

Cleveland on Cotton: USDA Predicts Texas Planting Down 6%

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Cotton futures relieved their seriously overbought conditions and charged ahead to near the prior week's settlements. Reasonably good export sales and shipments were positive for the market.

Continued speculative and fund buying across commodities based on the continued economic difficulty caused by the swine flu epidemic in China pushed prices higher. However, bullish support also came Friday with the release of USDA's March prospective plantings report. The report, one that historically reflects a reasonably accurate summation of grower intentions, indicated that 2019 plantings would be 13.8 million acres, down from 14.1

in 2018 and below the 14.3-14.5 million acres expected by the market; thus, a very bullish response by traders.

The market had expected at least a 2-3 percent increase in plantings. The nearby May contract is attempting to move above 78 cents, but must climb to 79 cents if the new crop December futures market is to breach the 76 cent level. Given the report, and the current severe shortage of high grade U.S. cotton, look for the May contract to breach the 79 cent level. Of course, this would imply that the July contract moves above 80 cents, but again, the limitation of high grades would support such a move. Certainly, this week's fundamentals would justify the move.

The principal surprise in the USDA March plantings report comes from the big State, Texas. USDA's grower survey reported Texas plantings would total only 7.3 million acres, down 6 percent from the 7.8 million acres planted in 2018. It is noteworthy, given the perceived accuracy of the March report, that reduced plantings in Texas were first hinted in the **Cotton Grower** survey released in early January at the Beltwide Cotton Conferences.

The USDA March report was at odds with the February release of the annual National Cotton Council (NCC) survey, which itself carries a very high degree of accuracy. The NCC report was the basis for the market's expectation that plantings would reach 14.3-14.5 million acres. The decline in Texas plantings places more emphasis on the potential flooding/delayed planting facing the MidSouth. The Midsouth flooding is related to the Mississippi River and its tributaries which run through acreage that carries a 3-4 bale per acre yield in many-many situations. Thus, the combination of the reduced acreage and weather problems lowers the potential of a 24 million bale crop down to 22 million or even 21.5 million bales. A 2 million bale decline in expected production rearranges the U.S. and world cotton supply demand balance sheet and calls for higher prices.

Yet, we must always caution readers that it is tomorrow's weather is more important than today's. Cotton is one of the

heartiest of God's plants. It can and has overcome numerous weather anomalies that seemingly left the crop destroyed. Yet, time and time again a destroyed crop has produced from a half bale to a bale and half per acre. Too, fields of which it was said would never see a picker later produced a record yield. The point; no matter what my fellow analysts and I say, cotton has been the master of teaching us to wait on tomorrow. Cotton always promises less and give more than any other crop.

The fundamental importance of a resolution to the U.S.-China trade tiff has become more important now. A sooner than later resolution would spur trading activity and allow both the May and July futures contracts to trade the 80 cent and possibly higher level. Such would assuredly push the new crop December contract to the 78 to 80 cent level...something I would have bet against a month ago!

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