

Cleveland on Cotton: Market Looking for Guidance

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Cotton continued its price slippage on the week as the December contract settled the week at 58.90 cents, just 15 points below the October weekly settlement. With the market facing bearish woes on both sides of the supply demand aisle, prices are left with little hope but to continue drifting lower.

The 2-3 cent band around 59 cents will likely be the most dominant trading range in the aftermath of next week's August USDA world supply demand report. Nevertheless, USDA can pull off some surprises. Thus, the market will look for any guidance in the report.

Most likely, any surprise would have to come from the supply side as the market has already heavily discounted demand. The narrow four-cent, 57-61 cent trading range should be the primary range. While more than a few market lows have been made in August, this one has the look of an October-November low.

The market is currently trading a 21.5 million to 23 million bale crop. A smaller crop would be 2-3 cents bullish while anything above 23 million bale would be bearish. Possibly, and almost unbelievably, the U.S. cotton crop is probably receiving too much rain at the expense of heat units. There are certainly pockets of 4-plus bale yields in the marking. Yet, some high yielding areas in the MidSouth are fighting vegetative growth.

The market will get a look at USDA's first objective estimate of the U.S. crop on Monday, August 12, at 11 AM Central time.

The industry estimate is 21.8 million bales, but 22 million would not surprise anyone. An estimate below 21.5 would find a few doubters as would an estimate above 22.4 million bales. While I am on the very low end of the range, Mother Nature could still push the crop forward and reach the 22 million bale mark.

It is early in the growing season and the vagaries of nature could still play havoc with the crop. As soon as USDA gives a crop number on Monday, most will begin to second guess it. But most also expect the estimate of the world cotton crop to be slightly higher than last month's estimate.

India

The monsoon has brought great favor to the Indian crop compared to last month. The estimate for that crop may well be 30 million bales, or up as much as 1 million bales from last month. If not, it is certainly trending higher.

World Crop, Consumption

The world crop will likely move above 126 million bales and push toward 127 million. World consumption is expected to be lowered 500,000 bales down to 124.2 million. Recall it was lowered one million bales last month to 124.7 million bales.

World consumption remains a bit in the doldrums due to a combination of factors. The slowing economies in Germany, Great Britain, New Zealand, and Australia are noted as are

growing economic concerns in Japan and Korea. We have previously mentioned China's economics several times. These combinations coupled with the transition of textile and apparel manufacturing out of China, has caused a kink in the flow of cotton as it moves through the distribution system and manifests itself as a slowing of demand. While this is not thought to be permanent, this short term exchange is expected to last 6 to 9 months. As such, it will continue to look as if it is a slowdown in demand. More importantly, it will in fact affect the market as if it were a short term reduction in demand.

A price collapse is not imminent, but more heat units will stack the crop higher and push prices lower.

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