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Cotton is a Calling

"Baby's Got Her Blue Jeans On." It's a brand-new pair, the old ones completely wore out. This new pair appears to be made of high strength cotton and ready for a good bull ride—back to the mid to upper 80's before Mother Nature takes control of price activity. Obviously, the market had been ready for a significant break. We pointed that out a month ago, but also suggested the break would be higher. Wrong, we missed that. The market broke lower and all but crashed on the week as the Chinese government opened its hard ball game against the new Washington administration. The resulting price recovery, just a day after the crash took old crop back above 80 cents and the new crop December back to just below 80 cents. World demand has not slowed. The market has already begun rebuilding and has it sight set on recapturing most, if not all the price loss it suffered over the past six weeks.

China, being unable to blunt the prior U.S. administration, fired very heavy textile trade salvos against the new U.S. administration for keeping in force the trade sanctions imposed on the prior administration. The cotton market crashed, fearing international trade ramifications. The Chinese, after recently attacking Australia and its cotton industry, are now suggesting they will destroy their own half trillion-one trillion-dollar textile industry just to hurt the U.S. Hopefully, it's just a game because if played out China would destroy its main source of employment. Nevertheless, the cotton market moved to limit down on Thursday before closing at that point. It was as great of a Black Swan event as the coronavirus in 2020. Simply stated, the Chinese cotton and textile industries now rest on the back of Chinese slave labor. The U.S, were they to allow those products to enter the U.S. would be sanctioning China's use of both slave and child labor. Thus, the current administration has continued to enforce the prior administration's sanctions on Chinese textile goods and all goods coming from Xingjian province. China is attempting to force the new administration to make concessions and let the American consumer have access to those goods. The U.S., Europe, Australia, Japan, Canada, and other countries also participate with the U.S. in the Chinese sanctions. China claims the use of slave labor is a domestic social issue and other countries can't sanction China. The Chinese countered this week, shaking the cotton and textile markets to their core, by claiming that it did not need the sanctioning countries to purchase their textile goods—never mind the fact that those specific countries account for some 90% of China textile exports, one of its principal foreign currency businesses. China, being the world's largest producer, consumer and importer of cotton is a principal key to world cotton price activity.

Declining U.S. and world stocks remain at the heart of the potential for higher prices. Demand remains very robust and while there is certainly time for the million-dollar rains in the Southwest, the drought appears to be spreading into the western Oklahoma and East Texas and prolonging the drought in the dryland cotton regions of the Southwest. However, the drought plagued West Texas region is expected to continue to receive “private showers.” The Midsouth is waterlogged, but it’s still March and the region should expect 4 to 5 inches of rain during both April and May. Corn planting is delayed in the MidSouth and planters will likely not get in the field until the final 7-10 day in April. This could give rise to increased cotton plantings in the MidSouth. Too, this would bode well for the market as MidSouth qualities are expected to be in extremely high demand during the 2021-22 marketing season.

U.S. export sales continue very active. Weekly net sales of Upland totaled 271,300 bales with Vietnam buying 135,500 bales and Turkey taking 77,200 bales. Sales for 202-22 were 69,400 bales while Pima sales for the current season were 7,000. Weekly shipments of Upland totaled 313,500 bales with Pima shipments totaling 9,300 bales. Some 24 countries were the destination for the U.S. shipments.

Certainly, the past month’s selloff in the cotton market was unexpected, especially given the strong export sales. The selloff is now history. Demand has not slowed, but prospects for declining stocks in the U.S., and for the world, suggest stocks will continue to fall. The new crop December futures contract should be expected to return to the 85-cent level and attempt to work higher.

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