

Cleveland On Cotton: Any “Certainties” Lean Toward The Negative

August 30, 2019

By O.A. Cleveland, Consulting Economist, Cotton Experts



The cotton market struggles to find news. Some people have given up on cotton fundamentals and have been reduced to discussing the respective conditions of the world and U.S. economies.

Before focusing on cotton, let's just remark that in U.S., consumer confidence is at an all-time high. As was stated last week the consumer continues to be the big engine pulling the U.S. economy, with nothing in the foreseeable future to derail that.

Yet as judged by world cotton consumption, some foreign economies are failing to clear expected economic hurdles and economic growth has stalled, turned negative or trended lower.

Unfortunately, the cotton market will have to face this from its demand side of the price equation. U.S. consumer spending on apparel and textile goods continues to expand. While that is

positive for cotton, most retail growth benefits and other synthetics, not natural and sustainable fibers.

The U.S. consumer simply has not been educated as to the environmental, quality and personal benefits of sustainable fibers produced by Mother Nature.

So, Here's The Market

Nearing the weekly market close, cotton futures prices were up some 70 points on the week after being down 192 points the prior week. The bears still rule the near term, intermediate term and long term outlook. That makes it difficult to find anything other than black paint to stroke the brush with.

USDA will provide us with another supply/demand report in two weeks (September 12) and the crop enumerators are in the field this weekend and next Monday and Tuesday assessing crop conditions.

The effects of hurricane Dorian will not be available. But with some luck, crops will be spared any damage in Georgia, Florida and South Carolina crops. But the models do show potential for heavy rain in southeast Georgia and southwest South Carolina.

Back to the "knowns," Texas did receive very beneficial moisture, especially District 2S. For most growers it was the "million-dollar" rain.

The "Certainties" Lean Towards The Negative

My take has been that the U.S. crop was declining, despite the highly impressive seed genetics we have seen the past three years. However, most are now suggesting the USDA crop estimate of 22.5 million bales will be increased.

Whatever the final production level, declining cotton consumption remains a certainty. U.S. export sales have been hard to come by the past two weeks, despite life of contract price lows. Also, export shipments remain desperately low this

week. Cancellations have been limited so far, but some 1.8 to 2.3 million bales are thought to reside in the cancellation pipeline.

USDA currently projects U.S. carryover at 7.2 million bales and exports at 17.2 million. We expect exports to fall woefully short of that mark.

The U.S. may be lucky to export 15.4 million bales, down 1.8 million from the current estimate. The entirety of this decline will be switched to carryout and ballooning U.S. carryover to 8 million bales.

Some are even trying to make a case that U.S. carryover will rise to 8.5 million bales or more. While I would like to find a nicer way to put it, I can't. A carryover of 8 million bales likely implies prices in the 45-52 cent range, I fear.

Consumption has simply fallen out of bed. Period. For now, low prices will not bring cotton consumption back. The mill-delivered polyester price remains at least 30% below the delivered price of cotton. Even at these prices, mills think cotton is expensive.

The 57-60 cent trading range should continue to hold. But as we approach the September 12 USDA supply/demand report, look for the 57 cent support to fail as the market seeks out a low of 52 cents.

Give a Gift of Cotton Today.