyst's perception that the U.S.-China tariff hurts U.S cotton.
- S. acreage lower, but still near 12 million.

- Weekly U.S. export shipments must average 385,000 bales to reach USDA projection.
- S. carryover stocks still 4.8-5.3 million bales.
- Unchallenged entry into U.S. of Chinese textile goods.
- Chinese overproduction due to unchallenged heavily subsidized price paid to growers.
- Potential for increased U.S export cancellations without tariff resolution.

The positive technical and fundamental factors favor higher prices as the factors indicate. Both old crop and new crop contracts favor a breach of 75 cents. Prices for both market years have to potential to move to 77 cents or above.

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