

# Cleveland on Cotton: 3 Items to Watch This Week

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What do I know? In spite of all the bearish sentiment I have expressed the past few weeks ICE cotton futures moved higher on the week.

December settled at 64.54, marking the fifth higher settlement over the past six sessions and one of the stronger weekly increases in some time.

Nevertheless, while there are a few bullish fundamentals, most of the work seems to be bearish.

U.S. export shipments continue to lag. Export sales, in spite of lower prices, have not uncovered any respectable sales and mills continue to talk about weakening yarn demand. This

week's rally appeared to be solely contained in speculative short covering. Speculators already hold record short positions and most traders feel there is no more room for selling. Yet, that argument has been made for more than 2 weeks now...and more and more funds find a way to sell the market.

Additionally, index funds (funds that must go long the market) have abandoned the market. Look for more short selling, i.e., bearish selling. Granted, a settlement of the Chinese unpleasantness would uncover fund buying which would then generate a short covering rally and push December into the 69-70 cent area. However, such events are about the only set of circumstances that could take the market above 65 cents. Unfortunately, I remain bearish.

### **Cotton Demand Declines.**

Demand is declining, more and more concerns are surfacing about the health of international economies and growers are facing a significant increase in both U.S. and world supplies. Mills are in the driver's seat and appear to be awaiting some economic news that could push demand higher before committing to any more cotton.

### **The coming week is an analyst's dream.**

1. First the FED is expected to lower interest rates 25 basis points.
2. Monthly employment statistics and sales data will be released.
3. No less than at 3 international central banks are scheduled for major announcements (Japan, Turkey and Brazil).

None of those items are particularly keen to the cotton industry. However, we are hoping for some news that will light a small fire under world cotton demand. Thus, potentially it's a

big week. Last week's Cotton Roundtable discussion in New York concluded with speakers pegging the December contract trading range to be within the 10 cent spread between 55 and 65 cents. The risk was said to be to the upside simply because, as the speakers concluded, it was difficult to find any more bearish events to wreak havoc on the cotton prices. Stretching the point only a small amount, the comment was made that everything about the market was bearish.

## **Potential for Higher Prices?**

The hope for higher prices will have to be based on at least one of the following 3 events: significant weather problems in the U.S., significant weather problems in India, or a solution for the China-U.S. trade dispute. Only one of these three events could potentially offer short term support to the 2019 production season.

Textile World cosponsored a world trade discussion overlapping the Cotton Roundtable. That discussion was primarily directed to international textile manufacturers and fashion designers. World cotton trade and the importance of cotton generated discussion regarding the future of cotton fabric and its importance. Yet, I found it a bit strange that I appeared to be the only cotton discussant in attendance. Nevertheless, the audience did give a well-deserved applause for cotton and the plight of the cotton grower.

Market participants are hoping for a slight breakout to the upside, and it may come, but lower prices are still foretold by both fundamental and technical indicators.

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