Cotton Marketing Weekly
July 2, 2021

Dr. O. A. Cleveland
Cotton Marketing Analyst
Professor Emeritus, Mississippi State University

Cotton is a Calling

Speculators hit cotton on the heels of the USDA planted acreage report with triple digit losses only to see prices climb back to 87 cents for the weekly settlement. Week after week the cotton market has been hit by the bears with everything from an increasing crop size, to comments of excellent crop conditions across the Southwest, and to virus problems in this country or that. Every week the market comes back, first to 85-86 cents and now back to the 87-88 cent level. The cotton market is not in a survival mode, it is a very bullish market. Week after week its strength has overcome all the bears could pile up and dump on it. Likely, there will be more bearish stories. Yet, the fact remains that world supplies outside of China are limited, and in fact low. Supplies in the major cotton exporting countries range from a low average quantity to being essentially out of cotton. Brazilian, Australian and U.S. merchants are selling forward 2021 crop cotton to only their long-time customers with the understanding that supplies are limited for now. While not in a literal sense, but with respect to trade practices, U.S. old crop (2020) cotton is gone, all gone. New crop prices offered to mills are increasing as merchants simply do not want to sell more crop forward. They are very unsure if cotton availability will be there. Cotton supplies are very tight, and prospects are that supplies will become ever tighter. The bulls are holding tight to their positions and are buying call options on price dips back to 85 cents and below. Few, but very few mills are fixing prices in the 85-cent area. They will discover that 85 cent, basis New York was a steal. Cotton is not running to 88-93 cents, but it is going there forthwith. Be patient, let’s get a little crop growth progress, not only in the U.S., but across the northern hemisphere as well.

USDA’s planted acreage report, released this week, confirmed plantings were down from 2020’s acreage of 12.1 million acres. All cotton plantings were estimated at 11.7 million acres, with Upland acreage at 11.5 million. The trick now is to determine how much of this is still standing and how much will be harvested. Certainly, failed plantings and flooded out fields from the Southwest, the MidSouth and Southeast already are a significant concern. Time will tell us if abandoned acreage in the Southwest will be low of 15% or as high as 30%. Given the very inadequate subsoil moisture across most of the Southwest it is difficult to project a crop of more than 16.5 million bales. However, Mother Nature can be very giving, and the treasured cotton plant always delivers more than she suggests. USDA’s July crop report will be released on Monday, July 12. USDA’s crop estimate at that time will be a subjective estimate as opposed to the monthly objective estimates that will be begin in August. The report will be based on conditions as of July 1. Thus, any damage from the current storm in the Atlantic/Gulf will not be included in the July crop report or the July supply demand report.

The Cotton On-Call report continues to suggest bullish movement in prices. The bullish tone has been gradually gaining strength, but the past two weeks have seen the report become more bullish. During May through the first two weeks in June, call sales to mills increased some 4.7 million bales while call purchases by merchants of grower cotton were up only 428,000 bales. During that six-week period mill buying exceeded grower selling by a ratio of 10 to 1. That one indicator is very bullish for cotton. Further, another Chinese holiday is near its end and then the market will see additional Chinese buying, as Chinese prices climb higher.

The price outlook is bullish. Nevertheless, I have long advised the growers price 50% off their crop at 85 cents/better. Price the remaining 50% at intervals of 90 cents, 95 cents, then be as big of a boy as you wish. Or play it another way by purchasing March call options on price retreats near 85 cents.   Textile mills should price the remainder of 2021 and first through third quarter 2022 needs.

Give a Gift of Cotton Today