Shurley on Cotton: Market Showing More Positive Patterns

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By Don Shurley, University of Georgia Cotton Economist

Since the summer lows around the 58-cent level, cotton prices (Dec19 futures) have managed to fight through all the negatives and unknowns and trended back up—to the 65-66 cents area. Price gained about 13% over this time.

The move to close near 66 cents was the highest that prices have settled since early July. Dec19 now stands at just under 64 cents. The recent uptrend has “stalled” over the past week or so. This has established a clear resistance or ceiling between 65 and 66 cents. Likewise, there now appears a floor or area of support at 62 to 63 then lower at 60.

You might say, ok Don, why are you telling us all this technical voodoo stuff? Here's why—because I want you to begin to think about where this market has been and where it might go in the future and begin to think about what might be considered good remaining market opportunities and the risk in prices. And, believe it or not, these patterns in the market mean something for a lot of reasons (both good and not so good) and need to be paid attention to.

The uptrend is welcomed although prices have softened more recently. It's worth asking—why the recovery/uptrend happened, what's happened more recently, and are these better prices sustainable?

Why have prices improved?

- A market "correction" was due—price had moved too low.
- Increased optimism on the US-China trade front.
- Still some lingering uncertainty about the size of the US crop.
- Exports sales reports have had some good weeks—but also some not so good weeks
- World demand has been adjusted downward by USDA but the monthly revision much less in USDA's October report.
- The Southern Hemisphere crop is reduced.

Can the price rebound be sustained?

- US-China trade talks need a good and firm positive step forward. Prices have proved willing to move on good rumors. Concrete action is needed before prices will take the next leap up.
- Exports need to be more consistently good

- Demand is still relatively weak. Need stronger demand.

- Old crop prices may eventually strengthen on the coat tails of needing new crop price to increase to attract acres for 2020. It's much too early to know how this will play out. One thing seems obvious, unless demand improves and the US-China trade war is settled satisfactorily, we likely won't need another relatively big US crop next year.

Prices could strengthen further although the recent "softening" is a concern. Prices have support at 62 to 63 and lower at 60 and even lower at 58 to 59. We don't want to go there again but we can't forget where we have been.

One strategy would be to set targets and then price a portion of remaining crop when that target is achieved.

What are these targets? Well, the 65 to 66-cent area has already proven itself a target. Above that, 68. If we can manage to break 68, then that will likely really open things up for 70 or better.

But it's probably not prudent to hold all your cards and wait on the advent of 70 cents. Set targets to limit risk and scale up pricing.

In closing, the days of a strong positive basis in the Southeast appear over. The market is still very much paying for quality but the overall price is still lower due to the weaker starting basis for 41-4/34. Currently, the basis is +1/2 cent (50 points) for 41-4/34 and +2.75 cents (275 points) for 31-3/35 or a 2.25 cents premium for the 31-3/35.