

Cotton Marketing Weekly
December 11, 2020

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Cotton is a Calling

USDA's December supply demand report came in as everyone assumed it would, bullish. Yet, in a surprise psychological response, despite everyone rowing their boat for higher prices, the market did post a bullish move, up some 100 points. Yet, there were surprises in the report, thus; there was room for some bullish trading. Most of the bullishness had already been faded by the market. However, while a significant increase in the U.S. export estimate came as a small surprise, the big increase in Chinese imports helped produce bullish enthusiasm. Additionally, the 1.6 million bale increase in world consumption could prove to be the beginning of a bull market a few months down the road. (Demand-Demand -Demand) Expect the market to attempt a reach to 75.50, basis March. Some expect prices to attempt a challenge of the 80-cent mark, but for me that is just a "bridge too far." Cotton is in danger of running past its demand above the 76-cent mark.

In its report, USDA lowered its estimate of the U.S. crop 1.1 million bales, from 17.1 down to 16.0 million bales. Most in the industry blistered USDA-NASS from waiting until December to lower the crop size when significant reductions were already known in both October and November. The most frequent comment centered around the compliancy demonstrated by USDA-NASS for not incorporating known data in earlier reports. It represented the most significant error in USDA's reporting covering at least the past fifty years of estimating crop size. Many in the industry continue to feel that USDA will face another reduction in crop size in its January estimate, down as much as another 500,000 bales, noting that the Southeast crop is greatly overestimated. Assuming USDA returns to the rigor of crop estimation and moves away from its newfound penchant of simply talking to each other, next month's January supply report will help restore some confidence in USDA reports. Look for the January supply demand report to estimate the crop at 15.6-15.7 million bales. However, in the absence of increased demand, the price impact is likely already built in the market. USDA increased its estimate of U.S. exports 400,000 bales, up to 15.0 million from the previous estimate of 14.6 million. No change was made in domestic consumption and after suggesting it should be lower, I am now convinced the USDA estimate of 2.5 million bales is achievable. The result was that U.S. ending stocks for the 2020-21 marketing year, the year ending July 31, 2021, were estimated at 5.7 million bales, a 1.4 million bale reduction from last month's estimate of 7.2 million bales. USDA's decision to increase exports 400,000 bales while bold, was tied to its increased estimate of Chinese imports by a like amount. USDA expects the current administration's trade policy with China to continue under the next administration. That would be very beneficial to cotton. The U.S crop production report can be viewed at <https://release.nass.usda.gov/reports/crop1220.pdf>

USDA reduced its estimate of world carryover by 3.9 million bales, a very significant reduction, by lowering its estimate of the world crop 2.2 million bales (half from the U.S., 500,000 from India, and 500,00 from Pakistan) and increasing world consumption 1.6 million bales (1 million in India, 500,000 in China and 200,000 in Pakistan). World production was decreased from 116 million bales down to 114 million. World consumption was increased from 114 million up to 116 million bales (approximates). The world supply demand report can be viewed at <https://www.usda.gov/oce/commodity/wasde/wasde1220.pdf>

Textile mills will not chase the market but will continue to be excellent buyers at lower prices. Last week's price drop to 72 cents and below provided for a very favorable export sales as net sales of Upland climbed to 403,000 bales with shipments totaling 323,200 bales. China 158,100; Pakistan, 75,900; Vietnam, 36,800; Indonesia, 28,700; and Thailand, 16,600; were the major buyers. The report can be viewed at apps.fas.usda.gov/export-sales/

The underpinning for more bullish response, not likely to come until late spring-summer, will come from the increase in domestic consumption in China, India, and Pakistan. All three of these countries were estimated to experience an increase in demand. These comprise the three largest textile economies in the world, a fact that should not be missed. Continued imports by China of U.S. cotton, coupled with continued imports by Pakistan, stand to lower U.S. carryover below the current 5.7 million bales estimate. However, it is not expected that U.S. carryover will fall below 5.5 million bales. A view of the world cotton trade matrix can be viewed at <https://apps.fas.usda.gov/psdonline/circulars/cotton.pdf>

The 2021 crop is now set for a test of 75 cents, basis the December 2021 futures contract.

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