

# Cleveland On Cotton: What This Market Needs Is A Little Drama

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



Cotton prices continue trapped in a very narrow trading range. This week, March has had a high of 7411 and a low of 7245 for a measly 166 points. That's not to say the trading has been lackluster. Volume has been quite large, but the activity has been limited mostly to the rolling of positions from March to May. March closed the week at 7255, down 109 points on the week.

For the first time since December, USDA released another supply/demand estimate for folks to debate. The big global takeaway was reduced consumption numbers for 2017 and 2018.

For 2017, USDA lowered world consumption by a net 588,000 bales, due mostly to a reduction of 550,000 bales in India. For 2018, world consumption was reduced by 1.986 million bales, due to a million-bale reduction in China, 500,000 bales down in India, 200,000 bales in Turkey and Vietnam and even a reduction of 100,000 bales in the U.S.

Several notable adjustments turned up in world production. Turkey was reduced by 600,000 bales. India went down by 500,000 bales to 27 million bales, which is still too high. Notable increases occurred in China, up 500,000 bales, and Brazil, up 400,000. On a net basis, world production fell 288,000 bales.

### **No Drama, No Rally?**

Between consumption adjustments in 2017 and 2018 along with the small offset in production, world ending stocks rose by 2.3 million bales to 75.5 million.

**This still represents a reduction of 5.6 million bales from the previous year but some of the drama has been taken out of the numbers – and some of the potential for a late season rally.**

U.S. production was reduced by 198,000 bales (upland down 221,000 and Pima up 23,000). Where these changes took place, we can only speculate right now as January is typically the last month of a state by state breakdown.

USDA did not reduce U.S. exports, which might be a little surprising given the reduction in world consumption. Too, it means that USDA believes U.S. cotton will remain competitive and maintain market share. In the end, U.S. stocks dropped by 100,000 bales, to 4.3 million, unchanged from a year ago.

### **Trade Talks Ahead**

The trade saga continues. The U.S. and China will hold trade talks in Beijing next week, with deputy-level meetings to start

on Monday and high-level talks to follow. Perhaps in anticipation of these talks China may be extending an olive branch of sorts. On Monday, Tuesday and Wednesday of this week, exporters reported 3.7 million MT of soybean sales to China.

The ratio between on-call sales and purchases continues to deteriorate, falling to 3.6 to 1 for the week ending January 4. A year ago, that ratio was 10.7 to 1. Mills have been aggressively covering their needs and extending their purchases of fixed price cotton. U.S. export sales were healthy again, totaling 236,500 bales during the Christmas holidays.

### **Cotton Council's Report In The Offing**

The market will continue to struggle in this trading range of roughly 72 to 75 cents. U.S. prices need to stay competitive to move stocks into the export channels and the uncertainty of the trade talks will keep bullishness to a minimum.

On Saturday, the National Cotton Council will release the results of its planting intentions survey. An increase of 500,000 acres or less will not be a surprise. Any reduction from the 14.1 million acres planted this year would be a surprise.

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