

Shurley on Cotton: Market's Path Clearer But Still Uncertain

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Prices continue to show strength. New crop December futures closed today at 88.16 cents—the highest in a month and topping 88 cents for the third time near the contract high.

Cotton's path seems on more solid footing in recent weeks. Given the present fundamentals, the market has clearly established a current objective top at near 90 cents. It looks like there's currently plenty of support at 84.

There are several factors in play—some bullish and some bearish. Despite recent strength, there are bearish undertones that could eventually take prices to nearer the support level.

USDA's June 30 Acreage report showed actual cotton acres planted estimated at 11.72 million acres—down 3.1% from last year. More importantly, acres are only 317,000 less than

farmers said they intended to plant based on the March Prospective Plantings report.

The consensus within the industry was that due to weather, high prices for competing crops, and other factors, actual planting could be less than intentions. Industry expectations were that acres would be down more than the June 30 number indicated. Planting will be firmed later based on FSA acreage reports.

With planted acres now more “known” than before, the market can turn more of attention to crop condition and eventual acres harvested. Overall crop condition has trended up as the season as progressed. As of July 11, crop condition was the highest for the season so far with 56% of the crop good to excellent. As of July 11, 12% of the Texas crop is poor to very poor and 43% is good to excellent. The Georgia crop is rated 74% good to excellent.

Should crop conditions continue favorable, yield could increase, harvest acres increase, and the US crop increase. But assuming marketing decisions have been such, what producer would not like selling a large crop for better than 80 cents average?

Last weeks export report (for the week ending July 1) showed sales of 59,200 bales and shipments of 323,400 bales. Sales and shipments were both up from the prior week. With approximately 4 reporting weeks left in the 2020 crop marketing year, shipments need to average roughly 325,000 bales to reach USDA’s estimate of 16.4 million bales for the year.

Today, USDA released its July crop production and supply and demand estimates. The numbers were mostly good.

- The projection for the 2021 US crop was raised 800,000 bales. But there is still much uncertainty and concern.
- US exports for the 2021 crop were raised 400,000 bales.

- World Use for the 2021 crop year was raised 620,000 bales.
- Chinese imports were lowered 1 million bales.
- World ending stocks were reduced approx. 1½ million bales.

Cotton is also being pushed and pulled by the corn and soybean markets, the weather, the value of the dollar, and threats from the Delta variant. With a potentially larger US crop in the making, we certainly don't need anything to disrupt strong demand.