Shurley on Cotton: Multiple Factors Contributing to Market Stability

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After making a long upward run and recently peaking at over 72 cents—the highest price in 9 months (since January), the market (Dec futures) declined and tested support at 68. Prices thus far this week have gained back to the 70 cent area.

After the peak at roughly 72, the often-voiced reasons for the decline or "correction" were "profit taking", "technical considerations", and jitters over the decline in the stock market.

As we think about where to go from here, several observations that I think are relevant and worth considering:

1. The area of 72 to 73 cents proved again to be the peak as it was back in mid-January—a "hurdle" that has to be negotiated if we dare expect to go even higher.

2. When and if we get to 72 again, producers should decide "do I price or wait and see if we get over the hurdle" and in doing so, risk that price retreats down again?
3. Support at 68 seems to have held for now and let's hope that continues. That tells us that 68 cents is your risk on the downside.
4. The choppy ride up since late March has been remarkable when you consider all this market has had to fight through. The economic fundamentals have altered enough over this time that it's now hard to imagine us going back to much below 67 to 68 unless something really major comes along.

USDA's November crop production and supply/demand estimates will be out next week on Tuesday, the 10th. Among other things, the market will be eyeing the US crop and World Use/demand.

The US crop is currently projected at 17.05 million bales. The crop is expected to be reduced—perhaps in the neighborhood of 300,000 bales. The market is and has been expecting a reduction, so there may be no responding upward movement in price unless the crop is reduced more than expected.

US exports are currently projected at 14.6 million bales for the 2020 crop marketing year—down about a million bales from last season but a reflection of the smaller crop and uncertainty about demand and finding a home for US cotton should prices remain at current levels or higher. I don't expect the 14.6 number to change much if any for November but could if the US crop is also reduced.

World Use is currently projected at 114.21 million bales. There was a nice jump of roughly 1½ million bales from the September estimate—accounted for by China and India. The market will be looking to see if this increase will hold or increase again or fall.

Any rebound in Use can also be evidenced by what we see in weekly export numbers. This week's export report for the week ending October 29 was not especially good. Net sales were 136,400 bales—down 60% from the previous week. There were 123,300 bales in sales cancellations. Shipments, however, were 300,700 bales—up 19% from the prior week.

December futures was down today, hovering just over 70 cents—perhaps due to the mixed export numbers and the uncertainty looming over the Presidential election. Right now the market seems waiting to see what the next event coming along will be.

The market will be watching Eta. It is uncertain at this point how strong Eta will be and what track it will take. Any Impact will depend on this and how much cotton remains to be harvested in its eventual path.