

## **Cotton Marketing Weekly**

Dr. O. A. Cleveland

Cotton Marketing Analyst

Professor Emeritus, Mississippi State University

January 11, 2019

### Cotton - The Fiber of Choice

Market activity continues to be handcuffed by the U.S.-China trade dispute. Chinese textiles and apparel products continue their aggressive flow into the U.S. while China buys very-very little U.S. raw cotton. Thus, most cotton apparel goods purchased by the U.S. consumer are manufactured from foreign grown cotton. That is, the U.S. is the world's major importer of Chinese apparel goods. Too, it is becoming more evident that the U.S. cotton industry and the cotton grower specifically, is negatively impacted by the U.S. tariff. Additionally, the tariff policy is creating an increase in the balance of trade problem the U.S. has with China, at least with respect to cotton. Price activity remains volatile. Triple digit trading days have been typical recently. Yet, even more volatility is expected due to trade uncertainty. The recent 71 cent low is showing signals of a market bottom, unconfirmed. In the absence of actual reports, the market is left to second guess the fundamental news that can be uncovered. Price improvement is not expected until some resolution in the trade dispute is on the horizon.

Textile mills were believed to have been very active in fixing pricing, but grower fixations were totally absent. Growers are selling some cotton, but most of the business is being done as on-call purchases; thus, leaving the grower vulnerable to price declines. It should go without saying that the government partial shutdown has snookered reports such as export sales, CCC loan activity, withdrawals, on-call, WASDE and others. Thus, fundamental news cannot be validated by government reports and market fundamentalists are left with only what verbal information can be gleaned from trade participants. The 90 day "cooling off" period agreed to by the U.S. and China is essentially half over and no U.S. cotton has been purchased by China as the industry had "expected." The tariff talks lack anyone from the cotton industry to carry its banner. In fact, agriculture itself, lacks for a senior spokesman in the trade talks.

Without actual data via USDA reports it cannot be categorically stated the growers are delaying fixing the price of cotton they have sold. However, that is the story being told by grower agents/representatives. Should U.S. exports sales suddenly come to life and the world market opens for U.S. cotton, a fact strongly doubted by most industry observers, then the market price will rise and growers will be rewarded. Yet, it is likely that some 76-78 cents is the most that can be expected. Look for the Indian crop to be lowered some 1.0-2.5 million bales. Additionally, the world is expecting India will come to the market for U.S. cotton. Those two events will be supportive. However, the combined Chinese and Turkish export market of approximately 4.0+ million bales of U.S. cotton is rapidly disappearing. It is expected that the next WASDE report will reflect a significant decline in the U.S. cotton export estimate.

U.S. plantings for 2019 had generally been forecast at some 14.1-14.4 million acres. However, *Cotton Grower*, in its annual grower plantings intentions report, suggested some 13.7-13.8 million acres. The disparity relates to expected plantings in the Southwest and specifically in Texas. Some Southwest growers suggest they will not plant their normal acreage of dryland cotton, opting to leave much of that acreage idle due to price risk. This is reflected in *the Cotton Grower* survey. Should that occur then the market will have the opportunity to trade to the high 70's/ low 80's. However, the long range weather forecast portrays an excellent production season for the Southwest. Thus, the most likely 2019 December contract will be constrained above 78 cents. A continuation of trade disputes likely sends the market back to the high 60's. The market now awaits the NCC plantings survey release in early February. The *Cotton Grower* survey and the NCC survey do have a nice tendency for accuracy.

Give a Gift of Cotton Today