

# Cleveland on Cotton: Virus Remains The Main Influence, Bullish News Aside

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Cotton prices came under pressure after old crop futures traded up to 70 cents at midweek. Despite exceptional export sales and shipments, world concerns of China's inability to control the coronavirus pressured the market the remainder of the week

The old crop May futures contract fell back to 68 cents. As March futures nears First Notice Day (a week from Monday) and the beginning of its expiry period, the May contract becomes the de facto lead month.

With that, May now commands the greatest open interest.

The financial world has become dominated by the “what if and ifs” of the news, speculation and rumors surrounding the coronavirus. The coronavirus outbreak is dwarfed in numbers by the western world’s type A and type B flu virus. Yet, those are a known entity with a long history.

The coronavirus is all but unknown, and its negative public profile took control of commodity and financial markets. (Perception is reality in the marketplace.)

### **The Demand Is There**

As the commodity markets enter a three-day weekend (being closed Monday), the price risk has become more substantial and pressured commodities.

Cotton has continued to be in strong demand across China, Southeast Asia and the Subcontinent.

Weekly net sales of U.S. Upland cotton totaled 350,900 bales, plus another 57,300 bales for marketing year 2020-21, and another 10,900 bales of Pima. The 350,900 bales for 2019-20 marketing year were a marketing year high.

Weekly net sales of all cotton totaled 419,100, a very exceptional level. And for the second consecutive week, shipments reached the level necessary to maintain the pace needed to reach USDA’s annual export estimate of 16.5 million bales.

### **China’s Cancellations Outweigh Sales**

Upland shipments totaled 400,500 bales while Pima shipments were 10,900 bales. Thus, shipments were actually slightly ahead of the pace needed to reach the USDA annual estimate. Vietnam, Turkey, Pakistan, Bangladesh and Indonesia were the principal buyers.

However, China did buy 92, 500 bales, but had cancellations of 140,800 bales. Actual net sales to China over the past two weeks remain negative.

The combination of Chinese purchases and cancellations implies there are concerns about the coronavirus within the Chinese textile sector. Yet, additional mill purchases by China will continue and they seek bids daily. Weekly shipments to China did climb to 52,200 bales.

U.S. ginning records show some 18.9 million bales of cotton have been ginned to date, slightly ahead of the prior year's pace. However, ginning was very active in February and into March in 2019. Such is not the case this season.

That said, the USDA crop estimate could yet be revised as much as 400,000 bales lower. This implies that the domestic supply demand ratio is much tighter than expected. U.S. carryover could slip as low as 5.1 million bales or only some 500,000 bales higher than last year's level.

**This would be supportive of prices.**

However, concerns surrounding the coronavirus still dominate speculative activity and keeps the market under slight pressure. We retain our pricing posture with respect to a return to the low 70's

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