

# Cleveland on Cotton: Don't Give Up On Low to Mid-70s

January 31, 2020

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



The cotton market is heavily infected with the coronavirus and suffered all week, with the nearby March falling below 68 cents. The near 400-point drop in price since word of the Chinese outbreak is showing signs that more losses are in store for the market.

Typically, such market impacts are initially overstated and the market is reasonably quick to recapture ground. However, the uncertainty of the severity of the virus outbreak has stifled the Chinese economy and brought major portions of its manufacturing industry to a near halt.

So in the face of an excellent export sales report that included a significant improvement in export shipments, cotton prices continued to slump.

## **The Global Effect**

This unexpected event has heavily affected the world cotton market. World cotton consumption could fall at least 500,000 bales or more below pre-virus estimates. That would increase world carryover and potentially reduce U.S. exports by a similar amount.

Likewise, U.S. carryover could balloon to 5.9-6.0 million bales, or a million bales more than just a year ago.

While many do not consider the virus as a world threat, the market disruption is much more pronounced than the recent SARS virus that originated in China.

China has extended its New Year holiday another week in most locations. The holiday may well be extended further in principal textile regions. Additionally, most commodity markets slipped into negative territory due to widespread economic slowdown in the Chinese economy.

Chinese mills had just begun to come to the U.S. for limited export buying the week before the virus became public knowledge.

## **Virus Dampens Positive Export News**

The weekly export report for that week showed. China purchased 127,500 bales from the U.S. on the week, an event that otherwise would have sent the market up triple digits.

Additionally, total export sales exceeded 400,000 bales. Upland was at 347,100 bales, with Pima at 15,800 bales and the 2020-21 marketing year at 50,200 bales.

Further weekly exports had finally climbed to the pace essentially needed to reach the USDA annual export estimate of 16.5 million bales. Upland exports totaled 327,100 bales while Pima export reached a marketing year high of 12,900 bales.

## **Plenty Depends On Virus Containment**

The virus has certainly played havoc with marketing plans. The only factor in play now is the demand deterioration the market blindly attempts to trade every day.

Technical support still favors the bull in the long term, but the short-term support has given way to the selling frenzy. The 67.00-68.50 area does offer considerable price support. Yet, as quickly as the market fell into this support area, it is obvious that speculative traders have jumped on the virus bandwagon.

Growers will have better pricing opportunities but that does assume that the virus becomes somewhat controlled and the Chinese economy can come back into action.

Don't give up on a return to the low to mid 70s. The fundamentals are in place to support a rally — assuming demand can be resurrected.

## **Give A Gift of Cotton Today**