Cleveland on Cotton: Cotton Market Teasing Higher Prices-But Not Quite Yet

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The cotton market teased us again with the old crop May contract nearing the 68-cent mark and very active trading above 67 cents. However, the May backed off and settled the week slightly below 67 cents.

It's okay for the market to wear a 68-cent smile, but don't get used to seeing prices that high…at least just not yet. The July contract can see some trading there, but the May contract remains weighted down by the bearishness of the on-call purchases.

The 200-point trading range around 66 cents suggested last week will continue to dominate price activity, but there is little reason to trade more than 150 points above or below the 66-cent level. Thus, the somewhat flat, very narrow trading range will continue.

The new crop December contract poked its head back above 70 cents with good reason on the week. While prices could momentarily fall below that level, the December contract is destined to move higher as the spring season progresses.

The same old, broken record relative to the absence of demand haunts the cotton market and will continue to haunt any price attempt to move higher in either the May or July futures contract. However, July runs a considerable risk of a short squeeze as it approaches its first notice day in early June.

Additionally, the December contract will begin to elicit price support from the reduction in U.S. planted acres as well as the reduced plantings across the globe. The lower plantings – implying the further tightening of global stocks – will provide incentive for new crop prices to move to the 75-cent area. Weather scares and reduced plantings will provide price support into the July/August period.

The USDA March 31 plantings intentions for cotton is expected to be about 10.0 million acres, with analysts' estimates ranging from a low of 8.8 million to a high of 10.6 million acres. Based on very active corn plantings, Mid-South and Southeast cotton plantings will be down by 15%. Missouri, Arkansas, and Mississippi cotton acreage is beginning to sprout corn. However, Southwest grower insurance strategies, as well as the continued drought expectations, will tend to keep Texas plantings higher than most expect.

It is likely that grower drought-planting strategies will keep U.S. acreage around the 10.0-million-acre range, with abandonment expected to be near a record high. Again, this will work to pull the December contract up to the 75-cent area.

Net sales of upland on the week were only 84,800 bales. Pakistan, Turkey, Bangladesh, and Vietnam were the principal buyers. China cancelled 20.9 million bales. Shipments totaled a robust 393,400 bales.

Some continue to feel China will be a buyer. However, China does not need cotton unless it decides it wants to purchase U.S. and rotate some of its domestic production out of storage. At that, China has changed its buying pattern and now favors Brazilian, Australian, and U.S. in that order. Even if they wanted to rotate stocks, they would likely purchase Brazilian rather than U.S.

Note that comment and understand that the world cotton order has permanently changed.

December futures will move higher.

Give a gift of cotton today.