Cleveland on Cotton: Short Squeeze and New Trading Range On Tap for Cotton?

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The best news is that a few are now predicting that the old crop March, May, and July futures contracts look to have a trading range between 67 and 75 cents. Let's hope they are correct.

Their basis for this new trading range is the massive short position in the March futures contract and the near absence of certificated stocks. With the March first notice day fast approaching on Feb. 24, the shorts must quickly roll their positions to the May contract or face the call for delivery – and, again, deliverable stocks are essentially zero.

The classic statement applies – it's a short squeeze.

This time, several analysts are suggesting the shorts will be forced to run for higher prices to liquidate their positions. If it does, there will likely be three or even maybe four limit- to nearly-limit- up trading days before it runs out of steam. Let us hope it happens.

It’s not, however, period. Please let me be wrong.

Market fundamentals are unchanged. Supply overburdens demand, and prospects for an increasing U.S. carryover and an ever-growing world carryover hang over market prices almost as if a lead cap. As we have unfortunately advertised for some time, the prospects for higher prices are bleak. Let’s hope others are correct – and that I am wrong again.

Yet, I am hanging with my miserable bear market forecast, unable to sluff off the prospects for March to trade in the 63- to 69-cent range as it gives way to the May contract becoming the spot trading month. If the shorts are successful in rolling their bearish positions to the May contract, then prices will return to the 63- to 69-cent trading range, basis the May contract.

One will recall that this has been our position since November, although earlier we had hoped prices could climb back to 75-79 cents. However, as has been stated far too many times, the demand for cotton is extremely poor. Textile mills report very poor order demand and their unwillingness to build yarn inventory, citing very weak demand for finished yarn.

USDA’s February supply demand report offered scant the latest information, other than a few more bearish bits and pieces. The world crop was raised nearly one million bales, based solely on a one million bale increase in Chinese production. The increase suggests a lower import demand for China, therefore leading to increased stocks in cotton exporting countries.

World carryover increased by only 500,000 bales and was estimated at 78.4 million bales. World demand was unchanged. U.S. carryover increased 100,000 bales due to a similar decrease in U.S. domestic consumption. Thus, the estimate for the U.S crop remained at 14.4 million bales, and the export estimate was unchanged at 11.0 million bales.

Yet, it is good that some see the possibility of a successful market squeeze in the market. I do not doubt the possibility. The speculative shorts are believed to have profits above 72-73 cents, thus only the small shorts will be squeezed. Yet, this will limit the current attempted rally in the March contract.

The National Cotton Council will release its annual plantings intentions report at this weekend's annual meeting. This is the second of the early season estimates, with *Cotton Grower* being the other. However, it is too early to expect that to impact the market. The next survey will be the USDA March 30 plantings intentions report, and the market is already looking forward to that report.

Some are making a case for a near-term challenge of 72 cents. If it comes about, don't expect it to be there but a day or so before prices fall back to the "very cheap" level. I hope it comes, but I just cannot get above 69 cents.

Give a gift of cotton today.