

# Cleveland On Cotton: Going Past The Worst-Case Scenarios

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The cotton market continues to see some bullish demand fundamentals, but bearish fundamentals are evident, as well. The tug of war between the bullish and bearish demand fundamentals is clearly being won by the bears.

This is despite the fact that U.S. export sales and shipments continue to surprise the entire industry. Yarn demand is slipping as the consumer pulls back and textile companies and retailers hold large inventories. (If you can, hold on for the sales.)

The market could care less about supply or production at the time. It sees retail demand falling out of bed and it sees Wall Street's collapse.

We discussed major problems a month ago, but a business collapse was not one of them. Over the years, I have preached

about Wall Street being the principal indicator of the health of the U.S. economy. It is and it will remain so. Consumer confidence has been very strong and remains so.

## **The Dominos Of 2020**

However, as the coronavirus spreads around the world, investor confidence has totally eroded and the cotton market followed Wall Street, inch by inch, mile after mile into the ravine.

The use of the word *crash* is appropriate.

What went wrong? Look no further than the shutdown of the Italian textile industry. The Italian textile industry employs in excess of 125,000 Chinese workers in their geographically centralized textile industry.

They are excellent workers, and, most/all are from Wuhan, China. Thus, the linkages, the dominos, the global chain....and the epicenter of the coronavirus

Cotton prices eased down to the 56-cent level. A month ago, I suggested that was where support could be found. However, the market decided to take another cent off that and is now trading at the 54-57 cent level, basis the old crop July and the new crop December.

Certainly, there remains pressure to take prices lower, but I don't find any support level, save a disastrous fallout down into the low 40s. Without finding any historical support price, cotton's fair value certainly remains in the mid-50s and that is too low to generate any world production of consequence.

## **A Worst-Case Scenario**

Until a consumer demand resurfaces, cotton prices will remain very depressed. Consumers are staying out due to fear of contracting the virus. The dominos are falling in a different direction than in the first two months of the virus attack.

That is, Chinese mills were forced to shut down operations, which in turn led to concern by retail operations that they would not be able to obtain textile products to sell to the consumer.

Those mills are now back to nearly 80% capacity. Now, though, that the consumer is staying at home, trying to prevent being infected. Thus, there is a near void of any demand for textile products.

So, the retail outlet is canceling orders for apparel and other textile goods. The cut-and-sew operations, along with the grey goods operations, are beginning to cancel orders held by yarn mills who, in turn, are beginning to cancel orders previously placed for raw cotton.

Potentially, the market may face a downturn in export sales and shipments. With nearly all of the textile industry's dominos flat on the table, cotton prices could easily drop further.

Yet, I did not really expect prices to fall below 55 cents, not even in my worst-case scenario.

All the discussion is about demand. Supply will come into focus very-very soon. The world and U.S. crop will be severely limited and prices will adjust. Beat up as the bull is, this one will have nine lives.

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