

Cleveland On Cotton: An Upward Turn In November?

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USDA rewarded my two-week-old price flip-flop with Friday's release of its September world supply demand report. While both world and U.S. stocks were lowered, the reductions came from the supply side of the price equation.

We often comment that bull markets are built on demand factors, not supply factors. Yet, the report was viewed as bullish as world carryover stocks were lowered. Yet, there is still much work to be done.

While certain country adjustments were major, the final world carryovers stock estimates were accounted for simply by adjustments to historical data, not new monthly adjustments.

So, the bullish response will be limited, at least for now. The chance for the market to climb to 69 cents awaits more demand, likely from China, and a further reduction in world cotton carryover.

The weekly market close was unchanged from the pre-report close. Thus, my so-called bullish report, must for now be in name only. However, it does reverse a series of seemingly bearish reports that did, in fact, lead to lower prices.

I continue to suggest, just as I did two weeks ago, that the 67-69 cent level must wait until at least the November time period. Why?

Our contention is that China will continue to import U.S. cotton, a contention that we did not recognize until just a few weeks ago.

Where The Bales Went

Weekly export sales were a net of 126,700 bales. China was by far the major purchaser at 79,100 bales while Vietnam took a net of 20,200 bales. Sales to all other countries were minor. Likewise, total shipments were 230,500 bales, with shipments to China totaling 90,400 bales.

The other major receiving countries were Vietnam, 35,600; Turkey, 27,100; Bangladesh, 14,900; Indonesia, 11,700; and Pakistan, 11,200 bales.

What is becoming apparent is that China is the major weekly buyer. Vietnam and Turkey are generally major buyers but down the list. Then come some combination of Bangladesh, Indonesia, Pakistan, Mexico and Malaysia representing a third level of buyers.

China is either the largest or second largest buyer. However, total U.S. export sales are lagging to countries other than China and Vietnam, based on historical norms. On the other hand, sales by Brazil to other countries are increasing. Thus, the U.S., in the absence of some promotion, is facing a decline in its share of the world cotton trade.

More Confirmation On China's Labor Practices

A number of organizations and institutions did validate our story of two weeks ago that the U.S. was now stopping Chinese slave labor/child labor textiles from entering into the U.S. Some of these included Reuters and the National Cotton Council.

While their analysis did not include my bullish contention that this action would lead to increased export sales to China, their news material nevertheless, confirmed that the U.S. was finally beginning to impose sanctions on China for its use of slave labor and child labor.

Both the U.S. and European markets, as we laid out, are beginning to hold China responsible by blocking Chinese textile imports from the province of Xingjian. Xingjian is the center of cotton production in China. Additionally, it is home to China's most modern and technologically efficient textile mills.

However, the world is turning away from those products due to the slave/child labor. Thus, Xingjian cotton and textile products must now be used for local Chinese consumption and China must import cotton for its hard currency textile production.

USDA Crop Estimates More In Line With Sentiment

The USDA September supply/demand report did confirm what many growers had been saying, "the U.S. crop is smaller than most think."

USDA lowered its September estimate 1.0 million bales, now down to 17.1 million. I am of the opinion that the final crop size will be as much as 400,000 bales lower.

In its September report USDA lowered production in each of the four-producing regions of the U.S. Exports were lowered to 14.6 million bales, down 400,000 from last month's 15.0 million.

Domestic consumption, considerably overestimated at 2.7 million bales last month was lowered to 2.5 million this month. We feel it faces another 200,000-bale reduction in the coming months.

Ending stocks in 2020/21 were projected at 7.2 million bales, down 400,000 bales from the August estimate of 7.6 million. The stocks-to-use ratio was estimated at 42 percent.

USDA world cotton projections include lower beginning stocks, production, consumption, and ending stocks relative to last month. However, total general changes were small. Yet, some country-by-country estimates changes were significant.

Beginning stocks were lowered in India, more than offsetting increases for China and Brazil. Production was higher in China, India, and Australia, but lower in the United States, Pakistan and Turkey. Consumption was lower in the United States, Mexico, and Brazil.

World trade in cotton was projected higher, but with the U.S. losing market share. Brazil, Australia and India are expected to take share from the U.S. World ending stocks was projected at 103.8 million bales, 1.1 million bales lower than in August, but 4.4 million bales higher than the last year. This suggests our bullishness extends only into the very low 70s.