

Shurley On Cotton: A Correction Seems Likely As Prices Bump Up

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Cotton is pushing toward 70 cents, presenting pricing and risk management opportunities for growers that I'm sure most of us never thought we would see for this crop. It's decision time. If not priced already, this move certainly seems a good opportunity to get going or add to previous sales.

December futures closed just short of 70 cents on Friday (69.92) —gaining 2.28 cents for the week and, so far, over 4 cents this month. Prices are now the highest in 8 months.

Prices have increased this week due to expected losses from Hurricane Delta, a "spillover effect" from strengthening corn and soybean prices, and "technical considerations". There have also been reports of possible damage to the India crop — a major U.S. export competitor.

Hurricane Delta made landfall on October 9. The impacts of Delta are not yet known. This week's USDA crop conditions report as of October 11 showed 30% of the U.S. crop in poor to very poor condition compared to 27% for the prior week.

It is likely that the October 11 numbers did not yet fully reflect the impact of Delta so we will see what the numbers look like as of October 18.

Anemic Export Numbers

This week's export report is not a good one. Sales for the week ending October 8th were 120,200 bales—down 42% from the prior week. Sales to China were only 26,700 bales — the lowest week thus far in the marketing year.

Shipments were 211,500 bales — up 30% from the prior week and good to see after 2 previous weeks of decline. Shipments to China were 145,800 bales or 69% of the total.

The largest shipment destinations were China, Vietnam, and Mexico. When the sales and shipments numbers to China appear weak, we'll look at other important destinations like Vietnam, Turkey, Bangladesh, Mexico and Indonesia.

Use in those countries could work to offset any weakness in the China numbers. A news media report I saw this week mentioned increased yarn business in Vietnam where that yarn could eventually be shipped to destinations in China.

A Correction Looms?

The market (Dec futures) has strengthened this week. The damage from Delta is unknown and it is yet to be determined if a move to 70 cents is justified. What we do know is that USDA's October estimate was a surprise and higher than most thought it should be and now we've had Delta. A further reduced U.S. crop is likely.

December advancing further and pushing 70 cents Friday, in the face of a weak export report, is evidence that something positive is going on.

There are concerns of harvest delays and in next week's crop conditions report on Monday, we'll see if conditions fall due to further evidence of the impacts from Delta. This move to near 70 may be at risk of a correction down but price has support at 67.