Cleveland on Cotton: Lagging Exports Not a Sign of Weak Demand

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The cotton market has now bulled through 90 and 91 cents and set the stage for a challenge of 93 cents. However, that barrier most likely will not fall until the September world supply demand report is released with USDA's first objective crop estimate. Granted, Mother Nature can continue with her efforts to further trip-up this crop.

December futures established a life of contract high and a life of contract high close on the week…and to think some are saying the market is moving sideways. Market strength came on the realization of the lateness of the U.S. crop, crop concerns in all the major production countries, and the continued excellent and strong demand across the major consuming countries.

Additionally, a variety of technical factors, including on-call sales and on-call purchases also worked to support the bull's call for higher prices. Price resistance will continue to force the market to work extra hard to move above 93 cents. The market does respect the potential of a very large crop—19 million bales or more. Yet, it is likewise observed that the crop is unusually very late and that a realized crop below 18 million bales (very bullish) is a real possibility.

While demand remains exceptionally strong, export sales are somewhat lagging. The softness in export sales is attributed to the fact that U.S. exportable supplies will be limited until early December. Demand is not the issue. Denim demand is frantic and retailers report that they cannot keep product in stock.

Despite Chinese coronavirus concerns in major textile countries, textile operations are fully booked. China is consuming every bale it can obtain. Additionally, it is a major importer of yarn. Yarn sales have maintained excellent strength and yarn prices have not met any consistent price resistance. Chinese Reserve sales continue to be fully subscribed.

An estimated 40% of the Reserve's total sales for the year have been offered and every single bale has sold. Again, Chinese textile mills need cotton. Thus, the 90-cent level did not generate any other than normal price resistance.

As long suggested the 93-cent barrier will be difficult to climb, but a continuation of a very late U.S. crop and the same current demand level will move prices to 95 cents. A potential crop disaster in the U.S. could push futures prices to and even above the magic level of dollar cotton.