Shurley on Cotton: Slipping but Should Find Support

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Market math can sometimes be confusing.

Case in point—December futures has lost 2.37 cents this week. I saw a story today lamenting the decline. December closed today at just under 62 cents (61.84).

Well, the "nearby" futures is now March, not December. The "spread" between December and March is currently 2.17 cents—March is 2.17 cents higher than December. March closed today at a more respectable, if you want to think of it that way, 64.01. March has lost 1.96 cents this week—not quite as bad as December.

But guess what: over the past couple of weeks the basis for 41-4/34 has weakened (got less positive or more negative depending on where you are. Here in the Southeast, the basis for base 41-4/34 has widened to from about even December to now -2 cents March. There is still a nice premium for 31-3/35 (+2.25 cents) but that's built off a now weaker 41-4/34.

Did you catch that—the "nearby" has switched to March and March has a nice spread above December but the wider basis on March takes it away. There's your Marketing 101 lesson for today.

Many Flavors Of Uncertainty

If you try to follow the market news as much as you can, the headlines can make your head spin. Paraphrasing, over just the last week from several sources—US-China trade concerns, trade optimism, cotton gains on strong data, cotton falls on crop forecast, cotton dips due to excess supply, cotton rises, US-China concerns knock prices.

All this within the last week. Good news one day then sometimes contradicting bad news the next and vice versa. This 100% absolutely is not meant at all to be a negative comment about the media—some of those good folks are among my best and closest acquaintances in this business.

I'm simply using this to illustrate the degree of uncertainty in this market—the market being so up and down, up and down with seemingly no direction. How can the market find the confidence to establish a more firm direction until the many uncertainties are more known?

There is always uncertainty. I tell farmers and my students that prices up and down are the process of "price discovery". But the US-China trade situation and the longer it drags out, ramps this up a notch.

US export sales struggled for a while but more recent numbers have been encouraging. Sales have been above 200,000 bales for 3 weeks in a row and have averaged a fairly respectable 270,000 bales per week. Sales now total 10.7 million bales compared to 10.2 million bales at this time last season.

A Reluctant Market, Understandably So

USDA's November numbers cut the US crop 890,000 bales on a lower US average yield estimate. Most have expected the US crop to get smaller and we're finally now seeing it. The crop was also adjusted down in India, China, Turkey, and Pakistan. Demand (Use) was lowered again but just slightly.

It appears to me that the fundamentals are improving. The market should have support at around 62 ½ to 63 cents March futures. But, there is also "resistance" at 66 to 67 March.

I believe there is potential for the market to eventually move higher—but right now, the market is simply not willing to commit to that path until the trade situation and other uncertainties are more known.

Can the market move lower? Yes. But like I said, the fundamentals appear improved and there should be enough support to limit the downside. But, I've been wrong before and anything can happen.