

# Cleveland on Cotton: Uncertainty Weakens Prices, Demand Remains Bullish

July 30, 2021

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



Cotton prices surged higher on the week climbing to an even 91 cents before succumbing to Friday's selloff across all markets: financials, commodities, and equities. Weekly export sales were weak, and the outside markets suffered at week's end. Nevertheless, the market showed strength between 90 and 91 cents as textile mills were forced to come to the board and fix prices.

The talk of a forthcoming big crop, as well as the outside markets selloff, took its toll on prices. Cotton weather finally arrived throughout the cotton belt. Many began talking a huge crop as excellent cotton weather spread across the Belt. Yet, going into the close the weekly settlement showed an attempt to climb above the Friday lows and position the market to return to the 90.55-91.00+ cent level next week.

The market is wanting to see a combination of more export sales, a better definition of the crop size, and less uncertainty about future economic activity.

Uncertainty leads to lower prices and relatively less economic activity. Now that Washington has now joined the panic discussion surrounding the Chinese coronavirus market uncertainty has raised its ugly head. Nevertheless, the market remains poised to trek back to a challenge of 93 cents.

As commented two weeks ago trading up to the 92.50-93 cent level will be akin to pulling teeth, difficult, and emotionally draining. Likely it will be the September-October period before a successful challenge can be mounted, assuming the Chinese coronavirus can escape the headlines.

Weekly export sales were a marketing year low, a negative 1,200 bales. However, with just nine days remaining in the marketing year, and no time to ship, the report was not unexpected. New crop sales (the 2021-22 marketing year and the 2021 production season) were a strong 192,200 bales as Bangladesh, Mexico, Pakistan, and Vietnam led the way.

It is noted that Chinese purchases for 2021-22 have been almost nonexistent and were again minimal on the week. After purchasing some five million bales in each of the past two years there is growing concern that China will not live up to the trade agreement negotiated with the Trump administration. The market will come under considerable pressure if the agreement is not honored.

However, China needs a large influx of cotton. If they do not buy from the U.S., then other markets will be available. The world is facing a significant shortage of cotton. Likely China is playing its cards very-very close to the chest to force world cotton prices lower.

The ploy will be unsuccessful as it is noted that (1) domestic Chinese cotton prices are rising and (2) Chinese Reserve sales continue to be fully subscribed every day—as they have been throughout the entire sale period.

China has increased its imports of yarn and this could slow imports of raw cotton. However, the country's yarn spinning industry is the unquestioned largest in the world and cotton

imports are necessary to keep its population employed. In fact, Chinese textile exports to the U.S. are setting record levels each month; thus, export sales of raw cotton will be made to China.

Plant growth was impressive as great crop weather settled in across the Belt. Nevertheless, the crop remains very late. It is now August and fruiting has just begun in earnest. The plants made up two weeks' worth of time, or more on the week. Plant progress is a solid two weeks late across the Belt and excellent weather will have to continue to push the crop above the USDA estimate.

Both U.S. and world carryover are still positioned to move lower. Thus, cotton prices remain in a bullish mode, driven primarily by demand, but supported by a late crop in the U.S. and problematic crop problems in Brazil, India and Pakistan and China.

Gowers are advised to be at least 50 percent sold at current prices. Given that prices are in the upper five percent of the historical price range some growers may wish to move to 75 percent sold.