

Cleveland on Cotton: Fundamentals Still Strongly Bullish

March 12, 2021

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



We are a day early this week, but it feels much better to comment on a day of triple digit price gains as opposed to defending the case for a robust market with prices falling as in the past two weeks. To paraphrase the expression of others: Cotton is Back. Certainly, the bulls call for dollar has now beat back two significant challenges and again presented its case to return to the mid 90's and ...well we will just see if there is breathable air up there.

The week was full of a numbers update, the monthly supply demand report, an aggressive export sales and shipments report, a supportive cotton on-call report and market technical indicators that raised a flag for a run to higher prices for both old crop and new crop. Thus, for now and into the April and May supply demand reports, the market will likely see old crop challenge 95 cents and better as the U.S. sells every single bale of quality cotton it can muster.

The new crop December contract will piggy back the old crop uptrend as it awaits the decision of Mother Nature blessed moisture, specifically in the drought plagued regions of Texas Plains and South Texas

The price break two weeks ago was associated with a technical pattern known as a key reversal. We commented then that such a pattern was both very common and very unreliable for price predictive purposes. Then on the heels of a bullish supply demand report the market suffered another technical setback known as a dead cat bounce.

Thursday's market advance completely erased the one-day old dead cat. Thus, the market did experience two potentially negative patterns in consecutive weeks, but extremely bullish fundamental news turned prices higher. I would be remiss not to suggest that possibly the dead cat bounce was partially created by news that the potential for rainfall in West Texas had been enhanced.

That sent the algorithm traders into a bearish frenzy and drove prices as much as 400 points lower. That selloff momentarily brushed aside the very bullish world supply demand report. (Note-Texas weather activity will be a major player in price activity. Yet, also remember is that the U.S. will sell out of all quality cotton and then some.)

Market fundamentals continue to require a minimum cotton acreage planting of 12.0 million acres for 2021. The demand for U.S. cotton will likely support an 82-92 cent price level, basis December futures with acreage up to 12.3 million acres. Cotton demand, in a word, is exploding.

We have preached to you for three years that the world would recognize the slavery issue in China and boycott all Chinese Xingjian cotton. It has happened—no question and China MUST import cotton to keep its textile mills in operation. In fact, some Xingjian mills, China's newest and most modern, are having to be relocated. Now that the markets natural price cleansing action has removed the weak longs the market will work higher.

The numbers...In its March supply demand report USDA lowered its estimate of world production to 113 million bales, down 800,000 bales; increased world consumption to 117.5 million bales, up 500,000 bales; and reduced world carryover to 95 million bales, down one million.

Additionally, USDA increased its estimate of world trade by 650,000 due to higher export trade and increasing consumption. The increased trade bodes well for U.S. exports, unchanged at 15.5 million bales from last month. However, weekly data suggests USDA will likely increase that another 200,000 bales. The March USDA supply demand report can be viewed [here](#).

The weekly export sales report showed weekly net sales of Upland and Pima for both marketing years at 316,400 bales, a very aggressive sales report. Additionally, export shipments climbed to 375,300 bales for Upland and Pima. The weekly export sales report can be viewed [here](#).

The weekly cotton on-call report showed that mills were aggressive price fixers during the selloff. However, the July call sales ratio continues to favor higher prices.

As I stated some three weeks ago, I like the market. Actually, I like it more now than I did then.