Cleveland on Cotton: Putting Numbers To Potential Volatility

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Cotton's legacy fundamentals have not had any positive impact on the cotton market.

U.S. cotton export sales recorded a marketing-year high, and the USDA March supply/demand report noted a substantial decline in U.S. carryover.

Additionally, USDA clarified its export shipment information, making it clear that the so-called inflated 2019-20 marketing-year export estimate was almost assuredly underestimated.

None of these three fundamentals stirred any bullish price reaction in the market. Cotton prices continue to follow Wall Street's dirt road to the poor house as the Volatility Index (the Chicago VIX) maintains its prediction of extremely volatile and erratic markets. (This contract, if you're unfamiliar with it, measures fear, chaos and confusion).

Is This A False Bottom?

Price activity this week may have established a market bottom in the 60-61 cent area, basis old and new crop. However, given the chaos in the financial markets, cotton prices remain at risk of falling to the 56-58 cent level.

In its March world supply demand report USDA reduced its estimate of the 2019 U.S. crop 300,000 bales, down to 19.8 million. The final crop estimate will be released in May 2020, and some feel the crop will be lowered another 100,000 bales.

This reduction dropped U.S ending carryover for the 2019-20 marketing year to 5.1 million bales. Again, this was expected. However, in a footnote included in the report, USDA said that census data – the official data USDA will use for its final U.S. export number – is almost 700,000 bales above USDA's estimate of actual export shipments to date.

That was very unexpected and will be very supportive of prices later in the year. Export shipments have been above the weekly average needed to meet the USDA 16.5 million bale export estimate for 2019-20.

Further, it supports the idea that U.S. exports could actually climb as high as 16.8-17.1 million bales. Such a level, if realized, would correspondingly lower U.S. carryover to 4.5 to 4.8 million bales That creates the possibility of the old crop May/July futures price returning to the mid to high 60s, and potentially as high as 68 cents.

Potentially Ahead: A Wide Range Of Volatility

Turkey and Pakistan have increased their spinning activity, along with Bangladesh, in an attempt to grab textile market share from China for products shipped into the European markets. All three of these countries have been and continue to be excellent buyers of U.S. cotton. All three continue to shop for U.S. on an almost daily bases.

It is noted that the U.S. cotton industry export promotional efforts have been very instrumental in adding to U.S. sales.

The somewhat bearish tone noted in the March supply/demand report was that while U.S. ending stocks were lowered, world ending stocks, as well as world production, were increased. That was coupled with a reduction in world consumption.

World production increased by only 260,00 bales, up to 121.6 million. World consumption due to the coronavirus dropped one million bales in China. However, due to consumption increases, primarily in Turkey and Bangladesh, the net reduction in world consumption was 850,000 bales, down to 118.2 million bales.

The net effect was to increase world carryover some 1.3 million bales, up to 83.4 million.

The USDA weekly cotton sales report showed that a net of 661,900 bales were sold during the week ending March 5, with484,200 bales of upland for the current year, 17, 300 bales of Pima for the current year and 160,400 bales of upland for the 2020-21 marketing year.

Suffice to say, the numbers for upland sales were basically unheard of. Pima sales were up 91% from the prior week and up 20% over the monthly average.

Reality will be restored, but Wall Street will come first. Cotton must still sort through its planting season, including a potentially meaningless March 31 planting intentions report from USDA and the 200,000-plus acres of cropland flooded in the South Delta of Mississippi — that will go into soybeans.

Midsouth corn plantings will also have to take on aquatic characteristics if/when those plantings occur.

Price volatility will continue…and could be wild — from a low of 57 cents to a high of 68 cents.

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