

Shurley On Cotton: Market Direction — Questions Looking For Answers

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Prices (July futures) continue in a range of mostly 54 to 59 cents. We've seen a decent uptrend since the most recent low of 53½ on May 5 and, with a few hiccups, since the low near 48 on April 1.

The market (July) had a chance at near 60 cents today (5/26) but fell back and closed just above 58 cents. Today's news might be old news by the time you read this, but the point is, this could be further evidence that 59 to 60 cents might be the wall we bang our head against for now.

I hope I'm wrong and that sooner rather than later we break the resistance at 60 cents. But it also appears that the market

should have support at 2 levels – at 54 cents and again at 52 cents.

Price is hindered by reduced and uncertain use and increased stocks due to this lower demand. This will also increase stocks going in to the 2020 crop marketing year. Prices for the 2020 crop depend on many factors including U.S. and World production and demand/use. Will use rebound? USDA is projecting that it will.

As of May 14, export sales totaled 17.34 million bales — 116% of USDA's projection for the 2019 crop marketing year. Shipments totaled 11.56 million bales — 77% of the projection. As of May 14, 11 weeks remain in the marketing year. Shipments must average 313,000 bales per week to reach the projection. For the 4 weeks ending May 14, shipments averaged 285,000 bales.

Questions Looking For Answers

All eyes will focus on several things going forward, and prices will take direction based on what happens. Key questions and factors include:

- Will shipments be sufficient to meet the 15-million-bale projection? If not, the result will be higher U.S. ending stocks.
- USDA has sharply reduced world demand/use in recent months due to COVID-19. Will monthly reports for the remainder of this marketing year continue to slide or will we see some recovery?
- The May reports were the first estimates (non-survey based) for the 2020 crop year. The May projections were for higher world use and higher U.S. exports for 2020. Will such better numbers continue in future reports?

- S. acreage and production for 2020 are currently projected to be not much different than in 2019. Most observers expected the March planting intentions estimate to run lower than it did. The first estimate of actual acres planted will be out June 30.

Sales to China have increased over the past month. Huge sales of over 400,000 bales (after weeks of very poor sales) were reported for the week ending April 23. Sales have since cooled off a bit but still hold a relatively good level. Shipments have been steady at about 55,000 bales weekly.

As of May 14, total upland sales to China were 3.21 million bales but shipments were only 1.42 million bales. That has prompted concerns and uncertainty about whether China will follow through on its sales and the pace of shipments. Shipments for the remainder of the marketing year would need to average roughly 162,000 bales — almost 3x the current rate — and time is running out.

Let's hope not, but if 2020 turns out to be another year below 60 cents, producers should hone their understanding of the loan, LDP/MLG and be prepared to evaluate these components as part of a marketing plan.