

Cleveland on Cotton: Technicals Not Friendly, Fundamentals Remain Positive

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Baby and her new blue jeans had a rough ride last week as cotton stumbled badly on the week's last trading day, giving up all its weekly gains and a bit more. The resulting three-day weekend had traders talking gloom and doom and all wondering how the market was so blindsided.

The old crop May and July contracts appear to be in for a day of reckoning as to which way they will move. Technicals are not friendly, but fundamental news based on export needs suggests the July will retrace its losses, at least back up low to mid 80's. That is well short of the prior 90 cent target. Yet, it is well above the potential bottom of 73-73 cents.

The new crop December technicals are much more promising and suggest the contract will return 81-82 cents based on U.S. production concerns.

While New York ICE prices took a hard tumble at week's end both Chinese cash and futures prices maintained their full

value. Additionally, world yarn prices maintained a very firm price structure and yarn demand was exceptionally strong. Thus, the up market for cotton gave every appearance of needing supplies despite New York's troubles, especially given the demand for yarn in various markets.

U.S. exports, by good measure, could have been considered very strong except for a very major cancellation. Weekly net sales were only 78,400 bales. However, this included a huge 126,500 bale cancellation from Indonesia.

Absent that cancellation sales would have exceeded 230,000 bales. Shipments remained very active at 324,700 bales, well on pace to meet or exceed the USDA estimate of 15.5 million bales. Nevertheless, one cannot overlook the Indonesian cancellation.

The March price sell off, coupled with the April Fool's day sell off, gave mills the opportunity to fix prices at a "lower" level. They were very aggressive in doing so. That did serve to relieve any upward price pressure for the May futures contract, but only partially offset the upward price pressure for the July contract.

Yet, when taken in conjunction with December on-call sales, some upward price pressure remains. Granted, December on-call sales are typically well offset by December on-call purchases, the ratio of December on-call sales to call purchases is more favorable than typical.

The market does have more of an air of uncertainty than is typical. Much of the uncertainty can be traced to the saber rattling China has employed against other countries as well as against textile and apparel firms and retail outlets over the Western world's banning the slave grown cotton and slave produced textile and other goods from the military controlled Xinjiang province.

Additionally, the Chinese coronavirus spread in much of Asia, outside of China, has forced some textile operations to limit work schedules. However, the giant Chinese textile engine is

pumping on all sixteen cylinders and cotton demand is very steady and estimated to be increasing. Some suggest that the China's saber rattling is their attempt to force prices lower in favor of making a large purchase of cotton.

There is total agreement that China does need sizeable quantities. They have purchased over 5 million bales of U.S. over the past two years in addition to Australian, Indian, Brazilian, and other growths. Thus, it is difficult to sell the market much lower given the Chinese demand.

USDA's March cotton plantings intentions report indicated U.S. growers would plant 12.0 million acres of cotton, down 100,000 acres from 2020. The next USDA estimate will be the June plantings report. Thus, for now we are left to second guess the March report. USDA left Texas plantings essentially unchanged from the prior year given that the insurance price is at a record level and above 83 cents.

However, the USDA estimate is what it is entitled, "Intentions." The ongoing drought in West Texas—and slight spreading east into the Rolling Plains and into Oklahoma, could reduce cotton plantings. Mother Nature is in control of cotton plantings now.

Yet, given the absence of subsoil moisture, the maximum U.S. 2021 production is estimated at only 17.5 million bales and that assumes a typical number of July—September rains. Some may call the production higher, but the near total absence of subsoil moisture sets up a short crop scenario.

Texas has never had an average yield without some subsoil moisture. Yes, Mother Nature could still provide a perfect growing season, but She already has a world of catching up to do. The long-range weather forecast is not friendly.

Thus, the fundamentals are sowing the seeds of a very bullish December 2021 to July 2022 futures market for cotton.

You rightfully point out that I completely missed the bear sell off down to the current 79 cent level. Yet, demand is the

lifeblood for bull markets and demand is exceptionally strong. Too, USDA has still not completed its shameful game playing with the size of the U.S. 2020 crop and its subsequent impact on carryover. The market has most likely faded that USDA report that has been delayed for months—Nero Fiddled While Rome Burned.

Widespread moisture could take a nickel out the market but would give the region a 10-20 pound yield boost and get the acres needed for the U.S. to maintain its export market share.