Shurley on Cotton: Don't Bury Your Heads in the Sand

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The uncertainties of the US-China trade situation continue to weigh heavily on the cotton market. This continues to sometimes be a tug-of-war between rumor and fact. The market may react positively to rumor or any hint of good news then retreat for lack of follow-through facts or due to subsequent conflicting news.

In the tit-for-tat battle, over recent weeks and days the US imposed an additional 10% tariff on $300 billion of Chinese goods effective September 1 although some have since been delayed to December 15; China then retaliated announcing new tariffs on $75 billion of US goods; the US then retaliated by raising existing tariff rates on more than $400 billion in Chinese goods; the US and Japan have agreed in principle on a trade deal to be signed in September; China then said they are willing to resume trade negotiations; the next rounds of talks is scheduled for September.

During all this, the market has whipsawed up and down based on trade news and other factors. After falling to 58.4 cents on August 12, prices (Dec futures) "rallied" to 60.13 cents by August 16. Prices maintained around the 59 ½ to 60 cents level for several days before 3 consecutive losing days (due to trade news) took us to 57.82 cents—a new low. Prices tried to make a move back closer to 60 cents today but failed to hold.

It all adds up to an increasingly frustrating time for cotton growers as prices just can't seem to find traction. What is unknown is will US markets and trade eventually return to "normal" and if so when, or are we in for a longer term complete restructuring of how we do business with China.

Global recession worries are also contributing to the weakness in the market. The US, China, and Germany are all experiencing an economic slowdown. A global slowdown and recession fears are also being pushed along by the uncertainties in trade

When the trade war with China started, one theory on how it could impact US cotton was that the US might be able to offset, at least in part, the loss of exports to China by increasing exports to other countries. The already occurring expansion of our exports to places like Vietnam and Bangladesh was evidence that it might be possible. The more recent weakening in demand/use, however, and the possibility of a global economic slowdown have possibly derailed that theory.

USDA's August monthly projection of World mill use for the 2019 crop marketing year is 123 million bales—almost 3 million bales less than its first projection back in May. One half of this reduction is accounted for by less use projected for China. As of August 15, export sales for the 2019 crop year total 8.33 million bales. This compares to 9.01 million bales at the same time last season.

It is clear, by just looking at what has happened to prices that farmers are carrying a heavy burden and paying a heavy cost for the ongoing trade dispute. Two years of MFP payments are certainly a help in terms of mitigating low prices—but that doesn’t help recover lost markets and market share.

The outlook is uncertain, as always. Harvest is upon us or soon will be and growers must decide what to do with the uncommitted portion of the crop. What are the alternatives and how do you evaluate the choices?

Here we are in the 58 cents neighborhood. Given where we are, what else can you do but assume that prices are going to eventually somewhere, somehow increase? Now is not the time to give up and bury our heads in the sand. You have to be positive. The question is—how do you play the waiting game—it’s not what to do—we’re going to hope for improvement—the question is how do we best do that?

The condition of the US crop has deteriorated and we’ve got a possible hurricane headed for the Southeast. But right now, trade uncertainty and weakening demand override everything. Let me just say this in closing—we are close to LDP (or what some still call a POP payment) territory.

If futures stay consistently below 59 cents, an LDP should be in effect. If you take the LDP, and fine if you do, just remember that the LDP/MLG is your “shock absorber” and you no longer have that protection if prices move lower.