Cleveland on Cotton: China Stalls Even As Prices Slip

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Be careful what you wish for. Actually, I did not wish for a bit of a selloff in the cotton market. Last week I merely indicated that it would be healthy if we had a bit of a selloff this week.

Oops, the market responded.

And from all indications, demand was very strong. Prices will recover despite prices ending the week near the lows. The price dip will prove to be market friendly. Whether or not the market is ready to rise above 73 cents just yet is not certain, but a return to higher prices is in store.

China Didn’t Respond Much

The week was most unusual as priced experienced triple-digit closes on three of the five trading days, two down and one up.

The bull did defend his three-month price rebound and uncovered good demand as it did. Weekly export sales were impressive and weekly overnight business was very active.

While some seem to think the Chinese were waiting on a price drop to near 67 cents, Chinese mills appeared to express considerable interest on price dips below 70 cents and even more interest once prices fell below 69.50.

Yet, near-term Chinese business appears limited.

It will respond later in the year unless prices spike higher. The latest Chinese health virus heightened speculative fears of an additional slowing of Chinese textile manufacturing activity as well as textile export activity.

This was the major bearish news affecting price movement. Yet, the bull lives on and both fundamental and technical events continue to provide plenty of nourishment for bull. The market should continue to work the 69.00 to 69.50 cent range with bias up to the 72.50-73.00 cent area.

Speculative concerns regarding the new Chinese virus, coupled with the new year celebrations set to begin today, will tend to limit export inquiries during the week. Historically, Chinese mills buy little cotton during the annual celebration week.

Be Ready To Fix

Prices could linger in the high 60s into February without disturbing the bull. As indicated, mills have been very active in the export market. Additionally, mills have also be very active in fixing the price of On-Call sales.

Current price levels are profitable for mills and current mill profitability will bode well for future export business. The weekly export sales report showed net sales of 328,000 bales; 307,800 Upland and 20,200 Pima. Weekly shipments, while good, were behind the pace needed to make the current USDA export estimate of 16.5 million.

However, Upland shipments totaled 282,600 bales and Pima shipments were 6,500 bales.

Open interest increased during the week, suggests that market shorts may be caught in the bull's attempt to run higher. If this is correct then a return to 72.00-74 cents could occur sooner rather than later. It's a bit early to expect such, but the game appears ready to begin.

The bull will be around through most of the crop year if not all. Nevertheless, for the third week, I suggest growers be ready to fix the price of a minimum of 25 percent of their new crop at 74.50 cents. The same suggestion holds for old crop pricing as well.

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