

Shurley on Cotton: Return to Optimism Still On Wobbly Legs

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From the peak at near 88 cents in late February to the decline to near 76 cents in late March, cotton price (new crop December futures) are trying to mount a comeback. Since the latest low, we've had 9 up days out of the last 13 and December now stands at 82 and change.

To be back over 80 cents is an encouragement. As we near planting time for most cotton areas, 80 cents or better is likely a factor in what direction cotton acres will take. I suspect for most growers, acreage decisions are pretty much a done deal by now. I'm just saying that 80 cents or better is likely the barometer that confirms to the grower if the "right" decision was made or not.

I've watched markets for 40 years—cotton for 30 of that. I can tell you that prices often overreact—they go too high and/or too low that isn't justified by the economics—then they tend to “settle down” somewhere in the middle.

What I'm saying is—88 was likely too high and 76 likely too low—now the market's job is to try and find a “comfort zone”. Economists have a fancy word for that called “equilibrium” and this equilibrium price has to be discovered over time.

Moving forward, the key factors determining the direction of this market will include demand (as supported by export reports) and US crop conditions and size.

USDA released its April estimates last week. I've heard and seen it said that the report was bullish. I'll concur that it was to some degree, but the numbers likely weren't that good enough to convince most of the market to yet jump back on the higher-prices bandwagon.

To summarize the April report:

- US 2020 crop year exports were raised $\frac{1}{4}$ million bales. This was anticipated. Further increase may be coming in future reports.
- US ending stocks for the 2020 marketing year were lowered 300,000 bales. ES could move even lower.
- World Use was increased roughly 400,000 bales from the March projection. 250,000 of this was increase for China.
- Imports for China were raised $\frac{3}{4}$ million bales. Imports for Bangladesh were also raised. Exports for Australia were raised.
- World ending stocks for the 2020 crop marketing year were lowered 1.1 million bales.

The USDA May report will be the first estimates and forecasts (non-survey based) for the 2021 crop year.

The fundamentals for the 2020 crop and price are pretty much done. Exports and the demand side may yet increase further. If it does, that will further tighten carry-in stocks to the 2021 crop year and impact 2021 crop fundamentals.

Given the uncertainties about US plantings and getting off to a dry start in some areas, this could very well play into higher prices. The price of cotton is also being impacted by factors such as the value of the dollar and the price direction for other crops like soybeans and corn.

Last week's export report (for the previous week ending April 1) was good. Net sales were 286,000 bales with the largest sales destinations being Vietnam, Pakistan, and China. There were 8,600 bales in cancellations for China. Shipments were 405,000 bales with the largest destinations being Vietnam, Pakistan, Turkey, and China.

With not quite 13 weeks remaining in the 2020 crop marketing year, exports (shipments) need to average about 391,000 bales per week to reach the current USDA projection of 15.75 million bales. We are on that pace or better. So, we could see the estimate of exports revised upward a little more.

The market is making a recovery from its recent dip lower. If demand remains strong and especially if the US crop is concerning in any way, prices could yet move higher. I contend we are still at a "wobbly" stage of the market, however.

Most growers probably have protection already on some portion of the expected 2021 crop. How comfortable are you with where you are? This move back over 80 may be an opportunity to add on if you choose to do so.