

Cleveland On Cotton: At This Point, A “70-Cent Guy”

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The Trick-or-Treaters came calling on the cotton market this week and – as advertised all last week – ended the phenomenal two-week rally in cotton prices. While all the bullish momentum has not been lost, cotton prices were due for the gut check that began on Wednesday and concluded on Friday.

Prices hit a low of 69.08 cents, basis December, as fundamental and psychological factors forged the decline. Friday saw the market sink to a low of 68.37, in line with expectations.

Nevertheless, the uptrend remains unbroken and prices can slip to 67.50 and still hold the uptrend. The coming 10 days could see very volatile trading activity as traders attempt to outguess

how USDA will approach crop losses due to weather events, exports, domestic U.S. use, and ending stocks.

Some bullish expectations surrounding potential USDA estimates are likely already in the market, but the Tuesday, November 10, USDA supply demand report will define future price activity. Look for the upper 60s/very low 70s to prevail into the USDA report.

Enough Gas Left?

Most have discounted the market theory behind psychological analysis. It encompasses contrary opinion analysis and has long proven its worth in analyzing and predicting prices.

For example, the Wall Street Journal (WSJ) posted a story about cotton's bullishness early in the week. The market saying goes something like, "When newspapers begin to carry front page stories about commodity prices moving higher, it means the move is almost over."

That WSJ article was written on a Tuesday evening and the market began a 200-plus-point move to the downside Wednesday morning. Examples of such activity are abundant in commodity trading.

Just how much gasoline is left in the bull's engine is unknown, but it is expected that another attempt at higher prices will be mounted. Again, the USDA report may suggest demand is stronger and stocks are lower than expected. Thus, prices will move higher.

For now, though, the market is following the script that most do in similar situations. The market is tired, it has a little life, but it is getting ready to drop off the ledge, or at least just lay down and quit, having run the good race and completing a V-shaped recovery off the Chinese coronavirus price lows.

A return to the 72.50 cent market should not be unexpected as the crop is not yet in, and the hurricane season can stretch out another two months.

The Key Word: “Burdensome”

Expect USDA to congregate all its yet-unreleased changes in planted and harvested acreage estimates as well as its routine yield updates in the November 10 report. Most analysts are looking for smaller harvested acres and smaller yields.

Additionally, a slight reduction in world production and a boost in world consumption should bring about lower world stocks.

However, world stocks will still be burdensome. U.S. stocks, even if reduced 500,000 to 700,000 bales, will remain burdensome, being 6.5 million bales or more.

The market was blessed with a somewhat positive export sales report on the week as Upland sales were 288,760 bales. Shipments of Upland totaled 228,800 bales.

However, the report was still marred just as previous ones have been. While some 16 countries purchased U.S. cotton, the bulk of the sales went to only seven countries: Pakistan, 126,600; China 93,900 bales and a 12,500 bale cancellation; Mexico, 44,400 with 2,800 cancelled; Vietnam 27,600 with 1,900 cancelled; Egypt, 26,400; Bangladesh, 26,400 and 26,300 in cancellations; and Korea, 18,500 bales with 1,400 cancellations.

Except for Turkey, 13,500 bales in sales and a huge 53,900 in cancellations, all other countries were very minor buyers. This week's price selloff likely uncovered additional demand, but the market is back to practically begging for additional sales to China if the nearby contract is to hold above 70 cents.

The long-only rolls are coming now and that will tend to pressure the nearby contract (December in this case), but the USDA report must be dealt with.

Count me a weak 70-cent guy, but first-notice day on the December is only three weeks away and certificated stocks are building.