

Cleveland On Cotton: Positive Trends But Virus Concerns Remain

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The dominant feature in the cotton market, as it is in all financial markets, remains concerns surrounding the coronavirus. Yet, cotton has shown signs of responding to the traditional fundamentals associated with the market.

The March, May and July contracts all closed higher on the week as did the new crop December contract. Beyond that, cotton held much stronger on the week than its commodity cousins, soybeans and corn.

Exports continue to demand the market's attention as both sales and shipments remain on the pace needed if USDA projections are to be met.

Most are concerned if the export objective of 16.5 million bales will be met. However, the pace is holding, although just barely.

Cotton prices attempted a rally on the week and both the old crop July and new crop December did spend more than two days trading above 70 cents. The market was able to poke its head above price resistance levels.

While 70-cent daily closes were established on consecutive days, the market could not keep that level for the weekly close. Nevertheless, both export sales/shipments as well as thoughts about March delivery notices kept prices hovering at the 70-cent mark.

The market should continue to maintain its three cent 68.50 to 71.50 trading range, and I continue to expect an upward bias.

Focus On Quality – Good News For U.S.

Delivery notices on March futures contract were issued after Friday's close and all notices were stopped by Allenberg, an indication that the world is scrambling to find quality cotton.

With that, U.S. quality should command a premium, and that premium should expand as the winter and early spring months play out. This was reflected in that the expiring March contract was up over 150 points on the week.

Additionally, it is a clear indication that Allenberg owns all or nearly all of the expiring long contracts in March. This should continue into the July contract.

Encouraging Export Numbers

The past month has been exceptional for U.S. cotton export sales and shipments, as well. Net sales of Upland on the week were 235,300 bales. Pima sales were 9,500 and marketing year, with 2020-21 sales at 141,200 bales, again an exceptional week.

Primary buyers were Vietnam, Pakistan, Turkey, South Korea and Indonesia. Total shipments were: Upland at 375,300 bales, and Pima at 10,200 bales. This was marginally short of the

weekly average required to reach the USDA estimate for the year.

Strong sales to Pakistan have helped push U.S. total sales higher almost every week. These weekly sales continue.

The China Syndrome Continues

China continues to be an active buyer each week, but some Chinese textile mills remain shuttered due to the coronavirus. Also of concern, mills are advertising in an attempt to get new temporary employees to come work in shuttered mills located in the virus afflicted areas.

These mills remain closed and there is growing concern by those mills of losing export business. This is a further indication of the market uncertainty surrounding the virus and its potential impact on the world's cotton economy.

The trading range, 68.50 to 70.50 cent will continue with attempts to move 100-200 points higher.

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