Concerns Of Grain, Oilseed Supplies Keep Cotton Market Volatile

cotton outlook

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Tell me the direction of the oilseed/grains markets and I can rather accurately predict the cotton market. The story line continues…the cotton market is having great difficulty following its own fundamentals, following instead the grain and oilseed complex. While the New York market is focusing, to some degree on 2009 planted acreage, the fact that increasing carryover stocks in the world's major exporting countries has failed hold prices down but only for brief periods. Cotton fundamentals attempt to pull the legs out from under the 70 cent level, only to find that concerns over grain and oilseed supplies push cotton prices back up. We have, on many occasions, cautioned you about how volatile the market has become. Too, there in nothing on the horizon that offers any let up in that situation.

At the week's risk management seminar sponsored by Cotton Incorporated, I cautioned growers not only about the continued bullish price environment created by the ethanol situation, but also the growing potential global vegetable oil crisis. I had first made that observation at the Certified FiberMax Quality Seminar for Chinese textile mills in October 2007. The New York December was the spot futures month at the time and I offered that 63 cents, basis December, would be low mark for the remainder of the contract, and it was. The next suggestion was that the March contract would not see anything below 67 cent – we now know it did go to 66 cents. I am now of the opinion that 69 cents will be the low in May once it becomes the spot trading month is just a few days.

Price bubbles always burst, and the current one led by the grain/oilseed complex will be no exception. There are millions, hundreds of millions of acres in fact, in Europe, Central Asia, Africa, South America and even the U.S. (remember the CRP acres) that can be cropped if prices ratios demand that acreage. We do not have a land shortage. However, we cannot bring the needed land area into production is the short term. Thus, the price bubble will only grow larger in the near term. The false demand for ethanol, created by U.S. legislation, started the higher price ball rolling. However, it is the potential food shortage, created by record low vegetable oil stocks (in terms of per capita consumption) that will increase the life cycle of the current grain/oilseed led price bubble. Should the global vegetable oil crisis become more exaggerated, the price bubble for agricultural row crops could extend as far out as 2011-2012.

Too, because of the competition for land area, that bubble will also lead to higher cotton prices. Likely, the market top will be in 2010. Yet, in the interim, cotton will remain historically volatile…as it gradually works its way toward higher and higher prices.

The speculative community, specifically the large hedge funds and index funds, will increase their long positions in the cotton market. While the hedge funds can and will be quick to take profits from time to time, momentarily pulling the legs from under prices. However, the index funds will maintain their longs and hedge funds will again take new long market positions in cotton.

The growing concern regarding the lack of subsoil moisture in Texas – they still have another six weeks or so – will also add to market support. It is, nevertheless, very doubtful that Texas can begin the cotton growing season with even as much as 50 percent of the level of last season. Thus, U.S. production, expected to range between 14.0 and 15.0 million bales, and will likely be on the very low side of that range. U.S. stocks could well slip as low as 3.5 million bales, and likely no more than 4.0 million. The December New York contract will touch 80 cents and the December contract should see ten cents higher. Δ