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Cotton is a Calling

Cotton prices found a favorable move in front of the USDA November supply demand report and maintained that momentum despite a neutral report. The market continues to be dominated by the bullish cotton on-call sales position. Too, with just six trading sessions before first notice day (FND), the certainty of a squeeze on the December contract adds to the bullish short-term outlook. Further, while somewhat unexpected two months ago, the March contract will likely move higher and assume the bullishness that has been expressed by the December contract. The time for the market to break lower has simply not arrived. The trend remains higher, and prices will ride that wave.

For all the talk of prices being "too high," and I have hummed a few bars of that tune, prices continue to look for higher ground. Export sales remain under pressure due to high prices, but more so due to the U.S. merchant (cooperative) to be able to guarantee shipment. Thus, the U.S. may be faced with losing export market share to other growths, notably Brazil. Pakistan and India are selling yarn into China at a higher rate than in the past. However, yarn prices continue to hold, an indication that the need for cotton will continue to support prices above 115 cents. However, certificated stocks have continued to dwindle, now just short of 15,000 bales. In fact, certificated stocks are so low that only some 147 futures contracts can be settled with delivery—thereby a market squeeze is expected on the December contract. While this suggests prices will move higher during the week, the potential for a very high level of price volatility complicates the ability to predict price.

Export sales and shipments continue to be very problematic for the market. Net export sales of Upland for the week ending November 4, were only 128,000 bales while shipments totaled only 87,900 bales. New sales to China were 78,800 bales. The coming weeks will continue to be near that level and even up to 150,000 bales. Chinese spinning mills have indicated the need for raw cotton while upstream mills continue to demonstrate a strong demand for both domestic and imported yarns. Price has not begun to ration demand in China.
The weekly on-call report indicates that the price of 12,588,700 bales must be fixed by purchasing futures contracts on the combined March, May, and July contracts while only 1,947,900 bales need to be price fixed by selling futures. Thus, the ratio continues to favor a bullish price outlook.

The November supply demand report showed a 200,000-bale increase in the U.S. crop, up to 18. 2 million bales. Exports and domestic consumption were unchanged. Thus, 2021-22 carryover was increased to 3.4 million, up from 3.2 million in the October estimate. USDA estimated that world production at 121.8 million bales, up 1.5 million from October. However, historical adjustments were made to beginning world stocks, reducing old crop carryover 1.0 million bales.

This, taken with a 700,000-bale increase in world consumption, up to 124 million bales, accounted for a 200,000-bale reduction in world carryover, down to 87 million bales.

One must closely watch the U.S. export scene. Given the coronavirus impact transportation system, mills could possibly cancel export sales, leading to an increase in U.S. ending stocks. As noted, the current carryover estimate is 3.4 million bales, but export cancellations or other problems could lower actual exports as much as 500,000 bales or more. Therefore, U.S. carryover could increase up to 4.0 million bales or slightly higher. Thus, the ability to move cotton out to the importing world will guide the direction of both old crop and the new crop December futures prices.

Growers should price up to 50% of their expected 2022 crop at 90 cents or better, basis the December 2022 futures contract.

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