

Cleveland on Cotton: Keep an Eye on Competition – Brazil, West Africa, Australia

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Day after day after dark day, cotton continues to have a bad month. Pretty soon, someone might even notice — you think? Certainty, those with offices in Washington have not.

Old crop futures prices settled a few points higher with the May futures contract at 73.49 cents while the new crop December contract settled the week at 73.50. Both contracts are working hard to reach the 75 cent level, but market fundamentals, led by that now infamous fundamental, government interference, keeps the market in a state of deep dark depression.

Washington will soon have to get serious about agriculture, yet I believe the tariff has some very positive benefits, or either it must come forth with tariff aid to offset the growing income loss suffered by growers caused directly by the tariff.

The 71-74/75 cent trading range is padlocked. USDA apparently sees no potential change in either U.S. or world fundamentals as the March supply demand report, released today, did not contain any surprises and generated little if any discussion. All discussion was about that one fundamental, the government tariff.

USDA's March report did not make any changes to the U.S. cotton situation. Production remains at 18.4 million bales with exports at 15.0 million and ending stocks at 4.3 million. USDA continues to hold exports unchanged. However, the export pace is some 11 percent below the prior year pace and new sales have slowed such that the current pace of sales is short of the level needed to reach the export estimate. Additionally, the pace of weekly shipments is below the level needed to reach the USDA projection of 15 million bales.

USDA did make limited adjustments in the world situation. Notably, world ending stocks were raised 600,000 bales, from 75.5 million to 76.1 million bales.

World production was increased some 400,000 bales, up to 118.9 million bales and world consumption was only marginally lowered to 123.6 million bales. Country specific changes of note included a production decline in Australia of 100,000 bales. Production increases were projected for Brazil, 350,000 bales and Pakistan, 20,000 bales. An expected decrease in the size of the Indian crop was not included in the report. Turkish consumption was estimated to increase 50,000 bales, now up to 350,000.

Looking to the 2019-20 marketing year, it is expected that China will see an increase in production, consumption and imports. Additionally, the once burdensome Chinese stocks will decline for the fifth consecutive year. However, stocks outside

of China will see a significance increase, notably in the U.S. and likely Brazil and India.

With the decline in China's stocks, stocks outside of China are projected to increase significantly. World trade is projected to expand, bringing it near the record levels seen in 2011/12 and 2012/13. Global consumption is expected to increase. The U.S. should have a demand for its expected 22-24 million bale crop. However, as we have cautioned, competition for export demand with Brazil, West Africa and Australia (if it gets rain) will be formidable.

Growers are again reminded to become aggressive hedgers at the 75 cent level.

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