Shurley on Cotton: The Problems and the Possibilities

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Nearby March futures seems to be working its way into a corner. There still seems to be solid support around 77 cents but then a hurdle to negotiate (or ceiling to break through) at around 82. March is currently around 79 cents.

Last month, I suggested that 80 cents or better would be a good target at which to do some additional pricing on a portion of remaining uncommitted production. That still holds. Prices have shown some willingness recently to move to 80 cents or better but have not been able to sustain it.

One would think with all the production and quality issues and uncertainties continuing to plaque the US crop, that the market would/could make a concerted move higher and stay there, but such has not yet been the case.

While the “floor” at 76 to 77 cents seems secure, at 79 to 80 cents (about where the market is now) there’s roughly 3 cents risk to the downside vs. also about 3 cents potential to the upside. Ideally, and I l know this what growers are hoping for, a little more push to the 84-85 cent area would sure be nice. I would consider that target #2 should we get there.

USDA’s December crop production and supply and demand estimates (released on Tuesday this week, December 11) did not provide positive news for the market. In brief summary—

- The US crop was raised 180,000 bales from the November estimate. Yield was lowered further in Georgia, Alabama, and South Carolina but raised in Texas. The overall US yield was raised from the November estimate.
- Projected US exports for the 2018 crop marketing year were unchanged from the November estimate.
- The India, China, Turkey, and Pakistan crops were lowered.
- Projected imports were unchanged for China, Bangladesh, and Vietnam.
- World use for the 2018 crop marketing year was revised lower for the third consecutive month.

US exports for the 2018 crop year are projected at 15 million bales compared to 15.85 last season. Given a 2.3 million bale smaller crop this year and given the tariff situation uncertainties, 15 million bales in exports would seem to be a great achievement. Going forward, the market will certainly keep an eye on exports because the bar has been set rather high it seems.

World use is currently pegged at 125.63 million bales. While this would still be a record use, it is 2% lower than the almost 128 million bale estimate made back in September. Yes, the latest estimate is still a record but some of the air has been let out of the balloon and this undoubtedly impacts the market. This possible erosion in demand is concerning and, as also with exports, the market will keep an eye on this going forward.

Fiber quality is also an issue. Whether it manifest itself into an industry-wide marketability issue remains to be seen, but fiber quality is wreaking havoc with a significant portion of growers in the Southeast. On top of yield losses due to hurricanes Florence and Michael, continuous rains and more recently, cold weather are delaying harvest and causing deterioration in fiber quality and subsequent financial losses.

31% of the Georgia crop was planted “late” (in June). This compares to 20% typically. As of November 25th, 72% had been harvested compared to 81% average and 83% last season. Delay has worsened since then due to continued rain and wet field conditions. As of Nov 25th, South Carolina was 16 percentage points behind normal harvest.

Lodged and twisted plants due to wind damage, delayed harvest and cold temperatures, and lack of sunshine have caused increased bark content, lower Color grades, and high Leaf grades.

In Georgia, 47% is lower than 31 in Color and Color grade has worsened weekly. 25% of the crop has a Leaf grade higher than the corresponding Color grade. For the season thus far, 9½% of the Georgia crop has graded with bark but for the most recent week, 19%.

Southeast discounts for bark (level 1) are 400 points; mostly 100 to 300 points for Color; mostly 50 to 150 points for Leaf grade.