Cotton Marketing Weekly
November 19, 2021

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

Cotton is a Calling

The March futures contract has become the nearby contract as the expiring December moves to first notice day. Thus, being the led month, the March contract is expected to move higher and assume the priced leadership that was enjoyed by the December contract, now trading at 119 cents. Thus, March will likely plow through the same ground that pushed prices 119 cents and higher. As many have commented since December was back near 96 cents, "the rally is over," Yet, we should not be surprised to see a trade up to 125 cents, basis March, or even a trade up to 135 cents. This market is facing a serious export dilemma, but on-call sales simply continue to feed a raging bull. There are signals suggesting a weaker bull, not in the near term, but later. The remaining old crop contacts, March, May and July are still being fed a fundamental mixture of rich fundamentals that should keep them biting into the 120's.

The big bear facing old crop contracts continues to be concerns over exports and the fact that a reduction in export shipments will simply be shifted into carryover stocks, essentially on a 1 to 1 basis: thereby, increasing 2021-22 ending stocks. Net export sales for the week ending 11/11/21 totaled 157,300 bales, a decent number of sales on the surface, but the breakdown included 20,600 bales of Pima and only 136,700 bales of Upland. Shipments were a dreaded 84,400 bales total with Upland being 77,900 and Pima 6,500 bales. It may be too robust to suggest that shipments may fall to only14 million bales, down 1.5 million from USDA's current estimate. However, the current weak pace of shipments was not expected by anyone's just two months ago. It would be wrong to give up on USDA's estimate just yet, but the odds are that U.S. exports will not climb above 15 million bales, much less make the USDA estimate of 15.5 million bales.

If exports are so dreary then how does the bull continue to look so strong? Simply, the all but broken record we have played for months, on-call sales versus on-call purchases, that is, the known need to buy futures contracts versus the known need to sell futures contracts. One must be tired of the discussion, but it has led to higher and higher prices. Too, higher prices are likely just around the corner. While higher prices are not guaranteed, this week's data showed that some 12,969,000 bales must be bought via (March, May, July) futures and only some 1,883,200 bales need to be sold via futures (March, May, July). Thus, the known need to buy futures contract dwarfs the need to sell contracts.

While on-call sales are "more bullish" than potential export woes are "bearish," the market may begin to see the bulls and bears become more active in their war games against each other. Demand must be strong if prices are to be sustained into the 2022 crop. Yet, the on-call sales will substitute for demand right now. Thus, if one wants to work the bear side of the market, the potential is there. Yet, I contend it is too early to result in lower prices.

The bearish argument awaits more information surrounding 2022 plantings. Sch information is in the market. Note the December contract has had major difficulty climbing above 92-93 cents. Yes, those levels have been touched. However, with the passing of each trading day it has become more difficult for December 2022 futures to climb above that level. The market has a built-in radar, that given the near 30 cent spread between December 2021 and December 2022 respective futures prices that a very large increase in the area seeded to cotton in 2022 is forthcoming. Growers are suggesting acreage increases of 15 to 25% above 2021 plantings. Too, given the almost certainty that the 2022 government price insurance program will be in the very high 80's to low 90's range, that 2022 plantings will see a very sharp increase. For those contemplating increasing acreage in 2022…since you like the price enough to plant more then I strongly suggest that you like the price enough to fix the price on the expected increase in production, subject to selling no more than half the expected production rule. For the seasoned grower, it is time to price at least half of your 2022 expected production.

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