Shurley on Cotton: Fundamentals, Fear, and Uncertainty

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The cotton market is currently in a decline. Old crop (2018) prices have dropped 20 cents/lb since the highs back in June and most recently fallen 6 cents over just the past month. Low prices are never good but this is particularly bad given that many growers around Georgia have lost half or more of their crop due to weather. Fiber quality has been an issue and price discounts contribute to more financial loss.

The situation at present is a mix of both positive and negative forces. Looking strictly at the numbers, IMHO, the fundamentals are not that bad. The US crop is still uncertain (the GA crop could get smaller); the US, China, India, and Pakistan crops are all less than last year; World and China stocks have declined significantly over the past few years; World cotton use is trending up; and growth continues in the Bangladesh and Vietnam markets.

The major factor influencing the market right now is fear and uncertainty in those numbers. When uncertainty rules the market, prices get discounted. Yes, World use is currently projected at a record level—but it seems very unstable and uncertain (Will the decline in oil prices start another cotton vs. man-made fibers trade-off? Also, note that USDA has lowered projected use for three consecutive months.)

The tariff situation with China is still unresolved. US exports are currently projected at a very respectable 15 million bales for the 2018 crop marketing year—but is this achievable? Export potential to both China and Turkey is highly questionable.

Export sales are on the pace of USDA's current projection of 15 million bales but sales have slowed. Actual shipments, at present, lag well behind the pace needed to meet the projection.

Other negatives include uncertain US stock market (commodities do get impacted by the direction of the stock market and the US economy) and, in the face of uncertain demand/use and exports, the strong likelihood of a larger US cotton crop for 2019.

Prices (Mar19 futures) are currently in the neighborhood of 73 cents. New crop Dec19 is around 74. For both remaining 2018 crop and upcoming 2019 crop, there is a chance that prices move lower. But, we all know that anything is possible. For both old crop and new crop, given the uncertainties out there, it seems that a grower should consider opportunities to protect from the event of lower prices on at least a portion of the crop.

For remaining 2018 crop, pricing on a move back to 75 to 77 cents should be considered. But this means waiting and waiting is risky. For expected 2019 production, growers could start pricing at 75 to 76 cents on Dec. Add to sales if prices move higher. Are we happy at 75 cents? No. But growers need to consider protecting at least some portion of the crop from a below 70 scenario.

At current relative futures prices, cotton acreage is likely to be about the same this year. Corn may gain some ground from cotton, soybeans give up some acres. Peanuts could gain acres especially if cotton moves too much lower.