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

Cotton is a Calling

The table remains set for Dollar Cotton. USDA's September world supply demand report showed higher U.S. production, exports, and carryover. World production was increased but was offset by an increase in consumption and a significant decrease in world carryover. China came to the U.S. for cotton in a big way and coupled with declining world carryover, the potential magic of dollar cotton continues. However, cotton prices will be slow to move above 96 cents as most eyes will remain focused on how much cotton the U.S. will ultimately harvest. Yet, a move to 96 cents would reinvigorate speculative buying and push prices to near the dollar mark. Without speculative money the dollar trade is unlikely. USDA's crop production report confirmed the very heavy fruit load on plants across the cotton belt and the potential for an 18.5 million bale crop. The reports continue to suggest that the 91-92 cent level remains as major price support, basis December futures. Look for the 92-95 cent range to contain the bulk of trading into the coming week.

Prices dipped prior to the report fearing a significant increase in U.S. production would send world carryover skyrocketing to 90 million bales. The report did indicate a significant 1.25 million bale increase in the U.S. crop based primarily on an increase in the Texas yield. The U.S. crop was forecast at 18.5 million bales. Exports were forecast to increase 500,000 bales, to 15.5 million. U.S. carryover was forecast to increase from last month's 3.0 million bales, up to 3.7 million. While that was a significant increase, carryover remains below 4.0 million bales. Thus, the market can potentially support higher prices as high-quality stocks will continue to be price rationed until December, if not longer.

World production was forecast to increase 750,000 bales to 119.6 million bales. However, world consumption was increased 810,000 bales and coupled with a 480,000-bale decline in beginning stocks, world carryover was lowered 550,000 bales, down to 86.7 million bales, and supportive to market prices. Additionally, the forecast points to the robust demand for cotton that has given rise to cotton prices above 90 cents.

The report indicates that foreign cotton production was reduced some 400,000 bales. Additionally, it noted that major users of U.S. cotton, except for Vietnam were experiencing a continued increase in cotton demand. This should bode well for an even greater increase in the demand for U.S. exports. Too, the reports pointed to the second strongest world trade scenario on record and with potential to reach a new record. Net export sales to China on the week were 264,300 bales. The Phase One trade package China signed with the prior Washington administration remains in effect and it is expected that China will continue to make large purchases of U.S. cotton.

The market's reaction to the report suggests that USDA overestimated crop size. That is, it is likely that crop size can only move lower, and it will be necessary for weather conditions to be very friendly if the forecast for an 18.5 million bale crop is to be harvested. Again, that is the market's reaction to the report. Yet, the other edge of that double edged sword is the possibility of a later than average freeze in West Texas (October 31, plus or minus ten days north or south of Lubbock) that would allow the Texas crop to get even bigger. Compared to the August estimate, USDA increased it estimated yield of the Texas crop by 166 pounds per acre. In turn that generated a 95 pound per acre increase in the average U.S. Upland yield. An open October and a freeze date of November 15-20 could balloon the U.S. crop to 18.5 million bales or larger. The odds of such a scenario are assuredly low, but it could happen. Growers should manage price risk and take advantage of prices at the current level.

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