Cleveland On Cotton: Points Worth Repeating

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Our cotton market continues to shadow the world's preoccupation with the coronavirus. The Volatility Index, traded in Chicago, continues to demonstrate record volatile trading and appears to accurately track investors' trading activity as well as the traders' view of blatant undecidedness.

Try as the market does to track and respond to bullish (or bearish) legacy fundamentals – such as weather, exports, consumption, key demand indicators, interest rates and the value of the dollar – it's really just about one fundamental for now: the coronavirus.

The 61-cent mark, give or take, appears to offer excellent support for now, at least in the charts. However, virous concerns could just as quickly yank the New York ICE cotton contract back down to the 57-cent blowout level.

Fundamentals are difficult to use for predicative price purposes. The same with technicals. The third market view, phycological analysis, now dictates price activity. It's another case of perception being reality.

Turmoil By The Bale

This mess is far or over. Cotton's entire supply chain, the path a bale of cotton takes from the farm until the resulting textile goods are sold to the consumer, faces major turmoil.

Additionally, given the important roles of China and Italy, the turmoil will likely last six to twelve months. In the meantime, cotton prices will remain highly volatile. The turmoil was well noticed this week on the heels of the USDA weekly cotton export report.

Net weekly sales were record-high for the marketing year. Further, weekly shipments established a marketing year high. Both sales and shipments were very impressive, to say the least.

The market's response: little to no price movement. Typically, such a report would have been expected to mean a one to two cent move higher.

Enough of that! What we know is that only about one half of the major Chinese spinning capacity is operational. Of that, most are operating only between 25% and 75% of their typical operating hours. The majority of the workforce remains absent, although workers return every day.

Yet, some mills remain totally closed. While cotton is being shipped to Chinese ports (imports) only a limited number of Chinese exports (textiles) are leaving China. This seriously complicates the backhaul shipping arrangements that have been the backbone of just-in-time shipping agreements on which textile contracts are based.

No one knows how long this will last, but the entire supply chain is operating only at a snail's pace. Actually, it is being dismantled as other countries que for textile manufacturing operations that have been mostly in China the past 20 years.

Look for world cotton demand to slip another 300,000 bales in next week's USDA supply demand report.

Worth Repeating

To close, let me simply repeat some of last week's comments:

- Cotton's future in the U.S. calls for increased plantings. Period. Just not in 2020. The coronavirus will control everything.

- U.S. cotton planting will drop from the previously projected 13.0 million acres to between 12.4 and 12.6 million — even possibly to 12.2 million acres,.

- Cotton prices will lag during the remainder of the 2019-20 marketing year.

- Pent-up demand for cotton will explode in 2022-23. Be ready. Plantings could grow to 13.5-14.2 million acres. However, the U.S. cotton industry must wake up and decides to fight for market share. The U.S. cotton industry has all but abdicated that responsibility.

- Textile mills are exiting China as fast as they can — running, not walking. It will take 12 to 24 months to rebuild the supply chain.

- China will perform on its obligations, although their economy is being brought to its knees.

- U.S. cotton exports are booming and will continue, but prices will be very-very slow to benefit. If the U.S. does not continue to produce cotton its markets will be lost. There will not be a second chance.

- Price volatility will continue, and this could be a wild ride — from a low of 57 cents to a high of 68 cents during the coming season.

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