Shurley on Cotton: Prices Will Recover — When, How Much Uncertain

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By Don Shurley, University of Georgia Cotton Economist

The US stock market has been in a meltdown. There are increasing fears of a global economic slowdown. Businesses and events and schools are being shut down. The situation has really escalated quickly over the past week.

How much of what we hear is fact or fiction? Is this all mostly an overreaction? I don't know and neither do you. Does anybody? What we are likely witnessing is a fear of the unknown and out of an abundance of caution just to be on the safe side.

Commodity prices have been severely impacted and in a tail-spin. The coronavirus is causing business slowdown and demand uncertainty. Commodity futures, in addition to a tool for price discovery and hedging, are also used as investments.

Just like the stock market, the investment side of commodities is also in disarray and one of the reasons for the downturn until confidence is regained and the bottom is believed to be in sight.

Prices will recover. But it will take time and it may take more time than earlier thought—simply because prices have fallen so far. Also, at such time that prices do begin to show improvement, it is now more uncertain just how much recovery will take place.

What we can hope for is that all the things being done now out of caution, fear, and uncertainty will slow the spread of the virus and actually shorten the amount of time it takes for things to begin to get back to normal.

Old crop May futures slipped below 60 cents today. Prices have now lost about 10 cents or 14% since the most recent peak back on February 19th. The recent previous contract low was in the 59 to 60 cents area. Hopefully, prices will find some support at this level, buying activity pick up, and prices begin to inch back up.

USDA's March numbers were released earlier this week. Although the coronavirus has dominated the news and the markets, the market was also impacted by a not so good March report.

The 2019 US crop was cut another 300,000 bales—due to a 12-lb per acre reduction in the US average yield. US exports for the 2019 crop marketing year that ends July 31, were unchanged and remained at 16.5 million bales. Frankly, this has to be a positive sign under the circumstances.

The potentially positive price impact of another reduction in the US crop was overshadowed by disappointing news on the demand side. Projected World demand/Use for the marketing year was reduced 850,000 bales—a 1 million bale reduction for

China but offset slightly by increases for Bangladesh and Turkey.

With the reduction in Use in China, China’s need for imports was also trimmed by 250,000 bales. But this was offset by increased imports for Turkey and Bangladesh.

This week’s export report showed the second strong week in a row. Both sales and actual shipments were market year highs for the second consecutive week. Sales were led by sales going to Pakistan, China, Turkey, Vietnam, and Bangladesh.

Unfortunately, 2 strong export reports in a row have not been enough to offset coronavirus concerns and further weakening World Use.

Prices will improve. How much is a question, but in time, markets will recover. In my travels and discussions with growers, a surprisingly high amount of the 2019 crop is still yet to be sold. Plummeting prices and an unknown future are not good—yet, you certainly don’t want to panic with the market now sniffing 59 to 60 cents.

Could prices still go even lower? Yes. How do you hold and hope prices move higher yet try to manage the risk of price going even lower? That has to be the name of the game. Also, delaying the sale also further delays cash flow. So, cash flow is also a concern.

I see only 3 imperfect possibilities—put the crop in Loan, sell and purchase a July Call Option, or enter a “provisional” or deferred price contract. The market is now within a couple of cents of providing an LDP/MLG.